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Annual report and accounts 2014

For Syndicates 510, 557 and 308
managed by Tokio Marine Kiln Syndicates Limited

Contents

Strategic report

Annual accounts under UK Generally Accepted Accounting Practice (GAAP)

Underwriting year accounts for the closed year of account 2012

Results summary

Annual accounting results 2014

Syndicate		2014 £m	2013 £m
510	Net earned premium	**848**	890
	Profit for the financial year	**118**	119
557	Net earned premium	**19**	25
	Profit for the financial year	**9**	11
308	Net earned premium	**25**	26
	Profit for the financial year	**1**	2
Total	Net earned premium	**892**	941
	Profit for the financial year	**128**	132

Underwriting results

Over the seven year cycle from 2006 to 2012 the closed year of account underwriting results, as a percentage of allocated capacity, of managed syndicates 510, 557, 308 and 807 are:

Year of account	510 %	557 %	308 %	807 %	All syndicates %
2006	25.63	40.39	9.90	21.12	25.76
2007	13.21	16.62	5.19	10.59	13.19
2008	16.79	14.31	17.49	9.57	15.42
2009	19.05	15.42	6.35	8.21	16.87
2010	2.70	(25.39)	13.38	(24.44)	(3.08)
2011	7.49	10.22	9.17	6.00	7.48
2012	8.51	5.82	6.30	–	8.34

2011 was the final year of account for Syndicate 807, which then reinsured to close into the 2012 year of account of Syndicate 510.

Report of the Chairman

Paul Hewitt, Chairman

Tokio Marine Kiln syndicates delivered a very strong financial performance in 2014 despite a softening market. These results were achieved during a landmark year for Kiln in which it combined with Tokio Marine Europe to form Tokio Marine Kiln.

Comprising two separately managed platforms in the Lloyd's and Company markets led by Charles Franks as Group Chief Executive Officer, Tokio Marine Kiln aims to become a leading provider of specialist and corporate insurance. Backed by one of the world's largest insurance groups, and with an ambitious vision for continued profitable growth, it is in a strong position to tackle the challenges and opportunities that lie ahead.

The integration took place as the insurance industry continued to face pricing, distribution and regulatory challenges which have highlighted the importance of scale. This trend has been embraced by both brokers and insurers which have embarked on a wave of consolidation.

Tokio Marine Kiln has been underwriting profitably in the Lloyd's market for more than 50 years and is managed by an experienced leadership team whose strict underwriting standards have safeguarded its continued competitive success and helped to deliver a strong financial performance in 2014. Through the formation of Tokio Marine Kiln, the business is now bigger and stronger, and in a better position to continue to add value to its customers and its Names. Charles Franks comments on Tokio Marine Kiln's specific developments and achievements in his report.

Operating environment

Outside the insurance market, the global challenges we faced in 2013 continued into 2014 as austerity measures continued. Global oil prices fell sharply during the year, with the price of Brent crude dropping from a peak of US$115 in the summer to below half that in January. The shift has led to significant revenue shortfalls in many energy-exporting nations including Russia, Venezuela, Saudi Arabia and Nigeria. Although investment in energy-related projects is being scaled back as a consequence, an issue which is likely to affect risk management buying decisions, consumer spending is increasing which may help to drive more positive economic forecasts in 2015.

In Europe, although the International Monetary Fund (IMF) has recently downgraded its growth expectations for France, Germany and Italy, the Eurozone economy overall is expected to expand at a rate of just over 1% in 2015. However, inflation has fallen steadily for the last three years, contrary to the expectations of financial markets and economic forecasters, and this has highlighted the threat of deflation. While the OECD does not expect the threat to materialise, deflation could have a significant impact on investment decisions across the region. In the UK, although we have seen a return to growth, there is still a long way to go with forecasters predicting that UK GDP would be 16% higher than where it is today had it not entered recession.

A significant proportion of Tokio Marine Kiln's book of business originates in the US, where the economic outlook improved again in 2014. This was driven by low interest rates, a strong dollar and the effect of oil prices which have helped to drive an increase in consumption. However according to the IMF, for the first time in more than 140 years, the US lost its title of the world's largest economy with the new holder of the title being China.

The Asian economies overall continued to present a picture of steady growth, albeit at a slower pace than in previous years. China posted its slowest economic growth in 24 years in 2014 and forecasters predict that its cooling housing market, slowing investment and underwhelming exports will continue in 2015. One consequence of this is a rise in protectionism. While this is a growing concern, Tokio Marine Kiln has seen on average a 23% year-on-year increase in gross written premium in Asia since it launched its operations in 2007. This is likely to be reduced by the softening market, however; given China's leading position in the world economy and the future growth potential presented by emerging markets, Asia remains a key strategic territory for the business.

On the political stage, conditions remained unstable, with terrorist attacks, tensions between Russia and Ukraine, the continued aftermath of the Arab Spring and the possibility of an EU referendum in the UK dominating the headlines. The sanctions imposed on Russia arising from its conflict with Ukraine began to threaten the country's economic prospects last year. Looking ahead, its continuation could spread to Europe as Russia is an important buyer of EU goods.

Elsewhere, Scotland's underwhelming majority 'no' vote to independence from the UK heightened the level of uncertainty surrounding the UK General Election in May 2015. Given its strong representation in the EU, the UK's continued membership of the EU is very important to both Lloyd's and Tokio Marine Kiln's continuing development on the continent – a viewpoint endorsed by Lloyd's Chairman John Nelson. The potential withdrawal of Greece from the EU could also be destabilising.

While this environment is challenging, Tokio Marine Kiln provides insurance solutions that address these types of political and economic uncertainties and will work with its customers to seize any opportunities that arise as a result.

Governance and regulation

During the year, Tim Prifti was appointed as Active Underwriter of Life Syndicate 308 – a role which complements his position as Active Underwriter of the Accident & Health division. Tim has been Active Underwriter of the Accident & Health team within Syndicate 510 for 11 years and brings with him 25 years experience in the Lloyd's market to the role.

In 2014, the Financial Conduct Authority (FCA) refocused its work on conduct risk on safeguarding the continued fair treatment of customers within the specialist insurance industry. Tokio Marine Kiln takes its regulatory responsibilities extremely seriously and has invested heavily in meeting these new criteria. Achievements to date include the successful implementation of a new online training scheme; running a workshop with 200 underwriting, operational and claims staff and communication activities to engage managers and employees in the new corporate values and processes which are underpinned by a behavioural framework for all employees.

In view of these complexities, Tokio Marine Kiln made two important appointments to aid its decision making. On 1 December, John Titchener joined as Group Head of Conduct & Compliance, with overall responsibility for developing and implementing a positive conduct and compliance culture, evidenced through a demonstrable focus on customer outcomes and embedded in executive behaviour, judgement and decision-making across the Group. His role is complemented by the appointment of Rosie Harris who was appointed to the Board as a non-executive Director in July. Rosie brings highly relevant expertise in the retail insurance market to the business.

Tokio Marine Kiln's efforts to address Solvency II are also progressing well under the leadership of Group Chief Risk Officer Andrew Hitchcox, whose team is working hard to meet the targets set by Lloyd's. The next year will be about embedding the principles behind these projects into 'business as usual'.

Being a good company

Tokio Marine Kiln is part of the global Tokio Marine Group, whose aspiration is to be a global 'Good Company'. A Good Company aims to foster a culture in which its people think and act positively and autonomously for the benefit of customers and the local communities in which it operates, building trust with customers through its business activities and transforming this into increased value for all stakeholders.

In line with this ethos, the Charity Committee donates funds to a range of good causes each year, focusing on building strong partnerships with organisations that make a real difference to people's lives all over the world. Employees are actively engaged to participate in activities to support them.

2014's charity of the year was Macmillan Cancer Support. A large group of employees took part in the notoriously challenging Tough Mudder race and baked cakes to raise funds for this important cause which provides support for cancer sufferers and relatives of cancer patients across the UK.

It is hard to believe that in May, six employees took part in the Sierra Leone Marathon on behalf of Street Child before the Ebola crisis tragically took hold in West Africa. The group raised £27,000 which was matched through Tokio Marine Kiln's employee fundraising matching scheme. In an effort to support the work being done to address the disease in the region, Tokio Marine Kiln has nominated Médecins Sans Frontières as its global Charity of the Year for 2015 in recognition of its exemplary work in helping to tackle this devastating virus.

Diversity and inclusion

During the year, Tokio Marine Kiln signed up to a new diversity charter led by Lloyd's to help attract and retain the best talent to support its future growth. An important element of this is its approach to diversity and inclusion. More activity will take place as the programme gains momentum in 2015.

One of the ways in which Tokio Marine Kiln has supported this is through its longstanding relationship with The Brokerage – a City of London programme that provides work experience placements and opportunities for young people with high potential from diverse backgrounds. Tokio Marine Kiln has benefited enormously from this partnership, having recruited a number of interns from the scheme into permanent roles as a result.

Future prospects

From supporting clients through some of the world's worst disasters to helping them find solutions that tackle emerging threats, Tokio Marine Kiln has stood strong in the face of significant challenge. Under a globally recognisable brand and backed by one of the largest insurance groups in the world, Tokio Marine Kiln is well positioned to tackle the threats that are presented in the ever-changing landscape surrounding the insurance industry. I would like to thank Charles and his team for their continued hard work and commitment in the past year and wish them every success in 2015.

Paul Hewitt

Chairman
Tokio Marine Kiln Syndicates Limited
16 March 2015

Report of the Chief Executive Officer

Charles Franks, Chief Executive Officer

Overview

2014 saw a new beginning for Kiln, which culminated in our rebrand and the relocation of our London headquarters to 20 Fenchurch Street.

The creation of Tokio Marine Kiln, comprising the combined operations of Kiln and Tokio Marine Europe, strengthened a very successful partnership with our parent, Tokio Marine Group, that has spanned more than 50 years. Since Kiln was acquired in 2008, our relationship has gone from strength to strength; a trend that is reflected in the top line of Syndicate 510 which has grown from £757m to £1,097m in that time. Under my leadership as Group Chief Executive Officer, Tokio Marine Kiln aims to become a leading, global provider of specialist and corporate insurance focused on delivering continued profitable growth. In a world in which scale, competitiveness and conduct have become critically important, the move strengthens our position and enables us to embrace the ever complex and changing world around us.

The integration was set against a backdrop of increasingly challenging operating conditions in an industry that is facing unprecedented change. Despite these difficulties, the Tokio Marine Kiln syndicates delivered a very strong performance in 2014.

Market conditions

Against a flat economic outlook, the over-supply of capital continued to affect the insurance industry, resulting in downward pressure on rates across all non-life business lines. The year was characterised by lower rates, excess capacity and broader terms and conditions. The impact of pricing pressure was felt most keenly in the treaty reinsurance market which saw rates fall by 8% at the 1 January 2015 renewal season. This environment enabled us to place outward reinsurance at terms that were in line with or an improvement on business plans.

While competition intensified, the run of uneventful hurricane seasons we have seen over the past few years continued. This has contributed towards some extremely profitable results across the industry for 2014 as insurers benefited from the release of catastrophe reserves; an issue which belies the challenging state of the market. Although such profitability is good news for industry shareholders in the short term, it is likely to attract further investment into an already over-capitalised market, exacerbating the intense competition for business we are seeing.

Aviation

The starkest evidence of the effect of surplus capital on pricing was seen in the aviation war market, which experienced its worst loss year on record since 9/11. Though global air safety has continued to improve for many years, the sector sustained a series of high profile losses in 2014 which shook the market.

In March, the disappearance of Malaysian Airlines flight MH370 from Kuala Lumpur to Beijing with 239 people on board triggered an extensive international search and rescue operation. Although the search for the wreckage continues, the disappearance has officially been recorded as an accident. The airline hit the headlines again just a few months later when flight MH17 travelling from Amsterdam to Kuala Lumpur was shot down by a missile, allegedly fired by pro-Russian separatists, as it flew over Ukrainian airspace, tragically killing all 298 people on board.

Crashes on AirAsia, TransAsia and Air Algerie flights in Indonesia, Taiwan and Mali respectively also raised concern over aviation safety. Meanwhile, on the ground, June and July saw attacks on Karachi and Tripoli airports led by Islamist rebels. The Tripoli attack destroyed nearly 90% of the aircraft at the airport – Libya's main transport link to the outside world – rendering it inaccessible.

Despite aviation industry losses for the year amounting to almost US$1bn, anticipated rate increases of up to 300% did not materialise as pricing was depressed by excess capital. With rates at a 13 year low and in the context of a politically charged environment, the sustainability of the aviation war market has been put in the spotlight. Paul MacMillan, Active Underwriter of Syndicate 510's Aviation division, details the impact of these events on Tokio Marine Kiln in his report on page 14.

Wave of consolidation

The challenging backdrop of 2014 highlighted the importance of scale. With organic growth increasingly difficult to achieve, brokers and insurers alike embarked on a wave of consolidation, seeking strategic M&A partnerships to shield themselves from declining premiums, a growing industry cost base and a contracting distribution network. Leading the charge were XL and Catlin, Cathedral Capital and Lancashire, and Miller and Willis, who joined forces as part of the quest for profitable growth.

It is clear that this trend is set to continue and that we will see fewer, bigger insurers dealing with fewer, larger brokers. As clients' needs evolve, insurers need to be bigger, stronger and better businesses that are able to operate globally to stay relevant. As part of a large, secure, stable insurer, Tokio Marine Kiln benefits from considerable stability, financial security and global strength which will enable us to continue to compete effectively in this environment and translate these benefits into enhanced value for our Names.

Globalisation and competitiveness

Continuing a long running trend and bolstered by stagnating economies, many businesses focused on international expansion to help offset the limited growth prospects offered by domestic markets.

While people will always need insurance, the way they are buying it is changing. Brokers are changing their placing strategies and seeking multi-line capability, while new product innovation and flexibility remain vital strengths. With the costs of doing business increasing and revenues being depressed, the need to achieve profitable growth and improve competitiveness has become critical. The London Market is facing significant challenges from local markets which are continuing to grow stronger. In order to retain its world leading position as the home of specialist risks, it needs to adapt and grow internationally in a way that is profitable and sustainable. Tokio Marine Kiln is fully supportive of Lloyd's activities and projects which seek to address cost base and efficiency.

Conduct

Following its work with the banking industry, the FCA turned its attention to the specialist insurance market in an effort to ensure that customers are at the heart of our businesses. As a company that has always been committed to doing business the right way we have embraced the opportunity to take our customer proposition forward.

In July, we introduced a new set of values to staff which take forward our combined cultural strengths. These values, fairness, empowerment, excellence, innovation and teamwork, are supported by a new behavioural framework to guide the right actions. In the same month, customer conduct was the central theme of our annual Management Forum. These activities were reinforced by an online training scheme and a full day workshop for employees to promote the right behaviours and highlight the processes that will enable us to demonstrate that we are doing the right thing.

The appointments of John Titchener as Head of Conduct and Compliance and Rosie Harris as a non-executive Director, who has broad experience in consumer insurance markets, have also added strength to our capabilities.

We are determined to provide the best service to our clients and our customers, and I am delighted that Tokio Marine Kiln's Claims team was once again recognised by leading market research company Gracechurch Consulting as one of the top quartile performing teams in the London Market during the year.

Performance

Tokio Marine Kiln underwriters write for profit not premium, an approach that has enabled us to deliver a strong set of annual accounting results for 2014, which continue the excellent results reported in 2013. Furthermore, all the Tokio Marine Kiln syndicates have delivered a profit for the closing 2012 year of account.

In this competitive environment, our underwriters are empowered to remain focused on the bottom line. A consequence of this is that our top line has not grown in line with the business plan in 2014. We will maintain strict underwriting standards to ensure our continued profitability.

Annual accounting results under UK GAAP

On a UK GAAP basis, the comparison between the 2014 and 2013 calendar year results is shown below in Table 1.

Table 1: Annual accounting results under UK GAAP

Syndicate	2014 £m	2013 £m
510	**118**	119
557	**9**	11
308	**1**	2
Total	**128**	132

Although tough market conditions have caused the non-life syndicates to suffer from lower premium income, results remained in line with 2013 following another relatively benign calendar year in terms of catastrophe losses, as well as continued strength in the underlying book and the benefit of profits on foreign exchange. The drivers of the syndicate and divisional results are discussed in more detail in the underwriters' reports on pages 10 to 18.

2012 year of account

Despite the non-life syndicates incurring significant losses on Superstorm Sandy, the 2012 year of account has closed with a profit for Names across all syndicates, driven by a strong performance on the underlying book and the absence of other significant natural catastrophes.

The 2012 year of account results, as a percentage of allocated capacity for an unlimited Lloyd's Name on our syndicates, are compared with the forecasts issued in the published 2013 report in Table 2.

Table 2: 2012 year of account results compared with the forecasts published in the 2013 report

Syndicate	Forecast range %	Actual %
510	2.5 to 7.5	8.5
557	1.8 to 6.8	5.8
308	1.6 to 6.6	6.3

Syndicate 510's result exceeded the forecast range presented at the end of the previous calendar year, and Syndicates 557 and 308 came in at the upper end of expectations. All syndicates, including Syndicate 308, benefited from releases on closed years of account.

2013 year of account

Syndicates 510 and 557 are on track to make a profit, as reflected in the revised forecasts issued in Tokio Marine Kiln's press release of 19 February 2015, shown in Table 3. Although catastrophe experience has been relatively benign, there have been a number of losses to affect the 2013 year of account, most notably the German hailstorms, Hurricane Manuel and the flooding in Alberta and Central Europe. Syndicate 308's forecast range is lower than that presented at the end of the previous calendar year following reductions in income as well as some large losses during 2014.

Table 3: 2013 forecast year of account range results issued in Tokio Marine Kiln's press release of 19 February 2015

Syndicate	Capacity £m	Forecast range %
510	1,064	5.6 to 10.6
557	46	9.8 to 14.8
308	27	(3.5) to 1.5

2014 year of account

Table 4 shows the first published forecast ranges for Syndicates 510, 557 and 308 issued in Tokio Marine Kiln's press release of 19 February 2014.

Table 4: 2014 forecast year of account range results issued in Tokio Marine Kiln's press release of 19 February 2015

Syndicate	Capacity £m	Forecast range %
510	1,064	0.5 to 10.5
557	39	10.7 to 20.7
308	32	(2.5) to 7.5

All syndicates are showing profitable mid-points in their forecast ranges, with Syndicates 510 and 557 having benefited from a relatively benign first calendar year. However being only 12 months into their development there is still a large amount of unearned exposure on all syndicates and so the events of 2015 will remain critical to how the years of account develop.

2015 year of account

Table 5 shows the Premium Rating Index (PRI) for Syndicates 510, 557 and 308, which tracks the pricing of renewed risks over the year. At a whole account level there was softening in premium rates in 2014 for all divisions of Syndicate 510, most notably the Aviation and Reinsurance divisions. In Reinsurance the over-supply of capital was compounded by a benign loss environment, resulting in downward pressure on rates. In the case of the treaty reinsurance market, the softening in premium rates was accompanied by a trend of broadening terms and conditions. In this environment, maintaining a focus on risk selection has been of paramount importance, which has contributed to a shortfall in written premium versus plan.

Table 5: PRI for Syndicates 510, 557 and 308

	2014 YOA as at 31 December 2014 %	2015 YOA as at 28 February 2015 %
Syndicate 510	97.1	96.3
Property & Special Lines	98.9	97.2
Marine & Special Risks	97.1	94.1
Reinsurance	89.8	92.4
Aviation	96.0	98.1
Accident & Health	99.4	99.3
Enterprise Risk	98.0	98.8
Syndicate 557	89.8	92.4
Syndicate 308	101.5	99.9

Strategy

Tokio Marine Kiln pursues a consistent, long term strategy which involves broadening our distribution network in markets that present strong economic potential; expanding our product portfolio by developing innovative lines that meet our clients' changing needs; and supporting these activities through operational excellence and a strong, engaged talent pool.

Over the years, we have grown our Lloyd's business organically by extending our developed skillset from known and understood products into newer classes. This ensured our entry into the space market, which grew from our expertise in the aviation sector, and the formation of our Enterprise Risk division, which evolved from our Marine & Special Risks business line. While organic growth is proving to be more challenging than in the past, we continue to see good opportunities for growth by extending our expertise into related classes in this way.

Innovation

Innovation is a core part of our efforts to stay relevant to our clients and I am delighted to report that Tokio Marine Kiln was recently ranked third in the London Market for innovation by leading insurance research company, Gracechurch Consulting.

The Enterprise Risk division, which became a separate profit centre for the 2009 year of account, has continued to flourish as demand for emerging risks coverage grows. With cyber attacks on the rise globally, demand for insurance is predicted to increase significantly in the next few years. We are working to address this by developing innovative products, such as our 'SCADA' offering, which is designed to tackle the physical threat posed to companies' critical infrastructure in the event that it is damaged as a result of a cyber attack. We will boost our presence in the market through the appointment of a new Cyber Underwriter this year. With brand and intellectual property rising up the corporate agenda and posing a threat to companies' bottom lines, we also welcomed a new Intellectual Property Underwriter to Tokio Marine Kiln in October.

In other business lines, an experienced group of underwriters joined our Construction team, strengthening our position in this important market where we see good opportunities for growth. Having established a good foothold in the Liability area since Chris Jones' arrival in 2011, we continue to expand and strengthen our underwriting proposition. The team is working closely with business partners to develop and promote new products that address clients' changing needs in this key market.

International

In early 2015, we held rebrand launch parties in Paris and Singapore to introduce Tokio Marine Kiln to the important Continental European and Asian markets. Tokio Marine is one of the most recognised brands in Asia and is ranked as one of the highest valued global brands in the insurance industry by Brand Finance, a fact that will help support our efforts to raise our profile. Overall the transition has been well received by our key stakeholders.

In Germany, we appointed a new Credit and Surety Underwriter as we continued to expand our product offering in Europe, which includes Marine, Aviation, Space, Property, Accident & Health, Reinsurance Treaties and Special Lines. We also boosted our claims team by appointing a new Claims Manager in Frankfurt for Accident & Health risks.

The implementation of a new underwriting system, CBS, was completed in Europe in 2013 and has been mirrored in Asia in 2014. The new system is designed to improve management information and support international collaboration.

A key focus of this year will be completing the integration of our Continental European operations. Our priorities include introducing a new legal structure and processes to underpin our vision for growth.

Empowered expertise

Key to securing our future growth and competitiveness is our ability to attract and retain a rich and diverse pool of talent. In an environment that is awash with capital, our people are the differentiator. Building a culture that engages, inspires and motivates them remains a high priority for the business.

In line with this goal, we launched a promotional campaign focused on our people to promote their expertise, passion and values in line with the title of our vision – Empowered Expertise. Visit www.empoweredexpertise.com to see our short video.

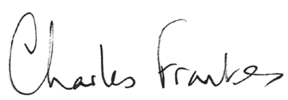
Outlook

In today's market, scale, conduct and competitiveness have never been more important. With rates depressed, top line growth strategies will naturally face scrutiny. However, we remain focused on profitable underwriting, acknowledging that this may result in a more stable revenue stream. These difficulties reinforce the need for professional, empowered underwriting and a sound customer proposition. While there are further challenges ahead, I firmly believe that taking forward the strengths of two strong, longstanding businesses, under a new identity and the backing of Tokio Marine, will enable us to create a solid platform for growth in the long term.

Although this change is an important strategic move for us, we remain firmly committed to Lloyd's and to our Names, whose long term support has been integral to the success of our business.

With an ambitious vision for the future; a strong underwriting heritage; an experienced management team; access to a global distribution network; a globally recognised brand and significant financial strength, Tokio Marine Kiln is a bigger, stronger and better business which is well placed to take advantage of global opportunities and address the challenges our industry is facing.

Thank you for your continued support.



Charles Franks

Chief Executive Officer
Tokio Marine Kiln Syndicates Limited
16 March 2015

Underwriters' reports

Syndicate 510

Overview

2012 underwriting year of account

Syndicate 510 made an underwriting profit of £90.4m (8.51%) on allocated capacity of £1,062.3m after taking account of operating expenses, Lloyd's expenses and investment income for the 2012 underwriting year of account.

This year of account was greatly affected by Superstorm Sandy, but the absence of other significant natural catastrophes and a good attritional performance bolstered the result.

Prior years' development

The 2012 underwriting year result improved by £31.2m as a result of reduced reserves from prior years. In several cases we have seen certain claims settling for less than their reserve as well as favourable claims development in many areas.

2011 was the final year of account for Syndicate 807, which then reinsured to close into the 2012 year of account of Syndicate 510. Favourable claims development on prior years led to this book contributing £2.2m to the overall underwriting profit of Syndicate 510.

One year accounting result

On a UK GAAP basis the syndicate produced a technical account profit of £117.7m against gross premium written of £1,097.2m and a net premium earned of £847.6m for the 2014 calendar year.

2014 was a relatively quiet year for natural catastrophes with the largest events being Hurricane Odile in Mexico and the Nebraska Storms. It was also affected by the aviation losses: MH370, MH17 and Tripoli Airport.

This coupled with a good attritional performance has resulted in a combined ratio for the 2014 calendar year of 87.1%.

2015 development

The over-capitalisation of the insurance and reinsurance markets has not abated and market softening endures. In these circumstances, underwriting discipline is key. Emphasis on good risk selection, pricing and terms and conditions is vital to success. Our continued focus on bottom line profit means the portfolio is still in a relatively good position. While the outlook for 2015 is considered challenging in many areas, we have anticipated this in our planning and are largely on track so far.

Similarly to last year, we have been in a position to improve our outwards reinsurance and retrocession purchases, taking advantage of the softer market.

A fundamental strength and important differentiator of Syndicate 510 is its niche underwriting capability. It is important that we continue to work in new spaces and innovate to build new specialist offerings that add value to our clients.

We aim to build on the already strong relationships we have with brokers and to enhance our distribution network using the Tokio Marine Kiln international and regional offices.

Managing our conduct risk has been the focus of significant effort over past months and will build further into 2015. Our values of empowerment, fairness, innovation, excellence and teamwork stand us in good stead as we develop our processes in this regard.

Syndicate 510

Property & Special Lines

2012 underwriting year of account

The Property & Special Lines division made an underwriting profit of £36.8m (7.87%) on allocated capacity of £467.0m after taking account of operating expenses, Lloyd's expenses and investment income for the 2012 underwriting year of account.

A strong attritional performance meant the division was able to generate a reasonable profit in a year which was affected by Superstorm Sandy, along with several smaller catastrophe losses.

Prior years' development

The 2012 underwriting year result improved by £7.9m as a result of reduced reserves from prior years. This release is primarily attributable to benign claims development during 2014, with the attritional incurred claims reducing over the year.

One year accounting result

On a UK GAAP basis the division produced a technical account profit of £57.1m against gross premium written of £574.7m and a net premium earned of £441.0m for the 2014 calendar year. 2014 was a relatively benign year for catastrophe events, with our main exposures being small losses on Hurricanes Odile and Gonzalo as well as the US Polar Vortex and Brisbane Storms.

The combined ratio for the 2014 calendar year is 88.0%.

2015 development

The division has increased its planned premium income moderately for 2015. The main driver for this growth continues to be our international Liability team which has further developed its book of business, whilst seeking opportunities to expand the portfolio. We expect our open market business to decrease as the soft market continues to affect pricing, and there is increased competition within the Lloyd's and domestic markets.

Our Paris office continues to grow its book of business slowly as we remain focused on building our relationships in the European market.

We may see some limited growth in our international Motor book as our specialist team continues to take advantage of niche market opportunities.

We continue to focus on developing and sustaining the quality of our core business and take advantage of opportunities that may arise elsewhere. Going forward we will look to build on our relationships with our business partners worldwide to maintain our position in their markets to deliver profitable growth.

In summary, we will continue to focus on writing quality accounts, maintain our underwriting discipline and look for opportunities within the current soft market environment during 2015. There is no doubt 2015 will be challenging from a pricing perspective, but we will continue to select a quality portfolio of risk to deliver the business plan.

Syndicate 510

Marine & Special Risks

2012 underwriting year of account

The Marine & Special Risks division made an underwriting profit of £29.0m (13.39%) on allocated capacity of £216.8m after taking account of operating expenses, Lloyd's expenses and investment income for the 2012 underwriting year of account.

This is an excellent result for the division, and continues the good run of results the division has experienced in recent years.

Prior years' development

The 2012 underwriting year result improved by £12.0m attributable to favourable claims development on prior years, including several cases where we have seen claims settling for less than their reserves.

One year accounting result

On a UK GAAP basis the division produced a technical account profit of £16.4m against gross premium written of £205.7m and a net premium earned of £176.1m for the 2014 calendar year.

2014 has proven to be a difficult year for the division. Market pricing has progressively deteriorated over the year, with the worst softening felt in our more opportunistic classes of business. Overall rates were down by 2% across all lines, which on the face of it would appear to be satisfactory, but it masks the trend of deterioration in pricing as the year progressed. This was most marked in our Energy and Marine Reinsurance classes, where by the year-end reductions of around 15% were common place on clean renewing accounts. We have reduced our income in both our Energy and Excess of Loss books as pricing has failed to meet our requirements, which has led to an overall reduction in the divisional premium to £205.7m from £223.5m. Conversely, pricing in both our Hull and Cargo classes has held up well, contrary to general market experience. This supports our strategy of concentrating on the more specialist areas of these classes in London, where we can have a greater influence over pricing, and which are less affected by aggressive capacity chasing than the more mainstream areas; whilst at the same time complementing this with writing less specialist business through our devolved regional distribution outlets.

The combined ratio for the 2014 calendar year is 91.9%.

2015 development

Capacity is set to remain plentiful throughout 2015 and we therefore envisage pressure on rates to continue throughout the year.

Having suffered two losses on our account in 2014 as a result of the political situation in Russia and Ukraine, where our insured's premises have been devastated by the conflict, we have taken a cautious stance over apparent geopolitical instability. This includes the likely impact of longer term oil price at US$50 per barrel on oil producing nations, who seem caught in a perfect storm of relative decreasing demand, increasing production volumes, changing geopolitical factors, the impact of a devalued rouble on Russia's stability, as well as wider war and terrorist incidents. Despite these scenarios there has been little reaction from the political and credit insurance markets, which continue to attract new capacity resulting in continued downwards pressure on pricing and lengthening tenors. Consequently we will see little growth in these areas for 2015.

Our Special Risks book of business is expected to continue to grow throughout 2015. There is considerable interest in our Trade Disruption products which address the emerging threats facing risk managers from their extended supply chains that have been highlighted by various natural and 'man-made' catastrophes around the world. Increasing worldwide geopolitical uncertainty will only add to the demand.

