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

TOKIO MARINE KILN

# Annual report and accounts 2019

# Annual report and accounts 2019

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

# Contents

# Results summary

## Annual accounting results 2019 – Key financial performance indicators

| Syndicate | | 2019 £m | 2018 £m |
|---|---|---|---|
| 510 | Gross written premium | **1,450.0** | 1,376.7 |
| | Net earned premium | **992.8** | 1,015.6 |
| | Result for the financial year | **133.6** | (23.4) |
| | Claims ratio % | **48.4** | 61.1 |
| | Combined ratio % | **89.8** | 103.5 |
| 557 | Gross written premium | **16.9** | 15.8 |
| | Net earned premium | **15.0** | 13.9 |
| | Result for the financial year | **13.0** | 5.5 |
| | Claims ratio % | **4.7** | 33.0 |
| | Combined ratio % | **22.2** | 63.5 |
| 308 | Gross written premium | **5.2** | 11.8 |
| | Net earned premium | **8.5** | 22.3 |
| | Resut for the financial year | **–** | 2.9 |
| | Claims ratio % | **53.9** | 53.1 |
| | Combined ratio % | **100.8** | 87.3 |

## Underwriting results

Over the seven year period from 2011 to 2017 the 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 % |
|---|---|---|---|---|
| 2011 | 7.49 | 10.22 | 9.17 | 6.00 |
| 2012 | 8.51 | 5.82 | 6.30 | – |
| 2013 | 10.88 | 15.32 | 1.23 | – |
| 2014 | 15.70 | 27.42 | 2.30 | – |
| 2015 | 11.10 | 29.94 | (6.27) | – |
| 2016 | 4.40 | 25.65 | (9.52) | – |
| 2017 | (2.3) | (14.7) | (40.2) | – |

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

# Directors, Active Underwriters and administration

### Managing agent

Tokio Marine Kiln Syndicates Limited

### Directors

| | |
|---|---|
| Richard Bennison (Chairman) | Resigned 31/12/2019 |
| David Constable (Non-executive) | Resigned 31/03/2019 |
| Paul Culham | Resigned 30/09/2019 |
| Charles Franks (Chief Executive Officer) | Resigned 31/12/2019 |
| Rosemary Harris (Non-executive) | |
| Brian Heffernan | Resigned 13/02/2019 |
| Brad Irick (Chief Executive Officer) | Appointed 10/10/2019 |
| Chisato Kojima (Non-executive) | Appointed 22/03/2019 |
| Anna McNamara | |
| Christopher Moulder (Non-executive) | Appointed 25/03/2019 |
| Reeken Patel | Appointed 25/02/2019 |
| Hans-Dieter Rohlf (Non-executive) | Appointed 07/10/2019 |
| Vivek Syal | |
| Andrew Torrance | |
| Shinji Urano | Resigned 31/12/2019 |
| Christopher Williams (Non-executive) | Appointed 22/03/2019 |

### Company Secretary

Fiona Molloy

### Registered office

20 Fenchurch Street
London EC3M 3BY

### Registered number

729671

| Syndicate | Active Underwriter |
|---|---|
| **Tokio Marine Kiln Combined 510** | |
| | Paul Culham to 30/09/2019 |
| | Mark Mortlock from 01/10/2019 |
| **Tokio Marine Kiln Catastrophe 557** | |
| | David Huckstepp to 31/03/2019 |
| | William Curran from 01/04/2019 |
| **Tokio Marine Kiln Life 308** | |

This Syndicate is now in Run-off.

In 2018 Karen Boyes was appointed as the Run-off Manager for the Syndicate.

### Bankers

Barclays Bank plc

Citibank, N.A.

Royal Bank of Canada

J.P. Morgan Europe Limited

Lloyds Bank plc

HSBC Bank plc

BNY Mellon

### Investment managers

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

New England Asset Management Limited
The Oval-Block 3, Ballsbridge
Dublin 4, Ireland

Alcentra NY, LLC
200 Park Avenue, 7th Floor
New York, NY 10166
United States of America

### Statutory auditors

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

# 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 2019 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**

**Tokio Marine Kiln Catastrophe Syndicate 557**

**Tokio Marine Kiln Life Syndicate 308**

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 and run-off year accounts for the 2017 year of account are set out on pages 88 to 135 of this report.

### Results

The results for the managed syndicates presented in this report are stated below. The Syndicates' key financial performance indicators during the year are disclosed on pages 5 to 8 of this report.

| Annual accounting result | 2019 £m | 2018 £m |
|---|---|---|
| Syndicate 510 | 133.6 | (23.4) |
| Syndicate 557 | 13.0 | 5.5 |
| Syndicate 308 | 0.0 | 2.9 |

### Principal activity

The principal activity of Syndicate 510 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. Syndicate 308 was placed in to run-off in 2018 and as such writes no new business. Its principal activity is administering the policies which remain in-force.

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

## Review of the business

### Syndicate 510

Syndicate 510 comprises six underwriting divisions: Property & Special Lines; Marine & Special Risks; Reinsurance; Accident & Health; Aviation; and Enterprise Risk. The Syndicate is a recognised market leader in each of these business areas. Each division has a high level of underwriting authority, which, coupled with a robust peer-review process, results in quick, sound decision-making for brokers and customers.

| Annual accounting result | 2019 £m | 2018 £m |
|---|---|---|
| Gross written premium | 1,450.0 | 1,376.7 |
| Net earned premium | 992.8 | 1,015.6 |
| Result for the financial year | 133.6 | (23.4) |
| Claims ratio | 48.4% | 61.1% |
| Combined ratio | 89.8% | 103.5% |

The syndicate result of £133.6 million (2018: loss of £23.4 million) is driven by a combined ratio of 89.8% (2018: 103.5%) plus investment income of £37.8 million (2018: £12.3 million). The net claims ratio of 48.4% compares favourably to the prior year ratio of 61.1% as the Syndicate benefitted from a low frequency of catastrophe events during the year and favourable experience on back year reserves, which contributed £80.0 million to the overall result. The Syndicate has maintained its prudent approach to reserving with initial reserves being set to include a margin that is expected to release over time as uncertainty reduces.

| | Gross Written Premium | | Underwriting Result | |
|---|---|---|---|---|
| **Divisional Performance** | **2019 £m** | **2018 £m** | **2019 £m** | **2018 £m** |
| Property & Special Lines | 842.3 | 764.2 | 47.5 | (37.3) |
| Marine & Special Risks | 165.7 | 204.1 | 27.8 | (1.2) |
| Accident & Health | 116.0 | 127.0 | (1.8) | 4.4 |
| Reinsurance | 102.6 | 95.7 | 11.6 | 7.7 |
| Enterprise Risk | 156.8 | 129.6 | 0.2 | (6.5) |
| Aviation | 66.6 | 56.1 | 12.1 | 6.1 |

### Property & Special Lines

The Property & Special Lines division specialises in insurance for large and mid-sized corporate properties worldwide. The team also provides liability coverage for a range of global businesses in case their processes, activities or products cause unintended damage or injury to third parties.

The division reported gross written premium of £842.3 million (2018: £764.2 million) and an underwriting profit of £47.5 million which compares favourably with the loss of £37.3 million in the prior year, which was driven by a number of significant catastrophe events. Premium growth was primarily focussed in US Property business which benefitted from both a positive rating environment and the team's success in targeting profitable growth opportunities. Market dislocation and a withdrawal of capacity also facilitated disciplined growth in US Excess and Surplus lines business.

Although 2019 was impacted by several notable catastrophe events, the division's losses from Hurricane Dorian, the California Wildfires and other US windstorm events were all within the expectations. In addition, favourable development on prior years contributed to the strong performance in 2019.

### Marine & Special Risks

The Marine and Special Risks division provides bespoke insurance and reinsurance solutions for a broad spectrum of risks. This includes an innovative approach to coverage for contract frustration and credit risks including coverage for loss of profits, liquidated damages and contractual penalties.

The division produced gross written premium of £165.7 million (2018: £204.1 million) and an underwriting profit of £27.8 million (2018: loss of £1.2 million). Demand for the division's specialised insurance products was strong in 2019 and remained an area where profitable growth is being targeted.

This growth was offset by reductions in marine business including hull, specie and liability as the Syndicate continued its efforts to remediate or address any underperforming classes. The division was largely unaffected by catastrophe and large loss events during the year with some favourable reserve development on prior years contributing to the positive 2019 result.

### Accident & Health

The Accident & Health division provides group personal accident and sickness programmes as well as cover for high-risk groups and people in hazardous occupations. The team also specialise in equine insurance, providing specialist cover for sports and leisure horses worldwide.

The division reported gross written premium of £116.0 million (2018: £127 million) and a small underwriting loss of £1.8 million compared with a profit of £4.4 million in 2018. Contingency and Equine business experienced growth in the year and continue to become a more significant part of the portfolio. This growth was offset by reductions in Travel & Repatriation, Medical and Standard Personal Accident business as the new team repositioned the portfolio for profitable growth.

The underwriting loss reported was driven by an exceptional year for bloodstock related claims and some poorer performing Italian personal accident binders and action has been taken to re-underwrite parts of the portfolio.

### Reinsurance

The Syndicate has been one of the leaders of short-tail reinsurance for more than 50 years, writing catastrophe, per risk, aggregate excess of loss, pro-rata and retrocessional reinsurance for a wide spectrum of clients throughout the world. The division produced gross written premium of £102.6 million (2018: £95.7 million) and an underwriting profit of £11.6 million (2018: £7.7 million).

The division experienced catastrophe losses from Typhoons Faxai and Hagibis and hailstorm activity in Australia. These events, along with losses from Hurricane Dorian were all within budgeted catastrophe expectations. Favourable development on prior year catastrophe events also contributed favourably to performance in 2019.

### Enterprise Risk

The Syndicate's Enterprise Risk division is focussed on developing innovative solutions to address emerging threats. Our expert team has grown to provide specialist solutions in reputational harm, cyber, product recall and intellectual property. Gross written premium in 2019 was £156.8 million (£129.6 million) producing an underwriting profit of £0.2 million (2018: loss of £6.5 million).

The division's cyber Open Market account was impacted by two significant large losses during the year relating to a data breach and ransomware attack respectively. The team continues to actively re-underwrite areas of the portfolio where rates have not responded to loss activity in recent years.

### Aviation

In addition to hull and aviation liability, the team provides coverage to component manufacturers, service operations, and third party liability insurance for airports. The division reported gross written premium of £66.6 million (2018: £56.1 million) and an underwriting profit of £12.1 million (2018: £6.1 million).

The division was able to capitalise on rate increases driven by the withdrawal of several competitors from the market, in particular within General Aviation. A paucity of significant loss activity and some favourable prior year reserve development drove the positive underwriting performance.

## 2017 underwriting year of account

| | £m |
|---|---|
| Underwriting loss | (25.6) |
| Allocated capacity | 1,130.5 |
| Return on allocated capacity % | (2.3) |

The Syndicate made a 2017 closing year loss of £25.6 million on allocated capacity of £1,130.5 million after taking account of operating expenses, foreign exchange, Lloyd's expenses and investment income.

The result was impacted by a succession of severe catastrophic events in the second half of 2017 including Hurricanes Harvey, Irma and Maria, the earthquakes in Mexico and the wildfires in California. The 2017 underwriting year result was improved by a back year release of £80.0 million as a result of favourable claims development within the Property, Marine and Aviation divisions predominantly on the 2016 and prior years of account.

## 2020 Outlook

The Syndicate will remain focussed on profitable growth in core strategic classes. This will be achieved both organically from larger line sizes and also through attractively rated new business opportunities. Price adequacy for all growth lines is above 100% and we have experienced and established underwriting teams delivering our plans.

We have seen some encouraging rate improvements in selected areas of the market and our underwriters are capitalising on those opportunities. Our specialist underwriting expertise positions us well in this changing market and where we see the opportunity to grow profitably we will do so, while maintaining a laser-focus on bottom-line results.

### Syndicate 557

Syndicate 557 writes a quota share reinsurance of the business of Syndicate 510's Reinsurance division, primarily comprising a portfolio of US and international property catastrophe reinsurance.

| Annual accounting result | 2019 £m | 2018 £m |
|---|---|---|
| Gross written premium | 16.9 | 15.8 |
| Net earned premium | 15.0 | 13.9 |
| Result for the financial year | 13.0 | 5.5 |
| Claims ratio | 4.7% | 33.0% |
| Combined ratio | 22.2% | 63.5% |

The Syndicate produced a result of £13.0 million (2018: £5.5 million) and a reported combined ratio of 22.2% (2018: 63.5%). The net claims ratio of 4.7% (2018: 33.0%) reflects the lack of significant catastrophe events impacting the Syndicate during the year with losses from Hurricane Dorian remaining within the Syndicate's planned catastrophe expectations. The Syndicate also benefitted from £2.3 million of releases on prior year catastrophe events including the California Wildfires and Superstorm Sandy.

Although pricing levels remained challenging across much of the book in 2019, opportunities for profitable growth remained for those willing to maintain underwriting discipline in their risk selection. The division remains heavily focussed on North American business utilising the strength of the Tokio Marine brand and the relationships built up with both clients and brokers over a number of years.

| 2017 underwriting year of account | £m |
|---|---|
| Underwriting loss | (5.0) |
| Allocated capacity | 34.1 |
| Return on allocated capacity % | (14.7) |

The Syndicate made a 2017 closing year loss of £5.0 million on allocated capacity of £34.1 million after taking account of operating expenses, foreign exchange, Lloyd's expenses and investment income.

The 2017 underwriting year was significantly impacted by an unprecedented level of catastrophe events in the second half of 2017 including Hurricanes Harvey, Irma and Maria in addition to the California Wildfires. Whilst the losses remain in line with modelled expectations for these types of event they serve as a reminder of the critical role that insurers play in supporting customers during times of crisis.

Favourable reserve developments on prior years contributed £2.3 million to the closing year result.

#### 2020 Outlook

Syndicate 557 will continue to write its quota share of Syndicate 510's Reinsurance division, which is primarily focussed on US and international property catastrophe reinsurance. For the 2020 year of account the Syndicate has increased its participation from 21% to 30%.

### Syndicate 308

#### Cessation

Life Syndicate 308 ceased underwriting with effect from 1 January 2018. The Lloyd's Capacity Transfer Panel approved the cessation of Syndicate 308 on 19 February 2018.

The 2017 year of account remains open as there are material uncertainties on future losses and premiums in relation to long term contracts residing in this year. Syndicate 308 wrote long-term policies of up to 10 years, with level term premium payable in annual instalments. The potential uncertainty will not only be around whether claims arise on that exposure, but also if they do, then the syndicate loses the benefit of any future annual premium post loss. Tokio Marine Kiln Syndicates Limited intends to close the 2017 year of account as soon as an equitable reinsurance to close (RITC) premium can be determined. This will be no later than 31 December 2028, being the first date by which all the liabilities on the 2017 year of account are expected to have been run-off to extinction.

The 2018 year of account was established solely to manage the run-off of the UNFCU policy with 100% of the capacity held by Tokio Marine Underwriting Limited to avoid there being any effect on third party Names from the related licencing breach.

| Annual accounting result | 2019 £m | 2018 £m |
|---|---|---|
| Gross written premium | 5.2 | 11.8 |
| Net earned premium | 8.5 | 22.3 |
| Result for the financial year | 0.0 | 2.9 |
| Claims ratio | 53.9% | 53.1% |
| Combined ratio | 100.8% | 87.3% |

Syndicate 308 produced a breakeven result in 2019 (2018: £2.9 million). The reduction in gross written and net earned premium reflects the fact that the syndicate is in run-off.

The 2019 result comprises 2017 and prior, and 2018 years of account. As the capital provider of the 2018 year is substantially different to that of the prior years, the aggregated annual accounting result is of limited value to capital providers.

| 2017 underwriting year of account | £m |
|---|---|
| Underwriting loss | (15.3) |
| Allocated capacity | 30.9 |
| Return on allocated capacity % | (49.7) |

Syndicate 308 is forecast to make an underwriting loss of £15.3m on the 2017 year of account. The result is impacted by the poor performance of a group life policy covering investors in a certain investment scheme, plus an increase in reinsurance spend and expenses. Reinsurance has been purchased to cover the entire run-off period. A provision for expenses over the entire run-off period has been established.

The projected premium on the 2017 year is higher than prior years. This is due to growth in the group life policy referenced above plus premium for all live long-term policies now residing in the 2017 year. The overall portfolio excluding the group life policy referenced above was steady and the portfolio similarly balanced to prior years. The projected claims ratios are higher than previous years across the portfolio due to uncertainties on the performance of the long-term risks residing in the 2017 year.

## 2020 Outlook

Syndicate 308 will continue to focus on orderly run-off, ensuring that stakeholders interests continue to be served in a fair and equitable manner.

### Investment report

The investment performance for each of the managed syndicates is set out in the table below.

| | Investment Return £ | | Investment Return % | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Syndicate 510** | 37.8 | 12.2 | 3.8 | 1.3 |
| **Syndicate 557** | 1.1 | 0.4 | 3.4 | 1.1 |
| **Syndicate 308** | 0.1 | 0.1 | 0.4 | 0.5 |

The significant improvement in 2019 investment income relative to the prior comparable period is due to a falling yield environment in response to Brexit, global growth fears and escalating trade wars. Investment income in 2019 was also boosted early in the year by strong returns in alternative investments.

In contrast 2018 saw a rising yield environment in the US with the Federal Reserve raising interest rates four times in the year on the back of improving US economic growth.

Syndicate 308's investment assets are held primarily in Money Market Funds and cash deposit accounts which yield a lower investment return versus the other Syndicates' portfolios.

### Principal risks & uncertainties

Our business model remains consistent: we are specialist underwriters, providing a wide variety of products tailored to our clients' changing risk profile. This is supported by a comprehensive, enterprise wide framework for the management of risk across the whole of Tokio Marine Kiln. We focus largely on 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 prudent in all areas of financial risk management, such as investment management and reserving. This allows us to protect our capital and focus our risk appetite on underwriting.

## Capital management

### Capital framework at Lloyd's

The Society of Lloyd's (Lloyd's) is a regulated undertaking and subject to supervision by the Prudential Regulatory Authority (PRA) under the Financial Services and Markets Act 2000, and in accordance with Solvency II.

Within this supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with Solvency II requirements, and beyond that to meet its own financial strength, licence and ratings objectives.

Although, as described below, Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at member level only, not at a syndicate level. Accordingly, the capital requirement at syndicate level is not disclosed in these financial statements.

### Lloyd's capital setting process

In order to meet Lloyd's requirements, each syndicate is required to calculate its solvency capital requirement (SCR) for the prospective underwriting year. This amount must be sufficient to cover a 1 in 200 year loss, reflecting uncertainty in the ultimate run-off of underwriting liabilities (SCR 'to ultimate'). The syndicate must also calculate its SCR at the same confidence level but reflecting uncertainty over a one year time horizon (one year SCR) for Lloyd's to use in meeting Solvency II requirements. The SCRs of each syndicate are subject to review by Lloyd's and approval by the Lloyd's Capital and Planning Group.

A syndicate may be supported by one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate(s) on which it is participating but not other members' shares. Accordingly, the capital requirements that Lloyd's set for each member operate on a similar basis. Each member's total capital requirement is therefore determined by the share of each syndicate's SCR 'to ultimate' on which they participate. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the economic capital assessment (ECA). The purpose of this uplift, which is a Lloyd's rather than Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives.

### Provision of capital by members

Each member may provide capital to meet its ECA either through assets held in trust by Lloyd's specifically for that member (Funds at Lloyd's) or as the members' share of the member's balances on each syndicate on which it participates.

Accordingly all of the assets less liabilities of the syndicate, as represented in the member's balances reported on the respective balance sheets, represent resources available to meet member's and Lloyd's capital requirements. The Lloyd's set market-wide capital uplift applied for 2019 to derive the ECA is 35% of the member's SCR 'to ultimate'.

### Capital allocation

We have an approved internal model which is used to calculate capital requirements, allocate capital to business lines and risk categories and assess the value of different business and 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 capital is required to support insurance underwriting risk.

### Risk management and risk appetite

We have a comprehensive, enterprise wide risk management framework in place for the management of risk across the whole of Tokio Marine Kiln. A key element of this is the risk appetite framework which is approved by the board each year and lays out the agreed appetite for each area of risk the business is exposed to.

The risk appetite framework ensures that risk taking is aligned to the business strategy by including a set of risk preferences. These are strategic choices taken by the business to deliver the best result to its stakeholders. These preferences change over time as the strategy develops, ensuring we remain relevant to our clients, whilst adapting to market conditions.

As a business, we are exposed to a number of types of risk and have developed a strategy for categorising, managing and reporting these different risks. This high level categorisation is called the Tokio Marine Kiln Risk Universe. We define the risk universe as 'the complete view of all possible types of risk that the firm may face, reflecting the risk profile of the business'. The universe includes risks that could positively or negatively impact the business.

### Insurance risk

This is 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 several categories which include underwriting risk, reinsurance risk and reserving risk.

Due to the cyclical nature of insurance business, there is a risk that future earnings are lower or more volatile than expected with fluctuations in capacity, competition and the frequency and severity of losses, as a result of both man-made and natural disasters.

### Underwriting risk

This is 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 syndicate's appetite annually through the risk appetite framework and 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 the syndicate business plan monthly, and all of the components of the insurance result and risk appetite quarterly. Catastrophe modelling software is used to model maximum probable losses from catastrophe-exposed business and as part of the realistic disaster scenario (RDS) process. We have adopted a cyber aggregate monitoring tool to manage the growing exposures in this area.

As an underwriter of complex and specialist insurance business, ensuring compliance with licencing and other regulatory requirements is a priority for Tokio Marine Kiln. This is overseen by the Underwriting Governance Committee (UGC). The UGC also oversees adherence to our internal standards for delegated authority arrangements.

A significant proportion of the syndicate's business is written through delegated authorities. A dedicated Delegated Authorities team provides operational and regulatory oversight of our coverholders, and third party administrators carrying out annual due diligence, an ongoing schedule of audits and management of regulatory requirements.

### Reinsurance risk

This is 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. The risk is heightened if there is a lack of reinsurance or retrocession availability in the market.

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.

### Reserving risk

This is 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' and claim managers' 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.

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 the syndicate. Our policy is to reserve on a consistent basis with a reasonable margin for prudence. 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

This is 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 Outwards Reinsurance team. It assesses 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 by the Delegated Authority team. The Investment Committee regularly tracks and reviews our investment portfolio, which is outsourced to three investment managers.

### Market risk

This is the risk that arises from fluctuations in values of, or income from, assets, interest rates 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 to comply with the prudent person principle as outlined in the Solvency II Directive text. Additionally, we meet regularly with our fund managers to review performance.

We regularly review our balance of assets and liabilities. The syndicate maintains a diversified investment portfolio (including an immaterial exposure to equities through investment in an absolute return fund) to restrict the concentration of assets.

Market risk is currently monitored regularly in accordance with the Tokio Marine Kiln risk appetite framework. Various external factors can impact our market/investment risk position and these are assessed via the ORSA process.

### Liquidity risk

This is 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 Executive Risk & Capital Committee reviews syndicate cash flow projections quarterly, and also stress tests them against RDSs. The syndicates also have the ability to make cash calls on members in order to manage liquidity.

### Operational risk

This is the risk that errors caused by people, processes or systems lead to losses to the managed syndicate.

We seek to manage this risk by the recruitment of high calibre staff and providing them with ongoing, high quality training. Operational risk forms a significant part of the syndicate's risk register. Risks are reviewed on a regular basis with departmental heads responsible for identifying, assessing and controlling operational risks effectively, as well as attesting to the effectiveness of these controls on a regular basis. This forms the Risk, Control and Self-Assessment (RCSA) process at Tokio Marine Kiln, supported by the Risk Management team who independently assess key risks and controls on a regular basis.

There is a strong risk reporting and risk governance system in place to ensure effective risk management of operational risk. The Executive Risk & Capital Committee and the Risk, Capital & Compliance Committee reviews the most material elements of the operational risk profile quarterly, in line with our risk management framework. Particular attention is paid to how the risks from cyber security threats are managed by the Information Security Group.

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. As we operate with an integrated underwriting function, we manage potential conflicts of interest between capital providers using Tokio Marine Kiln's Underwriting Acceptance Protocols. These protocols, which have been shared with the members' agents, govern business not constrained by licence or customer preference. Any proposed exceptions to the protocols must be approved by Tokio Marine Kiln's Conflicts Committee before a risk is bound.

### Regulatory risk

This is 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.

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 ensure compliance with them.

### Conduct risk

This is an important element of regulatory risk and is the risk of financial and/or service detriment which adversely affects our customers due to failings in the customer value chain.

Our conduct objective is to build, maintain and enjoy long-term relationships with our customers whether they be held 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 all teams across Tokio Marine Kiln, 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 Risk, Capital and Compliance Committee.

### Reputational risk

This 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.

In light of this, all staff are made aware of their responsibilities to clients and other stakeholders. Reputational risk is included as a specific category in the syndicates' risk register and forms part of the regular risk assessment process, facilitated by the Risk Management team. It is reported on a quarterly basis as part of the ORSA process to the Executive Risk & Capital Committee and the Risk, Capital & Compliance Committee.