2015 will see a spread of softening markets to most areas. It will be a year where we use our specialist knowledge and underwriting expertise to either write classes of business where competition is lower because of the technical nature of the risk, or where deep understanding of the class is required to write the business profitably. Underwriters will need to understand the drivers of their bottom-line to know when to walk away from inadequately priced business and not be pressured to chase such risks simply to maintain their top-lines.

Syndicate 510

Reinsurance

2012 underwriting year of account

The Reinsurance division made an underwriting loss of £0.5m (0.28%) on allocated capacity of £184.9m after taking account of operating expenses, Lloyd's expenses and investment income for the 2012 year of account.

2012 saw one of the largest catastrophe losses for many years with Superstorm Sandy hitting the North East coast of the US in late October. Whilst wind speeds were not particularly high when compared with major storms of the past, a number of factors, including the storm's path, the timing of the high tide and local vulnerabilities, combined to cause a market loss of US$35bn. On the whole our book performed as we expected in such circumstances, but this has clearly been the major driver of a disappointing result. Outside the US the only notable event was an earthquake in Italy, which didn't have a particularly large impact on the overall result.

Prior years' development

The 2012 underwriting year result improved by £2.0m as a result of reduced prior years reserves for a number of catastrophic events. Whilst most of these older losses are developing in the usual way it is worth noting that the losses from the earthquakes that affected New Zealand in 2010 and 2011 still have significant reserves that have not yet been paid out to policyholders (and thus have not been paid by us to our reinsureds). As a consequence we are open to a greater degree of uncertainty than would be the case where losses are settled more rapidly, and we have thus taken a more conservative approach to the reserving of these events.

One year accounting result

On a UK GAAP basis the division produced a technical account profit of £15.3m against a gross premium written of £111.6m and a net premium earned of £44.4m for the 2014 calendar year.

2014 saw very little in the way of major catastrophes, with the largest catastrophe to affect the division being a series of tornadoes and hailstorms that hit Nebraska. The largest single risk loss that we experienced was on a US energy account, but we saw nothing else particularly out of line with normal experience. Although the lack of major losses during the year was welcome, it has served to attract more capacity into an already softening market.

The combined ratio for the 2014 calendar year was 67.6%.

2015 development

As mentioned previously, the soft market that we commented on in last year's report has continued. Whilst prices continue to fall in the US, we believe that they still offer opportunities for perfectly adequate profits, albeit at a reduced level to previous years. In other territories pricing levels have become less attractive, making it far more important to carefully select those risks where money can still be made from potential business which now includes some significantly under-priced accounts. Throughout the world there is considerable pressure on contractual terms and conditions, some of which we have successfully resisted and the rest where we have factored the effect of changes into our rating calculations. Clients are increasingly looking for customised products, adapted to reflect their particular concerns, and we have been willing to adapt contracts to support our customers where we believe that there is benefit in doing so, and where we can achieve appropriate pricing. The fact that we have an experienced team of underwriters who have built up close relationships with both clients and brokers has meant that we have been well placed to react to changing market circumstances and to write the business that we want to write.

Whilst there is little to suggest that the soft market will cease any time soon, pricing reductions in the US during the January renewal season were smaller than those seen in the middle of 2014, and generally in line with our expectations. We believe that our long-term approach to business, combined with a client base which has been selected to give us the best chance of profit across the cycle (and particularly in a poor market) gives us the best chance of success in the coming years.

The pricing pressure that we have seen on the inwards book has also affected the cost of retrocessional protections, and we have taken advantage of the reductions that are available to provide the division with more cost-effective programmes to protect our book. We will continue to push to obtain better value for our outwards placements in the forthcoming renewals.

Syndicate 510

Aviation

2012 underwriting year of account

The Aviation division made an underwriting profit of £15.4m (23.93%) on allocated capacity of £64.4m after taking account of operating expenses, Lloyd's expenses and investment income for the 2012 underwriting year of account.

This is an exceptional result which demonstrates our disciplined underwriting approach and performance achieved in challenging conditions, following further continued softening in all areas of the portfolio.

Prior years' development

The 2012 underwriting year result improved by £5.3m as a result of reduced reserves from prior years, due to favourable claims development and the release of certain outstanding claims.

One year accounting result

On a UK GAAP basis the division produced a technical account profit of £13.4m against gross premium written of £52.7m and a net premium earned of £46.3m for the 2014 calendar year.

The influx of capital continued unabated during the past year. This was particularly evident in the Hull War class where emerging new insurers entered the market with the expectation of three hundred per cent premium increase, from a very modest base, which failed to materialise. These insurers ensured that the trend of miniscule increases continued through to the end of the calendar year.

We had expected to grow our Airline class as we believed rating levels allied to improved safety initiatives would result in an acceptable margin for the risk. We did not foresee the additional capacity created by the advent of Broker airline quota share facilities. These contracts are placed at composite terms, thereby reducing the order available for insurers who are not prepared to be leveraged into paying extra commissions to the intermediaries. This additional cost squeezes the technical profit in a class that already has a slim margin.

We have no involvement in the 'All Risks' policies of the three tragic large airline losses of 2014, but do have an interest in the Hull War policies. Our exposure to the War event in Tripoli gave us a large loss on the 2013 year of account, however it is protected by specific reinsurance.

The combined ratio for the 2014 calendar year is 72.9%.

2015 development

Civil aircraft manufacturers are robustly ramping up production having received record orders from airlines for more fuel-efficient aircraft. This momentum will filter through to benefit the component suppliers and their sub-contractors. We have always participated in insuring the non-critical product manufacturers and we see opportunities to use the Tokio Marine Kiln corporate relationship we have in other classes to broaden the client base, and take advantage of the cross sell opportunity that we now have as part of our dual platform status.

The airline industry should start to see improvements in their profits due to the drastic reduction in fuel costs that looks likely to continue for the next twelve months. Couple this with the improving safety trend and the outlook is positive with insurers benefiting from an improved credit risk.

Undoubtedly 2015 will be a testing year for aviation underwriters. Following the tragic events of 2014, underwriting discipline will be paramount, particularly in the hotspots of the Middle East and North African countries. Every year since 2002 participants have entered the market adding nothing new except their capacity. We shall continue with our proven strategy of being nimble, and writing a highly selective portfolio that is not heavily dependent on any one subclass. We continue to be driven by strong underwriting technical results emanating from our niche areas, particularly where we have leadership control. Furthermore, we recognise the need to proactively monitor alternative areas of cover that would complement our portfolio and enhance our product lines.

Unlike newcomers, we have an established book of business with a reputation for innovation and service. We shall continue to strengthen the quality of the book through our main hubs, and seek to grow profitably via new distribution centres through our Tokio Marine Kiln connections.

Syndicate 510

Accident & Health

2012 underwriting year of account

The Accident & Health division made an underwriting profit of £10.0m (10.40%) on allocated capacity of £96.3m after taking account of operating expenses, Lloyd's expenses and investment income for the 2012 underwriting year of account.

The result was positive and an improvement on our original business plan income and profitability targets for the division. Renewal retention rates remained consistent, but while pricing conditions for our core account remained stable with steady organic growth, new business opportunities at attractive rates were increasingly difficult to find. The Travel and Evacuation book mirrored its strong performance of 2011 and, in the absence of any large losses, the non-standard Personal Accident portfolio proved highly profitable.

Prior years' development

The 2012 underwriting year result improved by £2.1m as a result of reduced reserves from prior years. Given the typical short-tail nature of the business, it was encouraging to see the older years settling out within our reserve projections.

One year accounting result

On a UK GAAP basis the division produced a technical account profit of £10.7m against gross premium written of £124.8m and a net premium earned of £119.0m for the 2014 calendar year. Once again, despite the class coming under pressure from increased competition within Lloyd's and from international markets, our core book of renewal business continued to perform to plan.

With tougher market conditions, although the overall portfolio did increase in size, the core Accident & Health account did not grow during 2014. The Medical account continued to advance throughout the year as expected, where we were successful in developing a diversified book of Bloodstock and Equestrian risks following the addition of a new Equine Underwriter in December 2013. There was an absence of any major losses to hit the account during the year, which assisted the favourable result.

The combined ratio for the 2014 calendar year is 91.5%.

2015 development

The portfolio has been consistently profitable and has grown continuously up to now. However due to the current market conditions, a wave of excess capital and greater empowerment of brokers, it is going to be extremely difficult to grow the top- and bottom-lines in the current year. The market has continued to draw in additional capacity with syndicates prepared to take on new business at materially lower rates in some open market cases, which will result in rating pressures on certain elements of our book. However, we have a diversified Lloyd's and international platform in place that has been successful in attracting new business to Tokio Marine Kiln in the past and we will seek to grow opportunistically where possible.

We anticipate the portfolio will largely track the 2014 year of account in terms of income and profitability.

Syndicate 510

Enterprise Risk

2012 underwriting year of account

The Enterprise Risk division made an underwriting loss of £2.5m (7.56%) on allocated capacity of £32.9m after taking account of operating expenses, Lloyd's expenses and investment income for the 2012 underwriting year of account. As in prior years, the Enterprise Risk account divided into two halves, with profits from our traditional Enterprise Risk business being eroded by the so called 'Affinity' classes which concentrated on mobile phone and other consumer product lines. These consumer product lines have subsequently been discontinued.

Prior years' development

The 2012 underwriting year result included a £0.3m strengthening of reserves on the prior years. This follows a new advice on the 2011 year of account, as well as a general increase in reserves on the Cyber class to align with market development data until it can be demonstrated that the book runs off faster than the benchmark. Reserves from years prior to 2009 remain within the Marine & Special Risks division.

One year accounting result

On a UK GAAP basis the division produced a technical account profit of £3.0m against gross premium written of £28.1m and a net premium earned of £21.2m for the 2014 calendar year.

The profitability of the underlying book is now evident following the decision we took to withdraw from the Affinity classes in 2013, which did not have sufficient margin to compensate the expense of increased regulatory supervision.

The combined ratio for the 2014 calendar year is 86.7%.

2015 development

The division has continued to build on its position as a market leader in new products, addressing the concern expressed by our clients about the perceived lack of innovation in our industry. In response, the division has developed a series of groundbreaking products that protect an enterprise's revenue rather than its physical assets. These policies are triggered by a broad range of tangible or intangible perils that are increasingly threatening to businesses' sustainability, including reputational harm, cyber threats, computer hacking, viruses, data breaches, intellectual property infringements, regulatory shutdown and product recall events. We will look to increase the number of products along these themes.

The division has continued to grow premium income derived from its data protection and information security products which to date has been its core focus. However, the London Market has become a more competitive region in which to write this class of business, as new players are becoming increasingly attracted to the class in an effort to diversify their own income base. To counter this, we will seek ways to move ourselves more upstream in the distribution chain, through either expanding our coverholder distribution network or through the Tokio Marine Group to distribute our products into their local market such as Germany, Australia, Canada and the United States. In doing this we will not neglect our specialist London wholesale brokers, but look to increase the number of such brokers who generate this type of business for us. During 2014 we will also look to grow our First Party Cyber income which insures the income of a business that is lost if the technology of the business fails for a period of time.

Syndicate 557

2012 underwriting year of account

Syndicate 557 made an underwriting profit of £3.3m (5.82%) on allocated capacity of £56.3m after taking account of operating expenses, Lloyd's expenses and investment income for the 2012 underwriting year of account.

2012 saw one of the largest catastrophe losses for many years with Superstorm Sandy hitting the North East coast of the US in late October. Whilst wind speeds were not particularly high when compared with major storms of the past, a number of factors, including the storm's path, the timing of the high tide and local vulnerabilities, combined to cause a market loss of US$35bn. On the whole our book performed as we expected in such circumstances, but this has clearly been the major driver of a disappointing result. Outside the US the only notable event was an earthquake in Italy, which didn't have a particularly large impact on the overall result.

Prior years' development

The 2012 underwriting year result improved by £0.7m as a result of reduced reserves from prior years for a number of catastrophic events. Whilst most of these older losses are developing in the usual way it is worth noting that the losses from the earthquakes that affected New Zealand in 2010 and 2011 still have significant reserves that have not yet been paid out to policyholders (and thus have not been paid by us to our reinsureds). As a consequence we are open to a greater degree of uncertainty than would be the case where losses are settled more rapidly, and we have thus taken a more conservative approach to the reserving of these events.

One year accounting result

On a UK GAAP basis the division produced a technical account profit of £8.6m against a gross premium written of £19.9m and a net premium earned of £18.6m for the 2014 calendar year.

2014 saw very little in the way of major catastrophes, with the largest catastrophe to affect the division being a series of tornadoes and hailstorms that hit Nebraska. The largest single risk loss that we experienced was on a US energy account, but we saw nothing else particularly out of line with normal experience. Although the lack of major losses during the year was welcome, it has served to attract more capacity into an already softening market.

The combined ratio for the 2014 calendar year is 55.9%.

2015 development

As mentioned previously, the soft market that we commented on in last year's report has continued. Whilst prices continue to fall in the US, we believe that they still offer opportunities for perfectly adequate profits, albeit at a reduced level to previous years. In other territories pricing levels have become less attractive, making it far more important to carefully select those risks where money can still be made from potential business which now includes some significantly under-priced accounts. Throughout the world there is considerable pressure on contractual terms and conditions, some of which we have successfully resisted and the rest where we have factored the effect of changes into our rating calculations. Clients are increasingly looking for customised products, adapted to reflect their particular concerns, and we have been willing to adapt contracts to support our customers where we believe that there is benefit in doing so, and where we can achieve appropriate pricing. The fact that we have an experienced team of underwriters who have built up close relationships with both clients and brokers has meant that we have been well placed to react to changing market circumstances and to write the business that we want to write.

Whilst there is little to suggest that the soft market will cease any time soon, pricing reductions in the US during the January renewal season were smaller than those seen in the middle of 2014, and generally in line with our expectations. We believe that our long-term approach to business, combined with a client base which has been selected to give us the best chance of profit across the cycle (and particularly in a poor market) gives us the best chance of success in the coming years.

The pricing pressure that we have seen on the inwards book has also affected the cost of retrocessional protections, and we have taken advantage of the reductions that are available to provide the syndicate with more cost-effective programmes to protect our book. We will continue to push to obtain better value for our outwards placements in the forthcoming renewals.

Syndicate 308

2012 underwriting year of account

Syndicate 308 made an underwriting profit of £1.4m (6.30%) on allocated capacity of £22.5m after taking account of operating expenses, Lloyd's expenses and investment income for the 2012 underwriting year of account.

Prior years' development

The 2012 underwriting year result improved by £0.3m as a result of reduced reserves from prior years, as well as the receipt of additional premium following a favourable court judgement.

One year accounting result

On a UK GAAP basis the syndicate produced a technical account profit of £0.7m against gross premium written of £26.7m and a net premium earned of £25.2m for the 2014 calendar year.

Although the underlying book of business continues to produce very good results, the account was negatively affected by a higher than expected loss frequency on one of our US life binders as well as a large loss on the Malaysian Airlines flight MH370.

Unlike the non-life syndicates, Syndicate 308 requires actuarial sign-off under rules for syndicates with long-term insurance liabilities. Under these rules, additional prudent reserves are required to be held, which can affect the annually accounted profit of the syndicate. These additional reserves sit on the younger years of account. At the closure of a year of account, the amount of additional loading required is minimal. Therefore, the underlying forecast for each year of account, which is issued on a quarterly basis, provides a more accurate measure of the ultimate performance of the syndicate.

The combined ratio for the 2014 calendar year is 97.2%.

2015 development

The 2014 year of account did not grow as we had envisaged, and as a consequence whilst market conditions continue to be positive we have not increased our stamp for the 2015 year of account.

We continue to produce satisfactory results, and we shall not be changing our target markets and underwriting philosophy in any area of the account: that is, specialist or niche business from Lloyd's licensed territories, with the aim to write for profit rather than income alone. We shall not be seeking to fill our capacity with business that does not fit our criteria, simply in order to keep up utilisation. Our focus on relationships ensures that we are able to work with our clients to maintain profitability rather than growth, if the two are mutually incompatible. We are very proud of our partnerships; we consider our client service to be a key part of our offering, and one which enables us to attract and retain the best quality business.

There have been no new entrants to the Lloyd's term life market for the 2015 year of account. Looking at the wider term life market, we have not seen any changes in the stances of our company competitors (where such competitors exist). Finally, we do not foresee that there will be any significant change to the regulatory environment during 2015 that will materially impact our underwriting.

Directors, Active Underwriters and administration

Managing agent

Tokio Marine Kiln Syndicates Limited

(formerly R J Kiln & Co. Limited)

Directors

Paul Hewitt (Chairman)	
Charles Franks (Chief Executive Officer)	
Richard Bennison (non-executive)	
David Constable (non-executive)	
Rosie Harris (non-executive)	Appointed 4/7/2014
James Dover	
Denise Garland	
Andrew Hitchcox	
Richard Lewis	
Satoshi Naganuma	Resigned 1/4/2014

Company Secretary

Fiona Molloy

Managing agent's registered office

20 Fenchurch Street
London EC3M 3BY

Managing agent's registered number

9216575

Bankers

Citibank, N.A.

HSBC Bank plc

Lloyds Banking Group plc

Royal Bank of Canada

JP Morgan

Barclays plc

Syndicate	Active Underwriter
Tokio Marine Kiln Combined 510	
Property & Special Lines	Mark Mortlock
Marine & Special Risks	Paul Culham
Reinsurance	David Huckstepp
Aviation	Paul MacMillan
Accident & Health	Tim Prifti
Enterprise Risk	Paul Culham
Tokio Marine Kiln Catastrophe 557	
	David Huckstepp
Tokio Marine Kiln Life 308	
	Cathy Garner to14/5/2014 Tim Prifti from 15/7/2014

Investment managers

BlackRock Investment Management (UK) Ltd
12 Throgmorton Avenue
London EC2N 2DL

Guggenheim Partners Investment Management LLC
330 Madison Avenue
New York NY 10017

Threadneedle Asset Management Ltd
60 St Mary Axe
London EC3A 8JQ

Statutory auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London SE1 2RT

Solicitors

Norton Rose
3 More London Riverside
London SE1 2AQ

Related parties

R J Kiln & Co Limited was renamed Tokio Marine Kiln Syndicates Limited with effect from 10 November 2014. The ultimate parent company of Tokio Marine Kiln Syndicates Limited is Tokio Marine Holdings, Inc. incorporated in Japan. The group consolidated accounts are available by request from Tokio Marine Nichido Building Shinkan, 1-2-1 Marunouchi, Chiyoda-ku, Tokyo, 100-0005, Japan.

Tokio Marine & Nichido Fire Insurance Co., Ltd wholly owns Kiln Underwriting Limited through a wholly owned intermediate holding company, Tokio Marine Kiln Group Limited and owns Tokio Marine Underwriting Limited directly. Kiln Underwriting Limited and Tokio Marine Underwriting Limited participate as members on Syndicates 510 and 308, as shown in the table below. In 2013 Kiln Underwriting Limited transferred its capacity on the 2014 year of account onwards in Syndicates 510 and 308 to Tokio Marine Underwriting Limited. Kiln Underwriting Limited continues to participate on the 2012 and 2013 years of account but from 2014 no longer participated on any Lloyd's syndicate. Tokio Marine Kiln Syndicates Limited will continue as a Lloyd's managing agent.

Percentages of capacity per year of account

Company	Syndicate	2012 %	2013 %	2014 %	2015 %
Kiln Underwriting Limited	510	55	55	–	–
	308	50	50	–	–
Tokio Marine Underwriting Limited	510	–	–	55	55
	308	–	–	50	50

Syndicate 510 accepted inwards reinsurance business from, and placed outwards reinsurance business with, other Tokio Marine Group entities, including Syndicate 1880. These are deemed to be related parties of Tokio Marine Kiln Syndicates Limited by virtue of the shareholding in Tokio Marine Kiln Group Limited, the parent of Tokio Marine Kiln Syndicates Limited, by Tokio Marine Holdings, Inc. Syndicate 557 and 510 are considered to be related parties as Tokio Marine Kiln Syndicates Limited is the managing agent of both syndicates. Syndicate 510 ceded business to Syndicate 557 by way of proportional reinsurance treaty. All transactions between these entities were conducted at arm's length and on normal commercial terms.

Profit commission may be payable by Syndicates 510, 557 and 308 to Tokio Marine Kiln Syndicates Limited in respect of profits earned during the year. Profit commission is subject to deficit clauses and is accrued by the syndicates based on the interim annual accounting results of a year of account under UK GAAP. Final settlement to the managing agent is paid when the year of account is closed after three years. The amount payable to the managing agent is disclosed in the notes to the syndicate accounts.

Managing agency fees were paid by Syndicates 510, 557 and 308 to Tokio Marine Kiln Syndicates Limited based on a percentage of capacity. In addition, expenses were paid to Tokio Marine Kiln Insurance Services Limited in reimbursement for expenses paid on behalf of each syndicate. The amounts are disclosed in the notes to the syndicate accounts.

Disclosable syndicate transactions are shown in the notes to the accounts of the relevant syndicate.

The following table shows allocated capacity of the directors past and present who were or are members of Lloyd's for the 2012 to 2015 years of account.

	Total for YOA	510 £'000s	557 £'000s	308 £'000s
Paul Wilson*	2012	204	–	–
	2013	210	–	–

Figures stated are for participations as bespoke members, as members of a Members' Agent Pooling Arrangement and as individual members underwriting through a Scottish Limited Partnership, but excluding participations as a shareholder in a corporate capital member.

A Limited Liability Partnership (LLP) is in place for employees and directors of Tokio Marine Kiln Insurance Services Limited to participate on Syndicate 510. The amounts stated represent the directors', past and present, effective share in the total capacity through their involvement in the LLP.

	Participation			
	2012 £'000s	2013 £'000s	2014 £'000s	2015 £'000s
Charles Franks	197	197	197	197
Ian Brimecome*	500	n/a	n/a	n/a
James Dover	79	79	109	109
Paul Hewitt	197	197	197	197
Richard Lewis	295	295	295	295
Paul Wilson*	395	444	n/a	n/a

* Now resigned. Participations are reported until the calendar year during which the director resigns.

Syndicate forecast assumptions

Bases and assumptions upon which syndicate forecasts, which are referred to in the report of the Chief Executive Officer, have been made:

- Ultimate net claims settlements have been estimated on the basis of paid and known outstanding claims as at 31 December 2014, together with an assessment of future claim settlements derived from projections based on previous claims history.
- Where liabilities of previous years have been assumed, no profit or loss will arise from their run-off.
- The exchange rates for US dollars and Canadian dollars at 31 December 2015 and 2016 will be the same as at 31 December 2014.
- There will be no significant deviation from projected cash flow patterns or in investment income forecasts.
- The inherent volatility in claims development will not cause the ultimate claim settlements to be materially divergent from those estimated on the basis of underwriting statistics available at 31 December 2014.
- All potential reinsurance recoveries will be collected, except where a specific provision has already been made.
- There will be no significant changes in governmental or legislative controls or policies affecting the activities or claims experience of the syndicates.
- Although a number of policies are still exposed to future losses, there will be no further abnormally large claims or aggregation of claims arising from catastrophe events or other causes.

Annual report and accounts 2014

For Syndicates 510, 557 and 308 managed by Tokio Marine Kiln Syndicates Limited

Annual accounts

under UK Generally Accepted Accounting Practice (GAAP)

Report of the directors of the managing agent

The directors of the managing agent present their report and accounts for the year ended 31 December 2014 under UK GAAP. This report covers Syndicates 510, 557 and 308 managed by Tokio Marine Kiln Syndicates Limited as follows:

Tokio Marine Kiln Combined Syndicate 510 - Composite
Tokio Marine Kiln Catastrophe Syndicate 557 - Non-marine
Tokio Marine Kiln Life Syndicate 308 - Life

Tokio Marine Kiln Syndicates Limited also manages Syndicate 1880, the report and accounts for which are presented in a separate document.

The annual reports for Syndicates 510, 557 and 308 are prepared using the annual basis of accounting as required by Statutory Instrument No. 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Separate underwriting year accounts for the closed 2012 year of account are available to syndicate members (pages 103 to 152).

Principal activity and review of the business

The principal activity of the syndicates remains the transaction of general insurance and reinsurance business on a worldwide basis in the Lloyd's market. Syndicate 557 is positioned as a special purpose syndicate to write a quota share reinsurance of the business of Syndicate 510's Reinsurance division. The principal activity of Syndicate 308 remains the transaction of term life business in the Lloyd's market.

The managing agency's ultimate parent is Tokio Marine Holdings, Inc., the head office of which is in Japan.

Annual accounting results 2014

The syndicates' Key financial Performance Indicators (KPIs) for the year are shown below.

Syndicate	KPI	2014 £'000s	2013 £'000s
510	Gross written premium	**1,097,238**	1,168,799
	Net earned premium	**847,567**	889,552
	Result for the financial year	**117,690**	118,744
	Claims ratio	**50%**	48%
	Combined ratio	**87%**	87%

Note: The claims ratio is the proportion of net claims incurred to net premiums earned and the combined ratio is the proportion of net claims incurred and net operating expenses (including personal expenses) to net premiums earned. In each case, a lower ratio represents a better performance. The above combined ratio includes the effect of profit or loss on exchange, which forms part of net operating expenses. Excluding this the combined ratio is 89% (2013: 85%).

Syndicate 510 is showing a decrease in both gross written and net earned premium as underwriters have remained focused on writing for profit not premium throughout the current tough market conditions. The claims ratio has increased marginally following a higher incidence of large losses during the year, however the impact of this on the combined ratio was alleviated by favourable foreign exchange movements.

Syndicate	KPI	2014 £'000s	2013 £'000s
557	Gross written premium	**19,949**	30,156
	Net earned premium	**18,586**	24,783
	Result for the financial year	**8,567**	10,926
	Claims ratio	**38%**	38%
	Combined ratio	**56%**	57%

Excluding profit or loss on exchange the combined ratio is 60% (2013: 54%).

Syndicate 557 is showing a significant reduction in gross written premium as a result of reduced exposures in response to the current rating environment. The reduced rates did however benefit our outwards reinsurance placement, which meant that net earned premium did not fall to the same extent. The claims ratio remained in line with the prior year following another uneventful hurricane season.

Syndicate	KPI	2014 £'000s	2013 £'000s
308	Gross written premium	**26,736**	30,751
	Net earned premium	**25,156**	25,652
	Result for the financial year	**727**	1,695
	Claims ratio	**57%**	52%
	Combined ratio	**97%**	94%

Excluding profit or loss on exchange the combined ratio is 98% (2013: 94%).

Although Syndicate 308's gross written premium was down on 2013, net earned premium remained steady as the top-line growth reported in prior years earned through. Despite the underlying book continuing to deliver good results, the claims ratio increased following several large losses that were incurred during the year.

The tables below analyse the annual accounting result across the open years of account for the 2014 and 2013 calendar years:

2014	Syndicate annual accounting result			
Year of account	**510 £'000s**	**557 £'000s**	**308 £'000s**	**Total £'000s**
2014	**(5,361)**	**5,507**	**(2,581)**	**(2,435)**
2013	**76,471**	**1,807**	**2,667**	**80,945**
2012 & prior	**46,580**	**1,253**	**641**	**48,474**
	117,690	**8,567**	**727**	**126,984**

2013	Syndicate annual accounting result			
Year of account	**510 £'000s**	**557 £'000s**	**308 £'000s**	**Total £'000s**
2013	(4,004)	3,483	(3,699)	(4,220)
2012	94,088	5,220	3,640	102,948
2011 & prior	28,660	2,223	1,754	32,637
	118,744	10,926	1,695	131,365

Principal risks and uncertainties

Our business model remains consistent: we are specialist underwriters and we take a prudent approach to risk management. We focus predominantly on shorter tail specialist lines of insurance and reinsurance business where we know that a loss has occurred relatively quickly, and so are able to make more immediate reliable estimates regarding the extent of the losses we might expect. We are substantially exposed to catastrophe related business and have detailed knowledge of the risks we underwrite.

It is our policy to confine exposure to risk primarily to core areas of expertise: the underwriting of specialist insurance and reinsurance risks. This approach means that we are at the cautious end of the spectrum in all areas of financial risk management, such as investment management and reserving. This allows us to protect our capital on the balance sheet and focus our risk appetite on underwriting.

Capital assessment and allocation

We have implemented a capital allocation model consistent with the Prudential Regulation Authority's (PRA) Solvency Capital Requirements (SCR). Risk appetite is set annually as part of the business planning and capital setting process. The output from the model produces an amount of capital consistent with the Lloyd's Economic Capital Assessment (ECA) regime, which is set to achieve a desired credit rating.

The model enables allocation of capital to business lines that will deliver the greatest return to capital providers at various stages of the cycle. It is also used to assess the value of different reinsurance strategies. The calculations are based upon sophisticated mathematical models that reflect the key risks in the business, allowing for the probability of occurrence, the potential impact should losses occur and the interactions between the different risk types.

The results of the modelling confirm that the majority of the capital is required to support the insurance underwriting risk, and that the amount of capital required for non-insurance risk is modest.

Insurance risk

The risk of loss arising from the inherent uncertainties as to the occurrence, amount and timing of insurance liabilities.

Insurance risk is sub-divided into underwriting risk, reinsurance risk and reserving risk.

Underwriting risk

The risk arising from fluctuations in the frequency and severity of financial losses incurred as a result of the acceptance of the insurance portfolio of business.

Insurance risk is managed by agreeing the syndicates' appetite for these risks annually through the business plan, which sets out targets for volumes, pricing, line sizes and retention by class of business. Volume and price performance is monitored against syndicate business plans monthly, and all of the components of the insurance result and risk appetite quarterly. We look for opportunities outside the plan, and where appropriate may deviate from the plan in light of changing events or understanding of the risks being taken. Catastrophe modelling software is used to model maximum probable losses from catastrophe-exposed business and as part of the Realistic Disaster Scenario (RDS) process.

A significant proportion of the syndicates' business is written through delegated authorities. A dedicated Delegated Authorities Team monitor coverholder performance, carry out due diligence on new coverholders and manage regulatory requirements.

Reinsurance risk

The risk that reinsurance purchased to protect the gross account does not respond as intended due to, inter alia: mismatch with gross losses, poorly worded contracts, reinsurer counterparty risk or exhaustion of reinsurance limits.

Reinsurance is used to protect capital against underwriting risk volatility, either as a result of large catastrophes, or from the severity of losses on individual policies. Reinsurance security is overseen by the Reinsurance Security Committee.

Reserving risk

The risk of loss arising from claims reserves already in the balance sheet being understated, i.e. the risk that reserves are inadequate due to the inherent uncertainty of knowing the ultimate timing and quantum of liabilities incurred.

Claims provisions represent estimates, based on both the underwriters' informed knowledge and judgement and on the Internal Reserving Actuary's statistical projections, of the expectation of the ultimate settlement and administration costs of claims incurred. A variety of estimation techniques are used, generally based upon statistical analyses of historical loss development patterns, to assist in the establishment of appropriate claims reserves. Reserving for known catastrophes is assisted by use of the catastrophe modelling software.

In addition, the estimates are subject to independent review by external actuaries, who sign an annual Statement of Actuarial Opinion on the sufficiency of the reserves for each of the syndicates. Our policy is to reserve on a consistent basis with a reasonable margin for prudence, such that the syndicates are strongly reserved without being over-reserved. Syndicate 308 is reserved at a prudent level in accordance with life reserving actuarial guidance. Claims run-off tables are used to monitor the history of reserve adequacy, and these show a trend of predominantly positive run-off since they were first prepared in 2001.

Credit risk

The risk of loss if another party fails to meet its financial obligations, including failure to meet them in a timely manner.

We are exposed to three types of credit risk: reinsurer credit risk, broker/coverholder credit risk and investment credit risk. Credit exposure and aggregate exposure to reinsurers are managed by the Reinsurance Security Committee. It assesses, and is required to approve, all new reinsurers before business is placed with them, and it monitors the credit ratings of all reinsurers used. The performance of premium debtors, from brokers and coverholders, is monitored quarterly by the Credit Control Committee.

Market risk

The risk that arises from fluctuations in values of, or income from, assets, interest or exchange rates.

Investments are held as a result of underwriting activities either in premium trust funds or as capital support. The investment policy is set to protect the capital, and not to manage it as a separate profit centre. Funds managed by our investment managers are subject to set guidelines, and the on-going investment strategy and investment objectives that are agreed by the Investment Committee. These include the requirement for the prudent person principle as outlined in the Solvency II Directive text. Additionally, we meet regularly with the fund managers to review performance. Our syndicates maintain a diversified investment portfolio to restrict the concentration of assets. The syndicates have no exposure to equity related investments and regular reviews are carried out to match requirements against liabilities by currency and duration.

Liquidity risk

The risk of the syndicates being unable to meet liabilities in a timely manner due to the lack of liquid resources.

To mitigate liquidity risk, the Finance Group reviews syndicate cash flow projections quarterly, and also stress tests them against RDSs. In the event of a catastrophe loss of a significant size, Syndicates 510, 557 and 308 have the ability to take advantage of Outstanding Claims Advances (OCAs) from their major reinsurers.

Agency risk

The risk that managers do not act in the best interests of their principal.

Tokio Marine Kiln Syndicates Limited is aware of its fiduciary responsibilities to capital providers across each of its four syndicates and is careful to ensure equity between them.

Operational risk

The risk that errors caused by people, processes or systems lead to losses to the managed syndicates.

We seek to manage this risk by the recruitment of high calibre staff and providing them with high quality training, and also through the use of a comprehensive risks and controls register. On a quarterly basis risks are reviewed with departmental heads responsible for identifying, assessing and controlling operational risks effectively.

There is a strong risk reporting and risk governance system in place to ensure effective risk management of operational risk. Management receives operational risk updates on a quarterly basis and the Audit, Risk and Compliance Committee reviews the operational risk profile bi-annually.

Regulatory risk

The risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change.

The managing agent is required to comply with the requirements of the FCA, PRA and Lloyd's, including those imposed on the Lloyd's market by overseas regulators, particularly in respect of US Situs business. The compliance function is responsible for monitoring compliance with regulation and monitoring of regulatory change. The Compliance framework outlines the broad regulatory and compliance structure that applies to all staff.

2014 saw further progress on Solvency II implementation. All of the materials required by Lloyd's to evidence compliance with the Solvency II requirements have been delivered. Lloyd's have confirmed that they require no further information from us at this time, ahead of their Internal Model application which is expected sometime later in 2015. However until the results of this application are known, we cannot be certain of the capital position for future years.

The risk remains that the implementation of Solvency II, due to its sheer size and complexity, could pose a challenge to our speciality insurance underwriting culture.

The nature of its business exposes the managing agent to controls and sanctions which regulate international trade. Processes and controls are in place to screen and monitor transactions against relevant requirements to assure compliance with them.

Conduct risk

The risk of financial and/or service detriment which adversely affects the customer due to failings in the customer value chain.

Our conduct objective is to build, maintain and enjoy long-term relationships with our customers whether it be directly or indirectly via a third party. This culture of partnership is fundamental to our dealings with our customers, and comes regardless of the complexity of the risk, the sophistication of the buyer, or the length of the supply chain to the end customer.

The conduct objective is owned by the board and cascaded throughout the organisation. It is central in achieving delivery of the six Consumer Outcomes (as set out by the FCA), which are at the heart of our business.

The board aims to embed a culture, from the top down, where the conduct risk arising from the execution of the business plan and strategy is appropriately monitored and managed to ensure good outcomes for all our customers. The management of conduct risk applies to all business, regardless of product lines and customer types, across both open market and delegated underwriting and is achieved through the application of the conduct risk framework. The framework is applied in a proportionate, risk based way which takes account of the different inherent conduct risk across products, distribution and customer types.

The underwriters, with the support of the Delegated Authority Team, take day to day ownership of conduct risk as they are the ones empowered to make decisions which commit us to relationships with our customers and business partners. Conduct risk and our treatment of customers is managed and monitored by the Conduct Risk Committee, a sub-committee of the board, which reports up to the board quarterly.

Reputational risk

Reputational risk is the risk that negative publicity regarding an institution's business practices will lead to a loss of revenue or litigation. In the modern digital era, reputational risk and the subsequent threat to our strong brand is becoming more significant. Loss of confidence from customers, regulators or capital providers could cause long term harm to the business.

All staff are made aware of their responsibilities to clients and other stakeholders.

Emerging risk

An emerging risk is 'an issue that is perceived to be potentially significant but which may not be fully understood or allowed for in insurance terms and conditions, pricing, reserving or capital setting.'

We are committed to the continual research and identification of emerging risks and actively undertake research independently, and via Lloyd's as a representative on the Lloyd's Emerging Risks Special Interest Group. Through the effective management of emerging risks we are able to identify external trends and threats, and improve risk selection and knowledge of future risk exposures. Emerging risks may present both threats and opportunities to the business and as it has done in the past, we will readily seize opportunities arising in the area of emerging risks.

Integration risks

Kiln and Tokio Marine Europe formed a joint operation in 2014 under Tokio Marine Kiln Group and now operate from the same premises with combined management and operational functions, while remaining distinct legal and underwriting entities. Overall the integration has progressed smoothly but risks still remain – predominantly that the management team find themselves overstretched and are unable to devote enough time and attention to their syndicate duties.

Management are aware of this potential issue and look to manage their time effectively which combined with new senior level hires will help mitigate this risk.

Future business risk

The risk that future earnings are lower or more volatile than expected. This could be as a result of a number of causes:

- The cyclical nature of insurance business with fluctuations in capacity, competition and the frequency and severity of losses, as a result of both man-made and natural disasters.
- The result of competition which can cause rates to vary sharply in the short-term.
- The lack of reinsurance or retrocession availability.
- Actual claims may exceed claims provisions.
- The flow of new business may be affected by any changes in the syndicates' ratings, either stand-alone ratings from A.M. Best, or the overall Lloyd's credit rating.
- Distribution channels: the syndicates are heavily dependent on brokers.
- The syndicates may be affected by litigation on insurance policy wordings; e.g. exclusion clauses.
- Severe and rapid exchange rate fluctuations.
- Regulatory or compliance changes.
- Reputational damage as a result of real or perceived negligence or malpractice.

These risks can be mitigated to a reasonable extent by maintaining good underwriting discipline, but are ultimately outside management control.

Underwriters' reports

The underwriters' reports on pages 10 to 18 set out further commentaries on the principal activities and one year annual accounting results for Syndicates 510, 557 and 308. They also include commentaries on the year of account result for the 2012 closed year, and a discussion of future developments in the coming year.

Directors

The directors of the managing agent who served during the year ended 31 December 2014 are reported under the section 'Directors, Active Underwriters and administration' on page 19. The directors' participations in the premium income of the syndicates are set out in the related parties note on page 20.

Statement of managing agent's responsibilities

Disclosure of information to the auditors

As far as each person who was a director of the managing agent at the date of approving this report is aware, there is no relevant audit information, which is information needed by the auditors in connection with their report, of which the auditors are unaware. Having made enquiries of fellow directors of the managing agent and the syndicates' auditors, each director has taken all the steps that they are obliged to take as a director in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Reappointment of auditors

The Board approved the reappointment of PricewaterhouseCoopers LLP as auditors for the current year and on an ongoing basis for the managed syndicates, managing agent and other Tokio Marine Kiln Group entities.

Syndicate annual general meeting

In accordance with the Syndicate Meetings (Amendment No. 1) Byelaw (No. 18 of 2000) the managing agent does not propose holding a syndicate annual meeting this year; objections to this proposal or the intention to reappoint the auditors for a further 12 months can be made by syndicate members in writing to the Company Secretary within 21 days of this notice.

Approved by the Board of directors

Fiona Molloy

Company Secretary
Tokio Marine Kiln Syndicates Limited
16 March 2015

The managing agent is responsible for preparing the syndicate annual report and annual accounts for each of Syndicates 510, 557 and 308, in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ('2008 Regulations') require the managing agent to prepare syndicate annual accounts for each syndicate at 31 December each year, in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The annual accounts are required by law to give a true and fair view of the state of affairs of the syndicate as at that date and of its profit or loss for that year.

In preparing the syndicates' annual accounts, the managing agent is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom accounting standards have been followed, subject to any material departures disclosed and explained in the annual accounts; and
- prepare the annual accounts on the basis that each syndicate will continue to write future business unless it is inappropriate to presume that the syndicate will do so.

The managing agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of each syndicate and enable it to ensure that the syndicate annual accounts comply with the 2008 Regulations. It is also responsible for safeguarding the assets of each syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The managing agent is responsible for the maintenance and integrity of the corporate and financial information included on its website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors of the managing agent confirm that they have complied with the above requirements in preparing the syndicate annual accounts.

Notes and principal accounting policies applying to all syndicates

as at 31 December 2014

1. Basis of preparation

These annual accounts have been prepared in accordance with Regulation 5 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and applicable Accounting Standards in the United Kingdom and comply with the Statement of Recommended Practice on Accounting for Insurance Business issued in December 2005 (as amended in December 2006) by the Association of British Insurers, as applicable, with the exception of foreign exchange that is recognised in the technical account. The general and life business results are determined on an annual basis of accounting.

2. Funds at Lloyd's

Every member is required to hold capital at Lloyd's which is held in trust and is known as Funds at Lloyd's (FAL). These funds are intended primarily to cover circumstances where syndicate assets prove insufficient to meet participating members' underwriting liabilities.

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on PRA requirements and resource criteria. FAL has regard to a number of factors, including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the management of the managing agent, no amount has been shown in these annual accounts by way of such capital resources. However, the managing agent is able to make a call on the members' FAL to meet liquidity requirements or to settle losses.

3. Accounting policies

a) Premiums written – general and life business

Inwards premiums written comprise premiums on contracts incepting during the financial year as well as adjustments made in the year to premiums on contracts incepting in prior accounting periods. Premiums in respect of insurance contracts underwritten under a binding authority, line slip or consortium arrangement are allocated to the financial year of inception of the arrangement. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing the difference between the written and signed premium, this difference is held on the balance sheet as an asset.

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards business being reinsured.

Single premium life contracts consist of those contracts under which there is no expectation of continuing premiums being paid at regular intervals. Additional single premiums paid in respect of existing individuals' contracts are also included within single premiums.

Periodic premium life contracts include those contracts under which premiums are payable at regular intervals during the policy year, including repeated or recurrent single premiums where the level of premiums is defined.

b) Earned premiums – general and life business

Inwards and outwards earned premium represents the amount of written premium deemed to have been exposed to loss according to defined earnings patterns. The provision for unearned premium comprises the proportion of gross premiums written which is estimated to be earned after the balance sheet date.

Reinstatement premiums arise on both inwards and outwards policies when a loss has been incurred on a policy and there is a clause which requires the reinstatement of the policy with the payment of a further premium by the policyholder. They are recognised as written and earned in full at the date of the event giving rise to the reinstatement premium. Outwards reinstatement premiums payable in the event of a claim being made are charged to the same year of account as that to which the recovery is credited.

For those policies in Syndicate 308 reserved under a long-term methodology, premium is treated as fully earned from inception and no unearned premium reserve is held. Instead these policies are reserved using a gross premium valuation methodology to calculate the provision required to meet future claims and expenses less future premiums ('mathematical reserves').

c) Claims provisions and related recoveries – general and life business

Gross claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect claims handling costs and adjustments to claims outstanding from previous years.

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including outstanding claims estimated on a case by case basis and also the cost of claims Incurred But Not Reported (IBNR). The estimated cost of claims includes expenses to be incurred in settling claims. All reasonable steps are taken to ensure that the appropriate information regarding claims exposures is obtained. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. All claims provisions are reported on an undiscounted basis, with the exception of Syndicate 308 where a discount rate is applied (see note 3 of the Syndicate 308 annual accounts).

The estimation of claims IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the syndicate, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insurer until many years after the event giving rise to the claim has occurred. Classes of business where the IBNR proportion of the total reserves is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. Classes of business where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims a variety of estimation techniques are used, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience.

Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in syndicate processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous periods;
- changes in the legal environment;
- the effects of inflation;
- changes in the mix of business;
- the impact of large losses; and
- movements in industry benchmarks.

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these, regard is given to the claim circumstance as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

Large claims affecting each relevant business class are generally assessed separately, either measured on a case by case basis or projected separately, in order to allow for the possible distorting effect of the development and incidence of these large claims.

Where possible, multiple techniques are adopted in order to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year. The amount of salvage and subrogation recoveries is separately identified and, where material, reported as an asset.

The directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the annual accounts for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

An estimate of the future cost of indirect claims handling is calculated as a percentage of the gross claims reserves held at the balance sheet date.

Property, enterprise risk, reinsurance, and accident and health

These business areas are predominantly short-tail, in that there is not a significant delay between the occurrence of the claim and the claim being reported, with the exception of the liability risks written in the Property division. For short-tail risks, the costs of claims notified to the syndicate at the balance sheet date are estimated on a case by case basis to reflect the individual circumstances of each claim. The ultimate expected cost of claims is projected from this data by reference to statistics which show how estimates of claims incurred in previous periods have developed over time to reflect changes in the underlying estimates of the cost of notified claims and late notifications.

Liability

For liability risks, claims may not be apparent for many years after the event giving rise to the claim has happened, and there will typically be greater variation between initial estimates and final outcomes compared with other classes. Differences between the estimated cost and subsequent re-estimation or settlement of claims are reflected in the technical account for the year in which these claims are re-estimated or settled.

Marine and aviation

These business areas have a mix of hull and cargo risks that are short-tail in nature, and liability risks which are longer tail. The methodology uses a predetermined formula whereby greater weight is given to actual claims experience as time passes. The initial estimate of the loss ratio based on the experience of previous years adjusted for factors such as premium rate changes and claims inflation, and on the anticipated market experience, is an important assumption in this estimation technique. The assessment of claims inflation and anticipated market experience is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort. This class of business is also potentially subject to the emergence of new types of latent claims but no specific allowance is included for this as at the balance sheet date.

Life

The long-term business provision is determined annually by an actuarial valuation and is calculated initially to comply with the reporting requirements of the PRA's Prudential Sourcebook for Insurers. These are the amounts shown in the balance sheet. This statutory solvency basis is then adjusted in respect of general contingency reserves and other reserves required for statutory solvency purposes. This adjusted basis is referred to as the modified statutory solvency basis. Further details of the assumptions used are given in note 3 of the annual accounts of Syndicate 308.

d) Provision for unexpired risks

Provision is made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums provision. The expected claims are calculated having regard only to events that have occurred prior to the balance sheet date. The need for an unexpired risk provision is assessed on a 'managed together' basis. Unexpired risk surpluses and deficits are offset where business classes are managed together and a provision is made if an aggregate deficit arises.

e) Acquisition costs

For both general and life business, acquisition costs, comprising commission and other costs related to the acquisition of new insurance contracts are deferred to the extent that they are attributable to premiums unearned at the balance sheet date. Where inwards business is ceded to an outwards proportional reinsurance treaty, an estimate of the relevant proportion of the inwards acquisition costs is calculated and deferred in line with the outwards unearned premium at the balance sheet date.

Deferred acquisition costs are reviewed by category of business at the end of each reporting period and are written off where they are no longer considered to be recoverable.

f) Foreign currencies

Functional currency

Items included in the annual accounts are measured using the currency of the primary economic environment in which the syndicates operate (the functional currency). The annual accounts are presented in pounds sterling which is also the functional currency of the syndicates.

Transactions and balances

Foreign currency transactions are recorded in the functional currency using the exchange rates prevailing at the dates of the transactions or an appropriate average rate of exchange. Foreign exchange gains and losses resulting from the settlement of monetary items relating to such transactions and from the measurement at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Non-monetary assets, such as unearned premium reserves and deferred acquisition costs, are recorded in the balance sheet at the exchange rate prevailing at the date of the original transaction (i.e. inception date of the related insurance policy).

Exchange rates used are as follows:

	Average rate		Year end rate	
	2014	**2013**	**2014**	**2013**
US dollar	1.65	1.56	1.56	1.66
Canadian dollar	1.82	1.61	1.81	1.76

The distributable result on closing a year of account, usually at 36 months, is calculated using the exchange rates prevailing at the date of closure. The selection of an average exchange rate or transaction rate in the intervening period under annual accounting has no effect on the amount to be distributed to members at the closure of the year of account.

g) Investments

The syndicates classify their financial assets into 'shares and other variable-yield securities', 'debt securities and other fixed-income securities' and 'deposits with credit institutions' – all at fair value through profit or loss. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

A financial asset is classified as fair value through profit or loss at inception if it is acquired principally for the purpose of selling in the short-term, if it forms part of a portfolio of financial assets in which there is evidence of short-term profit-taking, or if so designated by management to minimise any measurement or recognition inconsistency with the associated liabilities.

Financial assets designated as fair value through profit or loss at inception are those that are managed and whose performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to key management personnel. The investment strategy is to invest in listed government and corporate bonds, fixed interest rate debt securities and derivatives designated upon initial recognition as fair value through profit or loss.

The fair values of financial instruments traded in active markets are based on quoted bid prices at the balance sheet date, and include interest accrued at that date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Net gains or losses arising from changes in the fair value of financial assets classified as fair value through profit or loss are presented in the profit and loss account within 'unrealised gains on investments' or 'unrealised losses on investments' in the period in which they arise.

h) Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value are recognised immediately in the profit and loss account. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

i) Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest. Realised gains and losses on investments carried at fair value through profit or loss are calculated as the difference between sale proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their valuation at the previous balance sheet date, or purchase price, if acquired during the year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods, in respect of investment disposals in the current period.

Investment return on general business is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account. Investment return has been wholly allocated to the technical account as all investments relate to the technical account. Investment return on long-term business is recorded directly in the technical account.

j) Investment yield

The calendar year investment yield is calculated as the ratio of 'aggregate investment return' to 'average funds available', expressed as a percentage. Aggregate investment return is the total amount of net appreciation, investment income and accrued interest received during the year, after deducting investment management costs but before deducting tax. Average funds available is the average value of all investments (including accrued interest), deposits and surplus cash at the beginning of the year and at each month end revalued at market prices.

k) Taxation

Under Schedule 19 of the Finance Act 1993 the syndicates do not pay UK taxation, their profits being allocated and assessed to tax on their members in direct proportion to their capacity.

The syndicates pay various overseas direct and premium based taxes, the majority of which are allocable to their members in direct proportion to their capacity and which can be claimed by members either as double tax relief or as an expense against tax liabilities.

l) Pension costs

Tokio Marine Kiln Syndicates Limited operates a defined contribution scheme. Pension contributions relating to syndicate staff are charged to the syndicates and included within net operating expenses.

Tokio Marine Kiln Syndicates Limited also operates a defined benefit scheme through the R J Kiln & Co. Limited Pension and Assurance Scheme (closed to future benefit accruals from 1 May 2003). The cost of providing benefits is determined by the scheme actuary with actuarial valuations being carried out at each balance sheet date.

From 1 January 2005, pension scheme deficits and surpluses (to the extent they can be recovered) were required to be placed on balance sheets under FRS 17 'Retirement benefits'. Accordingly, on that date the managing agent made a charge to syndicates representing the syndicates' proportion of the scheme's deficit at the previous year end. The algorithm used to determine the relevant proportion charged to each syndicate was based on the working patterns of the scheme's active members as at the date of the closure of the scheme.

The managing agent makes adjusting charges and credits to reflect changes in the pension scheme balance such that the outstanding balance due from the syndicates at the reporting date represents their share of the overall scheme balance based on the algorithm.

Where there is any outstanding liability it is reported as other creditors in each syndicate balance sheet with a corresponding matching entry as other debtors. The amount in other debtors represents an amount which is recoverable either from syndicate members in future years when further funding to the scheme is made and treated as an expense in each syndicate's accounts, or when actuarial gains on the scheme are made and a corresponding credit is received from the managing agent. Similarly, where there is an outstanding asset, it is recognised as other debtors and a corresponding matching entry is recognised as other creditors.

Any charge recognised during the year represents each syndicate's share of pension scheme funding including funding in respect of any initiatives designed to reduce the overall scheme deficit based on the algorithm defined above.

m) Profit commission

Profit commission is charged by the managing agent at a rate of 12.5% of profit for Syndicate 510 and 17.5% for Syndicates 557 and 308, subject to the operation of a two year deficit clause. Syndicate 510's profit commission is also subject to a deficit brought across as a result of the acceptance of the reinsurance to close of Syndicate 807's 2011 and prior years of account. This deficit was scaled in proportion to the externally calculated merger ratio and is applicable for up to two years. Syndicate 510's profit commission is calculated after the deduction of a 5% divisional profit share payable to underwriting staff, again subject to the operation of a divisional two year deficit clause. Profit commission is estimated on an ultimate basis for each year of account, and accrued by the syndicates based on the interim annual accounting results of the year of account under UK GAAP. Final settlement to the managing agent is made when the year of account closes; normally at 36 months. Divisional profit share does not become payable until after the appropriate year of account closes; normally at 36 months.

Annual report and accounts 2014

For Syndicates 510, 557 and 308 managed by Tokio Marine Kiln Syndicates Limited

Annual accounts under UK GAAP

Syndicate 510

Tokio Marine Kiln Combined Syndicate
Composite

Independent auditors' report to the members of Syndicate 510 – Report on the syndicate annual accounts

Our opinion

In our opinion the syndicate annual accounts, defined below:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2014 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

What we have audited

The syndicate annual accounts for the year ended 31 December 2014, which are prepared by the managing agent, comprise:

- the profit and loss account for the year then ended;
- the balance sheet as at 31 December 2014;
- the cash flow statement;
- the statement of accounting policies; and
- the notes to the syndicate annual accounts, which include other explanatory information.

The financial reporting framework that has been applied in the preparation of the syndicate annual accounts is applicable law and United Kingdom Accounting Standards (UK GAAP).

In applying the financial reporting framework, the managing agent has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on matter prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

In our opinion the information given in the managing agent's report for the financial year for which the syndicate annual accounts are prepared is consistent with the syndicate annual accounts.

Other matters on which we are required to report by exception

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- the managing agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicate annual accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Responsibilities for the syndicate annual accounts and the audit – our responsibilities and those of the managing agent

As explained more fully in the statement of managing agent's responsibilities set out on page 29, the managing agent is responsible for the preparation of syndicate annual accounts and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the syndicate annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the syndicate's members as a body in accordance with section 10 of part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of syndicate annual accounts involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the syndicate annual accounts sufficient to give reasonable assurance that the syndicate annual accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the syndicate's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the managing agent; and
- the overall presentation of the syndicate annual accounts.

We primarily focus our work in these areas by assessing the managing agent's judgements against available evidence, forming our own judgements, and evaluating the disclosures in the syndicate annual accounts. We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited syndicate annual accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Mark Bolton
Senior Statutory Auditor
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
16 March 2015

Profit and loss account: technical account – general business

for the year ended 31 December 2014

	Note	2014 £'000s	2013 £'000s
Earned premiums, net of reinsurance			
Gross premiums written	1	**1,097,238**	1,168,799
Outward reinsurance premiums		**(257,770)**	(252,312)
Net premiums written		**839,468**	916,487
Change in the provision for unearned premiums:			
Gross amount		**3,279**	(31,859)
Reinsurers' share		**4,820**	4,924
Change in the net provision for unearned premiums		**8,099**	(26,935)
Earned premiums, net of reinsurance		**847,567**	889,552
Allocated investment return transferred from the non-technical account		**8,748**	7,508
Claims incurred, net of reinsurance			
Claims paid:			
Gross amount		**(526,337)**	(579,758)
Reinsurers' share		**119,286**	128,896
Net claims paid		**(407,051)**	(450,862)
Change in the provision for claims:			
Gross amount		**(11,083)**	86,799
Reinsurers' share		**(3,623)**	(64,642)
Change in the net provision for claims		**(14,706)**	22,157
Claims incurred, net of reinsurance		**(421,757)**	(428,705)
Members' standard personal expenses		**(32,351)**	(26,050)
Net operating expenses	3,4,5	**(284,517)**	(323,561)
Balance on the technical account for general business		**117,690**	118,744

All operations are continuing.

Profit and loss account: non-technical account

for the year ended 31 December 2014

	Note	2014 £'000s	2013 £'000s
Balance on the general business technical account		**117,690**	118,744
Investment income	6	**16,463**	16,503
Investment expenses and charges	6	**(3,640)**	(4,271)
Net unrealised losses on investments	6	**(4,075)**	(4,724)
Allocated investment return transferred to the general business technical account	6,7	**(8,748)**	(7,508)
Profit for the financial year		**117,690**	118,744

There are no recognised gains or losses in the accounting period other than those dealt with in the technical and non-technical accounts.

Balance sheet: assets

as at 31 December 2014

	Note	2014 £'000s	2013 £'000s
Investments			
Other financial investments	8	**801,066**	718,409
Deposits with ceding undertakings		**71**	457
		801,137	718,866
Reinsurers' share of technical provisions			
Provision for unearned premiums		**88,575**	83,756
Claims outstanding	2	**245,300**	217,575
		333,875	301,331
Debtors			
Debtors arising out of direct insurance operations	9	**356,627**	313,574
Debtors arising out of reinsurance operations		**181,288**	167,631
Other debtors		**19,781**	17,720
		557,696	498,925
Other assets			
Cash at bank and in hand		**14,912**	14,610
Other	10	**125,101**	134,566
		140,013	149,176
Prepayments and accrued income			
Deferred acquisition costs		**149,435**	144,343
Other prepayments and accrued income		**1,284**	619
		150,719	144,962
Total assets		**1,983,440**	1,813,260

Balance sheet: liabilities

as at 31 December 2014

	Note	2014 £'000s	2013 £'000s
Capital and reserves			
Members' balances	11	**110,554**	98,106
Technical provisions			
Provision for unearned premiums		**510,355**	513,634
Claims outstanding	2	**1,080,595**	977,763
		1,590,950	1,491,397
Deposits received from reinsurers		**1,040**	1,113
Creditors			
Creditors arising out of direct insurance operations	12	**69,657**	51,828
Creditors arising out of reinsurance operations		**151,193**	122,101
Other creditors	13	**33,959**	26,232
		254,809	200,161
Accruals and deferred income			
Reinsurers' share of deferred acquisition costs		**25,866**	21,641
Other accruals and deferred income		**221**	842
		26,087	22,483
Total liabilities		**1,983,440**	1,813,260

The annual accounts, which comprise pages 37 to 58 and the notes and principal accounting policies applicable to all syndicates on pages 30 to 34, were approved by the Board of Tokio Marine Kiln Syndicates Limited on 11 March 2015 and were signed on its behalf by

James Dover

Finance Director
Tokio Marine Kiln Syndicates Limited
16 March 2015

Cash flow statement

for the year ended 31 December 2014

	Note	2014 £'000s	2013 £'000s
Net cash inflow from operating activities	14	**159,702**	147,904
Transfer to members in respect of underwriting participations	11	**(101,572)**	(21,565)
Financing:			
Members' agents' fees paid on behalf of members	11	**(3,670)**	(3,695)
Net cash flows		**54,460**	122,644
Cash flows were invested as follows:			
(Decrease)/increase in cash holdings	15	**(120)**	7,906
(Decrease)/increase in deposits	15	**(10,090)**	11,396
Net portfolio investments	15,16	**64,670**	103,342
Net investment of cash flows		**54,460**	122,644

Notes to the accounts

as at 31 December 2014

1. Segmental analysis

An analysis of the result before investment return is set out below:

2014	Gross premium written £'000s	Gross premium earned £'000s	Gross incurred claims £'000s	Gross operating expenses £'000s	Reinsurance balance £'000s	Total £'000s	Net technical provisions £'000s
Division:							
Property & Special Lines	**574,699**	**563,714**	**(272,595)**	**(207,280)**	**(30,837)**	**53,002**	**588,080**
Marine & Special Risks	**205,725**	**205,896**	**(130,547)**	**(62,101)**	**954**	**14,202**	**300,435**
Reinsurance	**111,630**	**118,961**	**(32,598)**	**(28,631)**	**(43,358)**	**14,374**	**113,576**
Aviation	**52,657**	**55,663**	**(26,672)**	**(19,250)**	**2,822**	**12,563**	**84,410**
Accident & Health	**124,829**	**124,805**	**(63,752)**	**(48,876)**	**(2,092)**	**10,085**	**113,502**
Enterprise Risk	**28,112**	**31,892**	**(13,519)**	**(12,466)**	**(3,090)**	**2,817**	**34,934**
Syndicate 807 run-off	**(414)**	**(414)**	**2,263**	**(235)**	**285**	**1,899**	**22,138**
	1,097,238	**1,100,517**	**(537,420)**	**(378,839)**	**(75,316)**	**108,942**	**1,257,075**

The divisions accepted the following inwards reinsurance business as a proportion of gross written premium: Reinsurance (100.0%); Marine & Special Risks (33.0%); Aviation (28.0%); Accident & Health (29.0%); Property & Special Lines (17.9%) and Enterprise Risk (11.8%).