### Strategic risk

Strategic risk refers to the risk associated with the achievement of the business' strategic objectives. A key element of strategic risk is the risk of making poor business decisions in the context of the internal and external market environment in which we operate.

Strategic risk is managed via the board which is ultimately responsible for setting and monitoring our strategic direction. Below the board, various sub-committees discuss and challenge the businesses strategy. The Risk Management team facilitates our risk assessment process, including identification, assessment and mitigation of strategic risks. Reporting on these risks is included in the quarterly ORSA process to the Executive Risk & Capital Committee and the Risk, Capital & Compliance Committee.

### 308 run-off risk

This is the risk that we fail to manage the run-off of Syndicate 308 efficiently and effectively, in the best interests of all members and not to the detriment of policyholders. The various risks associated with the run-off include the reputational risk, regulatory risk and the impact it may have from a resourcing perspective in terms of the potential for distraction from business as usual activities.

These risks require careful management and are a key priority for the business. It is clearly stated in our run-off plan that the run-off will be managed for all members in accordance with Lloyd's requirements and with full regard to our duties and obligations as a managing agent. We are managing the run-off in line with existing TMK policies and procedures and in compliance with Lloyd's Minimum Standards. A Run-Off Committee is in place to oversee the management of the run-off and this reports to the audit committee.

### Emerging risk

We define an emerging risk as 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, and may relate to issues which are changing rapidly or are uncertain.

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. Emerging risk analysis is included in the Tokio Marine Kiln quarterly and annual ORSA process. 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 we have done in the past, we will readily capitalise on identified opportunities in this area.

### Political risk

This is the risk that political decisions, events or conditions will result in losses. Politics affect everything from taxes to interest rates and political events can heavily impact the structure of a business

Brexit negotiations are ongoing and create uncertainty for the insurance industry. The main implication of Brexit for Tokio Marine Kiln is the loss of 'passporting rights' which allow us to conduct cross-border business throughout the European Economic Area (EEA).

Through 2018 we revised our internal operating model to successfully link our syndicates with the newly-created Lloyd's Brussels Subsidiary (LBS) in order to continue to provide products and services to clients with EEA risks. The work required is complete and our new model is now operational. We commenced writing business via LBS in the first quarter of 2019. We are currently defining the internal operating model for risks underwritten between 1993 and 2018 which will also transition to Lloyd's Brussels through a Part VII transfer by 31 October 2020.

We continue to monitor developments of Brexit very closely due to the remaining unknown economic and political implications.

### Related parties

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. The immediate parent company of Tokio Marine Kiln Syndicates Limited is Tokio Marine Kiln Group Limited, which is incorporated and registered in England and Wales. Copies of the consolidated financial statements of Tokio Marine Kiln Group Limited are available from 20 Fenchurch Street, London EC3M 3BY. Tokio Marine Kiln Syndicates Limited will continue as a Lloyd's managing agent.

Tokio Marine & Nichido Fire Insurance Co., Ltd. wholly owns Tokio Marine Underwriting Limited. Tokio Marine Underwriting Limited participates as a member on Syndicate 510, and participated in Syndicate 308 as shown in the table below.

**Percentages of capacity per year of account**

| Company | Syndicate | 2017 % | 2018 % | 2019 % | 2020 % |
|---|---|---|---|---|---|
| Tokio Marine Underwriting Limited | 510 | 56 | 56 | 56 | 56 |
| | 308 | 52 | 100 | – | – |

Syndicate 510 accepted inwards reinsurance business from, and placed outwards reinsurance business with, other Tokio Marine Group entities, including Syndicate 1880. These entities are deemed to be related parties of Tokio Marine Kiln Syndicates Limited by virtue of Tokio Marine Holdings, Inc.'s shareholding in its parent Tokio Marine Kiln Group Limited. Syndicates 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 at cost 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 who are members of Lloyd's for the 2018 to 2020 years of account during the period of their appointment. Figures stated are for participations as an individual member underwriting through his own corporate member.

| | Total for YOA | 510 £'000s | 557 £'000s | 308 £'000s |
|---|---|---|---|---|
| Paul Culham* | 2017 | 112 | 14 | – |
| | 2018 | 112 | 14 | – |
| | 2019 | 112 | 14 | – |

*Resigned 30/09/2019

The Limited Liability Partnership (LLP) which has been in place for employees and directors of Tokio Marine Kiln Insurance Services Limited will not be participating on Syndicate 510 in 2020. In light of the small scale of the LLP, the costs of administering the scheme became increasingly high. The amounts stated represent the directors', past and present, effective share in the total capacity through their involvement in the LLP.

| | Participation | | | |
|---|---|---|---|---|
| | 2017 £'000s | 2018 £'000s | 2019 £'000s | 2020 £'000s |
| Charles Franks* | 197 | 197 | n/a | n/a |
| Paul Culham* | 428 | 428 | n/a | n/a |

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

### Directors

The directors of the managing agent who served during the year ended 31 December 2019, as well as any subsequent changes, are listed under the section 'Directors, Active Underwriters and administration' on page 4. The directors' participations in the premium income of the syndicates are set out in the related parties note on page 12.

### 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 its 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**

**Brad Irick**

Chief Executive Officer
Tokio Marine Kiln Syndicates Limited
5 March 2020

# Statement of managing agent's responsibilities

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') requires 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 going concern basis for each syndicate unless it is intended for the syndicate to cease operations, or it has no realistic alternative but to 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 2019

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

## 1. Statement of compliance

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 Accounting Standards in the United Kingdom, including Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' (FRS 102) and Financial Reporting Standard 103, 'Insurance Contracts' (FRS 103). The general and life business results are determined on an annual basis of accounting.

These financial statements are prepared under the historical cost convention, as modified by the recognition of certain financial assets and liabilities measured at fair value.

These annual accounts are presented in pounds sterling, which is the syndicates' functional currency. All amounts have been rounded to the nearest thousand, unless otherwise stated.

## 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. Use of significant estimates, judgements and assumptions

The preparation of the syndicates' financial statements requires the use of significant estimates, judgements and assumptions. The directors consider the accounting policies for determining premium written, earned premiums, claims provisions, provision for unexpired risks and the valuation of investments as being most critical to an understanding of the syndicates' results and position. These are all discussed in more detail in note 4.

For general business, the most critical estimate included within the syndicates' balance sheet is the estimate for losses incurred but not reported. The total gross estimate is included within Claims outstanding on the balance sheet.

Estimates of losses incurred but not reported are continually evaluated, based on entity-specific historical experience and contemporaneous developments observed in the wider industry when relevant. Estimates are also updated for expectations of prospective future developments. The procedures used in estimating the cost of settling insured losses at the balance sheet date including losses incurred but not reported are detailed in note 4 (d).

For Life business, the most critical estimate included within the syndicate's balance sheet is the estimate for the long-term business provision, of which the assumptions are detailed in note 4 of the annual accounts of Syndicate 308.

## 4. Accounting policies

### a) Going concern

Having assessed the principal risks, the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements. Whilst as disclosed in the Report of the Directors of the managing agent on page 7, Syndicate 308 has been placed into run-off but will continue in operation for the foreseeable future in accordance with a plan approved by the directors.

### b) 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 facilities such as binding authorities, lineslips or consortia arrangements are estimated based on information provided by the broker, past underwriting experience and prevailing market conditions. The estimates are updated on a regular basis. It is assumed that the majority of risks incept evenly across the period of the facility, however bespoke writing patterns are used for a small number of facilities. Therefore only the proportion of risks incepted at the year end date are reported as written. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums on a risk by risk basis, representing the difference between the written and signed premium, which 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. For policies with recurrent single premiums and a policy term of greater than 12 months, premium is usually written on an annual basis at the anniversary of inception into the youngest year of account up to and including the 2017 year. As a result of the syndicate going into run-off from the 2018 calendar year, premium will continue to be written into the 2017 year of account on an annual basis until the policy expires.

### c) 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 earning patterns are based primarily on time apportionment, with an adjustment for the risk profile of certain classes of business, particularly those exposed to seasonal weather related events. 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, written premium is treated as fully earned from inception, or anniversary of 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 expected claims and expenses less future expected premiums ('mathematical reserves'). Where mathematical reserves for an individual long-term life contract creates a deficit from inception on a best estimate basis, assets will be transferred from the year of account which originally underwrote the business to the year of account carrying the liability in order to maintain equity between capital providers. The assessment for this requirement is made on a 'managed together' basis.

### d) 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.

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 is 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 and regulatory 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.

In the event of catastrophe events, and prior to detailed claims information being available, claims provision estimates are compiled using a combination of output from catastrophe modelling software and detailed reviews of contracts with potential exposure to the event. Estimates are revised as more details become available from the claimants or brokers.

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. For the most recent year of accounts, loss ratios are generally estimated based on the historical performance of the account, expected rate and claim inflation change, and allowance for any changes in underwriting or business mix.

These estimates are subject to rigorous review by senior management from all areas of the business and independent external actuaries.

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.

These are estimated on a quarterly basis, and allows emerging trends to be identified and assists with business decisions. 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 & 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. 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, 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.

The long-term business provision includes an additional expense reserve to cover the future costs associated with maintaining the long-term contracts. The level of expenses is based on a prudent assessment of the expected costs, necessary to maintain the in-force policies.

Further details of the assumptions used are given in note 4 of the annual accounts of Syndicate 308.

### e) 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 risks provision is assessed on a 'managed together' basis. Unexpired risks surpluses and deficits are offset where business classes are managed together and a provision is made if an aggregate deficit arises. The unexpired risks provision is included within other technical provisions.

All reasonable steps are taken to ensure that the appropriate information regarding claims exposures is obtained. The calculation is based upon statistical analyses of historical experience, which assumes that the development pattern of premiums and claims will be similar to past experience. However, given the uncertainty in establishing a provision for unexpired risks, it is likely that the final outcome will prove to be different from the original liability established.

### f) 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.

### g) 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. At each period end foreign currency monetary items are translated using the closing rate. For this purpose all assets and liabilities arising from insurance contracts (including unearned premiums, deferred acquisition costs and unexpired risks provisions) are monetary items.

Foreign exchange gains and losses resulting from the settlement of transactions and from the measurement at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the non-technical account for general business and the technical account for long-term business.

Exchange rates used are as follows:

| | Average rate | | Year end rate | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| US dollar | 1.28 | 1.34 | 1.32 | 1.27 |
| Canadian dollar | 1.69 | 1.73 | 1.72 | 1.74 |

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.

### h) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

### i) Investments

The syndicates have chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

The syndicates classify their financial assets held for investment purposes (investments) into 'shares and other variable-yield securities', 'debt securities and other fixed-income securities', 'deposits with credit institutions' and 'other investments' – 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.

An investment 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 and floating interest rate debt securities, bond exchange traded funds and absolute return funds 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 statement of comprehensive income within 'unrealised gains on investments' or 'unrealised losses on investments' in the period in which they arise.

### j) 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 statement of comprehensive income. 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.

### k) 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 the fair value at the previous balance sheet date, or purchase price if acquired during the year. Unrealised gains and losses on investments represent the difference between the fair value at the balance sheet date and the fair value at the previous balance sheet date, or purchase price if acquired during the year.

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.

**l) 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 quarter-end revalued at market prices.

**m) Financial assets**

Basic financial assets, including receivables and cash at bank and in hand, are initially recognised at transaction price.

Such assets are subsequently carried at amortised cost using the effective interest method. At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the statement of comprehensive income.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

**n) Financial liabilities**

Basic financial liabilities, including trade and other payables, bank loans, loans from fellow Group companies and preference shares that are classified as debt, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

**o) 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.

**p) Pension costs**

Tokio Marine Kiln Syndicates Limited operates a defined contribution scheme. A defined contribution plan is a pension plan under which a fixed contributions is paid into a separate entity. Once the contributions have been paid the Group has no further payment obligations. 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). This fund is valued at the balance sheet date by the scheme actuary.

Tokio Marine Kiln Syndicates Limited allocates a charge to each syndicate during the year which represents that syndicate's yearly share of the obligated funding requirement of the scheme.

**q) 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 calculated after the deduction of a 5% divisional profit share, 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.

**r) Contingencies**

Contingent liabilities arise as a result of past events when either it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date or when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the syndicate's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

Annual report and accounts 2019

# Syndicate 510

## Tokio Marine Kiln Combined Syndicate

# Independent auditors' report to the members of Syndicate 510

## Report on the audit of the syndicate annual accounts

### Opinion

In our opinion, 510's syndicate annual accounts (the "syndicate annual accounts"):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the syndicate annual accounts included within the Annual Report and Accounts 2019 (the "Annual Report"), which comprise: the balance sheet at 31 December 2019, the statement of comprehensive income, the cash flow statement, the statement of changes in members' balances for the year then ended, the accounting policies, and the notes to the syndicate annual accounts, which include other explanatory information.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 and other applicable law.

Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the syndicate annual accounts section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We remained independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual accounts in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the Managing Agent's use of the going concern basis of accounting in the preparation of the syndicate annual accounts is not appropriate; or
- the Managing Agent has not disclosed in the syndicate annual accounts any identified material uncertainties that may cast significant doubt about the syndicate's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the syndicate annual accounts are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the syndicate's ability to continue as a going concern. For example, the terms of the United Kingdom's withdrawal from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the syndicate's business and the wider economy.

### Reporting on other information

The other information comprises all of the information in the Annual Report other than the syndicate annual accounts and our auditors' report thereon. The Managing Agent is responsible for the other information. Our opinion on the syndicate annual accounts does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

In connection with our audit of the syndicate annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate annual accounts or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the syndicate annual accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Report of the Directors of the managing agent (the "Managing Agent's Report"), we also considered whether the disclosures required by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

#### Managing Agent's Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Managing Agent's Report for the year ended 31 December 2019 is consistent with the syndicate annual accounts and has been prepared in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

In light of the knowledge and understanding of the syndicate and its environment obtained in the course of the audit, we did not identify any material misstatements in the Managing Agent's Report.

**Responsibilities for the syndicate annual accounts and the audit**

**Responsibilities of the Managing Agent for the syndicate annual accounts**

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 14, the Managing Agent is responsible for the preparation of the syndicate annual accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Managing Agent is also responsible for such internal control as they determine is necessary to enable the preparation of syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the syndicate annual accounts, the Managing Agent is responsible for assessing the syndicate's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless it is intended for the syndicate to cease operations, or it has no realistic alternative but to do so.

**Auditors' responsibilities for the audit of the syndicate annual accounts**

Our objectives are to obtain reasonable assurance about whether the syndicate annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these syndicate annual accounts.

A further description of our responsibilities for the audit of the syndicate annual accounts is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

**Use of this report**

This report, including the opinion, has been prepared for and only for the syndicate's members as a body in accordance with part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 and for no other purpose. We do not, in giving these opinion, 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.

## Other required reporting

**Other matters on which we are required to report by exception**

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017, 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
- adequate accounting records have not been kept by the Managing Agent in respect of the syndicate; or
- certain disclosures of Managing Agent remuneration specified by law are not made; or
- the syndicate annual accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

**Matthew Nichols**

Senior Statutory Auditor
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
5 March 2020

# Statement of comprehensive income: technical account – general business

for the year ended 31 December 2019

| | Note | 2019 £'000s | 2018 (restated) £'000s |
|---|---|---|---|
| **Earned premiums, net of reinsurance** | | | |
| Gross premiums written | 1 | **1,450,009** | 1,376,729 |
| Outward reinsurance premiums | | **(481,696)** | (373,935) |
| Net premiums written | | **968,313** | 1,002,794 |
| Change in the provision for unearned premiums: | | | |
| Gross amount | | **(12,376)** | (14,797) |
| Reinsurers' share | | **36,854** | 27,560 |
| Change in the net provision for unearned premiums | | **24,478** | 12,763 |
| **Earned premiums, net of reinsurance** | | **992,791** | 1,015,557 |
| **Allocated investment return transferred from the non-technical account** | | **37,849** | 12,269 |
| **Claims incurred, net of reinsurance** | | | |
| Claims paid: | | | |
| Gross amount | | **(752,969)** | (740,169) |
| Reinsurers' share | | **223,460** | 183,649 |
| Net claims paid | | **(529,509)** | (556,520) |
| Change in the provision for claims: | | | |
| Gross amount | | **73,427** | (50,382) |
| Reinsurers' share | | **(24,688)** | (13,227) |
| Change in the net provision for claims | | **48,739** | (63,609) |
| **Claims incurred, net of reinsurance** | | **(480,770)** | (620,129) |
| **Members' standard personal expenses** | | **(17,341)** | (25,987) |
| **Net operating expenses** | 2,3,4 | **(393,538)** | (395,989) |
| **Balance on the technical account for general business** | | **138,991** | (14,279) |

All operations are continuing.

## Statement of comprehensive income: non-technical account

for the year ended 31 December 2019

| | Note | 2019 £'000s | 2018 £'000s |
|---|---|---|---|
| **Balance on the general business technical account** | | **138,991** | (14,279) |
| Investment income | 5 | **27,344** | 18,346 |
| Unrealised gains on investments | 5 | **12,857** | 2,082 |
| Investment expenses and charges | 5 | **(1,266)** | (4,217) |
| Unrealised (losses) on investments | 5 | **(1,086)** | (3,942) |
| Allocated investment return transferred to the general business technical account | 5,6 | **(37,849)** | (12,269) |
| (Loss) on exchange | | **(5,404)** | (9,101) |
| **Result for the financial year** | | **133,587** | (23,380) |

There is no other comprehensive income.

## Balance sheet: assets

as at 31 December 2019

| | Note | 2019 £'000s | 2018 (restated) £'000s |
|---|---|---|---|
| **Investments** | | | |
| Other financial investments | 7 | **874,701** | 854,619 |
| Deposits with ceding undertakings | | **572** | 590 |
| | | **875,273** | 855,209 |
| **Reinsurers' share of technical provisions** | | | |
| Provision for unearned premiums | 8 | **190,289** | 159,060 |
| Claims outstanding | 8,9 | **402,816** | 411,096 |
| | | **593,105** | 570,156 |
| **Debtors** | | | |
| Debtors arising out of direct insurance operations | 10 | **459,696** | 432,801 |
| Debtors arising out of reinsurance operations | | **315,228** | 263,716 |
| Other debtors | | **20,122** | 14,120 |
| | | **795,046** | 710,637 |
| **Other assets** | | | |
| Cash at bank and in hand | | **7,451** | 9,558 |
| Overseas deposits | 11 | **179,074** | 166,924 |
| | | **186,525** | 176,482 |
| **Prepayments and accrued income** | | | |
| Deferred acquisition costs | 12 | **197,131** | 204,008 |
| Other prepayments and accrued income | | **397** | 1,675 |
| | | **197,528** | 205,683 |
| **Total assets** | | **2,647,477** | 2,518,167 |

# Balance sheet: liabilities

as at 31 December 2019

| | Note | 2019 £'000s | 2018 £'000s |
|---|---|---|---|
| **Capital and reserves** | | | |
| Members' balances | | **(159,083)** | (246,995) |
| **Technical provisions** | | | |
| Provision for unearned premiums | 8 | **651,508** | 655,560 |
| Claims outstanding | 8,9 | **1,548,182** | 1,656,196 |
| | | **2,199,690** | 2,311,756 |
| **Deposits received from reinsurers** | | **44,773** | 43,172 |
| **Creditors** | | | |
| Creditors arising out of direct insurance operations | 13 | **90,386** | 72,151 |
| Creditors arising out of reinsurance operations | | **383,143** | 265,554 |
| Other creditors | 14 | **23,852** | 21,145 |
| | | **497,381** | 358,850 |
| **Accruals and deferred income** | | | |
| Reinsurers' share of deferred acquisition costs | 12 | **62,872** | 50,048 |
| Other accruals and deferred income | | **1,844** | 1,336 |
| | | **64,716** | 51,384 |
| **Total liabilities** | | **2,647,477** | 2,518,167 |

The annual accounts, which comprise pages 20 to 43 and the notes and principal accounting policies applicable to all syndicates on pages 15 to 19, were approved by the Board of Tokio Marine Kiln Syndicates Limited on 2 March 2020 and were signed on its behalf by

**Reeken Patel**

Chief Financial Officer
Tokio Marine Kiln Syndicates Limited
5 March 2020

## Statement of changes in members' balances

for the year ended 31 December 2019

| | 2019 £'000s | 2018 £'000s |
|---|---|---|
| Members' balances brought forward at 1 January | **(246,995)** | (106,622) |
| Profit/(loss) for the financial year | **133,587** | (23,380) |
| Payments of profit to members' personal reserve funds | **(42,995)** | (114,280) |
| Members' agents' fee advances | **(2,680)** | (2,713) |
| Members' balances carried forward at 31 December | **(159,083)** | (246,995) |

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.

# Cash flow statement

for the year ended 31 December 2019

| | Note | 2019 £'000s | 2018 (restated) £'000s |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Operating profit/(loss) on ordinary activities | | **133,587** | (23,380) |
| (Decrease)/increase in gross technical provisions | | **(112,066)** | 145,349 |
| (Increase) in reinsurers' share of technical provisions | | **(22,949)** | (38,188) |
| (Increase) in debtors | | **(76,254)** | (44,989) |
| Increase in creditors | | **151,863** | 25,268 |
| Unrealised foreign currency (gains) | | **(13,353)** | (17,176) |
| Investment return | | **(37,849)** | (12,269) |
| **Net cash inflow from operating activities** | | **22,979** | 34,615 |
| **Cash flows from investing activities:** | | | |
| (Purchase) of shares and other variable yield securities | | **(28,518)** | (21,555) |
| (Purchase) of debt securities and other fixed income securities | | **(433,948)** | (310,505) |
| Sale of debt securities and other fixed income securities | | **454,822** | 375,322 |
| Sale of derivatives | | **257** | 171 |
| Investment income received | | **27,192** | 15,642 |
| Other | | **8,236** | 38,137 |
| **Net cash inflow from investing activities** | | **28,041** | 97,212 |
| **Cash flows from financing activities:** | | | |
| Transfer to members in respect of underwriting participations | | **(42,995)** | (114,280) |
| Members' agents' fees paid on behalf of members | | **(2,680)** | (2,713) |
| **Net cash (outflow) from financing activities** | | **(45,675)** | (116,993) |
| **Net increase in cash and cash equivalents** | | **5,345** | 14,834 |
| Cash and cash equivalents at beginning of year | | **183,950** | 171,941 |
| Foreign exchange (losses) on cash and cash equivalents | | **(2,770)** | (2,825) |
| Cash and cash equivalents at end of year | | **186,525** | 183,950 |
| **Cash and cash equivalents consists of:** | | | |
| Cash at bank and in hand | | **7,451** | 9,558 |
| Overseas deposits | 11 | **179,074** | 166,924 |
| Short-term deposits presented within other financial investments | | **–** | 7,468 |
| **Cash and cash equivalents at end of year** | | **186,525** | 183,950 |

# Notes to the accounts

as at 31 December 2019

## 1. Segmental analysis

An analysis of the result before investment return and profit or loss on exchange is set out below:

| 2019 | Gross premium written £'000s | Gross premium earned £'000s | Gross incurred claims £'000s | Gross operating expenses £'000s | Reinsurance balance £'000s | Total £'000s |
|---|---|---|---|---|---|---|
| Division: | | | | | | |
| Property & Special Lines | **842,274** | **811,025** | **(407,220)** | **(306,256)** | **(50,012)** | **47,537** |
| Marine & Special Risks | **165,741** | **187,508** | **(84,212)** | **(66,654)** | **(8,815)** | **27,827** |
| Accident & Health | **115,961** | **120,440** | **(73,599)** | **(47,147)** | **(1,549)** | **(1,855)** |
| Reinsurance | **102,648** | **104,598** | **(7,654)** | **(27,829)** | **(57,493)** | **11,622** |
| Enterprise Risk | **156,808** | **150,724** | **(84,172)** | **(66,804)** | **422** | **170** |
| Aviation | **66,555** | **63,317** | **(26,243)** | **(26,195)** | **1,172** | **12,051** |
| Syndicate 807 run-off | **22** | **21** | **3,558** | **–** | **211** | **3,790** |
| | **1,450,009** | **1,437,633** | **(679,542)** | **(540,885)** | **(116,064)** | **101,142** |

The divisions accepted the following inwards reinsurance business as a proportion of gross written premium: Reinsurance (100%); Aviation (30.9%); Accident & Health (26.3%); Property & Special Lines (16.7%); Marine & Special Risks (13.3%) and Enterprise Risk (9.8%).

| 2018 | Gross premium written £'000s | Gross premium earned £'000s | Gross incurred claims £'000s | Gross operating expenses £'000s | Reinsurance balance £'000s | Total £'000s |
|---|---|---|---|---|---|---|
| Division: | | | | | | |
| Property & Special Lines | 764,233 | 750,225 | (490,712) | (287,738) | (9,115) | (37,340) |
| Marine & Special Risks | 204,078 | 203,541 | (126,507) | (71,179) | (7,065) | (1,210) |
| Accident & Health | 126,975 | 139,013 | (75,472) | (55,692) | (3,488) | 4,361 |
| Reinsurance | 95,710 | 96,306 | (31,409) | (29,284) | (27,841) | 7,772 |
| Enterprise Risk | 129,571 | 116,980 | (71,207) | (54,148) | 1,875 | (6,500) |
| Aviation | 56,086 | 55,791 | 4,610 | (21,421) | (32,841) | 6,139 |
| Syndicate 807 run-off | 76 | 76 | 146 | – | 8 | 230 |
| | 1,376,729 | 1,361,932 | (790,551) | (519,462) | (78,467) | (26,548) |

The divisions accepted the following inwards reinsurance business as a proportion of gross written premium: Reinsurance (100%); Aviation (26.9%); Accident & Health (27.7%); Marine & Special Risks (11.8%); Property & Special Lines (11.9%) and Enterprise Risk (11.0%).