2013	Gross premium written £'000s	Gross premium earned £'000s	Gross incurred claims £'000s	Gross operating expenses £'000s	Reinsurance balance £'000s	Total £'000s	Net technical provisions £'000s
Division:							
Property & Special Lines	561,839	544,356	(238,897)	(218,000)	(40,969)	46,490	544,638
Marine & Special Risks	223,490	218,629	(107,510)	(64,743)	(16,498)	29,878	281,209
Reinsurance	156,931	159,006	(40,557)	(35,660)	(60,285)	22,504	132,209
Aviation	57,897	58,781	(22,993)	(20,169)	(2,773)	12,846	85,700
Accident & Health	122,758	113,775	(56,632)	(47,045)	(4,221)	5,877	106,574
Enterprise Risk	45,884	42,393	(26,370)	(20,253)	(2,129)	(6,359)	39,736
	1,168,799	1,136,940	(492,959)	(405,870)	(126,875)	111,236	1,190,066

The divisions accepted the following inwards reinsurance business as a proportion of gross written premium: Reinsurance (100.0%); Marine & Special Risks (43.9%); Aviation (30.3%); Accident & Health (28.7%); Property & Special Lines (20.0%) and Enterprise Risk (9.3%).

All premiums were concluded in the UK.

The total commission payable on direct business was £272,445,577 (2013: £266,602,192).

The geographical analysis of premium by location of the client is as follows:

	2014 £'000s	2013 £'000s
UK	**64,257**	97,551
Other EU countries	**108,265**	107,537
US	**507,261**	452,746
Other	**417,455**	510,965
	1,097,238	1,168,799

2. Claims outstanding

Within the calendar year technical result, a surplus of £21.1m (2013: £32.9m) relates to the reassessment of net claims incurred for previous accident years.

The following table shows the development of ultimate claims (after reinsurance recoveries) over the last seven years and includes the historical development of Syndicate 807 which was reinsured to close into the 2012 year of account. The claims development table is prepared on an underwriting year of account basis, and all figures are shown converted at current year-end rates.

Year of Account	2008 & prior £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m
Year 1	3,896.5	426.4	482.8	525.4	559.9	504.2	517.5
Year 2	3,862.0	441.0	594.6	520.2	518.3	478.0	
Year 3	3,827.8	423.8	573.3	499.7	502.3		
Year 4	3,795.7	414.6	566.4	488.4			
Year 5	3,765.2	404.8	566.7				
Year 6	3,751.4	400.4					
Year 7	3,734.4						
Claims paid	3,669.7	370.3	495.2	402.1	344.2	220.0	38.3
Future claims	–	–	–	–	–	20.7	297.2
Outstanding claims reserve	64.7	30.1	71.5	86.3	158.1	237.3	182.0

3. Net operating expenses

	2014 £'000s	2013 £'000s
Acquisition costs	**308,725**	311,915
Change in deferred acquisition costs	**(5,041)**	(10,030)
Administrative expenses	**57,165**	55,465
(Profit)/loss on exchange	**(14,361)**	22,470
Gross operating expenses	**346,488**	379,820
Reinsurance commissions and profit participations	**(61,971)**	(56,259)
	284,517	323,561

Included within administrative expenses is auditors' remuneration:

	2014 £'000s	2013 £'000s
Audit services:		
Fees payable to the syndicate's auditors for the audit of the syndicate annual accounts	**136**	121
Other services:		
Other services pursuant to legislation	**136**	125
	272	246

The charge incurred for other services is wholly and exclusively in relation to the audit and review of the syndicate's regulatory returns.

4. Staff numbers and costs

Staff are employed by Tokio Marine Kiln Insurance Services Limited. The following amounts were recharged to the syndicate in respect of salary costs and are included within administrative expenses:

	2014 £'000s	2013 £'000s
Wages and salaries	**19,443**	20,451
Social security costs	**2,235**	2,198
Other pension costs	**1,138**	1,138
	22,816	23,787

Of this amount £46,820 (2013: £39,719) was paid as consulting fees to other Tokio Marine Group companies in respect of staff working on the syndicate with the remainder recharged to the syndicate by Tokio Marine Kiln Insurance Services Limited.

Included in other pension costs are amounts related to the defined benefit pension scheme recharged by the managing agent:

	2014 £'000s	2013 £'000s
Net charge from managing agent during year	**1,138**	1,138
Amount funded in year	**1,138**	1,138

The average number of full-time employees working for the syndicate during the year was as follows:

	2014	2013
Administration and finance	**102**	105
Underwriting	**85**	84
Claims	**34**	32
	221	221

Where staff work for more than one syndicate the time is allocated based on the proportion of time spent. The relevant percentage of full-time employees is applied in the table above. Of this number 220 (2013: 219) are employed by Tokio Marine Kiln Insurance Services Limited and the remainder by other Tokio Marine Group companies.

5. Emoluments of the directors and Active Underwriter

The Tokio Marine Kiln Group of companies operates a bonus pooling arrangement such that profit-related pay is generated from the managing agency profit commission, the group's share of the underwriting result through its corporate member Kiln Underwriting Limited, and additionally through a proportion of the underwriting result of the corporate member Tokio Marine Underwriting Limited whose participations are managed by Tokio Marine Kiln Syndicates Limited. A considerable portion of the profit-related pay is therefore borne by other Tokio Marine Kiln Group entities. The directors of Tokio Marine Kiln Syndicates Limited received the following aggregate remuneration in relation to their work on the syndicate:

	2014 £'000s	2013 £'000s
Emoluments	**2,382**	1,748

Of the above amount, £1,186,241 (2013: £928,542) was charged to the syndicate as an expense, with the remainder borne by other group entities.

The Active Underwriters received the following remuneration charged as a syndicate expense:

	2014 £'000s	2013 £'000s
Emoluments	**2,247**	2,192

The profit commission included within the emoluments is in relation to the 2011 year of account (2013: 2010 YOA), as the allocation to underwriters was only determined following its closure.

6. Investment income and expenses

	2014 £'000s	2013 £'000s
Investment income:		
Income from investments	**16,028**	16,105
Realised gains on investments	**435**	398
Unrealised gains on investments	**713**	551
Investment expenses:		
Investment management expenses, including interest	**(873)**	(773)
Realised losses on investments	**(2,767)**	(3,498)
Unrealised losses on investments	**(4,788)**	(5,275)
	8,748	7,508

7. Calendar year investment yield

	2014 £'000s	2013 £'000s
Average amount of syndicate funds during the year:		
Sterling fund	**115,151**	127,228
US dollar fund	**585,115**	498,004
Canadian dollar fund	**174,897**	155,303
Euro fund	**45,142**	45,177
Aggregate gross investment return:		
Before investment expenses	**9,621**	8,281
After investment expenses	**8,748**	7,508
Calendar year investment yield:	**%**	%
Before investment expenses	**1.0**	1.0
After investment expenses	**1.0**	0.9
Analysis of calendar year investment yield by fund:	**%**	%
Sterling fund	**2.2**	1.6
US dollar fund	**0.6**	0.6
Canadian dollar fund	**1.3**	1.5
Euro fund	**0.8**	0.2

The sterling fund balance includes investments held in all other non-functional currencies.

8. Other financial investments

	Fair value		Purchase price	
	2014 £'000s	2013 £'000s	**2014 £'000s**	2013 £'000s
Shares and other variable yield securities	**62,502**	46,373	**62,422**	46,373
Debt securities and other fixed income securities	**737,943**	671,735	**739,037**	672,553
Deposits with credit institutions	**428**	111	**428**	111
Other investments	**193**	190	–	25
	801,066	718,409	**801,887**	719,062

All financial instruments are designated as fair value through profit or loss upon initial recognition.

Other investments are comprised of forward currency contracts and at 31 December 2013 included a futures initial margin fund.

The syndicate manages the foreign exchange risk posed by writing insurance policies in certain regions by using forward currency contracts. The total notional value of these contracts at 31 December 2014 was £29,670,392 (2013: £23,097,013).

9. Debtors arising out of direct insurance operations

	2014 £'000s	2013 £'000s
Amounts due from intermediaries within one year	**353,027**	307,938
Amounts due from intermediaries after one year	**3,600**	5,636
	356,627	313,574

In 2013 amounts due from intermediaries includes a bad debt provision of £1.3m. There is no provision for 2014.

10. Other assets

Other assets comprise overseas deposits which are lodged as a condition of conducting underwriting business in certain countries.

11. Reconciliation of members' balances

	2014 £'000s	2013 £'000s
Members' balances at 1 January	**98,106**	4,622
Profit for the financial year	**117,690**	118,744
Payments of profit to members' personal reserve funds	**(101,572)**	(21,565)
Members' agents' fee advances	**(3,670)**	(3,695)
Members' balances carried forward at 31 December	**110,554**	98,106

Members participate on syndicates by reference to years of account and their ultimate result, assets and liabilities are assessed with reference to policies incepting in that year of account in respect of their membership of a particular year.

12. Creditors arising out of direct insurance operations

	2014 £'000s	2013 £'000s
Amounts due to intermediaries within one year	**68,891**	50,354
Amounts due to intermediaries after one year	**766**	1,474
	69,657	51,828

13. Other creditors

The following balances are included within other creditors:

	2014 £'000s	2013 £'000s
Forward currency contracts – held to maturity	**290**	435
	290	435

The syndicate manages the foreign exchange risk posed by writing insurance policies in certain regions by using forward currency contracts. The total notional value of these contracts at 31 December 2014 was £25,119,771 (2013: £72,220,199). The above balances are stated at fair value.

14. Reconciliation of operating profit to net cash inflow from operating activities

	2014 £'000s	2013 £'000s
Operating profit on ordinary activities	**117,690**	118,744
Realised and unrealised investment (gains)/losses including foreign exchange	**(18,721)**	27,171
(Increase)/decrease in debtors	**(64,528)**	17,210
Increase/(decrease) in net technical provisions	**67,009**	(15,371)
Increase in creditors	**58,252**	150
Net cash inflow from operating activities	**159,702**	147,904

15. Movement in opening and closing portfolio investments net of financing

	2014 £'000s	2013 £'000s
Net cash (outflow)/inflow for the year	**(120)**	7,906
Cash flow:		
Deposits	**(10,090)**	11,396
Portfolio investments	**64,670**	103,342
Movement arising from cash flows	**54,460**	122,644
Changes in market value and exchange rates	**18,721**	(27,171)
Total movement in portfolio investments	**73,181**	95,473
Portfolio at 1 January	**866,929**	771,456
Portfolio at 31 December	**940,110**	866,929

Movement in cash, portfolio investments and financing

	At 1 January 2014 £'000s	Cash flow £'000s	Changes to market value and exchange rates £'000s	At 31 December 2014 £'000s
Cash at bank and in hand	14,610	(120)	422	14,912
Shares and other variable yield securities	46,373	15,295	834	62,502
Debt securities and other fixed income securities	671,735	49,064	17,144	737,943
Deposits with credit institutions	111	311	6	428
Other investments	190	–	3	193
Total portfolio investments	718,409	64,670	17,987	801,066
Deposits received from reinsurers	(1,113)	137	(64)	(1,040)
Overseas deposits	134,566	(9,812)	347	125,101
Deposits with ceding undertakings	457	(415)	29	71
Total cash, portfolio investments and financing	866,929	54,460	18,721	940,110

The syndicate writes business in certain jurisdictions that require the deposit of cash and investments in locally held trust funds therefore preventing the free transfer of cash between currencies and locations. The total held in these funds at 31 December 2014 was £536,380,962 (2013: £567,450,255).

16. Net cash (outflow) from portfolio investments

	2014 £'000s	2013 £'000s
Shares and other variable yield securities	**(15,295)**	6,396
Purchase of debt securities and other fixed income securities	**(798,450)**	(695,169)
Sale of debt securities and other fixed income securities	**749,386**	585,128
Deposits with credit institutions	**(311)**	385
Other investments	–	(82)
Net cash (outflow) from portfolio investments	**(64,670)**	(103,342)

17. Related parties

Syndicate 510 accepted inwards reinsurance business from, and placed outwards reinsurance business with, other Tokio Marine Group entities, including Syndicate 1880, that are deemed to be related parties of Tokio Marine Kiln Syndicates Limited by virtue of the shareholding in Tokio Marine Kiln Group Limited by Tokio Marine Holdings, Inc. Syndicate 557 and Syndicate 510 are considered to be related parties as Tokio Marine Kiln Syndicates Limited is the managing agent of both syndicates. All transactions between these entities were conducted at arm's length and on normal commercial terms.

Syndicate 510 accepted written premium from related parties in the 2014 calendar year of £3,103,066 (2013: £3,699,320). The unpaid premiums due from related parties at the period end were £1,872,029 (2013: £1,941,446). The outstanding claims, including an element of IBNR, were £692,158 (2013: £483,662).

Written premiums ceded by Syndicate 510 to related parties for the 2014 calendar year were £86,365,042 (2013: £101,813,939). Paid recoveries from related parties during the period were £61,729,768 (2013: £65,611,819). Unpaid recoveries at the period end amounted to £36,990,943 (2013: £4,647,788) and future recoveries on outstanding claims, including an element of IBNR, were £135,409,115 (2013: £116,255,951).

Treaty profit commission due to Syndicate 510 from related parties for the 2014 calendar year was £1,824,671 (2013: £3,280,857). Profit commission received from related parties during the period were £1,720,216 (2013: £42,127). Profit commission receivable at the period end amounted to £110,482 (2013: £3,238,730).

The syndicate receives business through the following service and related companies whose investments are held ultimately by the managing agent: Tokio Marine Kiln Hong Kong Limited (100% owned), Tokio Marine Kiln Singapore Pte Limited (100% owned), Tokio Marine Kiln Regional Underwriting Limited (100% owned) and Ibex Insurance Services Ltd (30% owned).

The syndicate also receives business through Kiln Europe S.A. which is 100% owned by Tokio Marine Kiln Group Limited, WNC Insurance Services, Inc., whose parent WNC Holding Company, LP is 49% owned by Tokio Marine Kiln Group Limited and NAS Insurance Services, Inc. which is 49% owned by Tokio Marine Kiln Group Limited. Profit commission on inwards business of £174,959 was paid to related parties for the 2014 calendar year (2013: £323,306) and £721,201 of profit commission was payable as at the balance sheet date (2013: £235,827).

Profit commission of £23,668,990 is payable by the syndicate to Tokio Marine Kiln Syndicates Limited in respect of the 2014 calendar year (2013: £14,191,912). Profit commission is accrued by the syndicate based on the interim annual accounting results of each year of account under UK GAAP and final settlement to the managing agent is paid when the year of account is closed after three years.

Managing agency fees of £7,767,492 (2013: £7,708,219) were paid by the syndicate to Tokio Marine Kiln Syndicates Limited. In addition to this, expenses of £43,679,415 (2013: £42,983,921) were paid to Tokio Marine Kiln Syndicates Limited for expenses paid on behalf of the syndicate.

The note on related parties on page 20 provides further information regarding all syndicates and related parties.

18. Risk management

Details of the syndicate's risk management framework are given in the 'principal risks and uncertainties section' on pages 26 to 28.

a) Insurance risk

Further details on the management of the syndicate's insurance risk are given on page 28.

Concentrations of insurance risk

The risks assumed in the syndicate's day-to-day business activities are subject to controls over aggregation of risk. Concentration of risk is monitored by line of business, geographical location and credit quality amongst other elements.

The following tables set out the concentration of gross claims provision and reinsurance recoveries by line of business and the concentration of gross claims provision by geographical location.

2014	Gross claims provision £'000s	Reinsurance claims provision £'000s	Net claims provision £'000s
Division:			
Property & Special Lines	**441,367**	**(88,816)**	**352,551**
Marine & Special Risks	**261,002**	**(42,464)**	**218,538**
Reinsurance	**152,958**	**(45,923)**	**107,035**
Aviation	**103,720**	**(44,817)**	**58,903**
Accident & Health	**58,744**	**(2,735)**	**56,009**
Enterprise Risk	**28,490**	**(8,369)**	**20,121**
Syndicate 807 run-off	**34,314**	**(12,176)**	**22,138**
	1,080,595	**(245,300)**	**835,295**

2013	Gross claims provision £'000s	Reinsurance claims provision £'000s	Net claims provision £'000s
Division:			
Property & Special Lines	385,191	(76,325)	308,866
Marine & Special Risks	223,590	(24,130)	199,460
Reinsurance	195,362	(72,957)	122,405
Aviation	95,009	(37,091)	57,918
Accident & Health	50,720	(1,688)	49,032
Enterprise Risk	27,891	(5,384)	22,507
	977,763	(217,575)	760,188

	Gross claims provision	
	2014 £'000s	**2013 £'000s**
UK	**56,995**	52,788
Other EU countries	**136,699**	149,278
US	**504,299**	441,808
Other	**382,602**	333,889
	1,080,595	977,763

Earned premium sensitivity analysis

Earned premium is estimated based on assumptions of how each risk is earned according to its method of placement and class of business. Each risk falling within a class of business is earned according to the estimated pattern applying to that class of business, which takes into account the class characteristics including exposure to seasonal weather related events. This approach is applied consistently year-on-year.

A sensitivity analysis has been applied by adjusting the percentage earned of each open year of account by 1%. This indicates that an increase in earned premium of 1% would result in £11.0m (2013: £11.4m) more premium being reported (gross of acquisition costs), and applying the underlying attritional loss ratio would result in an estimated increase in the net result (after acquisition costs) of £1.7m (2013: £1.8m). A decrease of 1% would result in £11.0m (2013: £11.4m) less premium being reported and an estimated £1.7m (2013: £1.8m) reduction in the net result. The impact on the result is at the net level i.e. after the adjustment for the effect of profit commission.

Claims sensitivity analysis

The claims ratio for 2014 is 50% (2013: 48%). A sensitivity analysis has been applied by adjusting the claims ratio by 1%. This indicates that an increase in the claims ratio of 1% would result in claims increasing by £8.5m (2013: £8.9m) and the result reducing by £7.0m (2013: £7.3m).

b) Financial risk

The syndicate is exposed to a range of financial risks through its financial assets and financial liabilities. In particular, the key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from insurance policies and investment contracts as they fall due. The most important components of this financial risk are credit risk, liquidity risk and market risk (including interest rate risk and currency risk).

These risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. The risks that the syndicate primarily faces due to the nature of its investment and liabilities are interest rate risk and currency risk.

Credit risk

For details of the management of the syndicate's credit risks please refer to page 27.

The following table provides information regarding credit risk exposures of the syndicate by classifying assets according to the S&P credit ratings of the counterparties. Where a security has no S&P credit rating the rating of the issuer is used. During the year there were no material breaches in exposure limits.

2014	AAA £'000s	AA £'000s	A £'000s	<A £'000s	NR £'000s	Total £'000s
Financial investments:						
Other financial investments	162,150	334,564	221,112	29,872	53,368	801,066
Overseas deposits	44,270	32,301	42,144	6,386	–	125,101
Cash at bank and in hand	–	–	14,912	–	–	14,912
Reinsurers' share of outstanding claims including reinsurers' IBNR	58,639	76,137	97,340	3,195	9,989	245,300
	265,059	443,002	375,508	39,453	63,357	1,186,379

2013	AAA £'000s	AA £'000s	A £'000s	<A £'000s	NR £'000s	Total £'000s
Financial investments:						
Other financial investments	133,392	300,642	213,066	46,142	25,167	718,409
Overseas deposits	50,902	67,640	14,940	1,084	–	134,566
Cash at bank and in hand	–	–	14,610	–	–	14,610
Reinsurers' share of outstanding claims including reinsurers' IBNR	11,632	62,216	130,265	4,365	9,097	217,575
	195,926	430,498	372,881	51,591	34,264	1,085,160

Of the total reinsurers' share of outstanding claims including reinsurers' IBNR, 0.4% (2013: 0.5%) is collected under Outstanding Claims Advances (OCAs) which is a form of cash deposit allowing crystallisation of an outstanding reinsurance recovery. The majority of the collateral values relating to the granting of OCAs are for US Situs losses only. Surplus reinsurance treaties allow the syndicate to call upon OCAs at its discretion.

The largest potential reinsurance credit exposure to the syndicate at 31 December 2014 was 13.7% with Tokio Marine & Nichido Fire Insurance Co., Ltd, which is an AAA rated security (2013: 35.8% with Syndicate 1880, which is an A rated security). The Reinsurance Security Committee of the managing agent reviews the level of this exposure and takes appropriate action where necessary.

An aged analysis of financial assets past-due is shown below.

2014	Fully performing £'000s	Past due £'000s	Impairment £'000s	Total £'000s
Financial investments:				
Other financial investments	**801,066**	–	–	**801,066**
Overseas deposits	**125,101**	–	–	**125,101**
Deposits with ceding undertakings	**71**	–	–	**71**
Cash at bank and in hand	**14,912**	–	–	**14,912**
Insurance receivables	**477,246**	**31,415**	–	**508,661**
Reinsurance assets	**22,079**	**10,553**	**(3,378)**	**29,254**
	1,440,475	**41,968**	**(3,378)**	**1,479,065**

2013	Fully performing £'000s	Past due £'000s	Impairment £'000s	Total £'000s
Financial investments:				
Other financial investments	718,409	–	–	718,409
Overseas deposits	134,566	–	–	134,566
Deposits with ceding undertakings	457	–	–	457
Cash at bank and in hand	14,610	–	–	14,610
Insurance receivables	419,052	37,202	(1,344)	454,910
Reinsurance assets	23,481	5,927	(3,113)	26,295
	1,310,575	43,129	(4,457)	1,349,247

For assets to be classified as past-due the contractual payments are in arrears by more than 30 days. An impairment adjustment is recorded in the profit and loss account for assets impaired. The syndicate operates mainly on a 'neither past-due nor impaired basis' and when evidence is available, sufficient collateral will be obtained for 'past-due and impaired' assets. An impairment assessment will also be performed if applicable.

Liquidity risk

For details of the management of the syndicate's liquidity risks please refer to page 27.

The syndicate writes a significant proportion of US Situs and Canadian business which requires the deposit of appropriate monies into specific trust funds. Some of these trust funds are regulated, requiring quarterly assessment of the adequacy of funding. Surplus funds or additional funding requirements are settled each quarter between the regulated and non-regulated trust funds. In exceptional circumstances, and with approval from Lloyd's, inter-fund settlement can take place outside the quarterly process. As at 31 December 2014 the balance held in these trust funds was US$421.8m (2013: US$485.9m) and Canadian $273.0m (2013: Canadian $246.7m).

The following table analyses the significant monetary assets and liabilities into their relevant maturity groups based on the remaining period at the year end date to their contractual maturities or expected settlement dates. The financial instruments can be realised at any time, but the table presents their maturity profiles should they continue to be held.

2014	Up to 1 year £'000s	1–3 years £'000s	3–5 years £'000s	Over 5 years £'000s	Total £'000s
Assets:					
Financial investments	**492,306**	**273,446**	**25,504**	**9,810**	**801,066**
Overseas deposits	**78,009**	**39,806**	**7,286**	–	**125,101**
Deposits with ceding undertakings	**71**	–	–	–	**71**
Cash at bank and in hand	**14,912**	–	–	–	**14,912**
Insurance receivables	**490,864**	**17,797**	–	–	**508,661**
Liabilities:					
Deposits received from reinsurers	**(1,040)**	–	–	–	**(1,040)**
Forward currency contracts	**(290)**	–	–	–	**(290)**
	1,074,832	**331,049**	**32,790**	**9,810**	**1,448,481**

2013	Up to 1 year £'000s	1–3 years £'000s	3–5 years £'000s	Over 5 years £'000s	Total £'000s
Assets:					
Financial investments	371,967	317,755	21,599	7,088	718,409
Overseas deposits	70,958	47,454	16,154	–	134,566
Deposits with ceding undertakings	457	–	–	–	457
Cash at bank and in hand	14,610	–	–	–	14,610
Insurance receivables	431,962	22,948	–	–	454,910
Liabilities:					
Deposits received from reinsurers	(1,113)	–	–	–	(1,113)
Forward currency contracts	(435)	–	–	–	(435)
	888,406	388,157	37,753	7,088	1,321,404

Foreign currency market risk

For further details of the management of the syndicate's market risk please refer to page 27.

The syndicate maintains bank accounts, investment portfolios and claims reserves in pounds sterling, US dollars, and Canadian dollars (the Lloyd's closing currencies), additionally, bank accounts and investment portfolios are maintained in Euros. Transactions arising in other currencies are translated to the Lloyd's closing currencies as they occur with only small amounts of other currencies being held for regulatory purposes. The syndicate's financial assets are therefore denominated in the same currencies as its insurance liabilities and thus the developing profit or loss that remains embedded within the syndicate gives rise to the main currency exposure. The profit or loss is distributed, or settled, in accordance with Lloyd's rules using a combination of pounds sterling and US dollars after deduction of the member level charges, the most material adjustment being the US dollar tax liability.

Foreign currency liquidity and exposure for the syndicate is the responsibility of the Finance Director. Strategy is agreed by the Finance Group and ratified by the Investment Committee. The syndicate currency exposure and future cash flows are monitored by currency and potential exposures and shortfalls addressed by foreign currency transactions or cash calls on members.

A substantial proportion of the syndicate's business is written in currencies other than pounds sterling, in particular US dollars. The syndicate's business is therefore exposed to changes in exchange rates and there is no guarantee that foreign currency risk mitigation initiatives undertaken by the syndicate will be successful in preventing any losses due to such changes.

The syndicate uses forward currency contracts to manage its exposure to foreign currency risks arising from material losses in non-closing currencies. The use of financial derivatives is governed by the syndicate's policies approved by the Investment Committee, which provides written principles on the use of financial derivatives. More information is available in the 'fair value estimation' in part (c) of this note.

Exchange rate sensitivity analysis

The analysis below is performed for possible movements in key variables, with all other variables held constant, showing the impact on the result. The correlation of variables will have a significant effect in determining the ultimate impact. However, to isolate and demonstrate the effect due to changes in variables, each variable has been changed on an individual basis. It should be noted that movements in these variables are non-linear.

The following table shows the impact on the result and members' balances of a ten percent movement in the US dollar and Canadian dollar to pounds sterling exchange rates.

	2014 £'000s	**2013 £'000s**
10% increase in USD	**(47,019)**	(45,281)
10% increase in CAD	**(5,094)**	(4,402)
10% decrease in USD	**57,468**	55,344
10% decrease in CAD	**6,226**	5,381

Interest rate market risk

For further details of the management of the syndicate's market risk please refer to page 27.

The syndicate holds investments in its balance sheet and the performance of its investment portfolio may have an effect on the result. The income derived by the syndicate from its investments, and the capital value of its investments, may fall as well as rise. Therefore, changes in interest rates, credit ratings and other economic variables could substantially affect the syndicate's profitability.

The syndicate uses Treasury future derivatives to manage its exposure to interest rate risks. The use of financial derivatives is governed by the syndicate's policies approved by the Investment Committee, which provides written principles on the use of financial derivatives. More information is available in the 'fair value estimation' in part (c) of this note.

Interest rate sensitivity analysis

The analysis below is performed for possible movements in key variables with all other variables held constant, showing the impact on the result. The correlation of variables will have a significant effect in determining the ultimate impact. However, to isolate and demonstrate the effect due to changes in variables, each variable has been changed on an individual basis. It should be noted that movements in these variables are non-linear.

The table below shows the estimated impact on the result and members' balances of a 1% movement in the US, UK, Canadian and Euro interest rates on the market value of the syndicate's investments.

	2014 £'000s	2013 £'000s
1% movement in the US interest rates	**6,357**	5,503
1% movement in the UK interest rates	**197**	204
1% movement in the Canadian interest rates	**1,453**	1,507
1% movement in the Euro interest rates	**437**	435

c) Fair value estimation

Financial instruments that are fair valued through profit and loss are classified using a fair value hierarchy that reflects the significance of the inputs used in these measurements.

- Level 1 financial instruments comprise government bonds and securities which have been valued at fair value using quoted prices in an active market.
- Level 2 financial instruments are less regularly traded government agency bonds, supranational bonds, corporate bonds and currency derivatives. These fair values have been derived from quoted prices.
- The fair value for level 3 financial instruments is generally derived from inputs that are not based on observable market data. Level 3 securities include structured instruments the fair value of which are based on prices supplied by Thomson Reuters which utilise cashflow, credit and pricing assumptions.

2014	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Derivative financial instruments:				
Forward currency derivatives – assets	**193**	–	–	**193**
Forward currency derivatives – liabilities	**(290)**	–	–	**(290)**
Government securities	**269,052**	**11,515**	–	**280,567**
Debt securities	–	**495,349**	**24,529**	**519,878**
Deposits with credit institutions	**428**	–	–	**428**
	269,383	**506,864**	**24,529**	**800,776**

2013	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Derivative financial instruments:				
Treasury future derivatives – assets	47	–	–	47
Forward currency derivatives – assets	165	–	–	165
Initial margin fund for derivatives – assets	25	–	–	25
Forward currency derivatives – liabilities	(435)	–	–	(435)
Government securities	209,581	10,334	–	219,915
Debt securities	–	496,810	1,383	498,193
Deposits with credit institutions	111	–	–	111
	209,494	507,144	1,383	718,021

At 31 December 2014 the syndicate held forward currency contracts, for which the fair value is a net liability of £97,123 (2013: £269,656) with the loss going through investment income in the profit and loss account. In 2013 the syndicate held Treasury future contracts, for which the fair value at 31 December 2013 was an asset of £46,592. There were no such contracts at 31 December 2014.

Level 3 financial instruments	2014 £'000s	2013 £'000s
Opening balance	**1,383**	–
Transfer into level 3	–	552
Transfer out of level 3	**(1,383)**	–
Sales during the year	–	(338)
Purchases during the year	**24,940**	1,182
(Losses) recognised in the profit and loss	**(411)**	(13)
Closing balance	**24,529**	1,383

Annual report and accounts 2014

For Syndicates 510, 557 and 308 managed by Tokio Marine Kiln Syndicates Limited

Annual accounts under UK GAAP

Syndicate 557

Tokio Marine Kiln Catastrophe Syndicate

Non-marine

Independent auditors' report to the members of Syndicate 557 – Report on the syndicate annual accounts

Our opinion

In our opinion the syndicate annual accounts, defined below:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2014 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

What we have audited

The syndicate annual accounts for the year ended 31 December 2014, which are prepared by the managing agent, comprise:

- the profit and loss account for the year then ended;
- the balance sheet as at 31 December 2014;
- the cash flow statement;
- the statement of accounting policies; and
- the notes to the syndicate annual accounts, which include other explanatory information.

The financial reporting framework that has been applied in the preparation of the syndicate annual accounts is applicable law and United Kingdom Accounting Standards (UK GAAP).

In applying the financial reporting framework, the managing agent has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on matter prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

In our opinion the information given in the managing agent's report for the financial year for which the syndicate annual accounts are prepared is consistent with the syndicate annual accounts.

Other matters on which we are required to report by exception

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- the managing agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicate annual accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Responsibilities for the syndicate annual accounts and the audit – our responsibilities and those of the managing agent

As explained more fully in the statement of managing agent's responsibilities set out on page 29, the managing agent is responsible for the preparation of syndicate annual accounts and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the syndicate annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the syndicate's members as a body in accordance with section 10 of part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of syndicate annual accounts involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the syndicate annual accounts sufficient to give reasonable assurance that the syndicate annual accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the syndicate's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the managing agent; and
- the overall presentation of the syndicate annual accounts.

We primarily focus our work in these areas by assessing the managing agent's judgements against available evidence, forming our own judgements, and evaluating the disclosures in the syndicate annual accounts. We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited syndicate annual accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Mark Bolton
Senior Statutory Auditor
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
16 March 2015

Profit and loss account: technical account – general business

for the year ended 31 December 2014

	Note	2014 £'000s	2013 £'000s
Earned premiums, net of reinsurance			
Gross premiums written	1	**19,949**	30,156
Outward reinsurance premiums		**(2,606)**	(5,534)
Net premiums written		**17,343**	24,622
Change in the provision for unearned premiums:			
Gross amount		**1,667**	324
Reinsurers' share		**(424)**	(163)
Change in the net provision for unearned premiums		**1,243**	161
Earned premiums, net of reinsurance		**18,586**	24,783
Allocated investment return transferred from the non-technical account		**365**	233
Claims incurred, net of reinsurance			
Claims paid:			
Gross amount		**(18,486)**	(25,374)
Reinsurers' share		**1,352**	555
Net claims paid		**(17,134)**	(24,819)
Change in the provision for claims:			
Gross amount		**11,746**	16,308
Reinsurers' share		**(1,599)**	(962)
Change in the net provision for claims		**10,147**	15,346
Claims incurred, net of reinsurance		**(6,987)**	(9,473)
Members' standard personal expenses		**(1,846)**	(1,082)
Net operating expenses	3,4,5	**(1,551)**	(3,535)
Balance on the technical account for general business		**8,567**	10,926

All operations are continuing.

Profit and loss account: non-technical account

for the year ended 31 December 2014

	Note	2014 £'000s	2013 £'000s
Balance on the general business technical account		**8,567**	10,926
Investment income	6	**939**	742
Investment expenses and charges	6	**(288)**	(211)
Net unrealised losses on investments	6	**(286)**	(298)
Allocated investment return transferred to the general business technical account	6,7	**(365)**	(233)
Profit for the financial year		**8,567**	10,926

There are no recognised gains or losses in the accounting period other than those dealt with in the technical and non-technical accounts.

Balance sheet: assets

as at 31 December 2014

	Note	2014 £'000s	2013 £'000s
Investments			
Other financial investments	8	**48,455**	52,087
Reinsurers' share of technical provisions			
Provision for unearned premiums		**429**	853
Claims outstanding	2	**1,826**	3,306
		2,255	4,159
Debtors			
Debtors arising out of reinsurance operations		**4,176**	7,064
Other debtors		**90**	102
		4,266	7,166
Other assets			
Cash at bank and in hand		**1,497**	1,755
Other	9	**30**	57
		1,527	1,812
Prepayments and accrued income			
Deferred acquisition costs		**106**	138
Other prepayments and accrued income		**1**	–
Total assets		**56,610**	65,362

Balance sheet: liabilities

as at 31 December 2014

	Note	2014 £'000s	2013 £'000s
Capital and reserves			
Members' balances	10	**12,948**	10,325
Technical provisions			
Provision for unearned premiums		**3,310**	4,977
Claims outstanding	2	**36,758**	47,212
		40,068	52,189
Creditors			
Creditors arising out of reinsurance operations		**1,152**	2,007
Other creditors		**2,442**	841
		3,594	2,848
Total liabilities		**56,610**	65,362

The annual accounts, which comprise pages 61 to 78 and the notes and principal accounting policies applicable to all syndicates on pages 30 to 34, were approved by the Board of Tokio Marine Kiln Syndicates Limited on 11 March 2015 and were signed on its behalf by

James Dover

Finance Director
Tokio Marine Kiln Syndicates Limited
16 March 2015

Cash flow statement

for the year ended 31 December 2014

	Note	2014 £'000s	2013 £'000s
Net cash inflow/(outflow) from operating activities	11	**823**	(16,060)
Transfer to members in respect of underwriting participations	10	**(5,635)**	–
Financing:			
Distribution loss collected	10	**–**	31,282
Members' agents' fees paid on behalf of members	10	**(309)**	(363)
Net cash flows		**(5,121)**	14,859
Cash flows were invested as follows:			
(Decrease) in cash holdings	13	**(258)**	(4,643)
(Decrease) in deposits	13	**(29)**	(51)
Net portfolio investments	13,14	**(4,834)**	19,553
Net investment of cash flows		**(5,121)**	14,859

Notes to the accounts

as at 31 December 2014

1. Segmental analysis

An analysis of the result before investment return is set out below:

2014	Gross premium written £'000s	Gross premium earned £'000s	Gross incurred claims £'000s	Gross operating expenses £'000s	Reinsurance balance £'000s	Total £'000s	Net technical provisions £'000s
Direct insurance	–	–	–	–	–	–	**372**
Reinsurance acceptances	**19,949**	**21,616**	**(6,740)**	**(3,397)**	**(3,277)**	**8,202**	**37,441**
	19,949	**21,616**	**(6,740)**	**(3,397)**	**(3,277)**	**8,202**	**37,813**

2013	Gross premium written £'000s	Gross premium earned £'000s	Gross incurred claims £'000s	Gross operating expenses £'000s	Reinsurance balance £'000s	Total £'000s	Net technical provisions £'000s
Direct insurance	–	–	–	–	–	–	224
Reinsurance acceptances	30,156	30,480	(9,066)	(4,617)	(6,104)	10,693	47,806
	30,156	30,480	(9,066)	(4,617)	(6,104)	10,693	48,030

All premiums were concluded in the UK.

The total commission payable on direct business was £3,756 (2013: nil).

The geographical analysis of premium by location of the client is as follows:

	2014 £'000s	2013 £'000s
UK	**19,949**	30,156
	19,949	30,156

2. Claims outstanding

Within the calendar year technical result, a surplus of £1.0m (2013: £5.4m) relates to the reassessment of net claims incurred for previous accident years.

The following table shows the development of ultimate claims (after reinsurance recoveries) over the last seven years. The claims development table is prepared on an underwriting year of account basis, and all figures are shown converted at current year-end rates.

Year of Account	2008 & prior £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m
Year 1	146.7	18.5	25.0	24.0	28.4	16.1	9.3
Year 2	139.0	14.8	61.5	19.5	23.5	14.9	
Year 3	135.3	12.0	56.4	18.2	22.6		
Year 4	134.0	11.6	56.0	17.1			
Year 5	133.8	10.8	56.8				
Year 6	134.4	10.6					
Year 7	134.3						
Claims paid	130.0	10.1	49.0	14.8	15.2	7.0	2.3
Future claims	–	–	–	–	–	0.1	2.3
Outstanding claims reserve	4.3	0.5	7.8	2.3	7.4	7.8	4.7

3. Net operating expenses

	2014 £'000s	2013 £'000s
Acquisition costs	**670**	878
Change in deferred acquisition costs	**31**	5
Administrative expenses	**1,637**	2,003
(Profit)/loss on exchange	**(787)**	649
Gross and net operating expenses	**1,551**	3,535

Included within administrative expenses is auditors' remuneration:

	2014 £'000s	2013 £'000s
Audit services:		
Fees payable to the syndicate's auditors for the audit of the syndicate annual accounts	**23**	22
Other services:		
Other services pursuant to legislation	**25**	23
	48	45

The charge incurred for other services is wholly and exclusively in relation to the audit and review of the syndicate's regulatory returns.

4. Staff numbers and costs

Staff are employed by Tokio Marine Kiln Insurance Services Limited. The following amounts were recharged to the syndicate in respect of salary costs and are included within administrative expenses:

	2014 £'000s	2013 £'000s
Wages and salaries	**886**	1,105
Social security costs	**103**	121
Other pension costs	**87**	87
	1,076	1,313

Of this amount £3,202 (2013: £4,437) was paid as consulting fees to other Tokio Marine Group companies in respect of staff working on the syndicate with the remainder recharged to the syndicate by Tokio Marine Kiln Insurance Services Limited.

Included in other pension costs are amounts related to the defined benefit pension scheme recharged by the managing agent:

	2014 £'000s	2013 £'000s
Net charge from managing agent during year	**87**	87
Amount funded in year	**87**	87

The average number of full-time employees working for the syndicate during the year was as follows:

	2014	2013
Administration and finance	**8**	9
Underwriting	**1**	2
Claims	**1**	1
	10	12

Where staff work for more than one syndicate the time is allocated based on the proportion of time spent. The relevant percentage of full-time employees is applied in the table above. Of this number, the equivalent of less than one full-time employee was employed by other Tokio Marine Group companies (2013: less than one).

5. Emoluments of the directors and Active Underwriter

The Tokio Marine Kiln Group of companies operates a bonus pooling arrangement such that profit-related pay is generated from the managing agency profit commission, the group's share of the underwriting result through its corporate member Kiln Underwriting Limited, and additionally through a proportion of the underwriting result of the corporate member Tokio Marine Underwriting Limited whose participations are managed by Tokio Marine Kiln Syndicates Limited. A considerable portion of the profit-related pay is therefore borne by other Tokio Marine Kiln Group entities. The directors of Tokio Marine Kiln Syndicates Limited received the following aggregate remuneration in relation to their work on the syndicate:

	2014 £'000s	2013 £'000s
Emoluments	**52**	57

Of the above amount £25,677 (2013: £31,492) was charged to the syndicate as an expense, with the remainder borne by other group entities.

The Active Underwriter received the following remuneration charged as a syndicate expense:

	2014 £'000s	2013 £'000s
Emoluments	**68**	54

The profit commission included within the emoluments is in relation to the 2011 year of account (2013: 2010 YOA), as the allocation to underwriters was only determined following its closure.

6. Investment income and expenses

	2014 £'000s	2013 £'000s
Investment income:		
Income from investments	**898**	709
Realised gains on investments	**41**	33
Unrealised gains on investments	**35**	34
Investment expenses:		
Investment management expenses, including interest	**(39)**	(22)
Realised losses on investments	**(249)**	(189)
Unrealised losses on investments	**(321)**	(332)
	365	233

7. Calendar year investment yield

	2014 £'000s	2013 £'000s
Average amount of syndicate funds during the year:		
Sterling fund	**19,465**	20,397
US dollar fund	**32,034**	29,683
Canadian dollar fund	**1,413**	1,369
Euro fund	**508**	545
Aggregate gross investment return:		
Before investment expenses	**404**	255
After investment expenses	**365**	233
Calendar year investment yield:	**%**	%
Before investment expenses	**0.8**	0.5
After investment expenses	**0.7**	0.4
Analysis of calendar year investment yield by fund:	**%**	%
Sterling fund	**1.1**	0.3
US dollar fund	**0.4**	0.6
Canadian dollar fund	**1.0**	1.0
Euro fund	**0.1**	–

The sterling fund balance includes investments held in all other non-functional currencies.

8. Other financial investments

	Fair value		Purchase price	
	2014 £'000s	2013 £'000s	2014 £'000s	2013 £'000s
Shares and other variable yield securities	**8,497**	13,324	**8,497**	13,324
Debt securities and other fixed income securities	**39,945**	38,725	**40,041**	38,732
Deposits with credit institutions	**5**	8	**5**	8
Other investments	**8**	30	**–**	3
	48,455	52,087	**48,543**	52,067

All financial instruments are designated as fair value through profit or loss upon initial recognition.

Other investments are comprised of forward currency contracts and at 31 December 2013 included a futures initial margin fund.

The syndicate manages the foreign exchange risk posed by writing insurance policies in certain regions by using forward currency contracts. The total notional value of these contracts at 31 December 2014 was £7,272,045 (2013: £10,701,846).

9. Other assets

Other assets comprise overseas deposits which are lodged as a condition of conducting underwriting business in certain countries.

10. Reconciliation of members' balances

	2014 £'000s	2013 £'000s
Members' balances at 1 January	**10,325**	(31,520)
Profit for the financial year	**8,567**	10,926
Payments of profit to members' personal reserve funds	**(5,635)**	–
Distribution loss collected	**–**	31,282
Members' agents' fee advances	**(309)**	(363)
Members' balances carried forward at 31 December	**12,948**	10,325

Members participate on syndicates by reference to years of account and their ultimate result, assets and liabilities are assessed with reference to policies incepting in that year of account in respect of their membership of a particular year.

11. Reconciliation of operating profit to net cash inflow/(outflow) from operating activities

	2014 £'000s	2013 £'000s
Operating profit on ordinary activities	**8,567**	10,926
Realised and unrealised investment (gains)/losses including foreign exchange	**(1,204)**	1,160
Decrease in debtors	**2,931**	579
(Decrease) in net technical provisions	**(10,217)**	(15,746)
Increase/(decrease) in creditors	**746**	(12,979)
Net cash inflow/(outflow) from operating activities	**823**	(16,060)

12. Other creditors

The following balances are included within other creditors:

	2014 £'000s	2013 £'000s
Forward currency contracts – held to maturity	**15**	–
	15	–

The syndicate manages the foreign exchange risk posed by writing insurance policies in certain regions by using forward currency contracts. The total notional value of these contracts at 31 December 2014 was £1,962,550. There were no such contracts at 31 December 2013. The above balances are stated at fair value.

13. Movement in opening and closing portfolio investments net of financing

	2014 £'000s	2013 £'000s
Net cash (outflow) for the year	**(258)**	(4,643)
Cash flow:		
Deposits	**(29)**	(51)
Portfolio investments	**(4,834)**	19,553
Movement arising from cash flows	**(5,121)**	14,859
Changes in market value and exchange rates	**1,204**	(1,160)
Total movement in portfolio investments	**(3,917)**	13,699
Portfolio at 1 January	**53,899**	40,200
Portfolio at 31 December	**49,982**	53,899

Movement in cash, portfolio investments and financing

	At 1 January 2014 £'000s	Cash flow £'000s	Changes to market value and exchange rates £'000s	At 31 December 2014 £'000s
Cash at bank and in hand	1,755	(258)	–	1,497
Shares and other variable yield securities	13,324	(5,112)	285	8,497
Debt securities and other fixed income securities	38,725	303	917	39,945
Deposits with credit institutions	8	(3)	–	5
Other investments	30	(22)	–	8
Total portfolio investments	52,087	(4,834)	1,202	48,455
Overseas deposits	57	(29)	2	30
Total cash, portfolio investments and financing	53,899	(5,121)	1,204	49,982

The syndicate writes business in certain jurisdictions that require the deposit of cash and investments in locally held trust funds therefore preventing the free transfer of cash between currencies and locations. The total held in these funds at 31 December 2014 was £1,063,240 (2013: £1,488,361).

14. Net cash inflow/(outflow) from portfolio investments

	2014 £'000s	2013 £'000s
Shares and other variable yield securities	**5,112**	(5,073)
Purchase of debt securities and other fixed income securities	**(45,620)**	(44,713)
Sale of debt securities and other fixed income securities	**45,317**	30,213
Deposits with credit institutions	**3**	15
Other investments	**22**	5
Net cash inflow/(outflow) from portfolio investments	**4,834**	(19,553)

15. Related parties

As noted on page 20, Syndicate 557 is considered to be a related party of, and accepted inwards reinsurance business from, Syndicate 510. All transactions with this entity were conducted at arm's length and on normal commercial terms.

Syndicate 557 accepted written premium from Syndicate 510 in the 2014 calendar year of £19,837,926 (2013: £20,747,948). The unpaid premiums due from Syndicate 510 at the period end were £4,053,704 (2013: £6,058,476). The outstanding claims, including an element of IBNR, were £36,758,149 (2013: £47,212,385). No business was ceded to related parties.

Profit commission of £1,551,654 is payable by the syndicate to Tokio Marine Kiln Syndicates Limited in respect of the 2014 calendar year (2013: £738,857). Profit commission is accrued by the syndicate based on the interim annual accounting results of each year of account under UK GAAP and final settlement to the managing agent is paid when the year of account is closed after three years.

Managing agency fees of £293,831 (2013: £343,409) were paid by the syndicate to Tokio Marine Kiln Syndicates Limited. In addition to this, expenses of £1,957,697 (2013: £2,229,267) were paid to Tokio Marine Kiln Syndicates Limited for expenses paid on behalf of the syndicate.

The note on related parties on page 20 provides further information regarding all syndicates and related parties.

16. Risk management

Details of the syndicate's risk management framework are given in the 'principal risks and uncertainties section' on pages 26 to 28.

a) Insurance risk

Further details on the management of the syndicate's insurance risk are given on page 26.

Concentrations of insurance risk

The risks assumed in the syndicate's day-to-day business activities are subject to controls over aggregation of risk. Concentration of risk is monitored by line of business, geographical location and credit quality amongst other elements.

The following tables set out the concentration of gross claims provision and reinsurance recoveries by line of business and the concentration of gross claims provision by geographical location.

2014	Gross claims provision £'000s	Reinsurance claims provision £'000s	Net claims provision £'000s
Direct insurance	**311**	–	**311**
Reinsurance acceptances	**36,447**	**(1,826)**	**34,621**
	36,758	**(1,826)**	**34,932**

2013	Gross claims provision £'000s	Reinsurance claims provision £'000s	Net claims provision £'000s
Direct insurance	181	(252)	(71)
Reinsurance acceptances	47,031	(3,054)	43,977
	47,212	(3,306)	43,906

	Gross claims provision	
	2014 £'000s	2013 £'000s
UK	**–**	–
Other EU countries	**5,379**	9,164
US	**17,347**	19,138
Other	**14,032**	18,910
	36,758	47,212

Earned premium sensitivity analysis

Earned premium is estimated based on assumptions of how each risk is earned according to its method of placement and class of business. Each risk falling within a class of business is earned according to the estimated pattern applying to that class of business, which takes into account the class characteristics including exposure to seasonal weather related events. This approach is applied consistently year-on-year.

A sensitivity analysis has been applied by adjusting the percentage earned of each open year of account by 1%. This indicates that an increase in earned premium of 1% would result in £0.2m (2013: £0.3m) more premium being reported (gross of acquisition costs), and applying the underlying attritional loss ratio would result in an estimated increase in the net result (after acquisition costs) of £0.1m (2013: £0.2m). A decrease of 1% would result in £0.2m (2013: £0.3m) less premium being reported and an estimated £0.1m (2013: £0.2m) reduction in the net result. The impact on the result is at the net level i.e. after the adjustment for the effect of profit commission.

Claims sensitivity analysis

The claims ratio for 2014 is 38% (2013: 38%). A sensitivity analysis has been applied by adjusting the claims ratio by 1%. This indicates that an increase in the claims ratio of 1% would result in claims increasing by £0.2m (2013: £0.2m) and the result reducing by £0.2m (2013: £0.2m).

b) Financial risk

The syndicate is exposed to a range of financial risks through its financial assets and financial liabilities. In particular, the key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from insurance policies and investment contracts as they fall due. The most important components of this financial risk are credit risk, liquidity risk and market risk (including interest rate risk and currency risk).

These risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. The risks that the syndicate primarily faces due to the nature of its investment and liabilities are interest rate risk and currency risk.

Credit risk

For details of the management of the syndicate's credit risk please refer to page 27.

The following table provides information regarding credit risk exposures of the syndicate by classifying assets according to the S&P credit ratings of the counterparties. Where a security has no S&P credit rating the rating of the issuer is used. During the year there were no material breaches in exposure limits.

2014	AAA £'000s	AA £'000s	A £'000s	<A £'000s	NR £'000s	Total £'000s
Financial investments:						
Other financial investments	**15,052**	**17,308**	**10,672**	**2,203**	**3,220**	**48,455**
Overseas deposits	**5**	**21**	**4**	–	–	**30**
Cash at bank and in hand	–	–	**1,497**	–	–	**1,497**
Reinsurers' share of outstanding claims including reinsurers' IBNR	**1,403**	**17**	**345**	**3**	**58**	**1,826**
	16,460	**17,346**	**12,518**	**2,206**	**3,278**	**51,808**

2013	AAA £'000s	AA £'000s	A £'000s	<A £'000s	NR £'000s	Total £'000s
Financial investments:						
Other financial investments	11,643	15,576	12,952	9,150	2,766	52,087
Overseas deposits	14	36	7	–	–	57
Cash at bank and in hand	–	–	1,755	–	–	1,755
Reinsurers' share of outstanding claims including reinsurers' IBNR	2,756	–	468	–	82	3,306
	14,413	15,612	15,182	9,150	2,848	57,205

The largest potential reinsurance credit exposure to the syndicate at 31 December 2014 was 33.3% with a fully collateralised security (2013: 42.7% AA rated security). The Reinsurance Security Committee of the managing agent reviews the level of this exposure and takes appropriate action where necessary.

An aged analysis of financial assets past-due is shown below.

2014	Fully performing £'000s	Past due £'000s	Impairment £'000s	Total £'000s
Financial investments:				
Other financial investments	**48,455**	–	–	**48,455**
Overseas deposits	**30**	–	–	**30**
Cash at bank and in hand	**1,497**	–	–	**1,497**
Insurance receivables	**4,238**	–	–	**4,238**
Reinsurance assets	**(102)**	**40**	–	**(62)**
	54,118	**40**	–	**54,158**

2013	Fully performing £'000s	Past due £'000s	Impairment £'000s	Total £'000s
Financial investments:				
Other financial investments	52,087	–	–	52,087
Overseas deposits	57	–	–	57
Cash at bank and in hand	1,755	–	–	1,755
Insurance receivables	6,624	–	–	6,624
Reinsurance assets	3	437	–	440
	60,526	437	–	60,963

For assets to be classified as past-due the contractual payments are in arrears by more than 30 days. An impairment adjustment is recorded in the profit and loss account for assets impaired. The syndicate operates mainly on a 'neither past-due nor impaired basis' and when evidence is available, sufficient collateral will be obtained for 'past-due and impaired' assets. An impairment assessment will also be performed if applicable.

Liquidity risk

For details of the management of the syndicate's liquidity risks please refer to page 27.

The syndicate writes a significant proportion of US Situs business and a smaller proportion of Canadian business which require the deposit of appropriate monies into specific trust funds. Some of these trust funds are regulated, requiring quarterly assessment of the adequacy of funding. Surplus funds or additional funding requirements are settled each quarter between the regulated and non-regulated trust funds. In exceptional circumstances, and with approval from Lloyd's, inter-fund settlement can take place outside the quarterly process. As at 31 December 2014 the balance held in these trust funds was US$1.6m (2013: US$2.2m) and Canadian $17,588 (2013: Canadian $0.1m).

The following table analyses the significant monetary assets into their relevant maturity groups based on the remaining period at the year end date to their contractual maturities or expected settlement dates. The financial instruments can be realised at any time, but the table presents their maturity profiles should they continue to be held. There are no monetary liabilities.

2014	Up to 1 year £'000s	1–3 years £'000s	3–5 years £'000s	Over 5 years £'000s	Total £'000s
Assets:					
Financial investments	**34,551**	**12,135**	**1,731**	**38**	**48,455**
Overseas deposits	**19**	**11**	**1**	–	**31**
Cash at bank and in hand	**1,497**	–	–	–	**1,497**
Insurance receivables	**4,238**	–	–	–	**4,238**
	40,305	**12,146**	**1,732**	**38**	**54,221**

2013	Up to 1 year £'000s	1–3 years £'000s	3–5 years £'000s	Over 5 years £'000s	Total £'000s
Assets:					
Financial investments	30,861	20,682	444	100	52,087
Overseas deposits	30	25	2	–	57
Cash at bank and in hand	1,755	–	–	–	1,755
Insurance receivables	6,624	–	–	–	6,624
	39,270	20,707	446	100	60,523

Foreign currency market risk

For further details of the management of the syndicate's market risk please refer to page 27.

The syndicate maintains bank accounts, investment portfolios and claims reserves in pounds sterling, US dollars and Canadian dollars (the Lloyd's closing currencies), additionally, bank accounts and investment portfolios are maintained in Euros. Transactions arising in other currencies are translated to the Lloyd's closing currencies as they occur with only small amounts of other currencies being held for regulatory purposes. The syndicate's financial assets are therefore denominated in the same currencies as its insurance liabilities and thus the developing profit or loss that remains embedded within the syndicate gives rise to the main currency exposure. The profit or loss is distributed, or settled, in accordance with Lloyd's rules using a combination of pounds sterling and US dollars after deduction of the member level charges, the most material adjustment being the US dollar tax liability.

Foreign currency liquidity and exposure for the syndicate is the responsibility of the Finance Director. Strategy is agreed by the Finance Group and ratified by the Investment Committee. The syndicate currency exposure and future cash flows are monitored by currency and potential exposures and shortfalls addressed by foreign currency transactions or cash calls on members.

A substantial proportion of the syndicate's business is written in currencies other than pounds sterling, in particular US dollars. The syndicate's business is therefore exposed to changes in exchange rates and there is no guarantee that foreign currency risk mitigation initiatives which the syndicate undertakes will be successful in preventing any losses due to such changes.

The syndicate uses forward currency contracts to manage its exposure to foreign currency risks arising from material losses in non-closing currencies. The use of financial derivatives is governed by the syndicate's policies approved by the Investment Committee, which provides written principles on the use of financial derivatives. More information is available in the 'fair value estimation' in part (c) of this note.

Exchange rate sensitivity analysis

The analysis below is performed for possible movements in key variables, with all other variables held constant, showing the impact on the result. The correlation of variables will have a significant effect in determining the ultimate impact. However, to isolate and demonstrate the effect due to changes in variables, each variable has been changed on an individual basis. It should be noted that movements in these variables are non-linear.

The following table shows the impact on the result and members' balances of a ten percent movement in the US dollar and Canadian dollar to pounds sterling exchange rates.

	2014 £'000s	2013 £'000s
10% increase in USD	**(1,505)**	(1,344)
10% increase in CAD	**(55)**	(76)
10% decrease in USD	**1,840**	1,643
10% decrease in CAD	**67**	93

Interest rate market risk

For further details of the management of the syndicate's market risk please refer to page 27.

The syndicate holds investments in its balance sheet and the performance of its investment portfolio may have an effect on the result. The income derived by the syndicate from its investments, and the capital value of its investments, may fall as well as rise. Therefore, changes in interest rates, credit ratings and other economic variables could substantially affect the syndicate's profitability.

The syndicate used Treasury future derivatives to manage its exposure to interest rate risks. The syndicate did not hold any such derivatives at 31 December 2014. The use of financial derivatives is governed by the syndicate's policies approved by the Investment Committee, which provides written principles on the use of financial derivatives. More information is available in the 'fair value estimation' in part (c) of this note.

Interest rate sensitivity analysis

The analysis below is performed for possible movements in key variables with all other variables held constant, showing the impact on the result. The correlation of variables will have a significant effect in determining the ultimate impact. However, to isolate and demonstrate the effect due to changes in variables, each variable has been changed on an individual basis. It should be noted that movements in these variables are non-linear.

The table below shows the estimated impact on the result and members' balances of a 1% movement in the US, UK and Canadian interest rates on the market value of the syndicate's investments.

	2014 £'000s	2013 £'000s
1% movement in the US interest rates	**242**	279
1% movement in the UK interest rates	**148**	156
1% movement in the Canadian interest rates	–	–

c) Fair value

Financial instruments that are fair valued through profit and loss are classified using a fair value hierarchy that reflects the significance of the inputs used in these measurements.

- Level 1 financial instruments comprise government bonds and securities which have been valued at fair value using quoted prices in an active market.
- Level 2 financial instruments are less regularly traded government agency bonds, supranational bonds, corporate bonds and currency derivatives. These fair values have been derived from quoted prices.
- The fair value for level 3 financial instruments is generally derived from inputs that are not based on observable market data. Level 3 securities include structured instruments the fair value of which are based on prices supplied by Thomson Reuters which utilise cashflow, credit and pricing assumptions.

2014	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Derivative financial instruments:				
Forward currency derivatives – assets	**8**	–	–	**8**
Forward currency derivatives – liabilities	**(15)**	–	–	**(15)**
Government securities	**15,819**	**1,710**	–	**17,529**
Debt securities	–	**30,913**	–	**30,913**
Deposits with credit institutions	**5**	–	–	**5**
	15,817	**32,623**	–	**48,440**

2013	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Derivative financial instruments:				
Treasury future derivatives – assets	6	–	–	6
Forward currency derivatives – assets	26	–	–	26
Initial margin fund for derivative – assets	3	–	–	3
Government securities	10,747	–	–	10,747
Debt securities	–	41,292	10	41,302
Deposits with credit institutions	8	–	–	8
	10,790	41,292	10	52,092

At 31 December 2014 the syndicate held forward currency contracts, for which the fair value is a net liability of £7,059 (2013: asset £26,067) with the loss going through investment income in the profit and loss account. In 2013 the syndicate held Treasury future contracts, for which the fair value at 31 December 2013 was an asset of £6,495. There were no such contracts at 31 December 2014.

Level 3 financial instruments	2014 £'000s	2013 £'000s
Opening balance	**10**	–
Transfer into level 3	**–**	25
Transfer out of level 3	**(10)**	–
Sales during the year	**–**	(15)
Closing balance	**–**	10

Annual report and accounts 2014

For Syndicates 510, 557 and 308 managed by Tokio Marine Kiln Syndicates Limited

Annual accounts under UK GAAP

Syndicate 308

Tokio Marine Kiln Life Syndicate

Life

Independent auditors' report to the members of Syndicate 308 – Report on the syndicate annual accounts

Our opinion

In our opinion the syndicate annual accounts, defined below:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2014 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

What we have audited

The syndicate annual accounts for the year ended 31 December 2014, which are prepared by the managing agent, comprise:

- the profit and loss account for the year then ended;
- the balance sheet as at 31 December 2014;
- the cash flow statement;
- the statement of accounting policies; and
- the notes to the syndicate annual accounts, which include other explanatory information.