Of the direct business written, each division accepted premium as classified in The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 as follows:

- Property & Special Lines – 66% fire and other damage to property (2018: 62%), 15% third party liability (2018: 21%), 7% motor (other classes) (2018: 7%) and 1% motor (third party liability) (2018: 2%)
- Marine & Special Risks – 28% marine, aviation and transport (2018: 44%), 26% pecuniary loss (2018: 26%), 21% third party liability (2018: 9%) and 16% fire and other damage to property (2018: 13%)
- Accident & Health – 62% accident and health (2018: 80%); 18% fire and other damage to property (2018: 13%) and 14% pecuniary loss (2018: 1%)
- Enterprise Risk – 98% third party liability (2018: 96%)
- Aviation – 100% marine, aviation and transport (2018: 100%)

All business was concluded in the UK.

The total commission payable on direct business was £380,094,586 (2018: £368,863,978).

The geographical analysis of premium by location of the client is below.

| | 2019 £'000s | 2018 £'000s |
|---|---|---|
| UK | **141,323** | 158,666 |
| Other EU countries | **91,996** | 126,718 |
| US | **545,098** | 616,772 |
| Canada | **206,082** | 172,191 |
| Other | **465,510** | 302,382 |
| | **1,450,009** | 1,376,729 |

## 2. Net operating expenses

| | 2019 £'000s | 2018 £'000s |
|---|---|---|
| Acquisition costs | **430,493** | 415,099 |
| Change in deferred acquisition costs | **2,094** | (6,065) |
| Administrative expenses | **90,957** | 84,441 |
| Gross operating expenses | **523,544** | 493,475 |
| Reinsurance commissions and profit participations | **(130,006)** | (97,486) |
| | **393,538** | 395,989 |

Included within administrative expenses is auditors' remuneration:

| | 2019 £'000s | 2018 £'000s |
|---|---|---|
| Audit services: | | |
| Fees payable to the syndicate's auditor for the audit of the syndicate annual accounts | **189** | 151 |
| Other services: | | |
| Other services pursuant to legislation | **361** | 340 |
| All other services | **154** | – |
| | **704** | 491 |

The charge incurred for other services pursuant to legislation relates to the audit and review of the syndicate's regulatory returns and the provision of statement of actuarial opinion on the reserves. The charge incurred for all other services relates to the review of underwriting controls and model validations.

### 3. Staff costs

The syndicate and its managing agent have no employees. 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:

| | **2019 £'000s** | **2018 £'000s** |
|---|---|---|
| Wages and salaries | **29,090** | 29,648 |
| Social security costs | **3,058** | 2,911 |
| Other pension costs | **3,059** | 2,710 |
| | **35,207** | 35,269 |

Of this amount £116,886 (2018: £151,047) 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:

| | **2019 £'000s** | **2018 £'000s** |
|---|---|---|
| Net charge from managing agent during year | **1,138** | 1,138 |
| Amount funded in year | **1,138** | 1,138 |

### 4. 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, and the group's share of the underwriting result through 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:

| | **2019 £'000s** | **2018 £'000s** |
|---|---|---|
| Emoluments | **1,288** | 1,978 |

Of the above amount, £843,996 (2018: £978,652) 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:

| | **2019 £'000s** | **2018 £'000s** |
|---|---|---|
| Emoluments | **1,118** | 367 |

The profit commission included within the emoluments is in relation to the 2016 year of account (2018: 2015 YOA), as the allocation to underwriters was only determined following its closure.

## 5. Investment income and expenses

| | 2019 £'000s | 2018 £'000s |
|---|---|---|
| Investment income: | | |
| Income from investments | **23,028** | 17,772 |
| Realised gains on investments | **4,316** | 574 |
| Unrealised gains on investments | **12,857** | 2,082 |
| Investment expenses: | | |
| Investment management expenses, including interest | **(1,114)** | (1,513) |
| Realised losses on investments | **(152)** | (2,704) |
| Unrealised losses on investments | **(1,086)** | (3,942) |
| | **37,849** | 12,269 |

## 6. Calendar year investment yield

| | 2019 £'000s | 2018 £'000s |
|---|---|---|
| Average amount of syndicate funds during the year: | | |
| Sterling fund | **71,634** | 58,805 |
| US dollar fund | **549,542** | 505,815 |
| Canadian dollar fund | **282,811** | 335,739 |
| Euro fund | **88,104** | 76,174 |
| Aggregate gross investment return: | | |
| Before investment expenses | **38,963** | 13,782 |
| After investment expenses | **37,849** | 12,269 |
| Calendar year investment yield: | **%** | % |
| Before investment expenses | **3.9** | 1.4 |
| After investment expenses | **3.8** | 1.3 |
| Analysis of calendar year investment yield by fund: | **%** | % |
| Sterling fund | **4.0** | 1.9 |
| US dollar fund | **4.5** | 1.3 |
| Canadian dollar fund | **2.7** | 1.8 |
| Euro fund | **3.2** | (1.7) |

The sterling fund balance includes investments held in all currencies other than US dollars, Canadian dollars and Euros.

## 7. Other financial investments

| | Fair value | | Purchase price | |
|---|---|---|---|---|
| | 2019 £'000s | 2018 £'000s | 2019 £'000s | 2018 £'000s |
| Shares and other variable yield securities | **184,588** | 228,758 | **182,036** | 231,042 |
| Debt securities and other fixed income securities | **683,514** | 620,200 | **670,929** | 616,461 |
| Deposits with credit institutions | **6,396** | 5,192 | **6,396** | 5,192 |
| Other investments | **203** | 469 | **–** | – |
| | **874,701** | 854,619 | **859,361** | 852,695 |

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

Other investments are comprised of forward currency contracts.

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 2019 was £1,363,276 (2018: £85,629,092).

## 8. Reconciliation of insurance balances

The reconciliation of the opening and closing provision for unearned premiums is as follows:

| | Gross | | Reinsurers' share | |
|---|---|---|---|---|
| | 2019 £'000s | 2018 £'000s | 2019 £'000s | 2018 £'000s |
| **At 1 January** | **655,560** | 617,684 | **(159,060)** | (124,577) |
| Premiums written during the year | **1,450,009** | 1,376,729 | **(481,696)** | (373,935) |
| Premiums earned during the year | **(1,437,633)** | (1,361,932) | **444,842** | 346,375 |
| Foreign exchange adjustments | **(16,428)** | 23,079 | **5,625** | (6,923) |
| **At 31 December** | **651,508** | 655,560 | **(190,289)** | (159,060) |

The reconciliation of the opening and closing provision for claims outstanding is as follows:

| | Gross | | Reinsurers' share | |
|---|---|---|---|---|
| | 2019 £'000s | 2018 £'000s | 2019 £'000s | 2018 (restated) £'000s |
| **At 1 January** | **1,656,196** | 1,548,723 | **(411,096)** | (407,391) |
| Claims incurred during the year | **679,542** | 790,551 | **(198,772)** | (170,422) |
| Claims paid during the year | **(752,969)** | (740,169) | **223,460** | 183,649 |
| Foreign exchange adjustments | **(34,587)** | 57,091 | **10,625** | (16,932) |
| Change in provision in respect of prior claims | **-** | - | **(27,033)** | - |
| **At 31 December** | **1,548,182** | 1,656,196 | **(402,816)** | (411,096) |

## 9. Claims outstanding

Within the calendar year technical result, a surplus of £59.0m (2018: £7.2m) relates to the reassessment of net claims incurred for previous accident years.

The following tables show the development of gross and net claims incurred including IBNR and the claims handling provision over the last nine years and include the historical development of Syndicate 807 which was reinsured to close into the 2012 year of account. The claims development tables are prepared on an underwriting year of account basis, and therefore reflect the pattern of earned premium and risk exposure over a number of years. All figures are shown converted at current year-end rates.

### Gross of reinsurance

| Year of Account | 2010 and prior £m | 2011 £m | 2012 £m | 2013 £m | 2014 £m | 2015 £m | 2016 £m | 2017 £m | 2018 £m | 2019 £m | Total £m |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Year 1 | | 360.7 | 439.4 | 302.7 | 323.6 | 271.1 | 346.6 | 612.7 | 439.5 | 332.9 | |
| Year 2 | | 655.5 | 703.6 | 620.5 | 629.8 | 611.8 | 775.4 | 1,008.4 | 814.0 | | |
| Year 3 | | 655.3 | 724.8 | 641.0 | 648.3 | 626.7 | 816.8 | 1,054.8 | | | |
| Year 4 | | 645.6 | 721.1 | 634.3 | 649.4 | 631.0 | 798.4 | | | | |
| Year 5 | | 628.6 | 720.5 | 622.9 | 640.7 | 611.0 | | | | | |
| Year 6 | | 619.8 | 713.2 | 613.0 | 618.4 | | | | | | |
| Year 7 | | 611.6 | 705.9 | 607.1 | | | | | | | |
| Year 8 | | 609.6 | 694.4 | | | | | | | | |
| Year 9 | | 607.3 | | | | | | | | | |
| Cumulative claims paid | | 590.9 | 665.7 | 571.1 | 532.5 | 509.9 | 606.9 | 704.4 | 391.3 | 70.1 | |
| Outstanding claims reserve | 52.7 | 16.4 | 28.7 | 36.0 | 85.9 | 101.1 | 191.5 | 350.4 | 422.7 | 262.8 | 1,548.2 |

### Net of reinsurance

| Year of Account | 2010 and prior £m | 2011 £m | 2012 £m | 2013 £m | 2014 £m | 2015 £m | 2016 £m | 2017 £m | 2018 £m | 2019 £m | Total £m |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Year 1 | | 280.8 | 314.8 | 250.3 | 247.9 | 236.4 | 278.0 | 403.5 | 307.4 | 241.1 | |
| Year 2 | | 553.4 | 549.5 | 511.9 | 516.6 | 523.2 | 631.5 | 727.3 | 583.0 | | |
| Year 3 | | 573.7 | 562.2 | 525.3 | 533.3 | 537.2 | 662.4 | 751.8 | | | |
| Year 4 | | 544.3 | 557.9 | 517.7 | 522.8 | 543.9 | 653.2 | | | | |
| Year 5 | | 528.7 | 555.5 | 512.8 | 515.6 | 527.2 | | | | | |
| Year 6 | | 520.8 | 549.1 | 502.4 | 499.5 | | | | | | |
| Year 7 | | 513.9 | 544.3 | 496.3 | | | | | | | |
| Year 8 | | 512.5 | 536.3 | | | | | | | | |
| Year 9 | | 509.6 | | | | | | | | | |
| Cumulative claims paid | | 498.4 | 513.2 | 464.2 | 442.8 | 443.5 | 500.4 | 500.5 | 269.9 | 51.5 | |
| Outstanding claims reserve | 31.9 | 11.1 | 23.1 | 32.1 | 56.7 | 83.7 | 152.8 | 251.3 | 313.1 | 189.6 | 1,145.4 |

### 10. Debtors arising out of direct insurance operations

| | 2019 £'000s | 2018 £'000s |
|---|---|---|
| Amounts due from intermediaries within one year | **450,882** | 423,444 |
| Amounts due from intermediaries after one year | **8,814** | 9,357 |
| | **459,696** | 432,801 |

### 11. Overseas deposits

Overseas deposits are lodged as a condition of conducting underwriting business in certain countries.

### 12. Reconciliation of deferred acquisition costs

The reconciliation of the opening and closing deferred acquisition costs is as follows:

| | Gross | | Reinsurers' share | |
|---|---|---|---|---|
| | 2019 £'000s | 2018 £'000s | 2019 £'000s | 2018 £'000s |
| **At 1 January** | **204,008** | 191,146 | **(50,048)** | (34,891) |
| Expenses for the acquisition of insurance contracts deferred during the year | **430,493** | 415,099 | **(144,782)** | (110,330) |
| Amortisation | **(432,587)** | (409,034) | **130,006** | 97,486 |
| Foreign exchange adjustments | **(4,783)** | 6,797 | **1,952** | (2,313) |
| **At 31 December** | **197,131** | 204,008 | **(62,872)** | (50,048) |

### 13. Creditors arising out of direct insurance operations

| | 2019 £'000s | 2018 £'000s |
|---|---|---|
| Amounts due to intermediaries within one year | **88,555** | 69,403 |
| Amounts due to intermediaries after one year | **1,831** | 2,748 |
| | **90,386** | 72,151 |

### 14. Other creditors

The following balances are included within other creditors:

| | 2019 £'000s | 2018 £'000s |
|---|---|---|
| Forward currency contracts – held to maturity | **111** | 48 |
| | **111** | 48 |

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 2019 was £5,735,567 (2018: £3,461,527). The above balances are stated at fair value.

## 15. 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 2019 calendar year of £27,607,961 (2018: £4,527,846). The unpaid premiums due from related parties at the period end were £13,499,167 (2018: £7,152,947). The outstanding claims (excluding IBNR) were £5,743,809 (2018: £9,261,729). Written premiums ceded by Syndicate 510 to related parties for the 2019 calendar year were £115,408,343 (2018: £96,627,532). Paid recoveries from related parties during the period were £48,613,093 (2018: £67,173,118). Unpaid recoveries at the period end amounted to £77,400,207 (2018: £60,433,843) and future recoveries on outstanding claims (including IBNR) were £144,627,400 (2018: £206,102,887).

Treaty profit commission due to Syndicate 510 from related parties for the 2019 calendar year was £nil (2018: £nil). Profit commissions received from related parties during the period were £nil (2018: £nil). Profit commission receivable at the period end amounted to £nil (2018: £nil).

The syndicate received business through the following service and related companies whose investments were 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 investment in Ibex was impaired during the year. The impairment loss recognised and charged to Syndicate 510 was £0.3m.

The syndicate also received business through Tokio Marine Kiln Europe S.A. which was 100% owned by Tokio Marine Kiln Group Limited until its sale on 26 November 2019, WNC Insurance Services, Inc., whose parent WNC Holding Company, LP was 100% owned within the Tokio Marine Kiln Group as at 31 December 2019 and NAS Insurance Services, Inc. which was 49% owned within the Tokio Marine Kiln Group until its sale on 1 April 2019. Profit commission on inwards business of £372,678 was paid to related parties for the 2019 calendar year (2018: £487,912) and profit commission payable was £222,279 as at the balance sheet date (2018: £nil).

Profit commission of £3,063,557 was payable by the syndicate to Tokio Marine Kiln Syndicates Limited in respect of the 2019 calendar year (2018: £8,947,483) 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 £8,366,908 (2018: £8,386,051) were paid by the syndicate to Tokio Marine Kiln Syndicates Limited. In addition to this, expenses of £72,381,345 (2018: £67,815,2590) were paid to Tokio Marine Kiln Syndicates Limited for expenses paid on behalf of the syndicate.

The note on related parties on page 12 provides further information regarding all syndicates and related parties.

## 16. Prior year restatement

A prior year restatement has been included in the accounts to update for a presentational inconsistency in the treatment of certain insurance linked security (ILS) reinsurance contracts between the financial years ending 31 December 2018 and 31 December 2019. The restatement has no impact on the reported result, net assets, members' balances or key financial performance indicators of the syndicate in either financial year. The restatement is presentational in nature and increases the reinsurers' share of claims paid and decreases the reinsurers' share of the change in the provision for claims by £25.6m on the statement of comprehensive income. It decreases the reinsurers' share of claims outstanding and increases the debtors arising out of reinsurance operations by £27.0m on the balance sheet. It increases the increase in reinsurers' share of technical provisions and decreases the increase in debtors by £27.0m on the cash flow statement.

## 17. Risk management

Details of the syndicate's risk management framework are given in the 'principal risks and uncertainties section' on pages 8 to 12.

### a) Insurance risk

Further details on the management of the syndicate's insurance risk are given on page 9.

#### 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 £14.4m (2018: £13.6m) 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 £2.2m (2018: £2.1m). A decrease of 1% would result in £14.4m (2018: £13.6m) less premium being reported and an estimated £2.2m (2018: £2.1m) 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 2019 is 48% (2018: 61%). 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 £9.9m (2018: £10.2m) and the result reducing by £9.9m (2018: £10.2m).

### 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 risks please refer to page 10.

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

| 2019 | AAA £'000s | AA £'000s | A £'000s | <A £'000s | NR £'000s | Total £'000s |
|---|---|---|---|---|---|---|
| Financial investments: | | | | | | |
| Other financial investments | 248,714 | 197,896 | 270,402 | 16,492 | 141,197 | 874,701 |
| Overseas deposits | 86,287 | 39,758 | 24,342 | 27,554 | 1,133 | 179,074 |
| Deposits with ceding undertakings | – | – | – | – | 572 | 572 |
| Cash at bank and in hand | – | – | 4,943 | 2,508 | – | 7,451 |
| Reinsurers' share of outstanding claims including reinsurers' IBNR | – | 64,944 | 214,406 | 1 | 123,465 | 402,816 |
| Reinsurance recoverable on paid claims neither due nor impaired | – | 4,237 | 31,220 | 155 | 58,377 | 93,989 |
| | 335,001 | 306,835 | 545,313 | 46,710 | 324,744 | 1,558,603 |

| 2018 (restated) | AAA £'000s | AA £'000s | A £'000s | <A £'000s | NR £'000s | Total £'000s |
|---|---|---|---|---|---|---|
| Financial investments: | | | | | | |
| Other financial investments | 262,506 | 184,803 | 198,161 | 7,882 | 201,267 | 854,619 |
| Overseas deposits | 75,732 | 41,183 | 21,077 | 28,588 | 344 | 166,924 |
| Deposits with ceding undertakings | – | – | – | – | 590 | 590 |
| Cash at bank and in hand | – | – | 7,021 | 2,537 | – | 9,558 |
| Reinsurers' share of outstanding claims including reinsurers' IBNR | – | 69,647 | 243,959 | 2 | 97,488 | 411,096 |
| Reinsurance recoverable on paid claims neither due nor impaired | – | 2,725 | 16,596 | – | 42,837 | 62,158 |
| | 338,238 | 298,358 | 486,814 | 39,009 | 342,526 | 1,504,945 |

Of the total reinsurers' share of outstanding claims including reinsurers' IBNR, 11.1% (2018 restated: 10.5%) 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.

In respect of the reinsurers' share of claims, there are collateralised agreement with reinsurers including ILS arrangements, which comprise letters of credit and trust accounts totalling $822.6m (2018: $876.4m).

The largest potential reinsurance credit exposure to the syndicate at 31 December 2019 was 10.5% (2018: 21.2%) with Tokio Marine & Nichido Fire Insurance Co. Ltd, which is an AAA rated security. The Outwards Reinsurance team of the managing agent reviews the level of this exposure and takes appropriate action where necessary. This includes requesting a letter of credit for all reinsurers, related parties included.

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

| 2019 | Fully performing £'000s | Past due £'000s | Impairment £'000s | Total £'000s |
|---|---|---|---|---|
| Financial investments: | | | | |
| Other financial investments | **874,701** | – | – | **874,701** |
| Overseas deposits | **179,074** | – | – | **179,074** |
| Deposits with ceding undertakings | **572** | – | – | **572** |
| Cash at bank and in hand | **7,451** | – | – | **7,451** |
| Reinsurers' share of outstanding claims including reinsurers' IBNR | **402,816** | – | – | **402,816** |
| Insurance debtors | **414,161** | **45,535** | – | **459,696** |
| Reinsurance recoverable on paid claims | **93,989** | **6,660** | – | **100,649** |
| Other debtors | **622,518** | – | – | **622,518** |
| | **2,595,282** | **52,195** | – | **2,647,477** |

| 2018 (restated) | Fully performing £'000s | Past due £'000s | Impairment £'000s | Total £'000s |
|---|---|---|---|---|
| Financial investments: | | | | |
| Other financial investments | 854,619 | – | – | 854,619 |
| Overseas deposits | 166,924 | – | – | 166,924 |
| Deposits with ceding undertakings | 590 | – | – | 590 |
| Cash at bank and in hand | 9,558 | – | – | 9,558 |
| Reinsurers' share of outstanding claims including reinsurers' IBNR | 411,096 | – | – | 411,096 |
| Insurance debtors | 387,308 | 45,493 | – | 432,801 |
| Reinsurance recoverable on paid claims | 62,158 | 5,638 | – | 67,796 |
| Other debtors | 574,783 | – | – | 574,783 |
| | 2,467,036 | 51,131 | – | 2,518,167 |

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 statement of comprehensive income 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 10.

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 2019 the balance held in these trust funds was US$587.4m (2018: US$437.1m) and Canadian $365.7m (2018: Canadian $511.0m).

The following table analyses the financial liabilities and claims outstanding into their relevant maturity groups based on the remaining period at the year end date to their contractual maturities or expected settlement dates. The projected settlement of claims outstanding is modelled using actuarial techniques. These estimates assume that future claims settlement patterns will be broadly similar to those experienced in the past.

| 2019 | Up to 1 year £'000s | 1–3 years £'000s | 3–5 years £'000s | Over 5 years £'000s | Total £'000s |
|---|---|---|---|---|---|
| Forward currency contracts | 111 | – | – | – | 111 |
| Deposits received from reinsurers | 44,773 | – | – | – | 44,773 |
| Creditors | 475,046 | 9,368 | 12,856 | – | 497,270 |
| Financial liabilities | 519,930 | 9,368 | 12,856 | – | 542,154 |
| Claims outstanding | 583,748 | 528,738 | 226,610 | 209,086 | 1,548,182 |
| Financial liabilities and claims outstanding | 1,103,678 | 538,106 | 239,466 | 209,086 | 2,090,336 |

| 2018 | Up to 1 year £'000s | 1–3 years £'000s | 3–5 years £'000s | Over 5 years £'000s | Total £'000s |
|---|---|---|---|---|---|
| Forward currency contracts | 48 | – | – | – | 48 |
| Deposits received from reinsurers | 43,172 | – | – | – | 43,172 |
| Creditors | 326,801 | 18,768 | 13,233 | – | 358,802 |
| Financial liabilities | 370,021 | 18,768 | 13,233 | – | 402,022 |
| Claims outstanding | 654,294 | 554,859 | 232,398 | 214,645 | 1,656,196 |
| Financial liabilities and claims outstanding | 1,024,315 | 573,627 | 245,631 | 214,645 | 2,058,218 |

### Foreign currency market risk

For further details of the management of the syndicate's market risk please refer to page 10.

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. Certain other currencies are held for regulatory purposes. The majority of the syndicate's financial assets are 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.

Foreign currency liquidity and exposure for the syndicate is the responsibility of the Chief Financial Officer. Strategy is recommended and agreed 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, hedges 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 assurance 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 as a result of protecting the net asset position in the Canadian dollar and 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 and net assets. 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.

The following table gives an indication of the impact on the result and net assets or liabilities of a ten percent change in the relative strength of the pound sterling against the value of the US dollar and Canadian dollar, excluding the effect of hedges.

| | 2019<br>£'000s | 2018<br>£'000s |
|---|---|---|
| Sterling strengthens 10% against US dollar | **(4,165)** | 1,698 |
| Sterling strengthens 10% against Canadian dollar | **(3,197)** | (2,324) |
| Sterling weakens 10% against US dollar | **4,165** | (1,698) |
| Sterling weakens 10% against Canadian dollar | **3,197** | 2,324 |

### Interest rate market risk

For further details of the management of the syndicate's market risk please refer to page 10.

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 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 net assets or liabilities of a 50 basis point movement in interest rates on the market value of the syndicate's investments.

| | 2019<br>£'000s | 2018<br>£'000s |
|---|---|---|
| Impact of 50 basis point increase on result | **(8,278)** | (7,011) |
| Impact of 50 basis point decrease on result | **8,171** | 7,321 |
| Impact of 50 basis point increase on net assets | **(8,278)** | (7,011) |
| Impact of 50 basis point decrease on net assets | **8,171** | 7,321 |

### Capital management

Disclosures on capital management can be found on page 8 to 9.

### 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, money market and open-ended funds. These fair values have been derived from market observable inputs.
- The fair value for level 3 financial instruments is derived from inputs that are not observable. The syndicate held a mandatory loan with Lloyd's in relation to funding Lloyd's Brussels as at 31 December 2019.

| 2019 | Level 1 £'000s | Level 2 £'000s | Level 3 £'000s | Total £'000s |
|---|---|---|---|---|
| Derivative financial instruments: | | | | |
| Forward currency derivatives – assets | 203 | – | – | 203 |
| Forward currency derivatives – liabilities | (111) | – | – | (111) |
| Shares and other variable yield securities | – | 180,158 | 4,430 | 184,588 |
| Debt securities and other fixed income securities | 98,337 | 585,177 | – | 683,514 |
| Loans and deposits with credit institutions | 6,396 | – | – | 6,396 |
| Overseas deposits | 110,072 | 69,002 | – | 179,074 |
| | 214,897 | 834,337 | 4,430 | 1,053,664 |

| 2018 | Level 1 £'000s | Level 2 £'000s | Level 3 £'000s | Total £'000s |
|---|---|---|---|---|
| Derivative financial instruments: | | | | |
| Forward currency derivatives – assets | 469 | – | – | 469 |
| Forward currency derivatives – liabilities | (48) | – | – | (48) |
| Shares and other variable yield securities | – | 228,758 | – | 228,758 |
| Debt securities and other fixed income securities | 213,077 | 407,123 | – | 620,200 |
| Loans and deposits with credit institutions | 5,192 | – | – | 5,192 |
| Overseas deposits | 100,348 | 66,576 | – | 166,924 |
| | 319,038 | 702,457 | – | 1,021,495 |

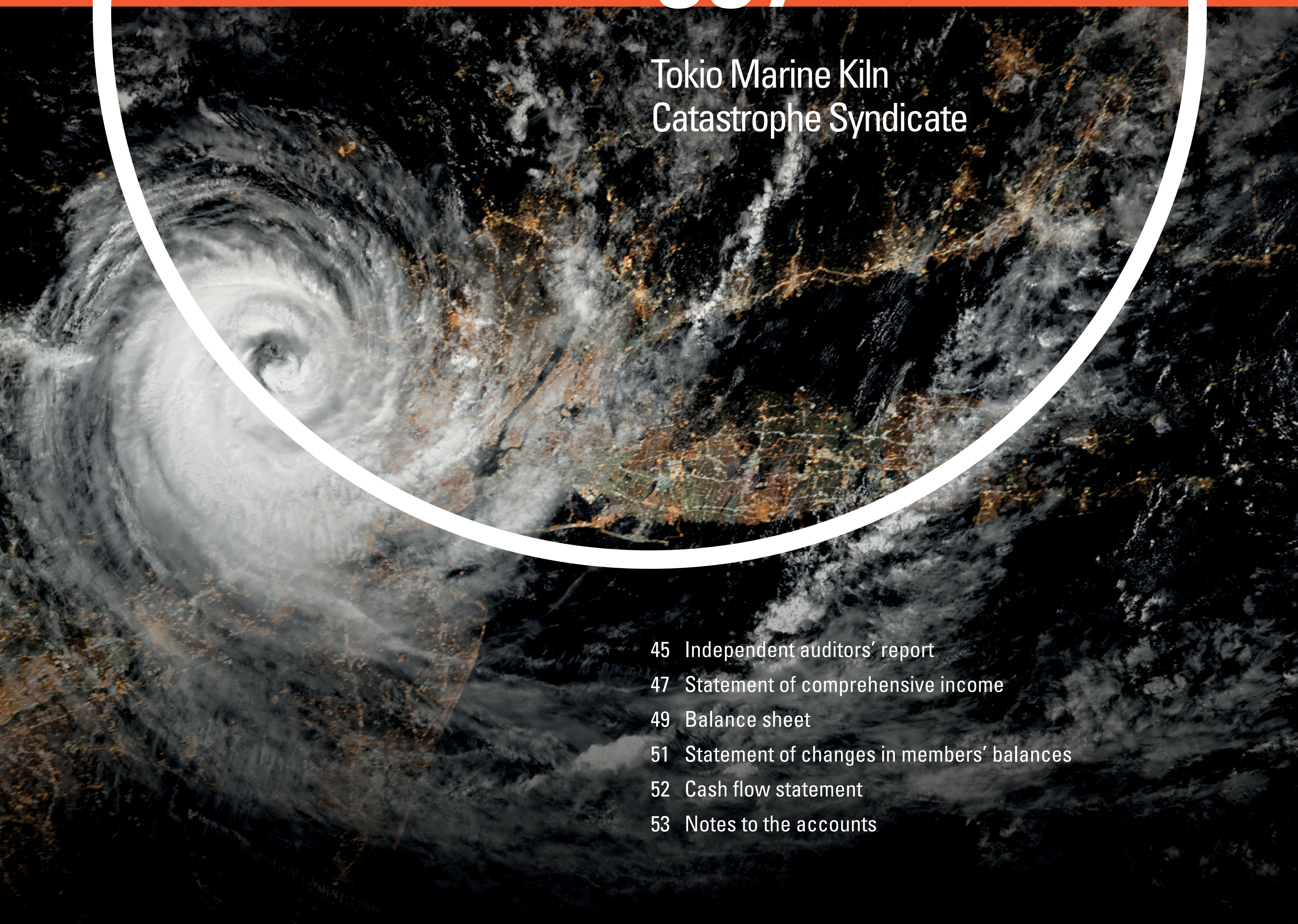
At 31 December 2019 the syndicate held forward currency contracts, for which the fair value is a net asset of £91,583 (2018: £419,777) with the gain going through investment income in the statement of comprehensive income.

| Level 3 financial instruments | 2019 £'000s | 2018 £'000s |
|---|---|---|
| Opening balance | – | – |
| Purchases during the year | 4,267 | – |
| Gains recognised in the statement of comprehensive income | 163 | – |
| Closing balance | 4,430 | – |

Annual report and accounts 2019

# Syndicate 557

Tokio Marine Kiln
Catastrophe Syndicate



# Independent auditors' report to the members of Syndicate 557

## Report on the audit of the syndicate annual accounts

### Opinion

In our opinion, 557's syndicate annual accounts (the "syndicate annual accounts"):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the syndicate annual accounts included within the Annual Report and Accounts 2019 (the "Annual Report"), which comprise: the balance sheet at 31 December 2019, the statement of comprehensive income, the cash flow statement, the statement of changes in members' balances for the year then ended, the accounting policies, and the notes to the syndicate annual accounts, which include other explanatory information.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 and other applicable law.

Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the syndicate annual accounts section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We remained independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual accounts in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the Managing Agent's use of the going concern basis of accounting in the preparation of the syndicate annual accounts is not appropriate; or
- the Managing Agent has not disclosed in the syndicate annual accounts any identified material uncertainties that may cast significant doubt about the syndicate's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the syndicate annual accounts are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the syndicate's ability to continue as a going concern. For example, the terms of the United Kingdom's withdrawal from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the syndicate's business and the wider economy.

### Reporting on other information

The other information comprises all of the information in the Annual Report other than the syndicate annual accounts and our auditors' report thereon. The Managing Agent is responsible for the other information. Our opinion on the syndicate annual accounts does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

In connection with our audit of the syndicate annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate annual accounts or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the syndicate annual accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Report of the Directors of the managing agent (the "Managing Agent's Report"), we also considered whether the disclosures required by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

#### Managing Agent's Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Managing Agent's Report for the year ended 31 December 2019 is consistent with the syndicate annual accounts and has been prepared in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

In light of the knowledge and understanding of the syndicate and its environment obtained in the course of the audit, we did not identify any material misstatements in the Managing Agent's Report.

### Responsibilities for the syndicate annual accounts and the audit

#### Responsibilities of the Managing Agent for the syndicate annual accounts

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 14, the Managing Agent is responsible for the preparation of the syndicate annual accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Managing Agent is also responsible for such internal control as they determine is necessary to enable the preparation of syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the syndicate annual accounts, the Managing Agent is responsible for assessing the syndicate's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless it is intended for the syndicate to cease operations, or it has no realistic alternative but to do so.

#### Auditors' responsibilities for the audit of the syndicate annual accounts

Our objectives are to obtain reasonable assurance about whether the syndicate annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these syndicate annual accounts.

A further description of our responsibilities for the audit of the syndicate annual accounts is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

#### Use of this report

This report, including the opinion, has been prepared for and only for the syndicate's members as a body in accordance with part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 and for no other purpose. We do not, in giving these opinion, 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.

## Other required reporting

### Other matters on which we are required to report by exception

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017, 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
- adequate accounting records have not been kept by the Managing Agent in respect of the syndicate; or
- certain disclosures of Managing Agent remuneration specified by law are not made; or
- the syndicate annual accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

**Matthew Nichols**

(Senior statutory auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
5 March 2020

# Statement of comprehensive income: technical account – general business

for the year ended 31 December 2019

| | Note | 2019 £'000s | 2018 £'000s |
|---|---|---|---|
| **Earned premiums, net of reinsurance** | | | |
| Gross premiums written | 1 | **16,887** | 15,845 |
| Outward reinsurance premiums | | **(2,021)** | (2,010) |
| Net premiums written | | **14,866** | 13,835 |
| Change in the provision for unearned premiums: | | | |
| Gross amount | | **150** | 108 |
| Reinsurers' share | | **–** | – |
| Change in the net provision for unearned premiums | | **150** | 108 |
| **Earned premiums, net of reinsurance** | | **15,016** | 13,943 |
| **Allocated investment return transferred from the non-technical account** | | **1,091** | 433 |
| **Claims incurred, net of reinsurance** | | | |
| Claims paid: | | | |
| Gross amount | | **(9,176)** | (10,741) |
| Reinsurers' share | | **177** | 421 |
| Net claims paid | | **(8,999)** | (10,320) |
| Change in the provision for claims: | | | |
| Gross amount | | **8,467** | 6,476 |
| Reinsurers' share | | **(176)** | (757) |
| Change in the net provision for claims | | **8,291** | 5,719 |
| **Claims incurred, net of reinsurance** | | **(708)** | (4,601) |
| **Members' standard personal expenses** | | **(406)** | (1,167) |
| **Net operating expenses** | 2,3,4 | **(2,218)** | (2,410) |
| **Balance on the technical account for general business** | | **12,775** | 6,198 |

All operations are continuing.

## Statement of comprehensive income: non-technical account

for the year ended 31 December 2019

| | Note | 2019 £'000s | 2018 £'000s |
|---|---|---|---|
| **Balance on the general business technical account** | | **12,775** | 6,198 |
| Investment income | 5 | **784** | 649 |
| Unrealised gains on investments | 5 | **345** | – |
| Investment expenses and charges | 5 | **(17)** | (53) |
| Unrealised (losses) on investments | 5 | **(21)** | (163) |
| Allocated investment return transferred to the general business technical account | 5,6 | **(1,091)** | (433) |
| Profit/(loss) on exchange | | **255** | (674) |
| **Result for the financial year** | | **13,030** | 5,524 |

There is no other comprehensive income.

# Balance sheet: assets

as at 31 December 2019

| | Note | 2019 £'000s | 2018 £'000s |
|---|---|---|---|
| **Investments** | | | |
| Other financial investments | 7 | **29,267** | 36,862 |
| **Reinsurers' share of technical provisions** | | | |
| Provision for unearned premiums | 8 | **337** | 348 |
| Claims outstanding | 8,9 | **306** | 496 |
| | | **643** | 844 |
| **Debtors** | | | |
| Debtors arising out of reinsurance operations | | **4,232** | 3,585 |
| Other debtors | | **87** | 218 |
| | | **4,319** | 3,803 |
| **Other assets** | | | |
| Cash at bank and in hand | | **1,170** | 2,518 |
| Overseas deposits | 10 | **4** | 10 |
| | | **1,174** | 2,528 |
| **Prepayments and accrued income** | | | |
| Deferred acquisition costs | 11 | **91** | 115 |
| Other prepayments and accrued income | | **–** | 16 |
| | | **91** | 131 |
| **Total assets** | | **35,494** | 44,168 |

## Balance sheet: liabilities

as at 31 December 2019

| | Note | 2019 £'000s | 2018 £'000s |
|---|---|---|---|
| **Capital and reserves** | | | |
| Members' balances | | **9,636** | 5,759 |
| **Technical provisions** | | | |
| Provision for unearned premiums | 8 | **2,954** | 3,200 |
| Claims outstanding | 8,9 | **22,206** | 31,399 |
| | | **25,160** | 34,599 |
| **Creditors** | | | |
| Creditors arising out of reinsurance operations | | **425** | 1,507 |
| Other creditors | 12 | **273** | 2,303 |
| | | **698** | 3,810 |
| **Total liabilities** | | **35,494** | 44,168 |

The annual accounts, which comprise pages 44 to 64 and the notes and principal accounting policies applicable to all syndicates on pages 15 to 19, were approved by the Board of Tokio Marine Kiln Syndicates Limited on 2 March 2020 and were signed on its behalf by

**Reeken Patel**

Chief Financial Officer
Tokio Marine Kiln Syndicates Limited
5 March 2020

# Statement of changes in members' balances

for the year ended 31 December 2019

| | 2019 £'000s | 2018 £'000s |
|---|---|---|
| Members' balances brought forward at 1 January | **5,759** | (24) |
| Profit for the financial year | **13,030** | 5,524 |
| Payments of profit to members' personal reserve funds | **(8,621)** | (10,153) |
| Cash calls made | **–** | 10,551 |
| Members' agents' fee advances | **(132)** | (139) |
| Exchange differences arising on members' balances | **(400)** | – |
| Members' balances carried forward at 31 December | **9,636** | 5,759 |

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.

## Cash flow statement

for the year ended 31 December 2019

| | Note | 2019 £'000s | 2018 £'000s |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Operating profit on ordinary activities | | **13,030** | 5,524 |
| (Decrease) in gross technical provisions | | **(9,439)** | (4,870) |
| Decrease in reinsurers' share of technical provisions | | **201** | 706 |
| (Increase)/decrease in debtors | | **(476)** | 767 |
| (Decrease) in creditors | | **(3,112)** | (22) |
| Unrealised foreign currency losses/(gains) | | **252** | (1,239) |
| Investment return | | **(1,091)** | (433) |
| **Net cash (outflow)/inflow from operating activities** | | **(635)** | 433 |
| **Cash flows from investing activities:** | | | |
| (Purchase) of shares and other variable yield securities | | **(360)** | (4,540) |
| (Purchase) of debt securities and other fixed income securities | | **(6,460)** | (5,762) |
| Sale of debt securities and other fixed income securities | | **13,797** | 9,118 |
| Investment income received | | **778** | 630 |
| Other | | **314** | (197) |
| **Net cash inflow/(outflow) from investing activities** | | **8,069** | (751) |
| **Cash flows from financing activities:** | | | |
| Transfer (to) members in respect of underwriting participations | | **(8,621)** | (10,153) |
| Cash call made | | **–** | 10,551 |
| Members' agents' fees paid on behalf of members | | **(132)** | (139) |
| **Net cash (outflow)/inflow from financing activities** | | **(8,753)** | 259 |
| **Net (decrease) in cash and cash equivalents** | | **(1,319)** | (59) |
| Cash and cash equivalents at beginning of year | | **2,528** | 2,575 |
| Foreign exchange (losses)/gains on cash and cash equivalents | | **(35)** | 12 |
| Cash and cash equivalents at end of year | | **1,174** | 2,528 |
| **Cash and cash equivalents consists of:** | | | |
| Cash at bank and in hand | | **1,170** | 2,518 |
| Overseas deposits | 10 | **4** | 10 |
| **Cash and cash equivalents at end of year** | | **1,174** | 2,528 |

# Notes to the accounts

as at 31 December 2019

## 1. Segmental analysis

An analysis of the result before investment return and profit or loss on exchange is set out below:

| 2019 | Gross premium written £'000s | Gross premium earned £'000s | Gross incurred claims £'000s | Gross operating expenses £'000s | Reinsurance balance £'000s | Total £'000s |
|---|---|---|---|---|---|---|
| Reinsurance acceptances | **16,887** | **17,037** | **(709)** | **(2,624)** | **(2,020)** | **11,684** |
| | **16,887** | **17,037** | **(709)** | **(2,624)** | **(2,020)** | **11,684** |

| 2018 | Gross premium written £'000s | Gross premium earned £'000s | Gross incurred claims £'000s | Gross operating expenses £'000s | Reinsurance balance £'000s | Total £'000s |
|---|---|---|---|---|---|---|
| Reinsurance acceptances | 15,845 | 15,953 | (4,265) | (3,577) | (2,346) | 5,765 |
| | 15,845 | 15,953 | (4,265) | (3,577) | (2,346) | 5,765 |

All business was concluded in the UK.

The total commission payable on direct business was £nil (2018: £nil).

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

| | 2019 £'000s | 2018 £'000s |
|---|---|---|
| UK | **16,887** | 15,845 |
| | **16,887** | 15,845 |

## 2. Net operating expenses

| | 2019 £'000s | 2018 £'000s |
|---|---|---|
| Acquisition costs | **462** | 667 |
| Change in deferred acquisition costs | **22** | (13) |
| Administrative expenses | **1,734** | 1,756 |
| Gross and net operating expenses | **2,218** | 2,410 |

Included within administrative expenses is auditors' remuneration:

| | 2019 £'000s | 2018 £'000s |
|---|---|---|
| Audit services: | | |
| Fees payable to the syndicate's auditor for the audit of the syndicate annual accounts | **41** | 29 |
| Other services: | | |
| Other services pursuant to legislation | **60** | 58 |
| All other services | **24** | – |
| | **125** | 87 |

The charge incurred for other services pursuant to legislation relates to the audit and review of the syndicate's regulatory returns and the provision of statement of actuarial opinion on the reserves. The charge incurred for all other services relates to the review of underwriting controls and model validations.

## 3. Staff costs

The syndicate and its managing agent have no employees. 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:

| | 2019 £'000s | 2018 £'000s |
|---|---|---|
| Wages and salaries | **682** | 907 |
| Social security costs | **89** | 97 |
| Other pension costs | **135** | 134 |
| | **906** | 1,138 |

Of this amount £7,217 (2018: £9,818) 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:

| | 2019 £'000s | 2018 £'000s |
|---|---|---|
| Net charge from managing agent during year | **87** | 87 |
| Amount funded in year | **87** | 87 |

## 4. 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, and the group's share of the underwriting result through 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:

| | 2019 £'000s | 2018 £'000s |
|---|---|---|
| Emoluments | **22** | 43 |

Of the above amount £15,002 (2018: £22,126) 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:

| | 2019 £'000s | 2018 £'000s |
|---|---|---|
| Emoluments | **206** | 170 |

The profit commission included within the emoluments is in relation to the 2016 year of account (2018: 2015 YOA), as the allocation to underwriters was only determined following its closure.

## 5. Investment income and expenses

| | 2019 £'000s | 2018 £'000s |
|---|---|---|
| Investment income: | | |
| Income from investments | **664** | 544 |
| Realised gains on investments | **120** | 105 |
| Unrealised gains on investments | **345** | – |
| Investment expenses: | | |
| Investment management expenses, including interest | **(11)** | (35) |
| Realised losses on investments | **(6)** | (18) |
| Unrealised losses on investments | **(21)** | (163) |
| | **1,091** | 433 |

## 6. Calendar year investment yield

| | 2019 £'000s | 2018 £'000s |
|---|---|---|
| Average amount of syndicate funds during the year: | | |
| Sterling fund | **4,690** | 11,764 |
| US dollar fund | **26,445** | 25,322 |
| Canadian dollar fund | **833** | 1,101 |
| Euro fund | **574** | 579 |
| Aggregate gross investment return: | | |
| Before investment expenses | **1,102** | 468 |
| After investment expenses | **1,091** | 433 |
| Calendar year investment yield: | **%** | % |
| Before investment expenses | **3.4** | 1.2 |
| After investment expenses | **3.4** | 1.1 |
| Analysis of calendar year investment yield by fund: | **%** | % |
| Sterling fund | **4.0** | (0.1) |
| US dollar fund | **3.3** | 1.7 |
| Canadian dollar fund | **2.4** | 1.5 |

The sterling fund balance includes investments held in all currencies other than US dollars, Canadian dollars and Euros.

## 7. Other financial investments

| | Fair value | | Purchase price | |
|---|---|---|---|---|
| | 2019 £'000s | 2018 £'000s | 2019 £'000s | 2018 £'000s |
| Shares and other variable yield securities | **13,323** | 20,306 | **13,251** | 20,394 |
| Debt securities and other fixed income securities | **15,944** | 16,556 | **15,540** | 16,489 |
| | **29,267** | 36,862 | **28,791** | 36,883 |

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

## 8. Reconciliation of insurance balances

The reconciliation of the opening and closing provision for unearned premiums is as follows:

| | Gross | | Reinsurers' share | |
|---|---|---|---|---|
| | 2019 £'000s | 2018 £'000s | 2019 £'000s | 2018 £'000s |
| **At 1 January** | **3,200** | 3,148 | **(348)** | (331) |
| Premiums written during the year | **16,887** | 15,845 | **(2,021)** | (2,010) |
| Premiums earned during the year | **(17,037)** | (15,954) | **2,021** | 2,010 |
| Foreign exchange adjustments | **(96)** | 161 | **11** | (17) |
| **At 31 December** | **2,954** | 3,200 | **(337)** | (348) |

The reconciliation of the opening and closing provision for claims outstanding is as follows:

| | Gross | | Reinsurers' share | |
|---|---|---|---|---|
| | 2019 £'000s | 2018 £'000s | 2019 £'000s | 2018 £'000s |
| **At 1 January** | **31,399** | 36,321 | **(496)** | (1,219) |
| Claims incurred during the year | **709** | 4,265 | **(1)** | 337 |
| Claims paid during the year | **(9,176)** | (10,741) | **177** | 421 |
| Foreign exchange adjustments | **(726)** | 1,554 | **14** | (35) |
| **At 31 December** | **22,206** | 31,399 | **(306)** | (496) |

### 9. Claims outstanding

Within the calendar year technical result, a surplus of £5.2m (2018: £9.6m) relates to the reassessment of net claims incurred for previous accident years.

The following tables show the development of gross and net claims incurred including IBNR and the claims handling provision over the last nine years. The claims development tables are prepared on an underwriting year of account basis, and therefore reflect the pattern of earned premium and risk exposure over a number of years. All figures are shown converted at current year-end rates.

#### Gross of reinsurance

| Year of Account | 2010 and prior £m | 2011 £m | 2012 £m | 2013 £m | 2014 £m | 2015 £m | 2016 £m | 2017 £m | 2018 £m | 2019 £m | Total £m |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Year 1 | | 24.1 | 29.3 | 14.4 | 8.2 | 3.4 | 6.7 | 24.9 | 12.6 | 4.5 | |
| Year 2 | | 21.8 | 27.0 | 16.3 | 8.4 | 4.3 | 6.4 | 21.8 | 12.0 | | |
| Year 3 | | 20.6 | 26.2 | 15.6 | 7.7 | 3.7 | 6.0 | 20.8 | | | |
| Year 4 | | 19.4 | 27.1 | 15.1 | 7.3 | 3.4 | 5.7 | | | | |
| Year 5 | | 18.6 | 26.9 | 14.8 | 7.2 | 3.0 | | | | | |
| Year 6 | | 18.2 | 26.8 | 14.4 | 7.1 | | | | | | |
| Year 7 | | 18.0 | 26.7 | 14.3 | | | | | | | |
| Year 8 | | 18.0 | 25.3 | | | | | | | | |
| Year 9 | | 17.9 | | | | | | | | | |
| Cumulative claims paid | | 17.6 | 23.4 | 14.0 | 6.9 | 2.8 | 5.1 | 14.9 | 6.2 | 0.5 | |
| Outstanding claims reserve | 3.0 | 0.3 | 1.9 | 0.3 | 0.2 | 0.2 | 0.6 | 5.9 | 5.8 | 4.0 | 22.2 |

#### Net of reinsurance

| Year of Account | 2010 and prior £m | 2011 £m | 2012 £m | 2013 £m | 2014 £m | 2015 £m | 2016 £m | 2017 £m | 2018 £m | 2019 £m | Total £m |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Year 1 | | 23.8 | 29.3 | 14.4 | 8.2 | 3.4 | 6.7 | 24.9 | 12.6 | 4.5 | |
| Year 2 | | 21.8 | 27.0 | 16.3 | 8.4 | 4.3 | 6.4 | 21.8 | 12.0 | | |
| Year 3 | | 20.6 | 26.2 | 15.6 | 7.7 | 3.7 | 6.0 | 20.8 | | | |
| Year 4 | | 19.4 | 27.1 | 15.1 | 7.3 | 3.4 | 5.7 | | | | |
| Year 5 | | 18.5 | 26.9 | 14.8 | 7.2 | 3.0 | | | | | |
| Year 6 | | 18.1 | 26.8 | 14.4 | 7.1 | | | | | | |
| Year 7 | | 17.8 | 26.7 | 14.3 | | | | | | | |
| Year 8 | | 17.9 | 25.3 | | | | | | | | |
| Year 9 | | 17.8 | | | | | | | | | |
| Cumulative claims paid | | 17.7 | 23.4 | 14.0 | 6.9 | 2.8 | 5.1 | 14.9 | 6.2 | 0.5 | |
| Outstanding claims reserve | 2.9 | 0.1 | 1.9 | 0.3 | 0.2 | 0.2 | 0.6 | 5.9 | 5.8 | 4.0 | 21.9 |

## 10. Overseas deposits

Overseas deposits are lodged as a condition of conducting underwriting business in certain countries.