The financial reporting framework that has been applied in the preparation of the syndicate annual accounts is applicable law and United Kingdom Accounting Standards (UK GAAP).

In applying the financial reporting framework, the managing agent has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on matter prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

In our opinion the information given in the managing agent's report for the financial year for which the syndicate annual accounts are prepared is consistent with the syndicate annual accounts.

Other matters on which we are required to report by exception

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- the managing agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicate annual accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Responsibilities for the syndicate annual accounts and the audit – our responsibilities and those of the managing agent

As explained more fully in the statement of managing agent's responsibilities set out on page 29, the managing agent is responsible for the preparation of syndicate annual accounts and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the syndicate annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the syndicate's members as a body in accordance with section 10 of part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of syndicate annual accounts involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the syndicate annual accounts sufficient to give reasonable assurance that the syndicate annual accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the syndicate's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the managing agent; and
- the overall presentation of the syndicate annual accounts.

We primarily focus our work in these areas by assessing the managing agent's judgements against available evidence, forming our own judgements, and evaluating the disclosures in the syndicate annual accounts. We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited syndicate annual accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Mark Bolton
Senior Statutory Auditor
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
16 March 2015

Profit and loss account: technical account – long-term business

for the year ended 31 December 2014

	Note	2014 £'000s	2013 £'000s
Earned premiums, net of reinsurance			
Gross premiums written	1	**26,736**	30,751
Outward reinsurance premiums		**(1,476)**	(1,910)
Change in the provision for unearned premiums, net of reinsurance		**(104)**	(3,189)
Earned premiums, net of reinsurance		**25,156**	25,652
Investment income	7,8	**37**	55
Claims incurred, net of reinsurance			
Claims paid:			
Gross amount		**(13,937)**	(16,589)
Reinsurers' share		**(117)**	545
Net claims paid		**(14,054)**	(16,044)
Change in the long-term business provision, net of reinsurance:			
Gross amount		**(237)**	2,492
Reinsurers' share		**(23)**	218
Change in the net long-term business provision	3	**(260)**	2,710
Claims incurred, net of reinsurance		**(14,314)**	(13,334)
Members' standard personal expenses		**(590)**	(992)
Net operating expenses	4,5,6	**(9,548)**	(9,660)
Investment expenses and charges	7,8	**(11)**	(15)
Net unrealised losses on investments	7	**(3)**	(11)
Balance on the technical account for long-term business and profit for the year		**727**	1,695

There are no non-technical items.

All operations are continuing.

There are no recognised gains or losses in the accounting period other than those dealt with in the technical account.

Balance sheet: assets

as at 31 December 2014

	Note	2014 £'000s	2013 £'000s
Investments			
Other financial investments	9	**3,589**	4,620
Reinsurers' share of technical provisions			
Long-term business provision	2,3	**194**	216
Debtors			
Debtors arising out of direct insurance operations	10	**12,503**	11,580
Debtors arising out of reinsurance operations		**3,864**	4,310
Other debtors		**78**	11
		16,445	15,901
Other assets			
Cash at bank and in hand		**1,706**	1,552
Other	11	**191**	223
		1,897	1,775
Prepayments and accrued income			
Deferred acquisition costs		**3,993**	3,895
Total assets		**26,118**	26,407

Balance sheet: liabilities

as at 31 December 2014

	Note	2014 £'000s	2013 £'000s
Capital and reserves			
Members' balances	12	**(2,459)**	(1,299)
Technical provisions			
Provision for unearned premiums		**12,888**	12,784
Long-term business provision	2,3	**7,929**	7,568
		20,817	20,352
Creditors			
Creditors arising out of direct insurance operations	13	**5,565**	5,010
Creditors arising out of reinsurance operations		**1,787**	1,708
Other creditors		**408**	636
		7,760	7,354
Total liabilities		**26,118**	26,407

The annual accounts, which comprise pages 81 to 102, and the notes and principal accounting policies applicable to all syndicates on pages 30 to 34, were approved by the Board of Tokio Marine Syndicates Limited on 11 March 2015 and were signed on its behalf by

James Dover

Finance Director
Tokio Marine Kiln Syndicates Limited
16 March 2015

Cash flow statement

for the year ended 31 December 2014

	Note	2014 £'000s	2013 £'000s
Net cash inflow from operating activities	14	**910**	668
Transfer to members in respect of underwriting participations	12	**(1,775)**	(2,636)
Financing:			
Members' agents' fees paid on behalf of members	12	**(112)**	(85)
Net cash flows		**(977)**	(2,053)
Cash flows were invested as follows:			
Increase in cash holdings	15	**155**	1,127
(Decrease) in deposits	15	**(38)**	(107)
Net portfolio investments	15,16	**(1,094)**	(3,073)
Net investment of cash flows		**(977)**	(2,053)

1. Segmental analysis

An analysis of the gross written premium and reinsurance balances is set out below:

	2014		2013	
	Gross premiums written £'000s	Reinsurance balance £'000s	Gross premiums written £'000s	Reinsurance balance £'000s
Direct insurance	**23,343**	**(1,389)**	24,229	(867)
Reinsurance acceptances	**3,393**	**(227)**	6,522	(280)
	26,736	**(1,616)**	30,751	(1,147)

The direct gross written premium can be further analysed as follows:

	2014 £'000s	2013 £'000s
Individual premiums	**3,965**	3,286
Premiums under group contracts	**19,378**	20,943
	23,343	24,229
Periodic premiums	**13,801**	17,607
Single premiums	**9,542**	6,622
	23,343	24,229

An analysis of the gross new business premium is set out below:

	2014 Gross premiums written £'000s	2013 Gross premiums written £'000s
Direct insurance	**2,568**	3,536
Reinsurance acceptances	**638**	329
	3,206	3,865

Outwards reinsurance placed in relation to new business written is not material.

The direct gross new business premium can be further analysed as follows:

	2014 £'000s	2013 £'000s
Individual premiums	**655**	928
Premiums under group contracts	**1,913**	2,608
	2,568	3,536
Periodic premiums	**1,209**	2,303
Single premiums	**1,359**	1,233
	2,568	3,536

The geographical analysis of premium by location of the client is as follows:

	2014 £'000s	2013 £'000s
UK	**18,774**	17,947
Other EU countries	**3,161**	5,373
US	**4,189**	3,978
Other	**612**	3,453
	26,736	30,751

2. Claims outstanding

Within the calendar year technical result, a deficit of £1.2m (2013: surplus of £1.0m) relates to the reassessment of net claims incurred for previous accident years.

The following table shows the development of ultimate claims (after reinsurance recoveries) over the last seven years. The claims development table is prepared on an underwriting year of account basis, and all figures are shown converted at current year-end rates.

Year of Account	2008 & prior £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m
Year 1	30.7	9.4	8.5	12.3	14.5	16.2	15.2
Year 2	30.9	9.5	8.1	14.5	15.3	16.8	
Year 3	31.2	9.2	7.6	13.6	14.9		
Year 4	31.0	9.1	7.3	13.8			
Year 5	30.3	9.2	7.6				
Year 6	30.2	9.2					
Year 7	29.9						
Claims paid	29.6	9.2	7.6	13.6	14.4	14.3	2.5
Future claims	–	–	–	–	–	0.3	8.6
Outstanding claims reserve	0.3	–	–	0.2	0.5	2.2	4.1

As noted in the 308 underwriter's report, the syndicate is required to hold additional reserves under rules for syndicates with long-term insurance liabilities. The total outstanding claims reserve shown in the table above does not include the allowance made for these additional reserves which are accounted for in the net claims outstanding amount shown on the balance sheet.

The reinsurers' share of technical provisions is a net liability due to loss funds received by the syndicate from its reinsurers.

3. Long-term business provision

The following methodologies have been used in valuing the long-term business provision:

- For individual business, delegated authority business and creditor business (where individual data is available), a gross premium valuation method has been used.
- For group business and other credit life business, an ultimate loss ratio approach has been used. The resulting reserve includes both an unearned premium reserve and IBNR reserve. An unexpired risk reserve is also included where deemed necessary.

The principal assumptions are:

- Valuation interest rate and claims discount rate is 0% (2013: 0%);
- Renewal expenses are assumed at 8% (2013: 8%) of the premium;
- Mortality is 95% (2013: 100%) of the TM/F00 ultimate tables. Where business was priced on a smoker/non-smoker basis the TM/FS00 and TM/FN00 tables were used. 95% of TM/FS00 was used where smoker status was unknown (2013: 100%). The exception was where binders were not priced on a smoker/non-smoker basis or where a significant number of the policies on a binder did not have a smoker status. In these cases, 95% of TM/FC00 was used (2013: 100%).

4. Net operating expenses

	2014 £'000s	2013 £'000s
Acquisition costs	**7,137**	7,819
Change in deferred acquisition costs	**13**	(463)
Administrative expenses	**2,589**	2,410
(Profit)/loss on exchange	**(159)**	7
Gross operating expenses	**9,580**	9,773
Reinsurance commissions and profit participations	**(32)**	(113)
	9,548	9,660

Included within administrative expenses is auditors' remuneration:

	2014 £'000s	2013 £'000s
Audit services:		
Fees payable to the syndicate's auditors for the audit of the syndicate annual accounts	**32**	31
Other services:		
Other services pursuant to legislation	**34**	33
	66	64

The charge incurred for other services is wholly and exclusively in relation to the audit and review of the syndicate's regulatory returns.

5. Staff numbers and costs

Staff are employed by Tokio Marine Kiln Insurance Services Limited. The following amounts were recharged to the syndicate in respect of salary costs and are included within administrative expenses:

	2014 £'000s	2013 £'000s
Wages and salaries	**1,364**	1,356
Social security costs	**149**	143
Other pension costs	**40**	40
	1,553	1,539

Of this amount £2,575 (2013: £3,134) was paid as consulting fees to other Tokio Marine Group companies in respect of staff working on the syndicate with the remainder recharged to the syndicate by Tokio Marine Kiln Insurance Services Limited.

Included in other pension costs are amounts related to the defined benefit pension scheme recharged by the managing agent:

	2014 £'000s	2013 £'000s
Net charge from managing agent during year	**40**	40
Amount funded in year	**40**	40

The average number of full-time employees working for the syndicate during the year was as follows:

	2014	2013
Administration and finance	**9**	9
Underwriting	**8**	8
Claims	**1**	1
	18	18

Where staff work for more than one syndicate the time is allocated based on the proportion of time spent. The relevant percentage of full-time employees is applied in the table above. Of this number, the equivalent of less than one full-time employee was employed by other Tokio Marine Group companies (2013: less than one).

6. Emoluments of the directors and Active Underwriters

The Tokio Marine Kiln Group of companies operates a bonus pooling arrangement such that profit-related pay is generated from the managing agency profit commission, the group's share of the underwriting result through its corporate member Kiln Underwriting Limited, and additionally through a proportion of the underwriting result of the corporate member Tokio Marine Underwriting Limited whose participations are managed by Tokio Marine Kiln Syndicates Limited. A considerable portion of the profit-related pay is therefore borne by other Tokio Marine Kiln Group entities. The directors of Tokio Marine Kiln Syndicates Limited received the following aggregate remuneration in relation to their work on the syndicate:

	2014 £'000s	2013 £'000s
Emoluments	**69**	86

Of the above amount £34,168 (2013: £46,468) was charged to the syndicate as an expense, with the remainder borne by other group entities.

The Active Underwriters received the following remuneration charged as a syndicate expense:

	2014 £'000s	2013 £'000s
Emoluments	**231**	226

The profit commission included within the emoluments is in relation to the 2011 year of account (2013: 2010 YOA), as the allocation to underwriters was only determined following its closure.

7. Investment income and expenses

	2014 £'000s	2013 £'000s
Investment income:		
Income from investments	**36**	54
Realised gains on investments	**1**	1
Unrealised gains on investments	–	1
Investment expenses:		
Investment management expenses, including interest	**(3)**	(5)
Realised losses on investments	**(8)**	(10)
Unrealised losses on investments	**(3)**	(12)
	23	29

8. Calendar year investment yield

	2014 £'000s	2013 £'000s
Average amount of syndicate funds during the year:		
Sterling fund	**2,730**	3,633
US dollar fund	**2,056**	2,943
Euro fund	**897**	1,195
Aggregate gross investment return:		
Before investment expenses	**26**	34
After investment expenses	**23**	29
Calendar year investment yield:	**%**	%
Before investment expenses	**0.5**	0.4
After investment expenses	**0.4**	0.4
Analysis of calendar year investment yield by fund:	**%**	%
Sterling fund	**0.5**	0.5
US dollar fund	**0.4**	0.4
Euro fund	**0.1**	–

The sterling fund balance includes investments held in all other non-functional currencies.

9. Other financial investments

	Fair value		Purchase price	
	2014 £'000s	2013 £'000s	2014 £'000s	2013 £'000s
Shares and other variable yield securities	**2,231**	2,244	**2,231**	2,244
Debt securities and other fixed income securities	**1,357**	2,372	**1,359**	2,378
Deposits with credit institutions	**1**	4	**1**	4
	3,589	4,620	**3,591**	4,626

All financial instruments are designated as fair value through profit or loss upon initial recognition.

10. Debtors arising out of direct insurance operations

	2014 £'000s	2013 £'000s
Amounts due from intermediaries within one year	**12,503**	11,580

Amounts due from intermediaries includes a bad debt provision of £0.1m (2013: nil).

11. Other assets

Other assets comprise overseas deposits which are lodged as a condition of conducting underwriting business in certain countries.

12. Reconciliation of members' balances

	2014 £'000s	2013 £'000s
Members' balances at 1 January	**(1,299)**	(273)
Profit for the financial year	**727**	1,695
Payments of profit to members' personal reserve funds	**(1,775)**	(2,636)
Members' agents' fee advances	**(112)**	(85)
Members' balances carried forward at 31 December	**(2,459)**	(1,299)

Members participate on syndicates by reference to years of account and their ultimate result, assets and liabilities are assessed with reference to policies incepting in that year of account in respect of their membership of a particular year.

13. Creditors arising out of direct insurance operations

	2014 £'000s	2013 £'000s
Amounts due to intermediaries within one year	**5,565**	5,010

14. Reconciliation of operating profit to net cash inflow from operating activities

	2014 £'000s	2013 £'000s
Operating profit on ordinary activities	**727**	1,695
Realised and unrealised investment (gains)/losses including foreign exchange	**(68)**	499
(Increase)/decrease in debtors	**(642)**	4,827
Increase in net technical provisions	**487**	325
Increase/(decrease) in creditors	**406**	(6,678)
Net cash inflow from operating activities	**910**	668

15. Movement in opening and closing portfolio investments net of financing

	2014 £'000s	2013 £'000s
Net cash inflow for the year	**155**	1,127
Cash flow:		
Deposits	**(38)**	(107)
Portfolio investments	**(1,094)**	(3,073)
Movement arising from cash flows	**(977)**	(2,053)
Changes in market value and exchange rates	**68**	(499)
Total movement in portfolio investments	**(909)**	(2,552)
Portfolio at 1 January	**6,395**	8,947
Portfolio at 31 December	**5,486**	6,395

Movement in cash, portfolio investments and financing

	At 1 January 2014 £'000s	Cash flow £'000s	Changes to market value and exchange rates £'000s	At 31 December 2014 £'000s
Cash at bank and in hand	1,552	155	(1)	1,706
Shares and other variable yield securities	2,244	64	(77)	2,231
Debt securities and other fixed income securities	2,372	(1,155)	140	1,357
Deposits with credit institutions	4	(3)	–	1
Total portfolio investments	4,620	(1,094)	63	3,589
Overseas deposits	223	(38)	6	191
Total cash, portfolio investments and financing	6,395	(977)	68	5,486

The syndicate writes business in certain jurisdictions that require the deposit of cash and investments in locally held trust funds therefore preventing the free transfer of cash between currencies and locations. The total held in these funds at 31 December 2014 was £191,020 (2013: £222,448).

16. Net cash inflow from portfolio investments

	2014 £'000s	2013 £'000s
Shares and other variable yield securities	**(64)**	2,689
Purchase of debt securities and other fixed income securities	**(3,982)**	(5,185)
Sale of debt securities and other fixed income securities	**5,137**	5,568
Deposits with credit institutions	**3**	1
Net cash inflow from portfolio investments	**1,094**	3,073

17. Management of insurance risk

a) Capital management

The managing agent maintains an efficient capital structure in Syndicate 308, consistent with its risk profile and the regulatory and market requirements of the syndicates business.

The managing agent's objectives in managing the capital of the syndicate are:

- to match the profile of assets and liabilities, taking account of the risks inherent in the business;
- to satisfy the requirements of the policyholders, regulators and rating agencies; and
- to manage exposure to movements in exchange rates.

b) Regulatory capital requirements

The members maintain Funds at Lloyd's determined in accordance with Lloyd's ECA and also in accordance with the PRA's SCR. These funds are deposited at Lloyd's by the members and therefore are off balance sheet. The syndicate's capital requirement is £17.4m as at 31 December 2014 (2013: £16.6m).

c) Restrictions on available capital resource

The available resource of the syndicate's trust funds is described in the following tables. Members' balances are distributed on the closure of an underwriting year subject to meeting Lloyd's and other regulatory requirements. Such amounts cannot be distributed without an up-to-date actuarial valuation.

Other UK life business	2014 £'000s	2013 £'000s
Members' balances	**(2,459)**	(1,299)
Other disallowance under GENPRU – overdue premium and sundry debtors	**17**	39
Solvency adjustments:		
Expense run-off reserve	**(509)**	(521)
Currency mismatch reserve	**(454)**	(359)
Unearned premium reserve and deferred acquisition cost measurement at closing rates not historic rates	**(43)**	(34)
Total solvency adjustments	**(1,006)**	(914)
Deferred acquisition costs	**(4,063)**	(3,818)
Total available capital resource	**(7,511)**	(5,992)
Provision for unearned premiums	**(12,888)**	(12,784)
Long-term business provision	**(7,929)**	(7,568)
Gross technical provisions in the balance sheet	**(20,817)**	(20,352)

During 2014 a change in mortality assumptions led to a £370,000 increase in gross technical provisions. There was no such change during 2013.

Movements in capital resource	2014 £'000s	2013 £'000s
Balance at 1 January	**(5,992)**	(3,990)
Other disallowance under GENPRU – increase in overdue premium and sundry debtors	**(22)**	(88)
Solvency adjustments:		
Expense run-off reserve	**12**	40
Currency mismatch reserve	**(95)**	11
Unearned premium reserve and deferred acquisition cost measurement at closing rates not historic rates	**(9)**	43
Total solvency adjustments	**(92)**	94
Deferred acquisition costs	**(245)**	(982)
Movement in members' balances	**(1,160)**	(1,026)
Balance as at 31 December	**(7,511)**	(5,992)

d) Capital resource sensitivities

The capital position is sensitive to changes in market conditions, due to both changes in the value of the assets and the effect that change in investment conditions may have on the value of the liabilities. It is also sensitive to assumptions and experiences relating to mortality and morbidity and to a lesser extent, expenses and persistency. The most significant sensitivities arise from the following risks:

- market risk, which would arise if the return from the fixed interest investments which support this business were lower than that assumed for reserving (currently the valuation interest rate is assumed to be 0%), and
- mortality risk, which would arise if mortality of the lives insured were heavier than that assumed, possibly because of an epidemic or catastrophe.

The timing of any impact on capital would depend on the interaction of assumptions and past experience about future experience. In general, if experience was worse or was expected to deteriorate, and management actions were not expected to reduce the future impact, then assumptions relating to future experience would be changed. In this way, liabilities would be increased to anticipate the future impact of the worse experience with immediate impact on the capital position.

18. Related parties

Syndicate 308 did not accept inwards reinsurance business from, or place outwards reinsurance business with, other Tokio Marine Group entities that are deemed to be related parties of Tokio Marine Kiln Syndicates Limited by virtue of the shareholding in Tokio Marine Kiln Group Limited by Tokio Marine Holdings, Inc.

Profit commission of £129,069 is payable by the syndicate to Tokio Marine Kiln Syndicates Limited in respect of the 2014 calendar year (2013: £528,349). Profit commission is accrued by the syndicate based on the interim annual accounting results of each year of account under UK GAAP and final settlement to the managing agent is paid when the year of account is closed after three years.

Managing agency fees of £235,740 (2013: £195,346) were paid by the syndicate to Tokio Marine Kiln Syndicates Limited. In addition to this, expenses of £2,977,533 (2013: £2,700,712) were paid to Tokio Marine Kiln Syndicates Limited for expenses paid on behalf of the syndicate.

The note on related parties on page 20 provides further information regarding all syndicates and related parties.

19. Risk management

Details of the syndicate's risk management framework are given in the 'principal risks and uncertainties section' on pages 26 to 28.

a) Insurance risk

Further details on the management of the syndicate's insurance risk are given on page 26.

Concentrations of insurance risk

The risks assumed in the syndicate's day-to-day business activities are subject to controls over aggregation of risk. Concentration of risk is monitored by line of business, geographical location and credit quality amongst other elements.

The following tables set out the concentration of gross claims provision and reinsurance recoveries by line of business and the concentration of gross claims provision by geographical location.

2014	Gross claims provision £'000s	Reinsurance claims provision £'000s	Net claims provision £'000s
Life	**7,929**	**(194)**	**7,735**

2013	Gross claims provision £'000s	Reinsurance claims provision £'000s	Net claims provision £'000s
Life	7,568	(216)	7,352

	Gross claims provision	
	2014 £'000s	2013 £'000s
UK	**5,065**	3,788
Other EU countries	**1,143**	1,887
US	**1,429**	1,114
Other	**292**	779
	7,929	7,568

Earned premium sensitivity analysis

For business not reserved using long-term methodologies, premium is earned on a straight line basis. This approach is applied consistently year-on-year.

A sensitivity analysis has been applied by adjusting the percentage earned of each open year of account by 1%. This indicates that an increase in earned premium of 1% would result in £0.3m (2013: £0.3m) more premium being reported (gross of acquisition costs), and applying the underlying attritional loss ratio would result in an estimated increase in the net result (after acquisition costs) of £0.04m (2013: £0.04m). A decrease of 1% would result in £0.3m (2013: £0.3m) less premium being reported and an estimated £0.04m reduction in the net result (2013: £0.04m). The impact on the result is at the net level i.e. after the adjustment for the effect of profit commission.

Claims sensitivity analysis

The claims ratio for 2014 is 57% (2013: 52%). A sensitivity analysis has been applied by adjusting the claims ratio by 1%. This indicates that an increase in the claims ratio of 1% would result in claims increasing by £0.3m (2013: £0.3m) and result reducing by £0.2m (2013: £0.2m).

b) Financial risk

The syndicate is exposed to a range of financial risks through its financial assets and financial liabilities. In particular, the key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from insurance policies as they fall due. The most important components of this financial risk are credit risk, liquidity risk and market risk (including interest rate risk and currency risk).

These risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. The risks that the syndicate primarily faces due to the nature of its investment and liabilities are interest rate risk and currency risk.

Credit risk

For details of the management of the syndicate's credit risk please refer to page 27.

The following table provides information regarding credit risk exposures of the syndicate by classifying assets according to the S&P credit ratings of the counterparties. Where a security has no S&P credit rating the rating of the issuer is used. During the year, no exposure limits were exceeded.

2014	AAA £'000s	AA £'000s	A £'000s	<A £'000s	NR £'000s	Total £'000s
Financial investments:						
Other financial investments	**2,235**	**1,230**	**94**	–	**30**	**3,589**
Overseas deposits	–	**113**	**78**	–	–	**191**
Cash at bank and in hand	–	–	**1,706**	–	–	**1,706**
Reinsurers' share of outstanding claims including reinsurers' IBNR	–	–	–	**194**	–	**194**
	2,235	**1,343**	**1,878**	**194**	**30**	**5,680**

2013	AAA £'000s	AA £'000s	A £'000s	<A £'000s	NR £'000s	Total £'000s
Financial investments:						
Other financial investments	2,235	1,708	547	61	69	4,620
Overseas deposits	–	56	167	–	–	223
Cash at bank and in hand	–	–	1,552	–	–	1,552
Reinsurers' share of outstanding claims including reinsurers' IBNR	–	–	216	–	–	216
	2,235	1,764	2,482	61	69	6,611

The largest potential reinsurance credit exposure to the syndicate at 31 December 2014 was 40.5% with a B rated security (2013: 38.7% B rated security). The Reinsurance Security Committee of the managing agent reviews the level of this exposure and takes appropriate action where necessary.

An aged analysis of financial assets past due is shown below.

2014	Fully performing £'000s	Past due £'000s	Impairment £'000s	Total £'000s
Financial investments:				
Other financial investments	**3,589**	–	–	**3,589**
Overseas deposits	**191**	–	–	**191**
Cash at bank and in hand	**1,706**	–	–	**1,706**
Insurance receivables	**15,030**	**1,295**	–	**16,325**
Reinsurance assets	–	**42**	–	**42**
	20,516	**1,337**	–	**21,853**

2013	Fully performing £'000s	Past due £'000s	Impairment £'000s	Total £'000s
Financial investments:				
Other financial investments	4,620	–	–	4,620
Overseas deposits	223	–	–	223
Cash at bank and in hand	1,552	–	–	1,552
Insurance receivables	13,285	1,977	–	15,262
Reinsurance assets	8	620	–	628
	19,688	2,597	–	22,285

For assets to be classified as past-due the contractual payments are in arrears by more than 30 days. An impairment adjustment is recorded in the profit and loss account for assets impaired. The syndicate operates mainly on a 'neither past-due nor impaired basis' and when evidence is available, sufficient collateral will be obtained for 'past-due and impaired' assets. An impairment assessment will also be performed if applicable.

Liquidity risk

For details of the management of the syndicate's liquidity risks please refer to page 27.

The following table analyses the significant monetary assets into their relevant maturity groups based on the remaining period at the year end date to their contractual maturities or expected settlement dates. The financial instruments can be realised at any time, but the table presents their maturity profiles should they continue to be held. There are no monetary liabilities.

2014	Up to 1 year £'000s	1–3 years £'000s	3–5 years £'000s	Over 5 years £'000s	Total £'000s
Assets:					
Financial investments	**3,424**	**127**	**3**	**35**	**3,589**
Overseas deposits	**191**	–	–	–	**191**
Cash at bank and in hand	**1,706**	–	–	–	**1,706**
Insurance receivables	**16,325**	–	–	–	**16,325**
	21,646	**127**	**3**	**35**	**21,811**

2013	Up to 1 year £'000s	1–3 years £'000s	3–5 years £'000s	Over 5 years £'000s	Total £'000s
Assets:					
Financial investments	3,044	1,456	43	77	4,620
Overseas deposits	223	–	–	–	223
Cash at bank and in hand	1,552	–	–	–	1,552
Insurance receivables	15,262	–	–	–	15,262
	20,081	1,456	43	77	21,657

Foreign currency market risk

For further details of the management of the syndicate's market risk please refer to page 27.

The syndicate maintains bank accounts, investment portfolios and claims reserves in pounds sterling and US dollars (the Lloyd's closing currencies), additionally, bank accounts and investment portfolios are maintained in Euros. Transactions arising in other currencies are translated to the Lloyd's closing currencies as they occur with only small amounts of other currencies being held for regulatory purposes. The syndicate's financial assets are therefore denominated in the same currencies as its insurance liabilities and thus the developing profit or loss that remains embedded within the syndicate gives rise to the main currency exposure. The profit or loss is distributed, or settled, in accordance with Lloyd's rules using a combination of pounds sterling and US dollars after deduction of the member level charges, the most material adjustment being the US dollar tax liability.

Foreign currency liquidity and exposure for the syndicate is the responsibility of the Finance Director. Strategy is agreed by the Finance Group and ratified by the Investment Committee. The syndicate currency exposure and future cash flows are monitored by currency and potential exposures and shortfalls addressed by foreign currency transactions or cash calls on members.

A sizeable proportion of the syndicate's business is written in currencies other than pounds sterling, in particular US dollars. The syndicate's business is therefore exposed to changes in exchange rates and there is no guarantee that foreign currency risk mitigation initiatives which the syndicate undertakes will be successful in preventing any losses due to such changes.

Exchange rate sensitivity analysis

The analysis below is performed for possible movements in key variables, with all other variables held constant, showing the impact on the result. The correlation of variables will have a significant effect in determining the ultimate impact. However, to isolate and demonstrate the effect due to changes in variables, each variable has been changed on an individual basis. It should be noted that movements in these variables are non-linear.

The following table shows the impact on the result and members' balances of a ten percent movement in the US dollar to pounds sterling exchange rate.

	2014 £'000s	2013 £'000s
10% increase in USD	**(148)**	(277)
10% decrease in USD	**181**	338

Interest rate market risk

For further details of the management of the syndicate's market risk please refer to page 27.

The syndicate holds investments in its balance sheet, and the performance of its investment portfolio may have an effect on the result. The income derived by the syndicate from its investments, and the capital value of its investments, may fall as well as rise. Therefore, changes in interest rates, credit ratings and other economic variables could substantially affect the syndicate's profitability.

Interest rate sensitivity analysis

The analysis below is performed for possible movements in key variables with all other variables held constant, showing the impact on the result. The correlation of variables will have a significant effect in determining the ultimate impact. However, to isolate and demonstrate the effect due to changes in variables, each variable has been changed on an individual basis. It should be noted that movements in these variables are non-linear.

The table below shows the estimated impact on the result and members' balances of a 1% movement in the US and Euro interest rates on the market value of the syndicate's investments.

	2014 £'000s	2013 £'000s
1% movement in the US interest rates	**7**	27
1% movement in the Euro interest rates	–	–

c) Fair value estimation

Financial instruments that are fair valued through profit and loss are classified using a fair value hierarchy that reflects the significance of the inputs used in these measurements.

- Level 1 financial instruments comprise government bonds and securities which have been valued at fair value using quoted prices in an active market.
- Level 2 financial instruments are less regularly traded government agency bonds, supranational bonds, corporate bonds and currency derivatives. These fair values have been derived from quoted prices.
- The fair value for level 3 financial instruments is generally derived from inputs that are not based on observable market data. Level 3 securities include structured instruments the fair value of which are based on prices supplied by Thomson Reuters which utilise cashflow, credit and pricing assumptions.