## 11. Reconciliation of deferred acquisition costs

The reconciliation of the opening and closing deferred acquisition costs is as follows:

| | 2019 £'000s | 2018 £'000s |
|---|---|---|
| **At 1 January** | **115** | 98 |
| Expenses for the acquisition of insurance contracts deferred during the year | **462** | 668 |
| Amortisation | **(484)** | (654) |
| Foreign exchange adjustments | **(2)** | 3 |
| **At 31 December** | **91** | 115 |

## 12. Other creditors

The following balances are included within other creditors:

| | 2019 £'000s | 2018 £'000s |
|---|---|---|
| Forward currency contracts – held to maturity | **17** | 28 |
| | **17** | 28 |

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 2019 was £2,596,254 (2018: £3,687,653). The above balances are stated at fair value.

## 13. Related parties

As noted on page 12, 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 2019 calendar year of £16,887,629 (2018: £15,421,831). The unpaid premiums due from Syndicate 510 at the period end were £3,491,151 (2018: £3,440,138). The outstanding claims (excluding IBNR) were £22,206,364 (2018: £31,399,582). No business was ceded to related parties.

Profit commission of £163,511 was payable by the syndicate to Tokio Marine Kiln Syndicates Limited in respect of the 2019 calendar year (2018: £907,543). 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 £243,062 (2018: £259,545) were paid by the syndicate to Tokio Marine Kiln Syndicates Limited. In addition to this, expenses of £1,697,847 (2018: £2,038,106) were paid to Tokio Marine Kiln Syndicates Limited for expenses paid on behalf of the syndicate.

The note on related parties on page 12 provides further information regarding all syndicates and related parties.

### 14. Risk management

Details of the syndicate's risk management framework are given in the 'principal risks and uncertainties section' on pages 8 to 12.

#### a) Insurance risk

Further details on the management of the syndicate's insurance risk are given on page 9.

#### 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 (2018: £0.2m) 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 (2018: £0.1m). A decrease of 1% would result in £0.2m (2018: £0.2m) less premium being reported and an estimated £0.1m (2018: £0.1m) 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 2019 is 5% (2018: 33%). 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 (2018: £0.1m) and the result reducing by £0.1m (2018: £0.1m).

#### 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 10.

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

| 2019 | AAA £'000s | AA £'000s | A £'000s | <A £'000s | NR £'000s | Total £'000s |
|---|---|---|---|---|---|---|
| Financial investments: | | | | | | |
| Other financial investments | 11,886 | 7,026 | 5,212 | 1,249 | 3,894 | 29,267 |
| Overseas deposits | – | 3 | 1 | – | – | 4 |
| Cash at bank and in hand | – | – | 1,170 | – | – | 1,170 |
| Reinsurers' share of outstanding claims including reinsurers' IBNR | 306 | – | – | – | – | 306 |
| | 12,192 | 7,029 | 6,383 | 1,249 | 3,894 | 30,747 |

| 2018 | AAA £'000s | AA £'000s | A £'000s | <A £'000s | NR £'000s | Total £'000s |
|---|---|---|---|---|---|---|
| Financial investments: | | | | | | |
| Other financial investments | 12,322 | 5,988 | 5,904 | 1,722 | 10,926 | 36,862 |
| Overseas deposits | 1 | 6 | 2 | 1 | – | 10 |
| Cash at bank and in hand | – | – | 2,518 | – | – | 2,518 |
| Reinsurers' share of outstanding claims including reinsurers' IBNR | – | 9 | 425 | – | 62 | 496 |
| | 12,323 | 6,003 | 8,849 | 1,723 | 10,987 | 39,885 |

In respect of the reinsurers' share of claims, there are collateralised agreements with reinsurers, which comprise letters of credit and trust accounts totalling $14.1m (2018: $13.7m).

The largest potential reinsurance credit exposure to the syndicate at 31 December 2019 was 31.7% with a fully collateralised security (2018: 50% with a fully collateralised security). The Outwards Reinsurance team reviews the level of this exposure and takes appropriate action where necessary. This includes requesting a letter of credit for all reinsurers, related parties included.

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

| 2019 | Fully performing £'000s | Past due £'000s | Impairment £'000s | Total £'000s |
|---|---|---|---|---|
| Financial investments: | | | | |
| Other financial investments | **29,267** | **–** | **–** | **29,267** |
| Overseas deposits | **4** | **–** | **–** | **4** |
| Cash at bank and in hand | **1,170** | **–** | **–** | **1,170** |
| Reinsurers' share of outstanding claims including reinsurers' IBNR | **306** | **–** | **–** | **306** |
| Reinsurance recoverable on paid claims | **–** | **7** | **–** | **7** |
| Other debtors | **4,740** | **–** | **–** | **4,740** |
| | **35,487** | **7** | **–** | **35,494** |

| 2018 | Fully performing £'000s | Past due £'000s | Impairment £'000s | Total £'000s |
|---|---|---|---|---|
| Financial investments: | | | | |
| Other financial investments | 36,862 | – | – | 36,862 |
| Overseas deposits | 10 | – | – | 10 |
| Cash at bank and in hand | 2,518 | – | – | 2,518 |
| Reinsurers' share of outstanding claims including reinsurers' IBNR | 496 | – | – | 496 |
| Other debtors | 4,282 | – | – | 4,282 |
| | 44,168 | – | – | 44,168 |

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 statement of comprehensive income 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 10.

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 2019 the balance held in these trust funds was US$452,034 (2018: US$8,844m) and Canadian $9,266 (2018: Canadian $10,050).

The following table analyses the financial liabilities and claims outstanding into their relevant maturity groups based on the remaining period at the year end date to their contractual maturities or expected settlement dates. The projected settlement of claims outstanding is modelled using actuarial techniques. These estimates assume that future claims settlement patterns will be broadly similar to those experienced in the past.

| 2019 | Up to 1 year £'000s | 1–3 years £'000s | 3–5 years £'000s | Over 5 years £'000s | Total £'000s |
|---|---|---|---|---|---|
| Forward currency contracts | **17** | **–** | **–** | **–** | **17** |
| Creditors | **681** | **–** | **–** | **–** | **681** |
| Claims outstanding | **11,217** | **7,418** | **1,940** | **1,631** | **22,206** |
| Financial liabilities and claims outstanding | **11,915** | **7,418** | **1,940** | **1,631** | **22,904** |

| 2018 | Up to 1 year £'000s | 1–3 years £'000s | 3–5 years £'000s | Over 5 years £'000s | Total £'000s |
|---|---|---|---|---|---|
| Forward currency contracts | 28 | – | – | – | 28 |
| Creditors | 3,782 | – | – | – | 3,782 |
| Claims outstanding | 16,713 | 9,106 | 3,062 | 2,518 | 31,399 |
| Financial liabilities and claims outstanding | 20,523 | 9,106 | 3,062 | 2,518 | 35,209 |

### Foreign currency market risk

For further details of the management of the syndicate's market risk please refer to page 10.

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 are maintained in Euros. Transactions arising in other currencies are translated to the Lloyd's closing currencies as they occur. The majority of the syndicate's financial assets are 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.

Foreign currency liquidity and exposure for the syndicate is the responsibility of the Chief Financial Officer. Strategy is recommended and agreed 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, hedges 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 assurance that foreign currency risk mitigation initiatives which the syndicate undertakes will be successful in preventing any losses due to such changes.

The syndicate uses a forward currency contract to manage its exposure to foreign currency risks as a result of protecting the net asset position in the non-closing currency. 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 and net assets. 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.

The following table gives an indication of the impact on the result and net assets or liabilities of a ten percent change in the relative strength of the pound sterling against the value of the US dollar and Canadian dollar, excluding the effect of hedges.

| | 2019 £'000s | 2018 £'000s |
|---|---|---|
| Sterling strengthens 10% against US dollar | **1,173** | 1,074 |
| Sterling strengthens 10% against Canadian dollar | **146** | 37 |
| Sterling weakens 10% against US dollar | **(1,173)** | (1,074) |
| Sterling weakens 10% against Canadian dollar | **(146)** | (37) |

### Interest rate market risk

For further details of the management of the syndicate's market risk please refer to page 10.

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 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 net assets or liabilities of a 50 basis point movement in interest rates on the market value of the syndicate's investments.

| | 2019 £'000s | 2018 £'000s |
|---|---|---|
| Impact of 50 basis point increase on result | **(198)** | (232) |
| Impact of 50 basis point decrease on result | **201** | 236 |
| Impact of 50 basis point increase on net assets | **(198)** | (232) |
| Impact of 50 basis point decrease on net assets | **201** | 236 |

### Capital management

Disclosures on capital management can be found on page 8 to 9.

### 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, money market and open-ended funds. These fair values have been derived from market observable inputs.
- The fair value for level 3 financial instruments are derived from inputs that are not observable. The syndicate held no level 3 securities as at 31 December 2019.

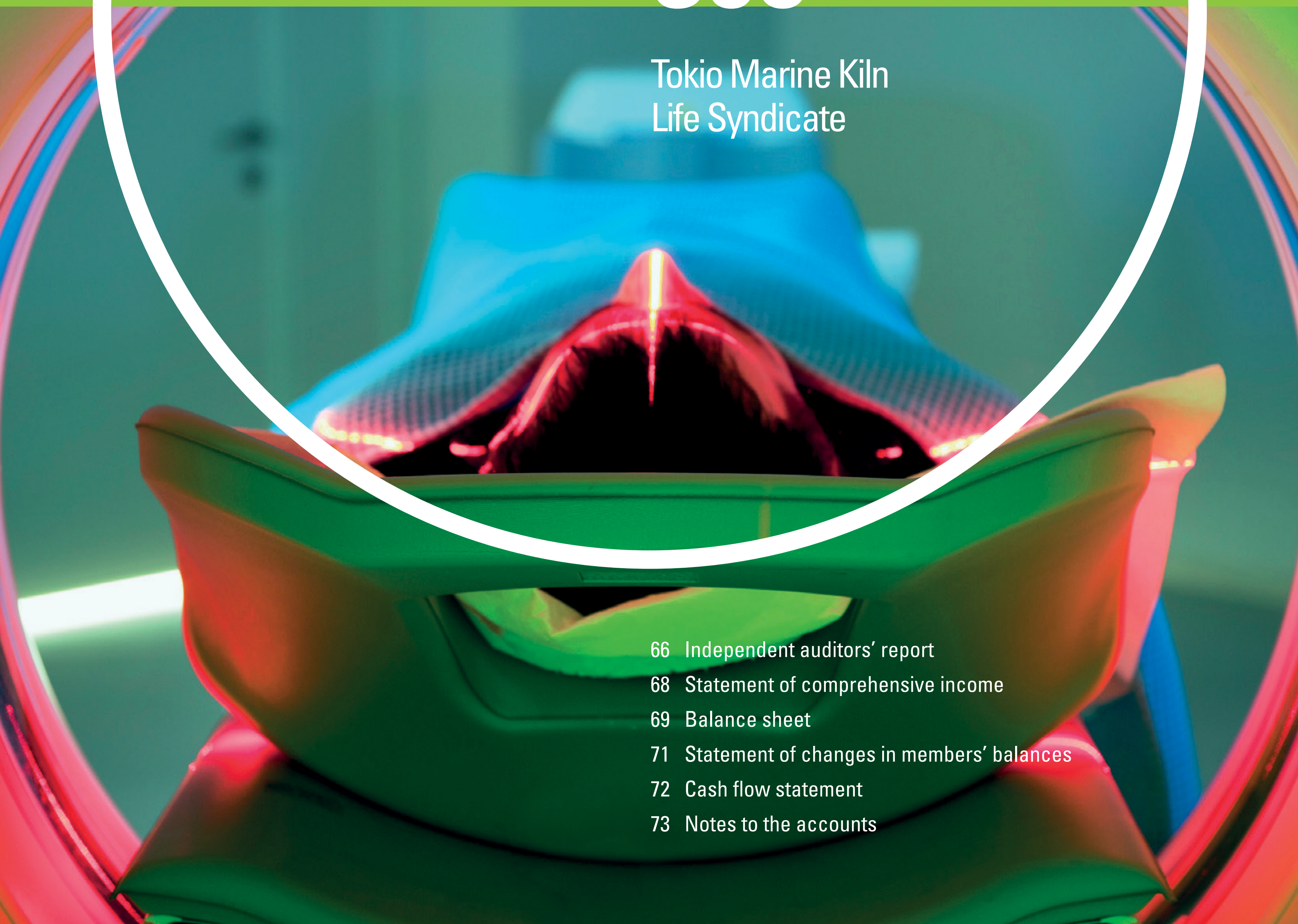
| 2019 | Level 1 £'000s | Level 2 £'000s | Level 3 £'000s | Total £'000s |
|---|---|---|---|---|
| Derivative financial instruments: | | | | |
| Forward currency derivatives – liabilities | **(17)** | **–** | **–** | **(17)** |
| Shares and other variable yield securities | **–** | **13,323** | **–** | **13,323** |
| Debt securities and other fixed income securities | **3,051** | **12,893** | **–** | **15,944** |
| Overseas deposits | **2** | **2** | **–** | **4** |
| | **3,036** | **26,218** | **–** | **29,254** |

| 2018 | Level 1 £'000s | Level 2 £'000s | Level 3 £'000s | Total £'000s |
|---|---|---|---|---|
| Derivative financial instruments: | | | | |
| Forward currency derivatives – assets | (28) | – | – | (28) |
| Shares and other variable yield securities | – | 20,306 | – | 20,306 |
| Debt securities and other fixed income securities | 2,700 | 13,856 | – | 16,556 |
| Overseas deposits | 6 | 4 | – | 10 |
| | 2,678 | 34,166 | – | 36,844 |

At 31 December 2019 the syndicate held forward currency contracts, for which the fair value is a net liability of £17,451 (2018: net liability of £28,066) with the loss (2018: loss) going through investment income in the statement of comprehensive income.

# Syndicate 308

Tokio Marine Kiln
Life Syndicate



# Independent auditors' report to the members of Syndicate 308

## Report on the audit of the syndicate annual accounts

### Opinion

In our opinion, 308's syndicate annual accounts (the "syndicate annual accounts"):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the syndicate annual accounts included within the Annual Report and Accounts 2019 (the "Annual Report"), which comprise: the balance sheet at 31 December 2019, the statement of comprehensive income, the cash flow statement, the statement of changes in members' balances for the year then ended, the accounting policies, and the notes to the syndicate annual accounts, which include other explanatory information.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 and other applicable law.

Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the syndicate annual accounts section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We remained independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual accounts in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the Managing Agent's use of the going concern basis of accounting in the preparation of the syndicate annual accounts is not appropriate; or
- the Managing Agent has not disclosed in the syndicate annual accounts any identified material uncertainties that may cast significant doubt about the syndicate's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the syndicate annual accounts are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the syndicate's ability to continue as a going concern. For example, the terms of the United Kingdom's withdrawal from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the syndicate's business and the wider economy.

### Reporting on other information

The other information comprises all of the information in the Annual Report other than the syndicate annual accounts and our auditors' report thereon. The Managing Agent is responsible for the other information. Our opinion on the syndicate annual accounts does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

In connection with our audit of the syndicate annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate annual accounts or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the syndicate annual accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Report of the Directors of the managing agent (the "Managing Agent's Report"), we also considered whether the disclosures required by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

#### Managing Agent's Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Managing Agent's Report for the year ended 31 December 2019 is consistent with the syndicate annual accounts and has been prepared in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

In light of the knowledge and understanding of the syndicate and its environment obtained in the course of the audit, we did not identify any material misstatements in the Managing Agent's Report.

### Responsibilities for the syndicate annual accounts and the audit

#### Responsibilities of the Managing Agent for the syndicate annual accounts

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 14, the Managing Agent is responsible for the preparation of the syndicate annual accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Managing Agent is also responsible for such internal control as they determine is necessary to enable the preparation of syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the syndicate annual accounts, the Managing Agent is responsible for assessing the syndicate's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless it is intended for the syndicate to cease operations, or it has no realistic alternative but to do so.

#### Auditors' responsibilities for the audit of the syndicate annual accounts

Our objectives are to obtain reasonable assurance about whether the syndicate annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these syndicate annual accounts.

A further description of our responsibilities for the audit of the syndicate annual accounts is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

#### Use of this report

This report, including the opinion, has been prepared for and only for the syndicate's members as a body in accordance with part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 and for no other purpose. We do not, in giving these opinion, 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.

## Other required reporting

### Other matters on which we are required to report by exception

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017, 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
- adequate accounting records have not been kept by the Managing Agent in respect of the syndicate; or
- certain disclosures of Managing Agent remuneration specified by law are not made; or
- the syndicate annual accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

**Matthew Nichols**

Senior Statutory Auditor
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
5 March 2020

## Statement of comprehensive income: technical account – long-term business

for the year ended 31 December 2019

| | Note | 2019 £'000s | 2018 £'000s |
|---|---|---|---|
| **Earned premiums, net of reinsurance** | | | |
| Gross premiums written | 1 | **5,206** | 11,808 |
| Outward reinsurance premiums | | **(3,426)** | (1,657) |
| Net premiums written | | **1,780** | 10,151 |
| Change in the provision for unearned premiums: | | | |
| Gross amount | | **3,791** | 12,173 |
| Reinsurers' share | | **2,953** | (31) |
| Change in the net provision for unearned premiums | | **6,744** | 12,142 |
| **Earned premiums, net of reinsurance** | | **8,524** | 22,293 |
| **Investment income** | 2,3 | **69** | 95 |
| **Claims incurred, net of reinsurance** | | | |
| Claims paid: | | | |
| Gross amount | | **(11,035)** | (20,369) |
| Reinsurers' share | | **26** | 934 |
| Net claims paid | | **(11,009)** | (19,435) |
| Change in the long-term business provision: | | | |
| Gross amount | | **4,090** | 3,104 |
| Reinsurers' share | | **78** | (879) |
| Change in the net long-term business provision | 4 | **4,168** | 2,225 |
| **Claims incurred, net of reinsurance** | | **(6,841)** | (17,210) |
| **Change in other technical provisions, net of reinsurance** | | **2,248** | 5,370 |
| **Members' standard personal expenses** | | **(13)** | (149) |
| **Net operating expenses** | 5,6,7 | **(3,986)** | (7,481) |
| **Balance on the technical account for long-term business and profit for the year** | | **1** | 2,918 |

There are no non-technical items.

All operations are deemed to be continuing as, although the syndicate has gone into run-off with effect from 31 December 2017, it will take many years for that run-off to be completed.

There is no other comprehensive income.

## Balance sheet: assets

as at 31 December 2019

| | Note | 2019 £'000s | 2018 £'000s |
|---|---|---|---|
| **Investments** | | | |
| Other financial investments | 8 | **15,276** | 21,597 |
| Deposits with ceding undertakings | | **248** | 258 |
| | | **15,524** | 21,855 |
| **Reinsurers' share of technical provisions** | | | |
| Provision for unearned premiums | 9 | **2,965** | 12 |
| Long-term business provision | 9,10 | **88** | 10 |
| | | **3,053** | 22 |
| **Debtors** | | | |
| Debtors arising out of direct insurance operations | 11 | **1,743** | 11,465 |
| Debtors arising out of reinsurance operations | | **785** | 3,427 |
| Other debtors | | **1,612** | 1,080 |
| | | **4,140** | 15,972 |
| **Other assets** | | | |
| Cash at bank and in hand | | **544** | 1,169 |
| Overseas deposits | 12 | **536** | 639 |
| | | **1,080** | 1,808 |
| **Prepayments and accrued income** | | | |
| Deferred acquisition costs | 13 | **1,148** | 1,606 |
| **Total assets** | | **24,945** | 41,263 |

# Balance sheet: liabilities

as at 31 December 2019

| | Note | 2019 £'000s | 2018 £'000s |
|---|---|---|---|
| **Capital and reserves** | | | |
| Members' balances | | **1,117** | 1,773 |
| **Technical provisions** | | | |
| Provision for unearned premiums | 9 | **3,074** | 6,951 |
| Long-term business provision | 9,10 | **14,073** | 18,479 |
| Other technical provisions | 14 | **1,022** | 3,278 |
| | | **18,169** | 28,708 |
| **Creditors** | | | |
| Creditors arising out of direct insurance operations | 15 | **1,169** | 7,317 |
| Creditors arising out of reinsurance operations | | **3,949** | 2,630 |
| Other creditors | | **539** | 830 |
| | | **5,657** | 10,777 |
| **Accruals and deferred income** | | | |
| Reinsurers' share of deferred acquisition costs | 13 | **2** | 5 |
| **Total liabilities** | | **24,945** | 41,263 |

The annual accounts, which comprise pages 65 to 87 and the notes and principal accounting policies applicable to all syndicates on pages 15 to 19, were approved by the Board of Tokio Marine Kiln Syndicates Limited on 2 March 2020 and were signed on its behalf by

**Reeken Patel**

Chief Financial Officer
Tokio Marine Kiln Syndicates Limited
5 March 2020

## Statement of changes in members' balances

for the year ended 31 December 2019

| | 2019 £'000s | 2018 £'000s |
|---|---|---|
| Members' balances brought forward at 1 January | **1,773** | (28,568) |
| Profit for the financial year | **1** | 2,918 |
| Distribution loss collected | **3,143** | 2,122 |
| Cash calls made | **–** | 25,300 |
| Payments to members' personal reserve funds | **(3,800)** | – |
| Members' agents' fees | **–** | 1 |
| Members' balances carried forward at 31 December | **1,117** | 1,773 |

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.

## Cash flow statement

for the year ended 31 December 2019

| | Note | 2019 £'000s | 2018 £'000s |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Operating profit on ordinary activities | | **1** | 2,918 |
| (Decrease) in gross technical provisions | | **(10,539)** | (19,970) |
| (Increase)/decrease in reinsurers' share of technical provisions | | **(3,031)** | 910 |
| Decrease in debtors | | **12,290** | 11,650 |
| (Decrease) in creditors | | **(5,123)** | (860) |
| Unrealised foreign currency losses/(gains) | | **228** | (43) |
| Investment return | | **(69)** | (95) |
| **Net cash (outflow) from operating activities** | | **(6,243)** | (5,490) |
| **Cash flows from investing activities:** | | | |
| (Purchase) of shares and other variable yield securities | | **–** | (16,546) |
| Sale of shares and other variable yield securities | | **6,070** | – |
| Investment income received | | **69** | 95 |
| Other | | **36** | (4,236) |
| **Net cash inflow/(outflow) from investing activities** | | **6,175** | (20,687) |
| **Cash flows from financing activities:** | | | |
| Transfer from members in respect of underwriting participations | | **3,143** | 2,122 |
| Cash calls (returned)/made | | **(3,800)** | 25,300 |
| Members' agents' fees received on behalf of members | | **–** | 1 |
| **Net cash (outflow)/inflow from financing activities** | | **(657)** | 27,423 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(725)** | 1,246 |
| Cash and cash equivalents at beginning of year | | **1,808** | 561 |
| Foreign exchange (losses)/gains on cash and cash equivalents | | **(3)** | 1 |
| Cash and cash equivalents at end of year | | **1,080** | 1,808 |
| **Cash and cash equivalents consists of:** | | | |
| Cash at bank and in hand | | **544** | 1,169 |
| Overseas deposits | 12 | **536** | 639 |
| **Cash and cash equivalents at end of year** | | **1,080** | 1,808 |

# Notes to the accounts

as at 31 December 2019

## 1. Segmental analysis

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

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Gross premiums written £'000s | Reinsurance balance £'000s | Gross premiums written £'000s | Reinsurance balance £'000s |
| Direct insurance | **3,301** | **(325)** | 12,194 | (1,705) |
| Reinsurance acceptances | **1,905** | **(43)** | (386) | 79 |
| | **5,206** | **(368)** | 11,808 | (1,626) |

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

| | 2019 £'000s | 2018 £'000s |
|---|---|---|
| Individual premiums | **3,234** | 2,040 |
| Premiums under group contracts | **67** | 10,154 |
| | **3,301** | 12,194 |
| Periodic premiums | **1,634** | 10,740 |
| Single premiums | **1,667** | 1,454 |
| | **3,301** | 12,194 |

All business was concluded in the UK.

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

| | 2019<br>Gross premiums written<br>£'000s | 2018<br>Gross premiums written<br>£'000s |
|---|---|---|
| Direct insurance | – | – |
| Reinsurance acceptances | – | 151 |
| | – | 151 |

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

| | 2019<br>£'000s | 2018<br>£'000s |
|---|---|---|
| Individual premiums | – | – |
| Premiums under group contracts | – | 151 |
| | – | 151 |
| Periodic premiums | – | 151 |
| Single premiums | – | – |
| | – | 151 |

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

| | 2019<br>£'000s | 2018<br>£'000s |
|---|---|---|
| UK | **1,531** | 9,327 |
| Other EU countries | **212** | 1,205 |
| US | **2,439** | 568 |
| Other | **1,024** | 708 |
| | **5,206** | 11,808 |

## 2. Investment income and expenses

| | 2019 £'000s | 2018 £'000s |
|---|---|---|
| Investment income: | | |
| Income from investments | **69** | 95 |
| | **69** | 95 |

## 3. Calendar year investment yield

| | 2019 £'000s | 2018 £'000s |
|---|---|---|
| Average amount of syndicate funds during the year: | | |
| Sterling fund | **13,765** | 15,335 |
| US dollar fund | **4,630** | 4,017 |
| Euro fund | **330** | 44 |
| Aggregate gross investment return: | | |
| Before investment expenses | **69** | 95 |
| After investment expenses | **69** | 95 |
| Calendar year investment yield: | **%** | % |
| Before investment expenses | **0.4** | 0.5 |
| After investment expenses | **0.4** | 0.5 |
| Analysis of calendar year investment yield by fund: | **%** | % |
| Sterling fund | **0.3** | 0.4 |
| US dollar fund | **0.6** | 0.8 |

The sterling fund balance includes investments held in all currencies other than US dollars and Euros.

## 4. Long-term business provision

TMKS adopts a prudent reserving methodology in valuing the long-term business provision due to a number of material uncertainties, particularly on the 2018 year of account. TMKS has a surplus compared to the external actuaries, who adopt the following methodologies:

- For group life business or business written under a delegated authority where individual data is not available, claims IBNR is estimated using those statistical and past experience methodologies described in the accounting policy for claims provisions and related recoveries.
- For individual business where individual data is available, a gross premium valuation method has been used as described in the accounting policy for earned premium.

The principal assumptions for the gross premium valuation method for all components of the long-term business provision aside from the UNFCU policy are:

- The valuation interest rate and claims discount rate is the risk free discount rate as at 31 December 2019 as published by EIOPA (2018: risk free discount rate as at 31 December 2018 as published by EIOPA);
- Renewal expenses are 28.4% of regular premiums (2018: 19.3%);
- Where policies have been underwritten, 105% of the TM/F08 select tables were used (2018: same). Where policies have not been underwritten, the ultimate tables were used (2018: same). Where smoker status is known, the smoker/non-smoker specific mortality sub-tables have been used (2018: same). Where smoker status is unknown, it is assumed that 90% of policyholders are non-smokers and 10% are smokers (2018: same).

Following the issuance of the consent order by the NYDFS in November 2017, the UNFCU contract for the US insured lives changed from an annually renewable group life contract reserved using short-term methodologies into term life policies until age 71 reserved using long-term life reserving techniques. The UNFCU contract for the rest of the world lives remains as an annually renewable group life contract reserved using short-term methodologies. The principal assumptions for the gross premium valuation method in respect of the UNFCU policy for the US insured lives, estimated to be £4.2m, are:

- The valuation interest rate and claims discount rate is the risk free discount rate as at 31 December 2019 as published by EIOPA (2018: risk free discount rate as at 31 December 2018 as published by EIOPA);
- The renewal expenses are 0% of regular premiums (2018: 3.5%), as TMKS has committed to pay all future expenses and not recharge this to the syndicate;
- Mortality is 115% of the TM08 tables for males and 110% of the TF08 tables for females. Information about smoker status is not available. It is assumed that 90% of policyholders are non-smokers and 10% are smokers.

## 5. Net operating expenses

| | 2019 £'000s | 2018 £'000s |
|---|---|---|
| Acquisition costs | **3,814** | 2,233 |
| Change in deferred acquisition costs | **(685)** | 3,283 |
| Administrative expenses | **913** | 1,812 |
| (Profit)/loss on exchange | **(55)** | 160 |
| Gross operating expenses | **3,987** | 7,488 |
| Reinsurance commissions and profit participations | **(1)** | (7) |
| | **3,986** | 7,481 |

Included within administrative expenses is auditors' remuneration:

| | 2019 £'000s | 2018 £'000s |
|---|---|---|
| Audit services: | | |
| Fees payable to the syndicate's auditor for the audit of the syndicate annual accounts | **65** | 63 |
| Other services: | | |
| Other services pursuant to legislation | **54** | 50 |
| | **119** | 113 |

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

### 6. Staff costs

The syndicate and its managing agent have no employees. 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:

| | 2019<br>£'000s | 2018<br>£'000s |
|---|---|---|
| Wages and salaries | **328** | 1,012 |
| Social security costs | **35** | 127 |
| Other pension costs | **46** | 112 |
| | **409** | 1,251 |

Of this amount £10,090 (2018: £10,263) 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:

| | 2019<br>£'000s | 2018<br>£'000s |
|---|---|---|
| Net charge from managing agent during year | **27** | 40 |
| Amount funded in year | **27** | 40 |

### 7. Emoluments of the directors and Run-off Manager

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, and the group's share of the underwriting result through 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:

| | 2019<br>£'000s | 2018<br>£'000s |
|---|---|---|
| Emoluments | **53** | 22 |

Of the above amount £34,449 (2018: £12,133) was charged to the syndicate as an expense, with the remainder borne by other group entities.

The Run-off Manager received the following remuneration charged as a syndicate expense:

| | 2019<br>£'000s | 2018<br>£'000s |
|---|---|---|
| Emoluments | **136** | 88 |

The profit commission included within the emoluments is in relation to the 2016 year of account (2018: 2015 YOA), as the allocation to underwriters was only determined following its closure.

## 8. Other financial investments

| | Fair value | | Purchase price | |
|---|---|---|---|---|
| | 2019 £'000s | 2018 £'000s | 2019 £'000s | 2018 £'000s |
| Shares and other variable yield securities | **11,165** | 17,289 | **11,165** | 17,289 |
| Deposits with credit institutions | **4,111** | 4,308 | **4,111** | 4,308 |
| | **15,276** | 21,597 | **15,276** | 21,597 |

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

## 9. Reconciliation of insurance balances

The reconciliation of the opening and closing provision for unearned premiums is as follows:

| | Gross | | Reinsurers' share | |
|---|---|---|---|---|
| | 2019 £'000s | 2018 £'000s | 2019 £'000s | 2018 £'000s |
| **At 1 January** | **6,951** | 19,044 | **(12)** | (43) |
| Premiums written during the year | **5,206** | 11,808 | **(3,426)** | (1,657) |
| Premiums earned during the year | **(8,997)** | (23,981) | **473** | 1,688 |
| Foreign exchange adjustments | **(86)** | 80 | **–** | – |
| **At 31 December** | **3,074** | 6,951 | **(2,965)** | (12) |

The reconciliation of the opening and closing provision for long-term business is as follows:

| | Gross | | Reinsurers' share | |
|---|---|---|---|---|
| | 2019 £'000s | 2018 £'000s | 2019 £'000s | 2018 £'000s |
| **At 1 January** | **18,479** | 20,986 | **(10)** | (889) |
| Claims incurred during the year | **6,945** | 17,265 | **(104)** | (55) |
| Claims paid during the year | **(11,035)** | (20,369) | **26** | 934 |
| Foreign exchange adjustments | **(316)** | 597 | **–** | – |
| **At 31 December** | **14,073** | 18,479 | **(88)** | (10) |

### 10. Claims outstanding

Within the calendar year technical result, a deficit of £5.0m (2018: surplus of £3.9m) relates to the reassessment of net claims incurred for previous accident years.

The following tables show the development of gross and net claims incurred including IBNR and the claims handling provision over the last eight years. The claims development tables are prepared on an underwriting year of account basis, and therefore reflect the pattern of earned premium and risk exposure over a number of years. All figures are shown converted at current year-end rates.

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 tables below includes the allowance made for these additional reserves which are accounted for in the net claims outstanding amount shown on the balance sheet.

#### Gross of reinsurance

| Year of Account | 2010 and prior £m | 2011 £m | 2012 £m | 2013 £m | 2014 £m | 2015 £m | 2016 £m | 2017 £m | 2018 £m | Total £m |
|---|---|---|---|---|---|---|---|---|---|---|
| Year 1 | | 6.7 | 7.4 | 9.6 | 6.9 | 10.0 | 8.1 | 10.5 | 8.6 | |
| Year 2 | | 15.0 | 15.6 | 17.8 | 15.9 | 16.4 | 27.4 | 24.4 | 8.5 | |
| Year 3 | | 14.2 | 15.8 | 17.3 | 16.3 | 19.6 | 26.5 | 29.0 | | |
| Year 4 | | 14.5 | 16.0 | 17.2 | 15.4 | 19.1 | 27.3 | | | |
| Year 5 | | 14.4 | 15.9 | 17.2 | 15.5 | 19.0 | | | | |
| Year 6 | | 14.4 | 15.9 | 17.2 | 15.4 | | | | | |
| Year 7 | | 14.4 | 15.8 | 17.3 | | | | | | |
| Year 8 | | 14.4 | 15.7 | | | | | | | |
| Year 9 | | 14.3 | | | | | | | | |
| Cumulative claims paid | | 14.3 | 15.7 | 17.2 | 15.4 | 19.0 | 25.6 | 22.1 | 2.1 | |
| Outstanding claims reserve | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 1.7 | 6.9 | 6.4 | 15.1 |

#### Net of reinsurance

| Year of Account | 2010 and prior £m | 2011 £m | 2012 £m | 2013 £m | 2014 £m | 2015 £m | 2016 £m | 2017 £m | 2018 £m | Total £m |
|---|---|---|---|---|---|---|---|---|---|---|
| Year 1 | | 6.2 | 7.3 | 9.1 | 6.9 | 10.0 | 8.1 | 10.1 | 8.6 | |
| Year 2 | | 14.9 | 15.4 | 17.3 | 15.0 | 16.4 | 27.4 | 24.0 | 8.5 | |
| Year 3 | | 14.2 | 15.5 | 16.8 | 15.0 | 19.2 | 26.5 | 28.7 | | |
| Year 4 | | 14.5 | 15.7 | 16.7 | 14.4 | 18.7 | 27.3 | | | |
| Year 5 | | 14.4 | 15.6 | 16.7 | 14.4 | 18.6 | | | | |
| Year 6 | | 14.4 | 15.6 | 16.7 | 14.2 | | | | | |
| Year 7 | | 14.4 | 15.5 | 16.8 | | | | | | |
| Year 8 | | 14.4 | 15.4 | | | | | | | |
| Year 9 | | 14.3 | | | | | | | | |
| Cumulative claims paid | | 14.3 | 15.4 | 16.7 | 14.3 | 18.6 | 25.6 | 21.8 | 2.1 | |
| Outstanding claims reserve | 0.0 | 0.0 | 0.0 | 0.1 | (0.1) | 0.0 | 1.7 | 6.9 | 6.4 | 15.0 |

## 11. Debtors arising out of direct insurance operations

| | 2019 £'000s | 2018 £'000s |
|---|---|---|
| Amounts due from intermediaries within one year | **1,743** | 11,465 |

## 12. Overseas deposits

Overseas deposits are lodged as a condition of conducting underwriting business in certain countries.

## 13. Reconciliation of deferred acquisition costs

The reconciliation of the opening and closing deferred acquisition costs is as follows:

| | Gross | | Reinsurers' share | |
|---|---|---|---|---|
| | 2019 £'000s | 2018 £'000s | 2019 £'000s | 2018 £'000s |
| **At 1 January** | **1,606** | 5,024 | **(5)** | (16) |
| Expenses for the acquisition of insurance contracts deferred during the year | **3,814** | 2,233 | **2** | 4 |
| Amortisation | **(3,129)** | (5,516) | **1** | 7 |
| Foreign exchange adjustments | **(52)** | 29 | **–** | – |
| Other | **(1,091)** | (164) | **–** | – |
| **At 31 December** | **1,148** | 1,606 | **(2)** | (5) |

## 14. Other technical provisions

| | 2019 £'000s | 2018 £'000s |
|---|---|---|
| Provision for unexpired risks | **1,022** | 3,278 |

## 15. Creditors arising out of direct insurance operations

| | 2019 £'000s | 2018 £'000s |
|---|---|---|
| Amounts due to intermediaries within one year | **1,169** | 7,317 |

## 16. 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 syndicate's 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.

Further disclosures on capital management can be found on page 8 to 9.

### 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 as at 31 December 2019 is estimated to be £11.9m in respect of the run-off of the 2017 year of account and £4.3m in respect of the 2018 year of account which has been formed exclusively for the purpose of managing the liabilities and remedies arising from the UNFCU contract. The syndicate's capital requirement as at 31 December 2018 was £14.4m in respect of the run-off of the 2017 and 2016 years of account and £4.5m in respect of the 2018 year of account.

### 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 | 2019 £'000s | 2018 £'000s |
|---|---|---|
| Members' balances surplus | **1,117** | 1,773 |
| Disallowance – overdue premium and sundry debtors | **75** | 148 |
| Deferred acquisition costs | **(1,148)** | (1,606) |
| Total available capital resource | **44** | 315 |
| Provision for unearned premiums | **(3,074)** | (6,951) |
| Long-term business provision | **(14,073)** | (18,479) |
| Other technical provisions | **(1,022)** | (3,278) |
| Gross technical provisions in the balance sheet | **(18,169)** | (28,708) |

The general reduction in the technical provisions during 2019 is due to the run-off of the liabilities over time as Syndicate 308 is no longer writing new business.

| Movements in capital resource | 2019 £'000s | 2018 £'000s |
|---|---|---|
| Balance at 1 January | **315** | (33,356) |
| Disallowance – (decrease) in overdue premium and sundry debtors | **(73)** | (88) |
| Deferred acquisition costs | **458** | 3,418 |
| Movement in members' balances | **(656)** | 30,341 |
| Balance as at 31 December | **44** | 315 |

### 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 the risk free discount rate), 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.

## 17. Related parties

Syndicate 308 accepted inwards reinsurance business from 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. All transactions between these entities were conducted at arm's length and on normal commercial terms.

Syndicate 308 accepted written premium from related parties in the 2019 calendar year of £3,070 (2018: £nil). The unpaid premiums due from related parties at the period end were £325,459 (2018: £340,678). The outstanding claims (excluding IBNR) were £nil (2018: £nil). No business was ceded to related parties.

No profit commission was payable by the syndicate to Tokio Marine Kiln Syndicates Limited in respect of the 2019 calendar year (2018: £nil). 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, normally after three years.

No managing agency fees were paid by the syndicate to Tokio Marine Kiln Syndicates Limited (2018: £120,877). Expenses of £2,013,949 (2018: £2,037,360) were paid to Tokio Marine Kiln Syndicates Limited for expenses paid on behalf of the syndicate.

The note on related parties on page 12 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 8 to 12.

### a) Insurance risk

Further details on the management of the syndicate's insurance risk are given on page 9.

#### 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 £0.1m (2018: £0.2m) 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 £0.03m (2018: £0.03m). A decrease of 1% would result in £0.1m (2018: £0.2m) less premium being reported and an estimated £0.03m reduction in the net result (2018: £0.03m). 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 2019 is 54% (2018: 68%). 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 £0.1m (2018: £0.2m) and result reducing by £0.1m (2018: £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 10.

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

| 2019 | AAA £'000s | AA £'000s | A £'000s | <A £'000s | NR £'000s | Total £'000s |
|---|---|---|---|---|---|---|
| Financial investments: | | | | | | |
| Other financial investments | **11,165** | **–** | **4,111** | **–** | **–** | **15,276** |
| Overseas deposits | **223** | **309** | **4** | **–** | **–** | **536** |
| Deposits with ceding undertakings | **–** | **–** | **–** | **–** | **248** | **248** |
| Cash at bank and in hand | **–** | **–** | **544** | **–** | **–** | **544** |
| Reinsurers' share of outstanding claims including reinsurers' IBNR | **57** | **–** | **31** | **–** | **–** | **88** |
| Reinsurance recoverable on paid claims neither due nor impaired | **–** | **84** | **–** | **–** | **–** | **84** |
| | **11,445** | **393** | **4,690** | **–** | **248** | **16,776** |

| 2018 | AAA £'000s | AA £'000s | A £'000s | <A £'000s | NR £'000s | Total £'000s |
|---|---|---|---|---|---|---|
| Financial investments: | | | | | | |
| Other financial investments | 17,289 | – | 4,308 | – | – | 21,597 |
| Overseas deposits | 254 | 382 | 3 | – | – | 639 |
| Deposits with ceding undertakings | – | – | – | – | 258 | 258 |
| Cash at bank and in hand | – | – | 1,169 | – | – | 1,169 |
| Reinsurers' share of outstanding claims including reinsurers' IBNR | – | 10 | – | – | – | 10 |
| Reinsurance recoverable on paid claims neither due nor impaired | – | 59 | – | – | – | 59 |
| | 17,543 | 451 | 5,480 | – | 258 | 23,732 |

The largest potential reinsurance credit exposure to the syndicate at 31 December 2019 was 46.0% with an A+ rated security (2018: 36.7% with an A+ rated security). The Outwards Reinsurance team reviews the level of this exposure and takes appropriate action where necessary. This includes requesting a letter of credit for all reinsurers, related parties included.

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

| 2019 | Fully performing £'000s | Past due £'000s | Impairment £'000s | Total £'000s |
|---|---|---|---|---|
| Financial investments: | | | | |
| Other financial investments | **15,276** | – | – | **15,276** |
| Overseas deposits | **536** | – | – | **536** |
| Deposits with ceding undertakings | **248** | – | – | **248** |
| Cash at bank and in hand | **544** | – | – | **544** |
| Reinsurers' share of outstanding claims including reinsurers' IBNR | **88** | – | – | **88** |
| Insurance debtors | **1,697** | **46** | – | **1,743** |
| Reinsurance recoverable on paid claims | **84** | – | – | **84** |
| Other debtors | **6,426** | – | – | **6,426** |
| | **24,899** | **46** | – | **24,945** |

| 2018 | Fully performing £'000s | Past due £'000s | Impairment £'000s | Total £'000s |
|---|---|---|---|---|
| Financial investments: | | | | |
| Other financial investments | 21,597 | – | – | 21,597 |
| Overseas deposits | 639 | – | – | 639 |
| Deposits with ceding undertakings | 258 | – | – | 258 |
| Cash at bank and in hand | 1,169 | – | – | 1,169 |
| Reinsurers' share of outstanding claims including reinsurers' IBNR | 10 | – | – | 10 |
| Insurance debtors | 10,507 | 958 | – | 11,465 |
| Reinsurance recoverable on paid claims | 59 | – | – | 59 |
| Other debtors | 6,066 | – | – | 6,066 |
| | 40,305 | 958 | – | 41,263 |

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 statement of comprehensive income 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 10. The following table analyses the financial liabilities and gross claims provision into their relevant maturity groups based on the remaining period at the year end date to their contractual maturities or expected settlement dates. The projected settlement of the gross claims provision is modelled using actuarial techniques. These estimates assume that future claims settlement patterns will be broadly similar to those experienced in the past.

| 2019 | No Stated Maturity | Up to 1 year £'000s | 1–3 years £'000s | 3–5 years £'000s | Over 5 years £'000s | Total £'000s |
|---|---|---|---|---|---|---|
| Creditors | – | 5,657 | – | – | – | 5,657 |
| Gross claims provision | 574 | 2,990 | 3,117 | 3,358 | 5,056 | 15,095 |
| Financial liabilities and gross claims provisions | 574 | 8,647 | 3,117 | 3,358 | 5,056 | 20,752 |

| 2018 | No Stated Maturity | Up to 1 year £'000s | 1–3 years £'000s | 3–5 years £'000s | Over 5 years £'000s | Total £'000s |
|---|---|---|---|---|---|---|
| Creditors | – | 10,777 | – | – | – | 10,777 |
| Gross claims provision | 624 | 8,518 | 3,224 | 2,839 | 6,552 | 21,757 |
| Financial liabilities and gross claims provisions | 624 | 19,295 | 3,224 | 2,839 | 6,552 | 32,534 |

### Foreign currency market risk

For further details of the management of the syndicate's market risk please refer to page 10.

The syndicate maintains bank accounts and claims reserves in pounds sterling and US dollars (the Lloyd's closing currencies). Additionally, bank accounts are maintained in Euros. Transactions arising in other currencies are translated to the Lloyd's closing currencies as they occur. Certain other currencies are held for regulatory purposes. The majority of the syndicate's financial assets are 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.

Foreign currency liquidity and exposure for the syndicate is the responsibility of the Chief Financial Officer. Strategy is recommended and agreed 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, hedges 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 assurance 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 and net assets. 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.

The following table gives an indication of the impact on the result and net assets or liabilities of a ten percent change in the relative strength of the pound sterling against the value of the US dollar, excluding the effect of hedges.

| | 2019 £'000s | 2018 £'000s |
|---|---|---|
| Sterling strengthens 10% against US dollar | **769** | 792 |
| Sterling weakens 10% against US dollar | **(769)** | (792) |

### Interest rate market risk

For further details of the management of the syndicate's market risk please refer to page 10.

### 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 of cash deposits.
- Level 2 financial instruments are money market and open-ended funds. These fair values have been derived from market observable inputs.
- The fair value for level 3 financial instruments are derived from inputs that are not observable. The syndicate held no level 3 securities as at 31 December 2019.

| 2019 | Level 1 £'000s | Level 2 £'000s | Level 3 £'000s | Total £'000s |
|---|---|---|---|---|
| Shares and other variable yield securities | **–** | **11,165** | **–** | **11,165** |
| Loans and deposits with credit institutions | **4,111** | **–** | **–** | **4,111** |
| Overseas deposits | **536** | **–** | **–** | **536** |
| | **4,647** | **11,165** | **–** | **15,812** |

| 2018 | Level 1 £'000s | Level 2 £'000s | Level 3 £'000s | Total £'000s |
|---|---|---|---|---|
| Shares and other variable yield securities | – | 17,289 | – | 17,289 |
| Loans and deposits with credit institutions | 4,308 | – | – | 4,308 |
| Overseas deposits | 639 | – | – | 639 |
| | 4,947 | 17,289 | – | 22,236 |

Annual report and accounts 2019

# Underwriting and Run-off Year Accounts

for the year of account 2017

# Report of the directors of the managing agent

The managing agent presents its report at 31 December 2019 for the 2017 closed year of account for the following syndicates:

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

and the 2017 run-off year of account for the following syndicate:

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 and run-off 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.

### 2017 closed year of account

The 2017 year of account closed for the syndicates with the following results:

| 510 | £'000s | % of capacity |
|---|---|---|
| (Loss) after standard personal expenses | (25,635) | (2.3) |

The underwriting surplus (excluding investment return and operating expenses, other than acquisition costs) attributable to the reinsurance to close (RITC) of the 2016 year of account was £80,007k.

| 557 | £'000s | % of capacity |
|---|---|---|
| (Loss) after standard personal expenses | (4,996) | (14.7) |

The underwriting surplus (excluding investment return and operating expenses, other than acquisition costs) attributable to the RITC of the 2016 year of account was £2,329k.

### 2017 run-off year of account

The results for the 2017 year of account at 36 months were:

| 308 | £'000s | % of capacity |
|---|---|---|
| (Loss) after standard personal expenses | (12,425) | (40.2) |

The underwriting surplus (excluding investment return and operating expenses, other than acquisition costs) attributable to the RITC of the 2016 year of account was £304k

The report of the directors of the managing agent on pages 5 to 14 provides 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 its 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

**Brad Irick**

Chief Executive Officer
Tokio Marine Kiln Syndicates Limited
5 March 2020

# 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 2019

The principal accounting policies applied in the preparation of these financial statements are set out below.

## 1. Statement of compliance

These underwriting year and run-off 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, comprising Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' (FRS 102) as modified by the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

These financial statements are prepared under the historical cost convention, as modified by the recognition of certain financial assets and liabilities measured at fair value.

These underwriting year and run-off accounts are presented in pounds sterling, which is the syndicates' functional currency. All amounts have been rounded to the nearest thousand, unless otherwise stated.

Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture.

For Syndicates 510 and 557, these underwriting year accounts relate to the 2017 year of account which has been closed by RITC as at 31 December 2019. Consequently the balance sheet represents the assets and liabilities of the 2017 year of account at the date of closure. The underwriting account reflects 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 2017 year of account to the date of closure. Accordingly, this is the only reporting period and comparative amounts are not shown.

For Syndicate 308, these run-off year accounts relate to the 2017 year of account which has been kept open as at 31 December 2019. Consequently the balance sheet represents the assets and liabilities of the 2017 year of account as at the current year end. The underwriting account reflects the transactions for the 2017 year of account during the three year period to date. These underwriting year accounts cover the period from the date of inception of the 2017 year of account to the current year end date. Accordingly, this is the only reporting period and comparative amounts are not shown.

## 2. Use of significant estimates, judgements and assumptions

The preparation of the syndicates' financial statements requires the use of significant estimates, judgements and assumptions. The directors consider the accounting policies for determining premium written, claims paid and related recoveries, provision for unexpired risks and the valuation of investments as being most critical to an understanding of the syndicates' results and position. These are all discussed in more detail in note 3.

For general business, the most critical estimate included within the syndicates' balance sheet is the estimate for losses incurred but not reported. The total gross estimate is included within reinsurance to close premium payable on the balance sheet.

Estimates of losses incurred but not reported are continually evaluated, based on entity-specific historical experience and contemporaneous developments observed in the wider industry when relevant. Estimates are also updated for expectations of prospective future developments. The procedures used in estimating the cost of settling insured losses at the balance sheet date including losses incurred but not reported are detailed in note 3 (b).

For life business, the most critical estimate included within the syndicate's balance sheet is the estimate for the long-tem business provision. The estimate is included within amounts retained to meet all known and unknown outstanding liabilities on the balance sheet. The estimate and assumptions made are described in note 3 of the annual accounts.