2014	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Government securities	**1,078**	–	–	**1,078**
Debt securities	–	**2,510**	–	**2,510**
Deposits with credit institutions	**1**	–	–	**1**
	1,079	**2,510**	–	**3,589**

2013	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Government securities	854	–	–	854
Debt securities	–	3,758	4	3,762
Deposits with credit institutions	4	–	–	4
	858	3,758	4	4,620

Level 3 financial instruments	2014 £'000s	2013 £'000s
Opening balance	**4**	–
Transfer into level 3	–	10
Transfer out of level 3	**(4)**	–
Sales during the year	–	(6)
Closing balance	–	4

Annual report and accounts 2014

For Syndicates 510, 557 and 308 managed by Tokio Marine Kiln Syndicates Limited

Underwriting year accounts for the closed year of account 2012

Report of the directors of the managing agent

The managing agent presents its report at 31 December 2014 for the 2012 closed year of account for the following syndicates:

Tokio Marine Kiln Combined Syndicate 510 - Composite
Tokio Marine Kiln Catastrophe Syndicate 557 - Non-marine
Tokio Marine Kiln Life Syndicate 308 - Life

This report is prepared in accordance with the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005). It accompanies the underwriting year accounts prepared on an underwriting year basis of accounting as required by Statutory Instrument No. 1950 of 2008, Regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

2012 closed year of account

The 2012 year of account closed for Tokio Marine Kiln syndicates with the following results:

510	£'000s	% of capacity
Profit after standard personal expenses	**90,430**	**8.51**

The underwriting surplus (excluding investment return and operating expenses, other than acquisition costs) attributable to the reinsurance to close (RITC) of the 2011 year of account was £31,226,360.

557	£'000s	% of capacity
Profit after standard personal expenses	**3,274**	**5.82**

The underwriting surplus (excluding investment return and operating expenses, other than acquisition costs) attributable to the RITC of the 2011 year of account was £714,323.

308	£'000s	% of capacity
Profit after standard personal expenses	**1,418**	**6.30**

The underwriting surplus (excluding investment return and operating expenses, other than acquisition costs) attributable to the RITC of the 2011 year of account was £290,830.

The underwriters' reports on pages 10 to 18 and the report of the directors of the managing agent on pages 24 to 29 provide further commentary.

Disclosure of information to the auditors

As far as each person who was a director of the managing agent at the date of approving this report is aware, there is no relevant audit information, which is information needed by the auditors in connection with their report, of which the auditors are unaware. Having made enquiries of fellow directors of the managing agent and the syndicates' auditors, each director has taken all the steps that they are obliged to take as a director in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Reappointment of auditors

The Board approved the reappointment of PricewaterhouseCoopers LLP as auditors on an ongoing basis for the managed syndicates, managing agent and other Tokio Marine Kiln Group entities.

Approved by the Board of directors

Fiona Molloy

Company Secretary
Tokio Marine Kiln Syndicates Limited
16 March 2015

Statement of managing agent's responsibilities

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ('2008 Regulations') require the managing agent to prepare syndicate underwriting year accounts at 31 December in respect of any underwriting year which is being closed by RITC which give a true and fair view of the result of the underwriting year at closure. Detailed requirements in respect of the underwriting year accounts are set out in the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

In preparing the syndicate underwriting year accounts, the managing agent is required to:

- select suitable accounting policies which are applied consistently and where there are items which affect more than one year of account, ensure a treatment which is equitable between the members of the syndicate affected. In particular, the amount charged by way of premium in respect of the RITC shall, where the reinsuring members and reinsured members are members of the same syndicate for different years of account, be equitable between them, having regard to the nature and amount of the liabilities reinsured;
- take into account all income and charges relating to a closed year of account without regard to the date of receipt or payment;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the underwriting year accounts.

The managing agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of each syndicate and enable it to ensure that each syndicate underwriting year accounts comply with the 2008 Regulations. It is also responsible for safeguarding the assets of each syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The managing agent is responsible for the maintenance and integrity of the corporate and financial information included on its website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors of the managing agent confirm that they have complied with the above requirements in preparing the syndicate underwriting year accounts.

Notes and principal accounting policies applying to all syndicates

as at 31 December 2014

1. Basis of preparation

These underwriting year accounts have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, the Lloyd's Syndicate Accounting Byelaw (No.8 of 2005) and applicable Accounting Standards in the United Kingdom and comply with the Statement of Recommended Practice on Accounting for Insurance Business issued in December 2005 (as amended in December 2006) by the Association of British Insurers, as applicable, with the exception of foreign exchange that is recognised in the technical account.

Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These underwriting year accounts relate to the 2012 year of account which has been closed by RITC as at 31 December 2014. Consequently the balance sheet represents the assets and liabilities of the 2012 year of account at the date of closure. The profit and loss account and cash flow statement reflect the transactions for that year of account during the three year period until closure.

These underwriting year accounts cover the three years from the date of inception of the 2012 year of account to the date of closure. Accordingly, this is the only reporting period and so comparative amounts are not shown.

2. Accounting policies

The underwriting accounts for each year of account are normally kept open for three years before the result for that year is determined. At the end of the three year period, outstanding liabilities can normally be determined with sufficient accuracy to permit the year of account to be closed by payment of a RITC premium to the successor year of account.

a) Inwards and outwards premiums written

Gross premiums are allocated to years of account on the basis of the inception date of the policy. Premiums in respect of insurance contracts underwritten under a binding authority, line slip or consortium arrangement are allocated to the year of account corresponding to the calendar year of inception of the arrangement. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing the difference between the written and signed premium, this difference is held on the balance sheet as an asset.

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards business being reinsured.

Reinstatement premiums arise when a loss has been incurred on a policy and there is a clause which allows the reinstatement of the policy with the payment of a further premium by the policyholder. Reinstatement premiums payable or recoverable in the event of a claim being made are charged to the same year of account as that to which the underlying loss is allocated.

Single premium life contracts consist of those contracts under which there is no expectation of continuing premiums being paid at regular intervals. Additional single premiums paid in respect of existing individuals' contracts are also included within single premiums.

Periodic premium life contracts include those contracts under which premiums are payable at regular intervals during the policy year, including repeated or recurrent single premiums where the level of premiums is defined.

b) Claims paid and related recoveries

Gross claims paid include internal and external claims settlement expenses and, together with reinsurance recoveries less amounts provided for in respect of doubtful reinsurers, are attributed to the same year of account as the original premium for the underlying policy.

An estimate of the future cost of indirect claims handling is calculated as a percentage of the claims reserves held at the balance sheet date.

The net RITC premium is determined on the basis of estimated outstanding liabilities and related claims settlement costs, including claims Incurred But Not Reported (IBNR), net of estimated collectible reinsurance recoveries and net of future net premium, relating to the closed year of account and all previous years of account reinsured therein.

The estimate of claims outstanding is assessed on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date. It also includes the estimated cost of claims IBNR at the balance sheet date based on statistical methods.

These methods generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions. The amount of salvage and subrogation recoveries is separately identified and where material, reported as an asset.

The reinsurers' share is based on the amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. A number of statistical methods are used to assist in making these estimates.

The two most critical assumptions regarding claims estimates are that the past is a reasonable predictor of the likely level of claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

The directors consider that the estimates of gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, it is implicit in the estimation procedure that the ultimate liabilities will be at variance from the RITC premium so determined.

c) Foreign currencies

Income and expenses, other than RITC premium receivable, in US dollars and Canadian dollars are re-measured into pounds sterling at the rates prevailing at the balance sheet date. RITC premium receivable and underwriting transactions denominated in other foreign currencies are included at the rate of exchange prevailing at the transaction date.

Where currency transactions are entered into by a syndicate relating to the settlement of the profit or loss of the closed underwriting account after 31 December, any exchange profit or loss arising is reflected in the underwriting account into which the liabilities of that year have been reinsured. Where currency transactions relating to the profit or loss of a closed underwriting account are entered into by members on that year (or by Lloyd's on behalf of the members), any exchange profit or loss accrues to those members.

For business written in currencies other than pounds sterling, assets and liabilities are re-measured into pounds sterling at the rates of exchange at the balance sheet date. Differences arising on re-measurement of foreign currency amounts in syndicates are included in the technical account.

d) Investments

The syndicates classify their financial assets into 'shares and other variable-yield securities' and 'debt securities and other fixed-income securities' – both at fair value through profit and loss. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

A financial asset is classified into these categories as fair value through profit and loss at inception if it is acquired principally for the purpose of selling in the short-term, if it forms part of a portfolio of financial assets in which there is evidence of short-term profit-taking, or if so designated by management to minimise any measurement or recognition inconsistency with the associated liabilities.

Financial assets designated as at fair value through profit and loss at inception are those that are managed and whose performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to key management personnel. The investment strategy is to invest in listed government and corporate bonds, fixed interest rate debt securities and derivatives designated upon initial recognition as fair value through profit and loss.

The fair values of financial instruments traded in active markets are based on quoted bid prices on the balance sheet date and include interest accrued at that date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The syndicates do not hold any financial instruments that are not traded in an active market (for example, unlisted equities).

Net gains or losses arising from changes in the fair value of financial assets classified as fair value through profit and loss are presented in the profit and loss account within 'unrealised gains on investments' or 'unrealised losses on investments' in the period in which they arise.

e) Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value are recognised immediately in the profit and loss account. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

f) Investment return

Investment return comprises all investment income, realised investment gains and losses, and movements in unrealised gains and losses, net of investment expenses, charges and interest. The returns on the Joint Asset Trust Funds and Illinois Deposit are allocated to the year of account as notified by Lloyd's. The returns on other assets arising in a calendar year are apportioned to years of account open during the calendar year in proportion to the average funds available for investment on each year of account.

Realised gains and losses, on investments carried at fair value through profit and loss are calculated as the difference between sale proceeds and purchase price or where forming consideration for RITC receivable the fair value at the date of transfer. Movements in unrealised gains and losses on investments represent the difference between the fair value at the balance sheet date and their purchase price or their fair value at transfer as consideration for RITC receivable, together with the reversal of unrealised gains and losses recognised in the accounting period in respect of investment disposals.

Investment return on general business is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account. Investment return has been wholly allocated to the technical account as all investments relate to the technical account. Investment return on long-term business is recorded directly in the technical account.

g) Operating expenses

Where expenses are incurred by, or on behalf of, the managing agent on the administration of Syndicates 510, 557 and 308, these expenses are apportioned using varying methods depending on the type of expense. Expenses which are incurred jointly for the Tokio Marine Kiln Group of companies and managed syndicates are apportioned between the Tokio Marine Kiln Group companies and the syndicates on bases depending on the amount of work performed, resources used and the volume of business transacted. Syndicate operating expenses are allocated to the year of account for which they are incurred.

h) Taxation

Under Schedule 19 of the Finance Act 1993 the syndicates do not pay UK taxation, their profits being allocated and assessed to tax on their members in direct proportion to their capacity.

The syndicates pay various overseas direct and premium based taxes, the majority of which are allocable to their members in direct proportion to their capacity and which can be claimed by members either as double tax relief or as an expense against tax liabilities.

i) Pension costs

Tokio Marine Kiln Syndicates Limited operates a defined contribution scheme. Pension contributions relating to syndicate staff are charged to the syndicates and included within net operating expenses.

Tokio Marine Kiln Syndicates Limited also operates a defined benefit scheme through the R J Kiln & Co. Limited Pension and Assurance Scheme (closed to future benefit accruals from 1 May 2003). The level of funding is agreed between the Tokio Marine Kiln Group of companies and the scheme actuary. This annual funding contribution is charged as a syndicate expense when incurred.

An algorithm is used to allocate the annual funding charge to Tokio Marine Kiln Group entities and Syndicates 510, 557 and 308. The algorithm was based on the working patterns of the scheme's active members as at the date of the closure of the scheme. The algorithm is also used to allocate the charges and benefits which are allocated to years of account on an equitable basis and are included within net operating expenses.

j) Profit commission

Profit commission is charged by the managing agent at a rate of 12.5% of profit for Syndicate 510 and 17.5% for Syndicates 557 and 308, subject to the operation of a two year deficit clause. Syndicate 510's profit commission is also subject to a deficit brought across as a result of the acceptance of the RITC of Syndicate 807's 2011 and prior years of account. This deficit was scaled in proportion to the externally calculated merger ratio and is applicable for up to two years. Where profit commission is charged, it is included within members' standard personal expenses. Syndicate 510's profit commission is calculated after the deduction of a 5% divisional profit share payable to underwriting staff, again subject to the operation of a divisional two year deficit clause. Final settlement is made when the year of account closes; normally at 36 months. Divisional profit share does not become payable until after the appropriate year of account closes; normally at 36 months.

k) Seven year summary – unaudited

The seven year summary has been prepared from the audited accounts of the syndicates. For the illustrative share, gross and net premiums after reinsurance are stated net of brokerage and commissions. Syndicate operating expenses includes members' standard personal expenses and administrative expenses. Investment expenses for all years of account have been deducted from investment return and are not included in syndicate operating expenses. Personal expenses have been stated at the amount which would be incurred pro rata by individual Names writing the illustrative premium income in the syndicate irrespective of any minimum charge applicable. Corporate members may be charged at different rates. Foreign tax, which may be treated as a credit for personal tax purposes has been excluded. Where necessary, the results have been adjusted to comply with the current underwriting year accounting policies of the syndicate. The adjustments arising are not material and have not been separately disclosed.

Annual report and accounts 2014

For Syndicates 510, 557 and 308 managed by Tokio Marine Kiln Syndicates Limited

Underwriting year accounts for the 2012 closed year of account

Syndicate 510

Tokio Marine Kiln Combined Syndicate

Composite

Independent auditors' report to the members of Syndicate 510 on the 2012 closed underwriting year of account

Our opinion

In our opinion the syndicate underwriting year accounts, defined below:

- give a true and fair view of the state of the syndicate's affairs for the 2012 closed year of account and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and have been properly prepared in accordance with the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

What we have audited

The syndicate underwriting year accounts for the 2012 year of account of Syndicate 510 for the three years ended 31 December 2014, which are prepared by the managing agent, comprise:

- the profit and loss account for the year then ended;
- the balance sheet as at 31 December 2014;
- the cash flow statement;
- the statement of accounting policies; and
- the notes to the syndicate underwriting year accounts, which include other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (UK GAAP).

In applying the financial reporting framework, the managing agent has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Other matters on which we are required to report by exception

Under the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) we are required to report to you if, in our opinion:

- the managing agent in respect of the syndicate has not kept proper accounting records; or
- the syndicate underwriting year accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Responsibilities for the syndicate underwriting year accounts and the audit – our responsibilities and those of the managing agent

As explained more fully in the statement of managing agent's responsibilities set out on page 105, the managing agent is responsible for the preparation of the syndicate underwriting year accounts, under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and in accordance with the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005), and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the syndicate underwriting year accounts in accordance with applicable legal and regulatory requirements and International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the syndicate's members as a body in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of syndicate underwriting year accounts involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the syndicate underwriting year accounts sufficient to give reasonable assurance that the syndicate underwriting year accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the syndicate's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the managing agent; and
- the overall presentation of the syndicate underwriting year accounts.

We primarily focus our work in these areas by assessing the Managing Agent's judgements against available evidence, forming our own judgements, and evaluating disclosures in the syndicate underwriting year accounts. We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited syndicate underwriting year accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Mark Bolton
Senior Statutory Auditor
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
16 March 2015

Profit and loss account: technical account – general business

for the 36 months ended 31 December 2014

	Note	2012 £'000s
Syndicate allocated capacity		1,062,272
Earned premiums, net of reinsurance		
Gross premiums written	1	1,168,494
Outward reinsurance premiums		(261,764)
Earned premiums, net of reinsurance		906,730
Reinsurance to close premium receivable, net of reinsurance	2	374,928
Allocated investment return transferred from the non-technical account		9,286
Claims incurred, net of reinsurance		
Claims paid:		
Gross amount		(576,988)
Reinsurers' share		137,171
Reinsurance to close premium payable, net of reinsurance	3	(426,182)
Claims incurred, net of reinsurance		(865,999)
Members' standard personal expenses		(26,068)
Net operating expenses	4,5,6	(308,447)
Balance on the technical account for general business	7	90,430

Profit and loss account: non-technical account

for the 36 months ended 31 December 2014

	Note	2012 £'000s
Balance on the general business technical account		90,430
Investment income	8	16,124
Investment expenses and charges	8	(3,563)
Net unrealised losses on investments	8	(3,275)
Allocated investment return transferred to the general business technical account	8	(9,286)
Profit for the 2012 closed year of account		90,430

There are no recognised gains or losses in the accounting period other than those dealt with in the technical and non-technical accounts.

Balance sheet

for the 2012 closed year of account as at 31 December 2014

Assets	Note	2012 £'000s
Investments		
Other financial investments	9	347,989
Deposits with ceding undertakings		45
Debtors	10	141,347
Reinsurance recoveries anticipated on gross reinsurance to close premium payable to close the account	3	116,089
Other assets		
Cash at bank and in hand		11,607
Other	11	77,074
Prepayments and accrued income		543
Total assets		694,694

Liabilities	Note	2012 £'000s
Amounts due to members	12	50,813
Reinsurance to close premium payable to close the account – gross amount	3	542,271
Deposits received from reinsurers		810
Creditors	13	100,640
Accruals and deferred income		160
Total liabilities		694,694

The underwriting year accounts, which comprise pages 111 to 123 and the notes and principal accounting policies applicable to all syndicates on pages 106 to 108, were approved by the Board of Tokio Marine Kiln Syndicates Limited on 11 March 2015 and were signed on its behalf by

James Dover

Finance Director
Tokio Marine Kiln Syndicates Limited
16 March 2015

Cash flow statement

for the 36 months ended 31 December 2014

	Note	2012 £'000s
Net cash inflow from operating activities	14	145,014
Transfers to members in respect of underwriting participations	12	(35,926)
Financing:		
Members' agents' fees paid on behalf of members	12	(3,691)
Net cash flows		105,397
Cash flows were invested as follows:		
Increase in cash holdings	15	11,451
(Decrease) in deposits	15	(135)
Net portfolio investments	15,16	94,081
Net investment of cash flows		105,397

Notes to the accounts

for the 36 months ended 31 December 2014

1. Segmental analysis

An analysis of the underwriting result before investment return is set out below:

	Gross premiums written (notes i & iv) £'000s	Gross claims incurred (note ii) £'000s	Gross operating expenses £'000s	Reinsurance balance (note iii) £'000s	Total £'000s
Division:					
Property & Special Lines	553,441	(311,727)	(205,310)	(11,882)	24,522
Marine & Special Risks	220,515	(133,291)	(63,634)	(8,885)	14,705
Reinsurance	177,095	(102,638)	(34,662)	(43,281)	(3,486)
Aviation	64,337	(29,244)	(21,659)	(4,211)	9,223
Accident & Health	113,461	(58,805)	(43,205)	(4,188)	7,263
Enterprise Risk	39,645	(22,287)	(16,722)	(2,945)	(2,309)
	1,168,494	(657,992)	(385,192)	(75,392)	49,918
RITC received	491,194	(461,267)	–	1,299	31,226
	1,659,688	(1,119,259)	(385,192)	(74,093)	81,144

Of the above divisions the following have accepted inwards reinsurance business: Reinsurance (100%); Aviation (35.3%); Accident & Health (27.4%); Marine & Special Risks (27.4%); Property & Special Lines (15.4%) and Enterprise Risk (9.7%).

i. Gross premiums earned are identical to gross premiums written.

ii. Gross claims incurred comprise gross claims paid and gross RITC premium payable.

iii. The reinsurance balance comprises reinsurance recoveries on claims paid, reinsurance recoveries anticipated on RITC payable, reinsurance commissions receivable less reinsurance premiums ceded and reinsurance recoveries anticipated on RITC receivable.

iv. All premiums are concluded in the UK.

The geographical analysis of premium by location of the client is as follows:

	£'000s
UK	583,129
Other EU countries	111,008
US	438,088
Other	527,463
	1,659,688

2. Reinsurance to close premium receivable

	£'000s
Gross reinsurance to close premium receivable	491,194
Reinsurance recoveries anticipated	(116,266)
	374,928

The reinsurance to close premium receivable includes £33,119,116 relating to the reinsurance to close for Syndicate 807, which reinsured into Syndicate 510's 2012 year of account.

3. Reinsurance to close premium payable

	£'000s
Gross notified outstanding claims	350,318
Reinsurance recoveries anticipated	(85,649)
Net notified outstanding claims	264,669
Provision for gross claims IBNR	191,953
Reinsurance recoveries anticipated on IBNR	(30,440)
Provision for net IBNR	161,513
	426,182

The reinsurance to close is effected to the 2013 year of account of Syndicate 510.

4. Net operating expenses

	£'000s
Acquisition costs	303,512
Administrative expenses	55,668
(Profit) on exchange	(56)
Gross operating expenses	359,124
Reinsurance commissions and profit participations	(50,677)
	308,447

Included within administrative expenses is auditors' remuneration:

	£'000s
Audit services:	
Fees payable to the syndicate's auditors for the audit of the syndicate accounts	141
Other services:	
Other services pursuant to legislation	99
	240

The charge incurred for other services is wholly and exclusively in relation to the audit and review of the syndicate's regulatory returns.

5. Staff numbers and costs

Staff were employed by Tokio Marine Kiln Insurance Services Limited. The following amounts were recharged to the 2012 year of account in respect of salary costs and are included within administrative expenses:

	£'000s
Wages, salaries and social security costs	19,664
Other pension costs	1,138
	20,802

Of this amount £60,237 was paid as consulting fees to other Tokio Marine Group companies in respect of staff working on the syndicate with the remainder recharged to the syndicate by Tokio Marine Kiln Insurance Services Limited.

The average number of full-time employees working for the syndicate on the 2012 year of account was as follows:

Administration and finance	100
Underwriting	84
Claims	32
	216

Where staff work for more than one syndicate the time is allocated based on the proportion of time spent. The relevant percentage of full-time employees is applied in the table above. Of this number 215 were employed by Tokio Marine Kiln Insurance Services Limited and the remainder by other Tokio Marine Group companies.

6. Emoluments of the directors and Active Underwriters

The Tokio Marine Kiln Group of companies operate a bonus pooling arrangement such that profit-related pay is generated from the managing agency profit commission, the group's share of the underwriting result through its corporate member Kiln Underwriting Limited, and additionally through a proportion of the underwriting result of the corporate member Tokio Marine Underwriting Limited whose participations are managed by Tokio Marine Kiln Syndicates Limited. A considerable portion of the profit-related pay is therefore borne by other Tokio Marine Kiln Group entities. The directors of Tokio Marine Kiln Syndicates Limited received the following aggregate remuneration in relation to their work on the syndicate, of which £834,026 was charged as an expense to the 2012 year of account:

	£'000s
Emoluments	1,587

The Active Underwriters received the following remuneration charged to the 2012 year of account as a syndicate expense:

	£'000s
Emoluments	2,835

7. Analysis of technical result

	2011 & prior years of account £'000s	2012 pure year of account £'000s	Total 2012 £'000s
Technical account balance excluding investment return and operating expenses	31,226	384,433	415,659
Brokerage and commission on gross premium	–	(303,512)	(303,512)
Reinsurance commissions receivable	–	50,677	50,677
	31,226	131,598	162,824
Allocated investment return transferred from the non-technical account	–	9,286	9,286
Net operating expenses other than acquisition costs	–	(81,680)	(81,680)
	31,226	59,204	90,430

All acquisition costs are attributable to business allocated to the 2012 pure year of account.

8. Investment income and expenses

	£'000s
Investment income:	
Income from investments	15,663
Realised gains on investments	461
Unrealised gains on investments	1,191
Investment expenses:	
Investment management expenses, including interest	(784)
Realised losses on investments	(2,779)
Unrealised losses on investments	(4,466)
	9,286

9. Other financial investments

	Fair value £'000s	Purchase price £'000
Shares and other variable yield securities	26,882	26,851
Debt securities and other fixed income securities	320,757	321,233
Deposits with credit institutions	162	162
Other investments	188	–
	347,989	348,246

All financial instruments are designated as fair value through profit or loss upon initial recognition.

Other investments are comprised of forward currency contracts and a futures initial margin fund.

The syndicate manages the foreign exchange risk posed by writing insurance policies in certain regions by using forward currency contracts. The total notional value of these contracts at 31 December 2014 was £8,889,840.

10. Debtors

	£'000s
Due within one year:	
Arising out of direct insurance operations:	
Due from intermediaries	45,693
Inter-year loans	3,012
Arising out of reinsurance operations	76,670
Other debtors	7,723
	133,098
Due after one year:	
Arising out of reinsurance operations	163
Other debtors	8,086
	8,249
	141,347

11. Other assets

Other assets comprise overseas deposits which are lodged as a condition of conducting underwriting business in certain countries.

12. Amounts due to members

	£'000s
Profit for the 2012 closed year of account	90,430
Early profit release to members	(35,926)
Members' agents' fee advances	(3,691)
Amounts due to members at 31 December 2014	50,813

13. Creditors

	£'000s
Due within one year:	
Arising out of direct insurance operations:	
Due to intermediaries	32,469
Arising out of reinsurance operations	52,955
Other creditors	15,068
	100,492
Due after one year:	
Arising out of reinsurance operations	148
	100,640

14. Reconciliation of profit for the year of account to net cash inflow from operating activities

	£'000s
Profit for the closed year of account on ordinary activities	90,430
Realised and unrealised investment (gains) including foreign exchange	(3,788)
Net RITC premium payable	426,182
Non-cash consideration for net RITC receivable	(374,928)
(Increase) in debtors	(23,044)
Increase in creditors	30,162
Net cash inflow from operating activities	145,014

Consideration for net RITC receivable comprised:

	£'000s
Non-cash consideration:	
Portfolio investments	249,923
Deposits	76,797
Debtors	118,846
Creditors	(70,638)
	374,928
Cash	–
	374,928

15. Movement in opening and closing portfolio investments net of financing

	£'000s
Net cash inflow for the 36 months	11,451
Cash flow:	
Deposits	(135)
Portfolio investments	94,081
Movement arising from cash flows	105,397
Received as consideration for net RITC receivable	326,720
Changes in market value and exchange rates	3,788
Total movement in portfolio investments	435,905
Portfolio at 1 January 2012	–
Portfolio at 31 December 2014	435,905

Movement in cash, portfolio investments and financing

	At 1 January 2012 £'000s	Cash flow £'000s	Received as consideration for RITC £'000s	Changes to market value and exchange rates £'000s	At 31 December 2014 £'000s
Cash at bank and in hand	–	11,451	–	156	11,607
Shares and other variable yield securities	–	1,563	25,226	93	26,882
Debt securities and other fixed income securities	–	92,168	224,697	3,892	320,757
Deposits with credit institutions	–	163	–	(1)	162
Other investments	–	187	–	1	188
Total portfolio investments	–	94,081	249,923	3,985	347,989
Deposits with ceding undertakings	–	(371)	419	(3)	45
Overseas deposits	–	238	77,174	(338)	77,074
Deposits received from reinsurers	–	(2)	(796)	(12)	(810)
Total cash, portfolio investments and financing	–	105,397	326,720	3,788	435,905

16. Net cash (outflow) from portfolio investments

	£'000s
Shares and other variable yield securities	(1,563)
Purchase of debt securities and other fixed income securities	(796,807)
Sale of debt securities and other fixed income securities	704,639
Deposits with credit institutions	(163)
Other investments	(187)
Net cash (outflow) from portfolio investments	(94,081)

17. Related parties

Syndicate 510 accepted inwards reinsurance business from, and placed outwards reinsurance business with, other Tokio Marine Group entities including Syndicate 1880, that are deemed to be related parties of Tokio Marine Kiln Syndicates Limited by virtue of the shareholding in Tokio Marine Kiln Group Limited by Tokio Marine Holdings, Inc. Syndicate 557 and Syndicate 510 are considered to be related parties as Tokio Marine Kiln Syndicates Limited is the managing agent of both syndicates. All transactions between these entities were conducted at arm's length and on normal commercial terms.

Syndicate 510 accepted written premium from related parties for the 2012 year of account of £2,117,515. Net return premium of £93,375 was due to related parties at the period end. The outstanding claims, including an element of IBNR, were £126,721.

Written premiums ceded by Syndicate 510 to related parties for the 2012 year of account were £123,814,036. Paid recoveries from related parties during the period were £58,579,296. Unpaid recoveries at the period end amounted to £19,442,755 and future recoveries on outstanding claims, including an element of IBNR, were £23,870,362.

Treaty profit commission due to Syndicate 510 from related parties for the 2012 year of account was £66,970. Profit commission received from related parties during the period was £35,867. Profit commission receivable at the period end amounted to £32,897.

The syndicate received business through the following service and related companies whose investments are held ultimately by the managing agent: Tokio Marine Kiln Hong Kong Limited (100% owned), Tokio Marine Kiln Singapore Pte Limited (100% owned), Tokio Marine Kiln Regional Underwriting Limited (100% owned) and Ibex Insurance Services Limited (30% owned).

The syndicate also received business through Kiln Europe S.A. which is 100% owned by Tokio Marine Kiln Group Limited, WNC Insurance Services, Inc., whose parent WNC Holding Company, LP is 49% owned by Tokio Marine Kiln Group Limited and NAS Insurance Services, Inc. which is 49% owned by Tokio Marine Kiln Group Limited. Profit commission on inwards business of £323,306 was paid to related parties for the 2012 year of account and £134,857 of profit commission was payable at the period end.

Profit commission of £17,137,908 is payable by the syndicate to Tokio Marine Kiln Syndicates Limited in respect of profits for the 2012 year.

Managing agency fees of £7,714,480 were paid by the syndicate to Tokio Marine Kiln Syndicates Limited. In addition to this, expenses of £40,853,477 were paid to Tokio Marine Kiln Syndicates Limited for expenses paid on behalf of the syndicate.

The note on related parties on page 20 provides further information regarding all syndicates and related parties.

Seven year summary (unaudited)

	2006	2007	2008	2009	2010	2011	2012
Syndicate allocated capacity £m	624.19	733.72	587.52	629.65	922.53	922.31	1,062.27
Number of underwriting members	1,520	1,477	1,459	1,460	1,540	1,577	1,647
Aggregate net premiums £m	600.75	560.64	595.70	666.33	707.01	739.10	906.73
Result £m	159.98	96.96	98.66	119.93	24.88	69.05	90.43
Results for an illustrative share of £10,000							
Gross premiums written and earned	8,744	6,941	9,958	10,577	7,403	7,532	8,143
– as a percentage of allocated capacity	87%	69%	100%	106%	74%	75%	81%
Net premiums written and earned	6,857	5,574	7,346	7,811	5,548	5,778	6,156
– as a percentage of allocated capacity	69%	56%	73%	78%	55%	58%	62%
RITC from an earlier year of account	3,484	4,025	5,017	5,052	3,596	3,701	3,529
Net claims incurred	(4,165)	(4,434)	(6,190)	(5,194)	(4,586)	(4,261)	(4,140)
RITC the year of account	(4,731)	(4,017)	(5,483)	(5,269)	(3,700)	(3,706)	(4,012)
Underwriting result	1,445	1,148	690	2,400	858	1,512	1,533
Profit/(loss) on exchange	1,692	612	1,459	268	(106)	(120)	1
Syndicate operating expenses	(558)	(498)	(589)	(557)	(450)	(475)	(524)
Balance on the technical account	2,579	1,262	1,560	2,091	302	917	1,010
Investment return	574	473	531	264	155	90	87
Result before personal expenses	3,153	1,735	2,091	2,355	457	1,007	1,097
Illustrative personal expenses	(591)	(414)	(412)	(450)	(187)	(259)	(245)
Result	2,562	1,321	1,679	1,905	270	748	852

Annual report and accounts 2014

For Syndicates 510, 557 and 308 managed by Tokio Marine Kiln Syndicates Limited

Underwriting year accounts for the 2012 closed year of account

Syndicate 557

Tokio Marine Kiln Catastrophe Syndicate

Non-marine

Independent auditors' report to the members of Syndicate 557 on the 2012 closed underwriting year of account

Our opinion

In our opinion the syndicate underwriting year accounts, defined below:

- give a true and fair view of the state of the syndicate's affairs for the 2012 closed year of account and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and have been properly prepared in accordance with the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

What we have audited

The syndicate underwriting year accounts for the 2012 year of account of Syndicate 557 for the three years ended 31 December 2014, which are prepared by the managing agent, comprise:

- the profit and loss account for the year then ended;
- the balance sheet as at 31 December 2014;
- the cash flow statement;
- the statement of accounting policies; and
- the notes to the syndicate underwriting year accounts, which include other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (UK GAAP).

In applying the financial reporting framework, the managing agent has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Other matters on which we are required to report by exception

Under the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) we are required to report to you if, in our opinion:

- the managing agent in respect of the syndicate has not kept proper accounting records; or
- the syndicate underwriting year accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Responsibilities for the syndicate underwriting year accounts and the audit – our responsibilities and those of the managing agent

As explained more fully in the statement of managing agent's responsibilities set out on page 105, the managing agent is responsible for the preparation of the syndicate underwriting year accounts, under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and in accordance with the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005), and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the syndicate underwriting year accounts in accordance with applicable legal and regulatory requirements and International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the syndicate's members as a body in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of syndicate underwriting year accounts involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the syndicate underwriting year accounts sufficient to give reasonable assurance that the syndicate underwriting year accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the syndicate's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the managing agent; and
- the overall presentation of the syndicate underwriting year accounts.

We primarily focus our work in these areas by assessing the Managing Agent's judgements against available evidence, forming our own judgements, and evaluating disclosures in the syndicate underwriting year accounts. We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited syndicate underwriting year accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Mark Bolton
Senior Statutory Auditor
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
16 March 2015

Profit and loss account: technical account – general business

for the 36 months ended 31 December 2014

	Note	2012 £'000s
Syndicate allocated capacity		56,269
Earned premiums, net of reinsurance		
Gross premiums written	1	34,450
Outward reinsurance premiums		(6,390)
Earned premiums, net of reinsurance		28,060
Reinsurance to close premium receivable, net of reinsurance	2	18,726
Allocated investment return transferred from the non-technical account		511
Claims incurred, net of reinsurance		
Claims paid:		
Gross amount		(21,180)
Reinsurers' share		1,431
Reinsurance to close premium payable, net of reinsurance	3	(21,319)
Claims incurred, net of reinsurance		(41,068)
Members' standard personal expenses		(421)
Net operating expenses	4,5,6	(2,534)
Balance on the technical account for general business	7	3,274

Profit and loss account: non-technical account

for the 36 months ended 31 December 2014

	Note	2012 £'000s
Balance on the general business technical account		3,274
Investment income	8	1,073
Investment expenses and charges	8	(371)
Net unrealised losses on investments	8	(191)
Allocated investment return transferred to the general business technical account	8	(511)
Profit for the 2012 closed year of account		3,274

There are no recognised gains or losses in the accounting period other than those dealt with in the technical and non-technical accounts.

Balance sheet

for the 2012 closed year of account as at 31 December 2014

Assets	Note	2012 £'000s
Investments		
Other financial investments	9	23,618
Debtors	10	103
Reinsurance recoveries anticipated on gross reinsurance to close premium payable to close the account	3	1,852
Other assets		
Cash at bank and in hand		1,127
Other	11	30
Total assets		26,730

Liabilities	Note	2012 £'000s
Amounts due to members	12	2,823
Reinsurance to close premium payable to close the account – gross amount	3	23,171
Creditors	13	736
Total liabilities		26,730

The underwriting year accounts, which comprise pages 125 to 138 and the notes and principal accounting policies applicable to all syndicates on pages 106 to 108, were approved by the Board of Tokio Marine Kiln Syndicates Limited on 11 March 2015 and were signed on its behalf by

James Dover

Finance Director
Tokio Marine Kiln Syndicates Limited
16 March 2015

Cash flow statement

for the 36 months ended 31 December 2014

	Note	2012 £'000s
Net cash inflow from operating activities	14	5,913
Financing:		
Members' agents' fees paid on behalf of members	12	(451)
Net cash flows		5,462
Cash flows were invested as follows:		
Increase in cash holdings	15	1,129
(Decrease) in deposits	15	(27)
Net portfolio investments	15,16	4,360
Net investment of cash flows		5,462

Notes to the accounts

for the 36 months ended 31 December 2014

1. Segmental analysis

An analysis of the underwriting result before investment return is set out below:

	Gross premiums written (notes i & iv) £'000s	Gross claims incurred (note ii) £'000s	Gross operating expenses £'000s	Reinsurance balance (note iii) £'000s	Total £'000s
Reinsurance acceptances	34,450	(26,544)	(2,955)	(2,902)	2,049
RITC received	22,003	(17,807)	–	(3,482)	714
	56,453	(44,351)	(2,955)	(6,384)	2,763

i. Gross premiums earned are identical to gross premiums written.

ii. Gross claims incurred comprise gross claims paid and gross RITC premium payable.

iii. The reinsurance balance comprises reinsurance recoveries on claims paid, reinsurance recoveries anticipated on RITC payable, less reinsurance premiums ceded and reinsurance recoveries anticipated on RITC receivable.

iv. All premiums are concluded in the UK. The client location for all premiums is the UK.

2. Reinsurance to close premium receivable

	£'000s
Gross reinsurance to close premium receivable	22,003
Reinsurance recoveries anticipated	(3,277)
	18,726

3. Reinsurance to close premium payable

	£'000s
Gross notified outstanding claims	15,792
Reinsurance recoveries anticipated	(1,775)
Net notified outstanding claims	14,017
Provision for gross claims IBNR	7,379
Reinsurance recoveries anticipated on IBNR	(77)
Provision for net IBNR	7,302
	21,319

The reinsurance to close is effected to the 2013 year of account of Syndicate 557.

4. Net operating expenses

	£'000s
Acquisition costs	945
Administrative expenses	1,740
(Profit) on exchange	(151)
Gross operating expenses	2,534
Reinsurance commissions and profit participations	–
	2,534

Included within administrative expenses is auditors' remuneration:

	£'000s
Audit services:	
Fees payable to the syndicate's auditors for the audit of the syndicate accounts	27
Other services:	
Other services pursuant to legislation	19
	46

The charge incurred for other services is wholly and exclusively in relation to the audit and review of the syndicate's regulatory returns.

5. Staff numbers and costs

Staff were employed by Tokio Marine Kiln Insurance Services Limited. The following amounts were recharged to the 2012 year of account in respect of salary costs and are included within administrative expenses:

	£'000s
Wages, salaries and social security costs	1,060
Other pension costs	87
	1,147

Of this amount £4,154 was paid as consulting fees to other Tokio Marine Group companies in respect of staff working on the syndicate with the remainder recharged to the syndicate by Tokio Marine Kiln Insurance Services Limited.

The average number of full-time employees working for the syndicate on the 2012 year of account was as follows:

Administration and finance	8
Underwriting	2
Claims	1
	11

Where staff work for more than one syndicate the time is allocated based on the proportion of time spent. The relevant percentage of full-time employees is applied in the table above. Of this number, the equivalent of less than one full-time employee was employed by other Tokio Marine Group companies.

6. Emoluments of the directors and Active Underwriter

The Tokio Marine Kiln Group of companies operate a bonus pooling arrangement such that profit-related pay is generated from the managing agency profit commission, the group's share of the underwriting result through its corporate member Kiln Underwriting Limited, and additionally through a proportion of the underwriting result of the corporate member Tokio Marine Underwriting Limited whose participations are managed by Tokio Marine Kiln Syndicates Limited. A considerable portion of the profit-related pay is therefore borne by other Tokio Marine Kiln Group entities. The directors of Tokio Marine Kiln Syndicates Limited received the following aggregate remuneration in relation to their work on the syndicate, of which £35,969 was charged as an expense to the 2012 year of account:

	£'000s
Emoluments	50

The Active Underwriter received the following remuneration charged to the 2012 year of account as a syndicate expense:

	£'000s
Emoluments	57

7. Analysis of technical result

	2011 & prior years of account £'000s	2012 pure year of account £'000s	Total 2012 £'000s
Technical account balance excluding investment return and operating expenses	714	5,004	5,718
Brokerage and commission on gross premium	–	(945)	(945)
	714	4,059	4,773
Allocated investment return transferred from the non-technical account	–	511	511
Net operating expenses other than acquisition costs	–	(2,010)	(2,010)
	714	2,560	3,274

All acquisition costs are attributable to business allocated to the 2012 pure year of account.

8. Investment income and expenses

	£'000s
Investment income:	
Income from investments	961
Realised gains on investments	112
Unrealised gains on investments	111
Investment expenses:	
Investment management expenses, including interest	(40)
Realised losses on investments	(331)
Unrealised losses on investments	(302)
	511

9. Other financial investments

	Fair value £'000s	Purchase price £'000s
Shares and other variable yield securities	2,821	2,821
Debt securities and other fixed income securities	20,787	20,838
Deposits with credit institutions	2	2
Other investments	8	–
	23,618	23,661

All financial instruments are designated as fair value through profit or loss upon initial recognition.

Other investments are comprised of forward currency contracts and a futures initial margin fund.

The syndicate manages the foreign exchange risk posed by writing insurance policies in certain regions by using forward currency contracts. The total notional value of these contracts at 31 December 2014 was £8,275,065.

10. Debtors

	£'000s
Arising out of direct insurance operations:	
Inter-year loans	3
Arising out of reinsurance operations	98
Other debtors	2
	103

All amounts are due within one year.

11. Other assets

Other assets comprise overseas deposits which are lodged as a condition of conducting underwriting business in certain countries.

12. Amounts due to members

	£'000s
Profit for the 2012 closed year of account	3,274
Members' agents' fee advances	(451)
Amounts due to members at 31 December 2014	2,823

13. Creditors

	£'000s
Arising out of reinsurance operations	707
Other creditors	29
	736

All amounts are due within one year.

14. Reconciliation of profit for the year of account to net cash inflow from operating activities

	£'000s
Profit for the closed year of account on ordinary activities	3,274
Realised and unrealised investment (gains) including foreign exchange	(435)
Net RITC premium payable	21,319
Non-cash consideration for net RITC receivable	(18,726)
Decrease in debtors	552
(Decrease) in creditors	(71)
Net cash inflow from operating activities	5,913

Consideration for net RITC receivable comprised:

	£'000s
Non-cash consideration:	
Portfolio investments	18,821
Deposits	57
Debtors	655
Creditors	(807)
	18,726
Cash	–
	18,726

15. Movement in opening and closing portfolio investments net of financing

	£'000s
Net cash inflow for the 36 months	1,129
Cash flow:	
Deposits	(27)
Portfolio investments	4,360
Movement arising from cash flows	5,462
Received as consideration for net RITC receivable	18,878
Changes in market value and exchange rates	435
Total movement in portfolio investments	24,775
Portfolio at 1 January 2012	–
Portfolio at 31 December 2014	24,775

Movement in cash, portfolio investments and financing

	At 1 January 2012 £'000s	Cash flow £'000s	Received as consideration for RITC £'000s	Changes to market value and exchange rates £'000s	At 31 December 2014 £'000s
Cash at bank and in hand	–	1,129	–	(2)	1,127
Shares and other variable yield securities	–	(3,317)	6,121	17	2,821
Debt securities and other fixed income securities	–	7,667	12,700	420	20,787
Deposits with credit institutions	–	2	–	–	2
Other investments		8	–	–	8
Total portfolio investments	–	4,360	18,821	437	23,618
Overseas deposits	–	(27)	57	–	30
Total cash, portfolio investments and financing	–	5,462	18,878	435	24,775

16. Net cash (outflow) from portfolio investments

	£'000s
Shares and other variable yield securities	3,317
Purchase of debt securities and other fixed income securities	(45,597)
Sale of debt securities and other fixed income securities	37,930
Deposits with credit institutions	(2)
Other investments	(8)
Net cash (outflow) from portfolio investments	(4,360)

17. Related parties

Syndicate 557 is considered to be a related party of, and accepted inwards reinsurance business from Syndicate 510. All transactions with this entity were conducted at arm's length and on normal commercial terms.

Syndicate 557 accepted written premium from Syndicate 510 for the 2012 year of account of £34,449,908. The unpaid premiums due from Syndicate 510 at the period end were £358,440. The outstanding claims, including an element of IBNR, were £7,378,826. No business was ceded to related parties.

No profit commission is payable by the syndicate to Tokio Marine Kiln Syndicates Limited in respect of profits for the 2012 year due to the deficit clause evoked from losses on the 2010 year of account.

Managing agency fees of £421,456 were paid by the syndicate to Tokio Marine Kiln Syndicates Limited. In addition to this, expenses of £1,924,272 were paid to Tokio Marine Kiln Syndicates Limited for expenses paid on behalf of the syndicate.

The note on related parties on page 20 provides further information regarding all syndicates and related parties.

Seven year summary (unaudited)

	2006	2007	2008	2009	2010	2011	2012
Syndicate allocated capacity £m	54.68	119.67	119.34	119.44	119.54	59.87	56.27
Number of underwriting members	787	981	1,038	1,077	1,129	1,144	1,086
Aggregate net premiums £m	22.71	29.19	34.86	43.33	34.57	25.72	28.06
Result £m	22.09	19.88	17.08	18.42	(30.35)	6.12	3.27
Results for an illustrative share of £10,000							
Gross premiums written and earned	3,793	2,155	2,611	3,225	2,737	4,876	5,954
– as a percentage of allocated capacity	38%	22%	26%	32%	27%	49%	60%
Net premiums written and earned	3,196	1,904	2,300	2,810	2,349	4,151	4,819
– as a percentage of allocated capacity	32%	19%	23%	28%	23%	42%	48%
RITC from an earlier year of account	2,046	1,042	749	858	885	4,535	3,328
Net claims incurred	(151)	(330)	(905)	(815)	(3,264)	(4,150)	(3,510)
RITC the year of account	(2,280)	(746)	(859)	(886)	(2,271)	(3,128)	(3,789)
Underwriting result	2,811	1,870	1,285	1,967	(2,301)	1,408	848
Profit/(loss) on exchange	1,604	212	401	(29)	(53)	(43)	27
Syndicate operating expenses	(242)	(98)	(178)	(161)	(171)	(332)	(309)
Balance on the technical account	4,173	1,984	1,508	1,777	(2,525)	1,033	566
Investment return	724	255	302	167	60	64	91
Result before personal expenses	4,897	2,239	1,810	1,944	(2,465)	1,097	657
Illustrative personal expenses	(857)	(577)	(378)	(402)	(75)	(75)	(75)
Result	4,040	1,662	1,432	1,542	(2,540)	1,022	582

Annual report and accounts 2014

For Syndicates 510, 557 and 308 managed by Tokio Marine Kiln Syndicates Limited

Underwriting year accounts for the 2012 closed year of account

Syndicate 308

Tokio Marine Kiln Life Syndicate

Life

Independent auditors' report to the members of Syndicate 308 on the 2012 closed underwriting year of account

Our opinion

In our opinion the syndicate underwriting year accounts, defined below:

- give a true and fair view of the state of the syndicate's affairs for the 2012 closed year of account and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and have been properly prepared in accordance with the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

What we have audited

The syndicate underwriting year accounts for the 2012 year of account of Syndicate 308 for the three years ended 31 December 2014, which are prepared by the managing agent, comprise:

- the profit and loss account for the year then ended;
- the balance sheet as at 31 December 2014;
- the cash flow statement;
- the statement of accounting policies; and
- the notes to the syndicate underwriting year accounts, which include other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (UK GAAP).

In applying the financial reporting framework, the managing agent has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Other matters on which we are required to report by exception

Under the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) we are required to report to you if, in our opinion:

- the managing agent in respect of the syndicate has not kept proper accounting records; or
- the syndicate underwriting year accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Responsibilities for the syndicate underwriting year accounts and the audit – our responsibilities and those of the managing agent

As explained more fully in the statement of managing agent's responsibilities set out on page 105, the managing agent is responsible for the preparation of the syndicate underwriting year accounts, under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and in accordance with the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005), and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the syndicate underwriting year accounts in accordance with applicable legal and regulatory requirements and International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the syndicate's members as a body in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of syndicate underwriting year accounts involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the syndicate underwriting year accounts sufficient to give reasonable assurance that the syndicate underwriting year accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the syndicate's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the managing agent; and
- the overall presentation of the syndicate underwriting year accounts.

We primarily focus our work in these areas by assessing the Managing Agent's judgements against available evidence, forming our own judgements, and evaluating disclosures in the syndicate underwriting year accounts. We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited syndicate underwriting year accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Mark Bolton
Senior Statutory Auditor
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
16 March 2015

Profit and loss account: technical account – long-term business

for the 36 months ended 31 December 2014

	Note	2012 £'000s
Syndicate allocated capacity		22,500
Earned premiums, net of reinsurance		
Gross premiums written	1	28,221
Outward reinsurance premiums		(1,785)
Earned premiums, net of reinsurance		26,436
Reinsurance to close premium receivable, net of reinsurance	2	625
Investment income	8	52
Claims incurred, net of reinsurance		
Claims paid:		
Gross amount		(14,515)
Reinsurers' share		120
Reinsurance to close premium payable, net of reinsurance	3	(921)
Claims incurred, net of reinsurance		(15,316)
Members' standard personal expenses		(621)
Net operating expenses	4,5,6	(9,734)
Investment expenses and charges	8	(16)
Net unrealised (losses) on investments	8	(8)
Balance on the technical account for long-term business and profit for the 2012 closed year of account	7	1,418

There are no non-technical items.

There are no recognised gains or losses in the accounting period other than those dealt with in the technical account.

Balance sheet

for the 2012 closed year of account as at 31 December 2014

Assets	Note	2012 £'000s
Investments		
Other financial investments	9	1,325
Debtors	10	3,445
Reinsurance recoveries anticipated on gross reinsurance to close premium payable to close the account	3	240
Other assets		
Cash at bank and in hand		622
Other	11	88
Total assets		5,720

Liabilities	Note	2012 £'000s
Amounts due to members	12	1,350
Reinsurance to close premium payable to close the account – gross amount	3	1,161
Creditors	13	3,209
Total liabilities		5,720

The underwriting year accounts, which comprise pages 141 to 152 and the notes and principal accounting policies applicable to all syndicates on pages 106 to 108, were approved by the Board of Tokio Marine Kiln Syndicates Limited on 11 March 2015 and were signed on its behalf by

James Dover

Finance Director
Tokio Marine Kiln Syndicates Limited
16 March 2015

Cash flow statement

for the 36 months ended 31 December 2014

	Note	2012 £'000s
Net cash inflow from operating activities	14	1,638
Financing:		
Members' agents' fees paid on behalf of members	12	(68)
Net cash flows		1,570
Cash flows were invested as follows:		
Increase in cash holdings	15	622
(Decrease) in deposits	15	(79)
Net portfolio investments	15,16	1,027
Net investment of cash flows		1,570

Notes to the accounts

for the 36 months ended 31 December 2014

1. Segmental analysis

An analysis of the gross written premium and reinsurance balances is set out below:

	Gross premiums written (note i) £'000s	Reinsurance balance (note ii) £'000s
Direct insurance	23,521	(1,153)
Reinsurance acceptances	4,700	(230)
RITC received	826	(201)
	29,047	(1,584)

i. Gross premiums written comprise gross premium written and the gross RITC premium receivable.

ii. The reinsurance balance comprises reinsurance recoveries on claims paid, reinsurance recoveries anticipated on RITC payable, reinsurance commissions receivable less reinsurance premiums ceded and reinsurance recoveries anticipated on RITC receivable.

The direct gross written premium can be further analysed as follows:

	£'000s
Individual premiums	4,076
Premiums under group contracts	19,445
	23,521
Periodic premiums	14,269
Single premiums	9,252
	23,521

All premiums were concluded in the UK.

In the opinion of the directors Syndicate 308 operates in a single business segment, being that of long-term insurance business.

An analysis of the gross new business premium is set out below:

	Gross premiums written £'000s
Direct insurance	5,302
Reinsurance acceptances	1,447
	6,749

Outwards reinsurance placed in relation to new business written is not material.

The direct gross new business written premium can be further analysed as follows:

	£'000s
Individual premiums	1,644
Premiums under group contracts	3,658
	5,302
Periodic premiums	2,895
Single premiums	2,407
	5,302

The geographical analysis of premium by location of the client is as follows:

	£'000s
UK	15,859
Other EU countries	4,018
US	4,085
Other	5,085
	29,047

2. Reinsurance to close premium receivable

	£'000s
Gross reinsurance to close premium receivable	826
Reinsurance recoveries anticipated	(201)
	625

3. Reinsurance to close premium payable

	£'000s
Gross notified outstanding claims	615
Reinsurance recoveries anticipated	(130)
Net notified outstanding claims	485
Provision for gross claims IBNR	546
Reinsurance recoveries anticipated on IBNR	(110)
Provision for net IBNR	436
	921

The reinsurance to close is effected to the 2013 year of account of Syndicate 308.

4. Net operating expenses

	£'000s
Acquisition costs	7,343
Administrative expenses	2,502
(Profit) on exchange	(69)
Gross operating expenses	9,776
Reinsurance commissions and profit participations	(42)
	9,734

Included within administrative expenses is auditors' remuneration:

	£'000s
Audit services:	
Fees payable to the syndicate's auditors for the audit of the syndicate accounts	39
Other services:	
Other services pursuant to legislation	26
	65

The charge incurred for other services is wholly and exclusively in relation to the audit and review of the syndicate's regulatory returns.

5. Staff numbers and costs

Staff were employed by Tokio Marine Kiln Insurance Services Limited. The following amounts were recharged to the 2012 year of account in respect of salary costs and are included within administrative expenses:

	£'000s
Wages, salaries and social security costs	1,356
Other pension costs	40
	1,396

Of this amount £4,386 was paid as consulting fees to other Tokio Marine Group companies in respect of staff working on the syndicate with the remainder recharged to the syndicate by Tokio Marine Kiln Insurance Services Limited.

The average number of full-time employees working for the syndicate on the 2012 year of account was as follows:

Administration and finance	8
Underwriting	8
Claims	1
	17

Where staff work for more than one syndicate the time is allocated based on the proportion of time spent. The relevant percentage of full-time employees is applied in the table above. Of this number, the equivalent of less than one full-time employee was employed by other Tokio Marine Group companies.

6. Emoluments of the directors and Active Underwriters

The Tokio Marine Kiln Group of companies operate a bonus pooling arrangement such that profit-related pay is generated from the managing agency profit commission, the group's share of the underwriting result through its corporate member Kiln Underwriting Limited, and additionally through a proportion of the underwriting result of the corporate member Tokio Marine Underwriting Limited whose participations are managed by Tokio Marine Kiln Syndicates Limited. A considerable portion of the profit-related pay is therefore borne by other Tokio Marine Kiln Group entities. The directors of Tokio Marine Kiln Syndicates Limited received the following aggregate remuneration in relation to their work on the syndicate, of which £54,458 was charged as an expense to the 2012 year of account:

	£'000s
Emoluments	88

The Active Underwriters received the following remuneration charged to the 2012 year of account as a syndicate expense:

	£'000s
Emoluments	256

7. Analysis of technical result

	2011 & prior years of account £'000s	2012 pure year of account £'000s	Total 2012 £'000s
Technical account balance excluding investment return and operating expenses	291	11,454	11,745
Brokerage and commission on gross premium	–	(7,343)	(7,343)
Reinsurance commissions receivable	–	42	42
	291	4,153	4,444
Allocated investment return	–	28	28
Net operating expenses other than acquisition costs	–	(3,054)	(3,054)
	291	1,127	1,418

All acquisition costs are attributable to business allocated to the 2012 pure year of account.

8. Investment income and expenses

	£'000s
Investment income:	
Income from investments	51
Realised gains on investments	1
Unrealised gains on investments	2
Investment expenses:	
Investment management expenses, including interest	(4)
Realised losses on investments	(12)
Unrealised losses on investments	(10)
	28

9. Other financial investments

	Fair value £'000s	Purchase price £'000s
Shares and other variable yield securities	913	913
Debt securities and other fixed income securities	412	413
	1,325	1,326

All financial instruments are designated as fair value through profit or loss upon initial recognition.

10. Debtors

	£'000s
Arising out of direct insurance operations:	
Due from intermediaries	1,975
Inter-year loans	6
Arising out of reinsurance operations	1,443
Other debtors	21
	3,445

Amounts due from intermediaries includes a bad debt provision of £0.1m.
All amounts are due within one year.

11. Other assets

Other assets comprise overseas deposits which are lodged as a condition of conducting underwriting business in certain countries.

12. Amounts due to members

	£'000s
Profit for the 2012 closed year of account	1,418
Members' agents' fee advances	(68)
Amounts due to members at 31 December 2014	1,350

13. Creditors

	£'000s
Arising out of direct insurance operations:	
Due to intermediaries	1,635
Arising out of reinsurance operations	1,250
Other creditors	324
	3,209

All amounts are due within one year.

14. Reconciliation of profit for the year of account to net cash inflow from operating activities

	£'000s
Profit for the closed year of account on ordinary activities	1,418
Realised and unrealised investment losses including foreign exchange	7
Net RITC premium payable	921
Non-cash consideration for net RITC receivable	(625)
(Increase) in debtors	(549)
Increase in creditors	466
Net cash inflow from operating activities	1,638

Consideration for net RITC receivable comprised:

	£'000s
Non-cash consideration:	
Portfolio investments	305
Deposits	167
Debtors	2,896
Creditors	(2,743)
	625
Cash	–
	625

15. Movement in opening and closing portfolio investments net of financing

	£'000s
Net cash inflow for the 36 months	622
Cash flow:	
Deposits	(79)
Portfolio investments	1,027
Movement arising from cash flows	1,570
Received as consideration for net RITC receivable	472
Changes in market value and exchange rates	(7)
Total movement in portfolio investments	2,035
Portfolio at 1 January 2012	–
Portfolio at 31 December 2014	2,035

Movement in cash, portfolio investments and financing

	At 1 January 2012 £'000s	Cash flow £'000s	Received as consideration for RITC £'000s	Changes to market value and exchange rates £'000s	At 31 December 2014 £'000s
Cash at bank and in hand	–	622	–	–	622
Shares and other variable yield securities	–	649	305	(41)	913
Debt securities and other fixed income securities	–	378	–	34	412
Total portfolio investments	–	1,027	305	(7)	1,325
Overseas deposits	–	(79)	167	–	88
Total cash, portfolio investments and financing	–	1,570	472	(7)	2,035

16. Net cash (outflow) from portfolio investments

	£'000s
Shares and other variable yield securities	(649)
Purchase of debt securities and other fixed income securities	(4,108)
Sale of debt securities and other fixed income securities	3,730
Net cash (outflow) from portfolio investments	(1,027)

17. Related parties

Syndicate 308 did not accept inwards reinsurance business from, or place outwards reinsurance business with, other Tokio Marine Group entities that are deemed to be related parties of Tokio Marine Kiln Syndicates Limited by virtue of the shareholding in Tokio Marine Kiln Group Limited by Tokio Marine Holdings, Inc.

Profit commission of £293,898 is payable by the syndicate to Tokio Marine Kiln Syndicates Limited in respect of profits for the 2012 year.

Managing agency fees of £165,860 were paid by the syndicate to Tokio Marine Kiln Syndicates Limited. In addition to this, expenses of £2,660,609 were paid to Tokio Marine Kiln Syndicates Limited for expenses paid on behalf of the syndicate.

The note on related parties on page 20 provides further information regarding all syndicates and related parties.

Seven year summary (unaudited)

	2006	2007	2008	2009	2010	2011	2012
Syndicate allocated capacity £m	13.00	14.66	14.66	14.66	20.00	20.00	22.50
Number of underwriting members	16	25	30	35	46	84	96
Aggregate net premiums £m	11.18	11.17	14.69	16.88	17.30	24.09	26.44
Result £m	1.29	0.76	2.57	0.93	2.68	1.83	1.42
Results for an illustrative share of £10,000							
Gross premiums written and earned	6,409	6,059	7,464	9,330	8,977	9,549	9,279
– as a percentage of allocated capacity	64%	61%	75%	93%	90%	95%	93%
Net premiums written and earned	6,067	4,502	6,582	8,090	6,068	8,759	8,504
– as a percentage of allocated capacity	61%	45%	66%	81%	61%	88%	85%
RITC from an earlier year of account	398	1,521	2,551	2,135	1,256	535	278
Net claims incurred	(2,611)	(3,160)	(4,561)	(6,597)	(4,075)	(6,781)	(6,398)
RITC the year of account	(1,715)	(2,551)	(2,135)	(1,712)	(535)	(313)	(409)
Underwriting result	2,139	312	2,437	1,916	2,714	2,200	1,975
Profit/(loss) on exchange	25	1,309	897	(24)	(69)	7	31
Syndicate operating expenses	(1,020)	(979)	(1,197)	(988)	(890)	(945)	(1,112)
Balance on the technical account	1,144	642	2,137	904	1,755	1,262	894
Investment return	276	210	128	35	26	19	12
Result before personal expenses	1,420	852	2,265	939	1,781	1,281	906
Illustrative personal expenses	(428)	(331)	(515)	(305)	(444)	(364)	(276)
Result	992	521	1,750	634	1,337	917	630