## 3. 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, lineslip 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 on a risk by risk basis, representing the difference between the written and signed premium, which 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.

For those policies in Syndicate 308 reserved under a long-term methodology, written premium is treated as fully earned from inception, or anniversary of 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 expected claims and expenses less future expected premiums ('mathematical reserves'). Where mathematical reserves for an individual long-term life contract creates a deficit from inception on a best estimate basis, assets will be transferred from the year of account which originally underwrote the business to the year of account carrying the liability in order to maintain equity between capital providers. The assessment for this requirement is made on a 'managed together' basis.

### 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.

A reinsurance to close is a contract of insurance which, in return for a premium paid by the closing year of account, transfers, normally to the following year of account, all known and unknown liabilities arising out of transactions connected with insurance business underwritten by the closing year of account. However, it should be noted that a reinsurance contract does not extinguish the primary liability of the original underwriter.

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 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) 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 risks provision is assessed on a 'managed together' basis. Unexpired risks surpluses and deficits are offset where business classes are managed together and a provision is made if an aggregate deficit arises. The unexpired risks provision is included within other technical provisions.

All reasonable steps are taken to ensure that the appropriate information regarding claims exposures is obtained. The calculation is based upon statistical analyses of historical experience, which assumes that the development pattern of premiums and claims will be similar to past experience. However, given the uncertainty in establishing a provision for unexpired risks, it is likely that the final outcome will prove to be different from the original liability established.

### d) 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 non-technical account for general business and the technical account for long-term business.

**e) Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

**f) Investments**

The syndicates have chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

The syndicates classify their financial assets held for investment purposes (investments) into 'shares and other variable-yield securities', 'debt securities and other fixed-income securities', 'deposits with credit institutions' and 'other investments' – 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.

An investment 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 and floating interest rate debt securities, bond exchange traded funds and absolute return funds 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 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 or loss are presented in the statement of comprehensive income within 'unrealised gains on investments' or 'unrealised losses on investments' in the period in which they arise.

**g) 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 statement of comprehensive income. 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.

**h) 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 or loss are calculated as the difference between sale proceeds and the fair value at the previous balance sheet date, or purchase price if acquired during the year, 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 the fair value at the previous balance sheet date, or purchase price if acquired during the year, or the fair value at transfer as consideration for RITC receivable.

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.

**i) Financial assets**

Basic financial assets, including receivables and cash at bank and in hand, are initially recognised at transaction price.

Such assets are subsequently carried at amortised cost using the effective interest method. At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the statement of comprehensive income.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

**j) Financial liabilities**

Basic financial liabilities, including payables, are initially recognised at transaction price. Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expired.

**k) 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.

**l) 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.

**m) Pension costs**

Tokio Marine Kiln Syndicates Limited operates a defined contribution scheme. A defined contribution plan is a pension plan under which a fixed contributions is paid into a separate entity. Once the contributions have been paid the Group has no further payment obligations. 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). This fund is valued at the balance sheet date by the scheme actuary. The fair value of plan assets is measured in accordance with FRS 102 fair value hierarchy and in accordance with the policy for similarly held assets.

The charge recognised during the year represents each syndicate's share of pension scheme funding paid during the year as required to meet the funding obligation of the scheme.

**n) 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. 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.

**o) 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 2019

# Syndicate 510

## Tokio Marine Kiln Combined Syndicate

# Independent auditors' report to the members of Syndicate 510 – 2017 closed year of account.

## Report on the audit of the syndicate underwriting year accounts

### Opinion

In our opinion, 510's syndicate underwriting year accounts for the 2017 year of account for the three years ended 31 December 2019 (the "syndicate underwriting year accounts"):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2019 and of its loss and cash flows for the 2017 closed year of account;
- have been properly prepared in accordance with United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

We have audited the syndicate underwriting year accounts included within the Annual Report and Accounts 2019 (the "Annual Report"), which comprise: the balance sheet at 31 December 2019, the statement of changes in members' balances, the statement of comprehensive income, the cashflow statement for the 36 months then ended, the accounting policies, and the notes to the syndicate annual accounts, which include other explanatory information.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 and other applicable law.

Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the syndicate underwriting year accounts section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We remained independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate underwriting year accounts in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### Emphasis of matter – Basis of preparation

In forming our opinion on the syndicate underwriting year accounts, which is not modified, we draw attention to page 91 of the syndicate underwriting year accounts, which describes the basis of preparation. In particular, as these financial statements relate to a closed underwriting year of account, matters relating to going concern are not relevant to these financial statements. The syndicate underwriting year accounts are prepared in accordance with a special purpose framework for the specific purpose as described in the Use of this report paragraph below. As a result, the syndicate underwriting year accounts may not be suitable for another purpose.

### Reporting on other information

The other information comprises all of the information in the Annual Report other than the syndicate underwriting year accounts and our auditors' report thereon. The Managing Agent is responsible for the other information. Our opinion on the syndicate underwriting year accounts does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the syndicate underwriting year accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate underwriting year accounts or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the syndicate underwriting year accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Report of the Directors of the managing agent ("the Managing Agent's Report"), we also considered whether the disclosures required by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

#### Managing Agent's Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Managing Agent's Report for the year ended 31 December 2019 is consistent with the syndicate underwriting year accounts and has been prepared 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).

In light of the knowledge and understanding of the syndicate and its environment obtained in the course of the audit, we did not identify any material misstatements in the Managing Agent's Report.

**Responsibilities for the syndicate underwriting year accounts and the audit**

**Responsibilities of the managing agent for the syndicate underwriting year accounts**

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 90, the Managing Agent is responsible for the preparation of the syndicate underwriting year accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view of the result for the 2017 closed year of account. The Managing Agent is also responsible for such internal control as they determine is necessary to enable the preparation of syndicate underwriting year accounts that are free from material misstatement, whether due to fraud or error.

**Auditors' responsibilities for the audit of the syndicate underwriting year accounts**

Our objectives are to obtain reasonable assurance about whether the syndicate underwriting year accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these syndicate underwriting year accounts.

A further description of our responsibilities for the audit of the syndicate underwriting year accounts is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

**Use of this report**

This report, including the opinion, has been prepared for and only for the syndicate's members as a body in accordance with part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 and Part C of the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) and for no other purpose. We do not, in giving this opinion, 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.

## Other required reporting

**Other matters on which we are required to report by exception**

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005), 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
- adequate accounting records have not been kept by the Managing Agent in respect of the syndicate; or
- the syndicate underwriting year accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

**Matthew Nichols**

Senior Statutory Auditor
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
5 March 2020

## Statement of comprehensive income: technical account – general business

for the 36 months ended 31 December 2019

| | Note | 2017 £'000s |
|---|---|---|
| **Syndicate allocated capacity** | | 1,130,535 |
| **Earned premiums, net of reinsurance** | | |
| Gross premiums written | 1 | 1,384,566 |
| Outward reinsurance premiums | | (312,179) |
| **Earned premiums, net of reinsurance** | | 1,072,387 |
| **Reinsurance to close premium receivable, net of reinsurance** | 2 | 617,533 |
| **Allocated investment return transferred from the non-technical account** | | 28,882 |
| **Claims incurred, net of reinsurance** | | |
| Claims paid: | | |
| Gross amount | | (868,343) |
| Reinsurers' share | | 234,462 |
| Reinsurance to close premium payable, net of reinsurance | 3 | (668,827) |
| **Claims incurred, net of reinsurance** | | (1,302,708) |
| **Members' standard personal expenses** | | (19,358) |
| **Net operating expenses** | 4,5,6 | (401,967) |
| **Balance on the technical account for general business** | 7 | (5,231) |

## Statement of comprehensive income: non-technical account

for the 36 months ended 31 December 2019

| | Note | 2017 £'000s |
|---|---|---|
| **Balance on the general business technical account** | | (5,231) |
| Investment income | 8 | 23,840 |
| Unrealised gains on investments | 8 | 9,022 |
| Investment expenses and charges | 8 | (1,799) |
| Unrealised (losses) on investments | 8 | (2,181) |
| Allocated investment return transferred to the general business technical account | 8 | (28,882) |
| (Loss) on exchange | | (20,404) |
| **(Loss) for the 2017 closed year of account** | | (25,635) |

There is no other comprehensive income.

# Balance sheet

for the 2017 closed year of account as at 31 December 2019

| Assets | Note | 2017 £'000s |
|---|---|---|
| **Investments** | | |
| Other financial investments | 9 | 526,046 |
| Deposits with ceding undertakings | | 572 |
| **Debtors** | 10 | 225,386 |
| **Reinsurance recoveries anticipated on gross reinsurance to close premium payable to close the account** | 3 | 197,932 |
| **Other assets** | | |
| Cash at bank and in hand | | 4,035 |
| Overseas deposits | 11 | 115,723 |
| **Prepayments and accrued income** | | 178 |
| **Total assets** | | 1,069,872 |

| Liabilities | Note | 2017 £'000s |
|---|---|---|
| **Amount due from members** | | (28,506) |
| **Reinsurance to close premium payable to close the account – gross amount** | 3 | 866,759 |
| **Deposits received from reinsurers** | | 26,765 |
| **Creditors** | 12 | 204,854 |
| **Total liabilities** | | 1,069,872 |

The underwriting year accounts, which comprise pages 95 to 109 and the notes and principal accounting policies applicable to all syndicates on pages 91 to 94, were approved by the Board of Tokio Marine Kiln Syndicates Limited on 2 March 2020 and were signed on its behalf by

**Reeken Patel**

Chief Financial Officer
Tokio Marine Kiln Syndicates Limited
5 March 2020

## Statement of changes in members' balances

for the 2017 closed year of account as at 31 December 2019

| | 2017 £'000s |
|---|---|
| Members' balances brought forward at 1 January | – |
| (Loss) for the 2017 closed year of account | (25,635) |
| Members' agents' fee advances | (2,871) |
| **Members' balances carried forward at 31 December** | **(28,506)** |

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.

## Cash flow statement

for the 36 months ended 31 December 2019

| | Note | 2017 £'000s |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Operating (loss) on ordinary activities | | (25,635) |
| Non-cash consideration for net RITC receivable | | (518,291) |
| Net RITC premium payable | 3 | 668,827 |
| (Increase) in debtors | | (70,647) |
| Increase in creditors | | 68,662 |
| Unrealised foreign currency losses | | 927 |
| **Net cash inflow from operating activities** | | **123,843** |
| **Cash flows from investing activities:** | | |
| Sale of shares and other variable yield securities | | 79,339 |
| Purchase of debt securities and other fixed income securities | | (398,902) |
| Sale of debt securities and other fixed income securities | | 303,179 |
| Movements in deposits with credit institutions | | (5,687) |
| Movements in other investments | | (178) |
| Movements in deposits | | 22,263 |
| **Net cash inflow from investing activities** | | **14** |
| **Cash flows from financing activities:** | | |
| Members' agents' fees paid on behalf of members | | (2,871) |
| **Net cash (outflow) from financing activities** | | **(2,871)** |
| **Net increase in cash and cash equivalents** | | **120,986** |
| Cash and cash equivalents at beginning of the 36 months | | - |
| Foreign exchange (losses) on cash and cash equivalents | | (1,228) |
| Cash and cash equivalents at end of the 36 months | | 119,758 |
| **Cash and cash equivalents consists of:** | | |
| Cash at bank and in hand | | 4,035 |
| Overseas deposits | 11 | 115,723 |
| **Cash and cash equivalents at end of the 36 months** | | **119,758** |

# Notes to the accounts

for the 36 months ended 31 December 2019

## 1. Segmental analysis

An analysis of the underwriting result before investment return and profit or loss on exchange 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 | 740,357 | (622,456) | (277,368) | 77,578 | (81,889) |
| Marine & Special Risks | 211,019 | (137,286) | (73,301) | (11,351) | (10,919) |
| Accident & Health | 154,235 | (85,367) | (63,490) | (3,745) | 1,633 |
| Enterprise Risk | 115,054 | (68,522) | (45,572) | (1,247) | (287) |
| Reinsurance | 104,604 | (106,822) | (24,556) | 1,093 | (25,681) |
| Aviation | 59,297 | (32,975) | (22,000) | (1,299) | 3,023 |
| | 1,384,566 | (1,053,428) | (506,287) | 61,029 | (114,120) |
| RITC received | 787,836 | (681,674) | - | (26,155) | 80,007 |
| | 2,172,402 | (1,735,102) | (506,287) | 34,874 | (34,113) |

Of the above divisions the following have accepted inwards reinsurance business: Reinsurance (100%); Accident & Health (28.6%), Aviation (27.6%); Marine & Special Risks (15.4%); Property & Special Lines (12.6%) and Enterprise Risk (10.9%).

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 business was concluded in the UK.

The geographical analysis of premium by location of the client is below.

| | £'000s |
|---|---|
| UK | 193,648 |
| Other EU countries | 197,423 |
| US | 719,457 |
| Canada | 270,176 |
| Other | 791,698 |
| | 2,172,402 |

## 2. Reinsurance to close premium receivable

| | £'000s |
|---|---|
| Gross reinsurance to close premium receivable | 787,836 |
| Reinsurance recoveries anticipated | (170,303) |
| | 617,533 |

## 3. Reinsurance to close premium payable

| | £'000s |
|---|---|
| Gross notified outstanding claims | 536,067 |
| Reinsurance recoveries anticipated | (163,063) |
| Net notified outstanding claims | 373,004 |
| Provision for gross claims IBNR | 330,692 |
| Reinsurance recoveries anticipated on IBNR | (34,869) |
| Provision for net IBNR | 295,823 |
| | 668,827 |

The reinsurance to close is effected to the 2018 year of account of Syndicate 510.

## 4. Net operating expenses

| | £'000s |
|---|---|
| Acquisition costs | 415,345 |
| Administrative expenses | 71,584 |
| Gross operating expenses | 486,929 |
| Reinsurance commissions and profit participations | (84,962) |
| | 401,967 |

Included within administrative expenses is auditors' remuneration:

| | £'000s |
|---|---|
| Audit services: | |
| Fees payable to the syndicate's auditor for the audit of the syndicate accounts | 148 |
| Other services: | |
| Other services pursuant to legislation | 335 |
| | 483 |

The charge incurred for other services relates to the audit and review of the syndicate's regulatory returns and the provision of statement of actuarial opinion on the reserves.

### 5. Staff costs

The syndicate and its managing agent have no employees. Staff were employed by Tokio Marine Kiln Insurance Services Limited. The following amounts were recharged to the 2017 year of account in respect of salary costs and are included within administrative expenses:

| | £'000s |
|---|---|
| Wages, salaries and social security costs | 27,923 |
| Other pension costs | 2,583 |
| | 30,506 |

Of this amount £129,877 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.

### 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 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 £782,836 was charged as an expense to the 2017 year of account:

| | £'000s |
|---|---|
| Emoluments | 2,111 |

The Active Underwriters received the following remuneration charged to the 2017 year of account as a syndicate expense:

| | £'000s |
|---|---|
| Emoluments | 931 |

## 7. Analysis of technical result

| | 2016 & prior years of account £'000s | 2017 pure year of account £'000s | Total 2017 £'000s |
|---|---|---|---|
| Technical account balance excluding investment return and operating expenses | 80,007 | 307,205 | 387,212 |
| Brokerage and commission on gross premium | – | (415,345) | (415,345) |
| Reinsurance commissions receivable | – | 84,962 | 84,962 |
| | 80,007 | (23,178) | 56,829 |
| Allocated investment return transferred from the non-technical account | – | 28,882 | 28,882 |
| Net operating expenses other than acquisition costs | – | (90,942) | (90,942) |
| | 80,007 | (85,238) | (5,231) |

All acquisition costs are attributable to business allocated to the 2017 pure year of account.

## 8. Investment income and expenses

| | £'000s |
|---|---|
| Investment income: | |
| Income from investments | 20,712 |
| Realised gains on investments | 3,128 |
| Unrealised gains on investments | 9,022 |
| Investment expenses: | |
| Investment management expenses, including interest | (1,156) |
| Realised losses on investments | (643) |
| Unrealised losses on investments | (2,181) |
| | 28,882 |

## 9. Other financial investments

| | Fair value £'000s | Purchase price £'000s |
|---|---|---|
| Shares and other variable yield securities | 133,312 | 131,545 |
| Debt securities and other fixed income securities | 386,860 | 379,736 |
| Deposits with credit institutions | 5,687 | 5,687 |
| Other investments | 187 | – |
| | 526,046 | 516,968 |

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

Other investments are comprised of forward currency contracts.

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 2019 was £12,354,859.

### 10. Debtors

| | £'000s |
|---|---|
| Due within one year: | |
| Arising out of direct insurance operations | 63,918 |
| Arising out of reinsurance operations | 151,081 |
| Other debtors | 6,308 |
| | 221,307 |
| Due after one year: | |
| Arising out of direct insurance operations | 257 |
| Arising out of reinsurance operations | 2 |
| Other debtors | 3,820 |
| | 4,079 |
| | 225,386 |

### 11. Overseas deposits

Overseas deposits are lodged as a condition of conducting underwriting business in certain countries.

### 12. Creditors

| | £'000s |
|---|---|
| Due within one year: | |
| Arising out of direct insurance operations: | |
| Due to intermediaries | 52,167 |
| Inter-year loans | 34,098 |
| Arising out of reinsurance operations | 110,815 |
| Other creditors | 7,774 |
| | 204,854 |

### 13. 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 2017 year of account of £5,788,049. Unpaid premium of £730,341 was due from related parties at the period end. The outstanding claims (excluding IBNR) were £932,444.

Written premiums ceded by Syndicate 510 to related parties for the 2017 year of account were £105,490,681. Paid recoveries from related parties during the period were £65,086,408. Unpaid recoveries at the period end amounted to £3,213,488 and future recoveries on outstanding claims (including IBNR) were £54,993,778.

Treaty profit commission due to Syndicate 510 from related parties for the 2017 year of account was £nil. Profit commission received from related parties during the period was £nil. Profit commission receivable at the period end amounted to £nil.

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 investment in Ibex was impaired resulting in a loss recognised and charged to Syndicate 510 of £0.3m.

The syndicate also received business through Tokio Marine Kiln Europe S.A. which was 100% owned by Tokio Marine Kiln Group Limited until its sale on 26 November 2019, WNC Insurance Services, Inc., whose parent WNC Holding Company, LP was 100% owned within the Tokio Marine Kiln Group as at 31 December 2019 and NAS Insurance Services, Inc. which was 49% owned within the Tokio Marine Kiln Group until its sale on 1 April 2019. Profit commission on inwards business of £nil was paid to related parties for the 2017 year of account and profit commission payable was £403,435 as at the period end.

Profit commission of £3,313,317 was payable by the syndicate to Tokio Marine Kiln Syndicates Limited in respect of profits for the 2017 year.

Managing agency fees of £8,349,027 were paid by the syndicate to Tokio Marine Kiln Syndicates Limited. In addition to this, expenses of £57,002,131 were paid to Tokio Marine Kiln Syndicates Limited for expenses paid on behalf of the syndicate.

The note on related parties on page 12 provides further information regarding all syndicates and related parties.

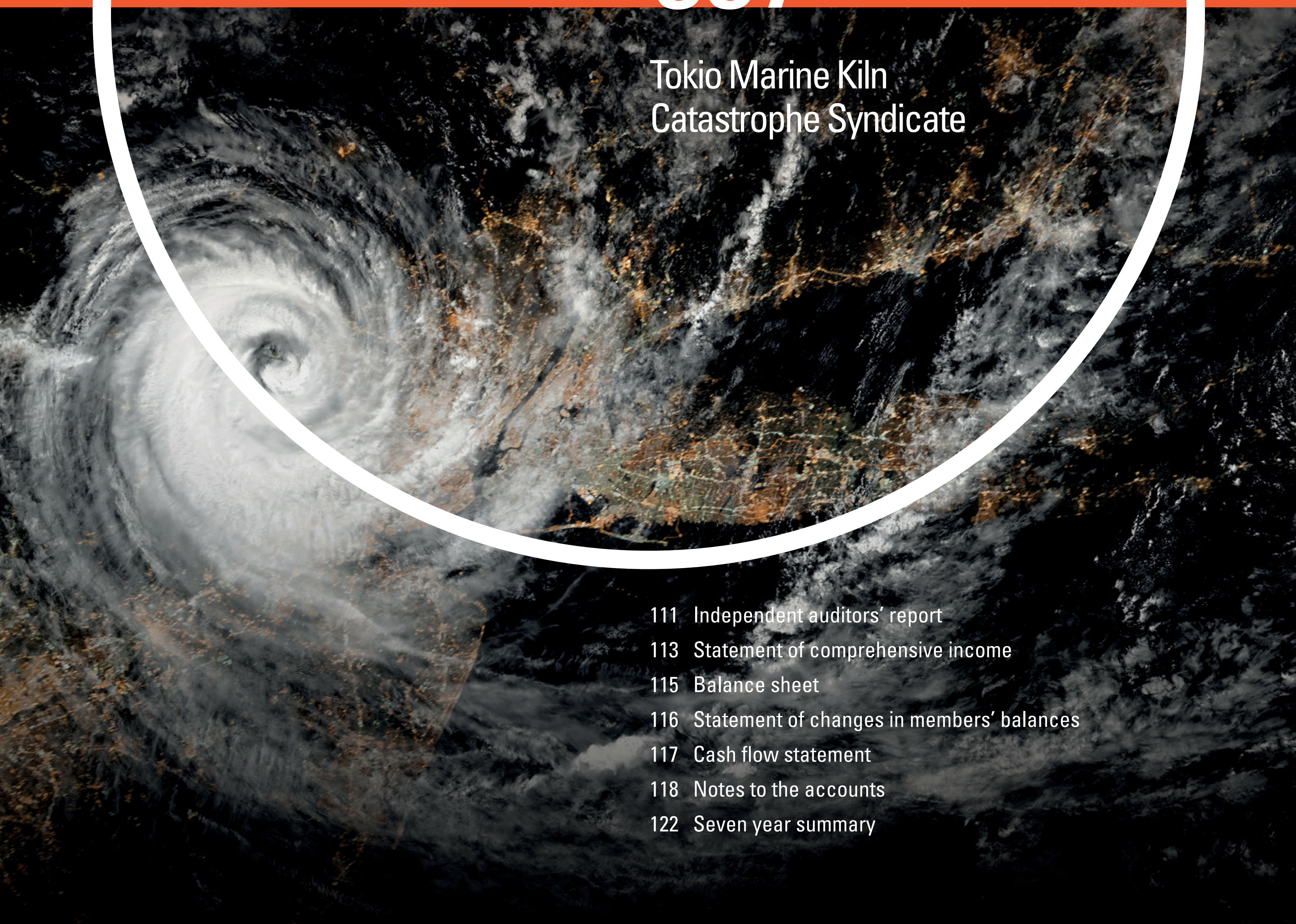
# Seven year summary (unaudited)

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|
| Syndicate allocated capacity £m | 922.31 | 1,062.27 | 1,063.67 | 1,063.97 | 1,062.85 | 1,061.79 | 1,130.54 |
| Number of underwriting members | 1,577 | 1,647 | 1,661 | 1,660 | 1,635 | 1,656 | 1,631 |
| Aggregate net premiums £m | 739.10 | 906.73 | 913.83 | 1,055.95 | 1,006.28 | 1,108.08 | 1,072.39 |
| Result £m | 69.05 | 90.43 | 115.69 | 167.05 | 118.01 | 46.72 | ( 25.64) |
| **Results for an illustrative share of £10,000** | | | | | | | |
| Gross premiums written and earned | 7,532 | 8,143 | 8,029 | 9,435 | 8,557 | 9,345 | 8,573 |
| – as a percentage of allocated capacity | 75% | 81% | 80% | 94% | 86% | 93% | 86% |
| Net premiums written and earned | 5,778 | 6,156 | 6,268 | 7,062 | 6,711 | 7,354 | 6,563 |
| – as a percentage of allocated capacity | 58% | 62% | 63% | 71% | 67% | 74% | 66% |
| RITC from an earlier year of account | 3,701 | 3,529 | 4,007 | 4,017 | 4,599 | 4,855 | 5,462 |
| Net claims incurred | (4,261) | (4,140) | (4,367) | (4,746) | (4,264) | (5,260) | (5,607) |
| RITC the year of account | (3,706) | (4,012) | (4,019) | (4,595) | (4,850) | (5,816) | (5,916) |
| **Underwriting result** | 1,512 | 1,533 | 1,889 | 1,738 | 2,196 | 1,133 | 502 |
| (Loss)/profit on exchange | (120) | 1 | (55) | 687 | (244) | 111 | (180) |
| Syndicate operating expenses | (475) | (524) | (511) | (568) | (657) | (681) | (633) |
| **Balance on the technical account** | 917 | 1,010 | 1,323 | 1,857 | 1,295 | 563 | (311) |
| Investment return | 90 | 87 | 74 | 88 | 127 | 113 | 255 |
| **Result before personal expenses** | 1,007 | 1,097 | 1,397 | 1,945 | 1,422 | 676 | (56) |
| Illustrative personal expenses | (259) | (245) | (309) | (377) | (313) | (236) | (171) |
| **Result** | 748 | 852 | 1,088 | 1,568 | 1,109 | 440 | (227) |

Annual report and accounts 2019

# Syndicate 557

## Tokio Marine Kiln Catastrophe Syndicate



# Independent auditors' report to the members of syndicate 557 – 2017 closed year of account.

## Report on the audit of the syndicate underwriting year accounts

### Opinion

In our opinion, 557's syndicate underwriting year accounts for the 2017 year of account for the three years ended 31 December 2019 (the "syndicate underwriting year accounts"):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2019 and of its loss and cash flows for the 2017 closed year of account;
- have been properly prepared in accordance with United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

We have audited the syndicate underwriting year accounts included within the Annual Report and Accounts 2019 (the "Annual Report"), which comprise: the balance sheet at 31 December 2019, the statement of changes in members' balances, the statement of comprehensive income, the cashflow statement for the 36 months then ended, the accounting policies, and the notes to the syndicate annual accounts, which include other explanatory information.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 and other applicable law.

Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the syndicate underwriting year accounts section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We remained independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate underwriting year accounts in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### Emphasis of matter – Basis of preparation

In forming our opinion on the syndicate underwriting year accounts, which is not modified, we draw attention to page 91 of the syndicate underwriting year accounts, which describes the basis of preparation. In particular, as these financial statements relate to a closed underwriting year of account, matters relating to going concern are not relevant to these financial statements. The syndicate underwriting year accounts are prepared in accordance with a special purpose framework for the specific purpose as described in the Use of this report paragraph below. As a result, the syndicate underwriting year accounts may not be suitable for another purpose.

### Reporting on other information

The other information comprises all of the information in the Annual Report other than the syndicate underwriting year accounts and our auditors' report thereon. The Managing Agent is responsible for the other information. Our opinion on the syndicate underwriting year accounts does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the syndicate underwriting year accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate underwriting year accounts or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the syndicate underwriting year accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Report of the Directors of the managing agent ("the Managing Agent's Report"), we also considered whether the disclosures required by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

### Managing Agent's Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Managing Agent's Report for the year ended 31 December 2019 is consistent with the syndicate underwriting year accounts and has been prepared 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).

In light of the knowledge and understanding of the syndicate and its environment obtained in the course of the audit, we did not identify any material misstatements in the Managing Agent's Report.

### Responsibilities for the syndicate underwriting year accounts and the audit

#### Responsibilities of the managing agent for the syndicate underwriting year accounts

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 90, the Managing Agent is responsible for the preparation of the syndicate underwriting year accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view of the result for the 2017 closed year of account. The Managing Agent is also responsible for such internal control as they determine is necessary to enable the preparation of syndicate underwriting year accounts that are free from material misstatement, whether due to fraud or error.

#### Auditors' responsibilities for the audit of the syndicate underwriting year accounts

Our objectives are to obtain reasonable assurance about whether the syndicate underwriting year accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these syndicate underwriting year accounts.

A further description of our responsibilities for the audit of the syndicate underwriting year accounts is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

#### Use of this report

This report, including the opinion, has been prepared for and only for the syndicate's members as a body in accordance with part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 and Part C of the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) and for no other purpose. We do not, in giving this opinion, 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.

## Other required reporting

### Other matters on which we are required to report by exception

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005), 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
- adequate accounting records have not been kept by the Managing Agent in respect of the syndicate; or
- the syndicate underwriting year accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

**Matthew Nichols**

(Senior statutory auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
5 March 2020

# Statement of comprehensive income: technical account – general business

for the 36 months ended 31 December 2019

| | Note | 2017<br>£'000s |
|---|---|---|
| **Syndicate allocated capacity** | | 34,060 |
| **Earned premiums, net of reinsurance** | | |
| Gross premiums written | 1 | 17,225 |
| Outward reinsurance premiums | | (1,982) |
| **Earned premiums, net of reinsurance** | | 15,243 |
| **Reinsurance to close premium receivable, net of reinsurance** | 2 | 9,760 |
| **Allocated investment return transferred from the non-technical account** | | 752 |
| **Claims incurred, net of reinsurance** | | |
| Claims paid: | | |
| Gross amount | | (16,839) |
| Reinsurers' share | | 172 |
| Reinsurance to close premium payable, net of reinsurance | 3 | (11,425) |
| **Claims incurred, net of reinsurance** | | (28,092) |
| **Members' standard personal expenses** | | (255) |
| **Net operating expenses** | 4,5,6 | (2,307) |
| **Balance on the technical account for general business** | 7 | (4,899) |

# Statement of comprehensive income: non-technical account

for the 36 months ended 31 December 2019

| | Note | 2017 £'000s |
|---|---|---|
| **Balance on the general business technical account** | | (4,899) |
| Investment income | 8 | 720 |
| Unrealised gains on investments | 8 | 123 |
| Investment expenses and charges | 8 | (41) |
| Unrealised (losses) on investments | 8 | (50) |
| Allocated investment return transferred to the general business technical account | 8 | (752) |
| (Loss) on exchange | | (97) |
| **(Loss) for the 2017 closed year of account** | | (4,996) |

There is no other comprehensive income.

# Balance sheet

for the 2017 closed year of account as at 31 December 2019

| Assets | Note | 2017 £'000s |
|---|---|---|
| **Investments** | | |
| Other financial investments | 9 | 8,845 |
| **Debtors** | 10 | 6,923 |
| **Reinsurance recoveries anticipated on gross reinsurance to close premium payable to close the account** | 3 | 254 |
| **Other assets** | | |
| Cash at bank and in hand | | 960 |
| Overseas deposits | 11 | 4 |
| **Total assets** | | 16,986 |

| Liabilities | Note | 2017 £'000s |
|---|---|---|
| **Amounts due to members** | | 4,973 |
| **Reinsurance to close premium payable to close the account – gross amount** | 3 | 11,679 |
| **Creditors** | 12 | 334 |
| **Total liabilities** | | 16,986 |

The underwriting year accounts, which comprise pages 110 to 122 and the notes and principal accounting policies applicable to all syndicates on pages 91 to 94, were approved by the Board of Tokio Marine Kiln Syndicates Limited on 2 March 2020 and were signed on its behalf by

**Reeken Patel**

Chief Financial Officer
Tokio Marine Kiln Syndicates Limited
5 March 2020

## Statement of changes in members' balances

for the 2017 closed year of account as at 31 December 2019

| | 2017<br>£'000s |
|---|---|
| Members' balances brought forward at 1 January | – |
| (Loss) for the 2017 closed year of account | (4,996) |
| Members' agents' fee advances | (183) |
| Cash call made | 10,152 |
| **Members' balances carried forward at 31 December** | 4,973 |

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

## Cash flow statement

for the 36 months ended 31 December 2019

| | Note | 2017 £'000s |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Operating (loss) on ordinary activities | | (4,996) |
| Non-cash consideration for net RITC receivable | | (9,750) |
| Net RITC premium payable | 3 | 11,425 |
| (Increase) in debtors | | (6,320) |
| (Decrease) in creditors | | (2,018) |
| Unrealised foreign currency losses | | 264 |
| **Net cash (outflow) from operating activities** | | **(11,395)** |
| **Cash flows from investing activities:** | | |
| Sale of shares and other variable yield securities | | 5,620 |
| Purchase of debt securities and other fixed income securities | | (7,339) |
| Sale of debt securities and other fixed income securities | | 4,115 |
| **Net cash inflow from investing activities** | | **2,396** |
| **Cash flows from financing activities:** | | |
| Members' agents' fees paid on behalf of members | | (183) |
| Cash calls made to date | | 10,152 |
| **Net cash inflow from financing activities** | | **9,969** |
| **Net increase in cash and cash equivalents** | | **970** |
| Cash and cash equivalents at beginning of the 36 months | | - |
| Foreign exchange losses on cash and cash equivalents | | (6) |
| Cash and cash equivalents at end of the 36 months | | 964 |
| **Cash and cash equivalents consists of:** | | |
| Cash at bank and in hand | | 960 |
| Overseas deposits | 11 | 4 |
| **Cash and cash equivalents at end of the 36 months** | | **964** |

# Notes to the accounts

for the 36 months ended 31 December 2019

## 1. Segmental analysis

An analysis of the underwriting result before investment return and profit on exchange 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 | 17,225 | (18,757) | (2,562) | (1,557) | (5,651) |
| RITC received | 10,202 | (9,761) | – | (441) | – |
| | 27,427 | (28,518) | (2,562) | (1,998) | (5,651) |

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 business is 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 | 10,202 |
| Reinsurance recoveries anticipated | (442) |
| Reinsurance to close premium receivable, net of reinsurance | 9,760 |

## 3. Reinsurance to close premium payable

| | £'000s |
|---|---|
| Gross notified outstanding claims | 7,753 |
| Reinsurance recoveries anticipated | (184) |
| Net notified outstanding claims | 7,569 |
| Provision for gross claims IBNR | 3,926 |
| Reinsurance recoveries anticipated on IBNR | (70) |
| Provision for net IBNR | 3,856 |
| | 11,425 |

The reinsurance to close is effected to the 2018 year of account of Syndicate 557.

### 4. Net operating expenses

| | £'000s |
|---|---|
| Acquisition costs | 557 |
| Administrative expenses | 1,750 |
| Gross and net operating expenses | 2,307 |

Included within administrative expenses is auditors' remuneration:

| | £'000s |
|---|---|
| Audit services: | |
| Fees payable to the syndicate's auditor for the audit of the syndicate accounts | 28 |
| Other services: | |
| Other services pursuant to legislation | 57 |
| | 85 |

The charge incurred for other services relates to the audit and review of the syndicate's regulatory returns and the provision of statement of actuarial opinion on the reserves.

### 5. Staff costs

The syndicate and its managing agent have no employees. Staff were employed by Tokio Marine Kiln Insurance Services Limited. The following amounts were recharged to the 2017 year of account in respect of salary costs and are included within administrative expenses:

| | £'000s |
|---|---|
| Wages, salaries and social security costs | 839 |
| Other pension costs | 132 |
| | 971 |

Of this amount £8,146 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.

### 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 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 £13,993 was charged as an expense to the 2017 year of account:

| | £'000s |
|---|---|
| Emoluments | 38 |

The Active Underwriters received the following remuneration charged to the 2017 year of account as a syndicate expense:

| | £'000s |
|---|---|
| Emoluments | 63 |

### 7. Analysis of technical result

| | 2016 & prior years of account £'000s | 2017 pure year of account £'000s | Total 2017 £'000s |
|---|---|---|---|
| Technical account balance excluding investment return and operating expenses | 2,329 | (5,418) | (3,089) |
| Brokerage and commission on gross premium | – | (557) | (557) |
| | 2,329 | (5,975) | (3,646) |
| Allocated investment return transferred from the non-technical account | – | 752 | 752 |
| Net operating expenses other than acquisition costs | – | (2,005) | (2,005) |
| | 2,329 | (7,228) | (4,899) |

All acquisition costs are attributable to business allocated to the 2017 pure year of account.

### 8. Investment income and expenses

| | £'000s |
|---|---|
| Investment income: | |
| Income from investments | 607 |
| Realised gains on investments | 113 |
| Unrealised gains on investments | 123 |
| Investment expenses: | |
| Investment management expenses, including interest | (16) |
| Realised losses on investments | (25) |
| Unrealised losses on investments | (50) |
| | 752 |

### 9. Other financial investments

| | Fair value £'000s | Purchase price £'000s |
|---|---|---|
| Shares and other variable yield securities | 5,766 | 5,735 |
| Debt securities and other fixed income securities | 3,079 | 3,001 |
| | 8,845 | 8,736 |

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

### 10. Debtors

| | £'000s |
|---|---|
| Arising out of direct insurance operations | 6,178 |
| Arising out of reinsurance operations | 673 |
| Other debtors | 72 |
| | 6,923 |

All amounts are due within one year.

### 11. Overseas deposits

Overseas deposits are lodged as a condition of conducting underwriting business in certain countries.

### 12. Creditors

| | £'000s |
|---|---|
| Arising out of reinsurance operations | 321 |
| Other creditors | 13 |
| | 334 |

All amounts are due within one year.

### 13. 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 2017 year of account of £17,958,094. The unpaid premiums due from Syndicate 510 at the period end were £119,238. The outstanding claims (excluding IBNR) were £5,884,439. No business was ceded to related parties.

No profit commission was payable by the syndicate to Tokio Marine Kiln Syndicates Limited in respect of profits for the 2017 year.

Managing agency fees of £255,223 were paid by the syndicate to Tokio Marine Kiln Syndicates Limited. In addition to this, expenses of £1,928,704 were paid to Tokio Marine Kiln Syndicates Limited for expenses paid on behalf of the syndicate.

The note on related parties on page 12 provides further information regarding all syndicates and related parties.

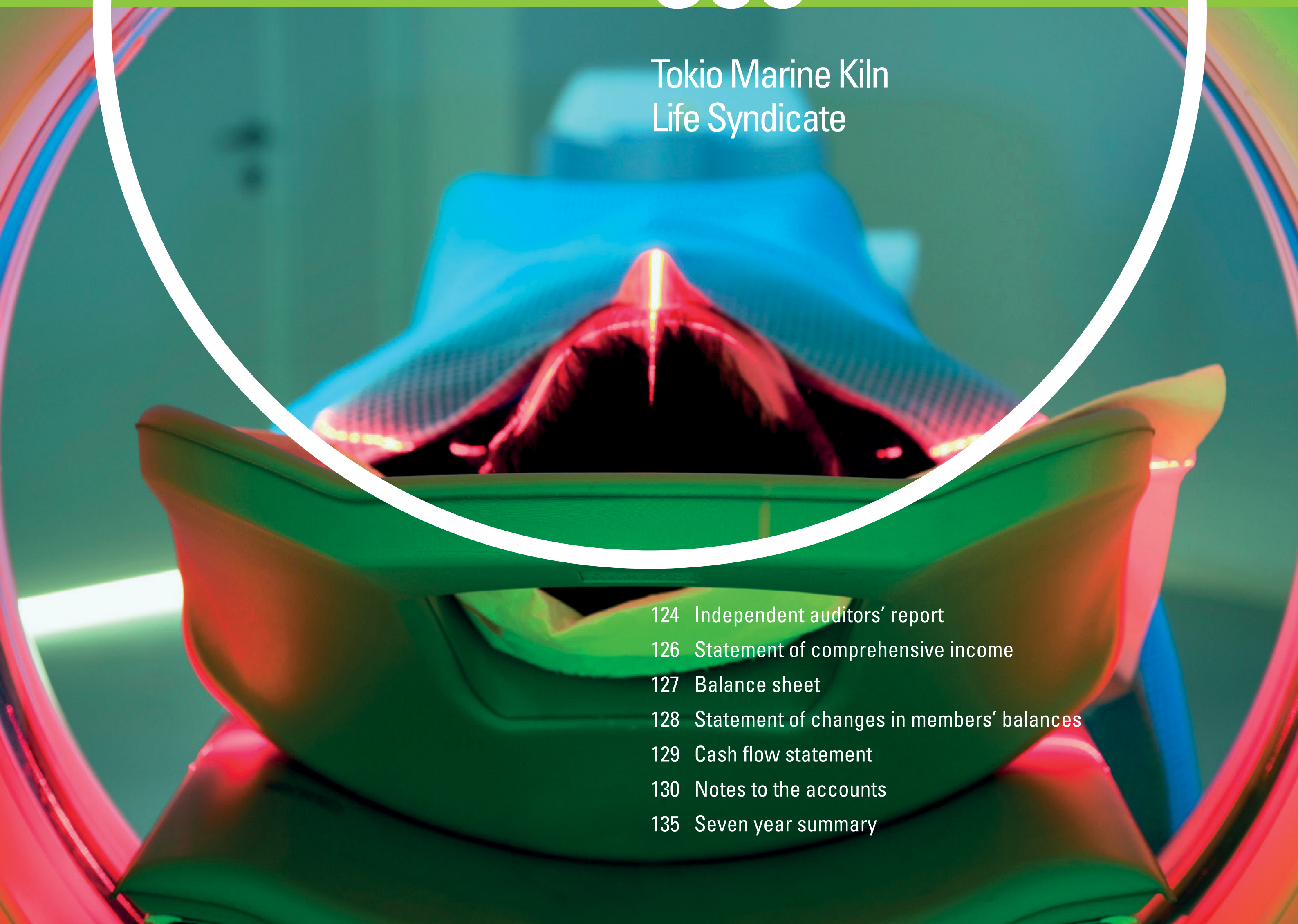
# Seven year summary (unaudited)

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|
| Syndicate allocated capacity £m | 59.87 | 56.27 | 45.82 | 39.28 | 34.87 | 34.71 | 34.06 |
| Number of underwriting members | 1,144 | 1,086 | 932 | 810 | 770 | 818 | 801 |
| Aggregate net premiums £m | 25.72 | 28.06 | 26.06 | 22.18 | 17.13 | 15.64 | 15.24 |
| Result £m | 6.12 | 3.27 | 7.02 | 10.77 | 10.44 | 8.90 | ( 5.00) |
| **Results for an illustrative share of £10,000** | | | | | | | |
| Gross premiums written and earned | 4,876 | 5,954 | 6,637 | 6,295 | 5,387 | 4,976 | 4,894 |
| – as a percentage of allocated capacity | 49% | 60% | 66% | 63% | 54% | 50% | 49% |
| Net premiums written and earned | 4,151 | 4,819 | 5,488 | 5,453 | 4,722 | 4,321 | 4,312 |
| – as a percentage of allocated capacity | 42% | 48% | 55% | 55% | 47% | 43% | 43% |
| RITC from an earlier year of account | 4,535 | 3,328 | 4,653 | 4,851 | 4,662 | 3,973 | 2,866 |
| Net claims incurred | (4,150) | (3,510) | (3,613) | (3,247) | (1,008) | (1,786) | (4,893) |
| RITC the year of account | (3,128) | (3,789) | (4,158) | (4,138) | (3,954) | (2,812) | (3,354) |
| **Underwriting result** | 1,408 | 848 | 2,370 | 2,919 | 4,422 | 3,696 | (1,069) |
| (Loss)/profit on exchange | (43) | 27 | (72) | 794 | (270) | (10) | (28) |
| Syndicate operating expenses | (332) | (309) | (437) | (414) | (567) | (594) | (514) |
| **Balance on the technical account** | 1,033 | 566 | 1,861 | 3,299 | 3,585 | 3,092 | (1,611) |
| Investment return | 64 | 91 | 70 | 99 | 118 | 92 | 221 |
| **Result before personal expenses** | 1,097 | 657 | 1,931 | 3,398 | 3,703 | 3,184 | (1,390) |
| Illustrative personal expenses | (75) | (75) | (399) | (656) | (709) | (619) | (75) |
| **Result** | 1,022 | 582 | 1,532 | 2,742 | 2,994 | 2,565 | (1,465) |

Annual report and accounts 2019

# Syndicate 308

## Tokio Marine Kiln Life Syndicate



# Independent auditors' report to the members of Syndicate 308 – 2017 run-off year of account.

## Report on the audit of the syndicate underwriting year accounts

### Opinion

In our opinion, 308's syndicate underwriting year accounts for the 2017 run-off year of account for the three years ended 31 December 2019 (the "syndicate underwriting year accounts"):

- have been properly prepared in accordance with United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland", as modified by the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005); and
- have been properly prepared in accordance with the requirements of the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

We have audited the syndicate underwriting year accounts included within the Annual Report and Accounts 2019 (the "Annual Report"), which comprise: the balance sheet for the 2017 run-off year of account as at 31 December 2019, the statement of changes in members' balances, the statement of comprehensive income, the cashflow statement for the 36 months then ended, the accounting policies, and the notes to the syndicate underwriting year accounts, which include other explanatory information.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, and applicable law.

Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the syndicate underwriting year accounts section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We remained independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate underwriting year accounts in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### Emphasis of matter – Basis of preparation

In forming our opinion on the syndicate underwriting year accounts, which is not modified, we draw attention to page 91 of the syndicate underwriting year accounts, which describes the basis of preparation. The syndicate underwriting year accounts are prepared in accordance with a special purpose framework for the specific purpose as described in the Use of this report paragraph below. As a result, the syndicate underwriting year accounts may not be suitable for another purpose.

### Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the Managing Agent's use of the going concern basis of accounting in the preparation of the syndicate underwriting year accounts is not appropriate; or
- the Managing Agent has not disclosed in the syndicate underwriting year accounts any identified material uncertainties that may cast significant doubt about the syndicate's ability to continue to adopt the going concern basis of accounting.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the syndicate's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the syndicate's trade, customers, suppliers and the wider economy.

### Reporting on other information

The other information comprises all of the information in the Annual Report other than the syndicate underwriting year accounts and our auditors' report thereon. The Managing Agent is responsible for the other information. Our opinion on the syndicate underwriting year accounts does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the syndicate underwriting year accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate underwriting year accounts or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the syndicate underwriting year accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

**Responsibilities for the syndicate underwriting year accounts and the audit**

**Responsibilities of the Managing Agent for the syndicate underwriting year accounts**

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 90, the Managing Agent is responsible for the preparation of the syndicate underwriting year accounts in accordance with the applicable framework. The managing agent is also responsible for such internal control as they determine is necessary to enable the preparation of syndicate underwriting year accounts that are free from material misstatement, whether due to fraud or error.

In preparing the syndicate underwriting year accounts, the Managing Agent is responsible for assessing the syndicate's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the syndicate is unable to continue to realise its assets and discharge its liabilities in the ordinary course of business.

**Auditors' responsibilities for the audit of the syndicate underwriting year accounts**

Our objectives are to obtain reasonable assurance about whether the syndicate underwriting year accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these syndicate underwriting year accounts.

A further description of our responsibilities for the audit of the syndicate underwriting year accounts is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

**Use of this report**

This report, including the opinion, has been prepared for and only for the syndicate's members as a body in accordance with part C of 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.

## Other required reporting

**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.

**Matthew Nichols**

Senior Statutory Auditor
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
5 March 2020

## Statement of comprehensive income: technical account – long-term business

for the 36 months ended 31 December 2019

| | Note | 2017 £'000s |
|---|---|---|
| **Syndicate allocated capacity** | | 30,887 |
| **Earned premiums, net of reinsurance** | | |
| Gross premiums written | 1 | 36,565 |
| Outward reinsurance premiums | | (4,050) |
| Change in the gross provision for unearned premiums | | (3,756) |
| Change in the provision for unearned premiums, reinsurers' share | | 2,965 |
| **Earned premiums, net of reinsurance** | | 31,724 |
| **Reinsurance to close premium receivable, net of reinsurance** | 2 | 5,122 |
| **Investment income** | 3 | 98 |
| **Claims incurred, net of reinsurance** | | |
| Claims paid: | | |
| Gross amount | | (24,804) |
| Reinsurers' share | | 357 |
| The amount retained to meet all known and unknown outstanding liabilities, net of reinsurance | 4 | (10,708) |
| **Claims incurred, net of reinsurance** | | (35,155) |
| **Members' standard personal expenses** | | (506) |
| **Net operating expenses** | 5,6,7 | (13,708) |
| **Balance on the technical account for long-term business and the result for the 36 months ended 31 December 2019 for the 2017 run-off account** | 8 | (12,425) |

There are no non-technical items.

There is no other comprehensive income.

## Balance sheet

for the 2017 run-off year of account as at 31 December 2019

| Assets | Note | 2017 £'000s |
|---|---|---|
| **Investments** | | |
| Other financial investments | 9 | 6,694 |
| **Deposit with ceding undertakings** | | 248 |
| **Debtors** | 10 | 2,666 |
| **Reinsurance recoveries anticipated on gross amounts retained to meet all known and unknown outstanding liabilities** | | 3,053 |
| **Other assets** | | |
| Cash at bank and in hand | | 437 |
| Overseas deposits | 11 | 536 |
| **Prepayments and accrued income** | | 1,392 |
| **Total assets** | | 15,026 |

| Liabilities | Note | 2017 £'000s |
|---|---|---|
| **Amount due from members** | | (2,507) |
| **Amounts retained to meet all known and unknown outstanding liabilities – gross amount** | | 12,079 |
| **Creditors** | 12 | 5,454 |
| **Total liabilities** | | 15,026 |

The underwriting year accounts, which comprise pages 123 to 135 and the notes and principal accounting policies applicable to all syndicates on pages 91 to 94, were approved by the Board of Tokio Marine Kiln Syndicates Limited on 2 March 2020 and were signed on its behalf by

**Reeken Patel**

Chief Financial Officer
Tokio Marine Kiln Syndicates Limited
5 March 2020

## Statement of changes in members' balances

for the 2017 run-off year of account as at 31 December 2019

| | 2017<br>£'000s |
|---|---|
| Members' balances brought forward at 1 January | – |
| (Loss) for the 2017 run-off year of account | (12,425) |
| Members' agents' fee advances | (82) |
| Cash call made | 10,000 |
| **Members' balances carried forward at 31 December** | (2,507) |

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

# Cash flow statement

for the 36 months ended 31 December 2019

| | Note | 2017 £'000s |
|---|---|---|
| **Cash flows from operating activities:** | | |
| (Loss) for the 2017 run-off year of account | | (12,425) |
| Increase in gross amounts retained to meet all known and unknown outstanding liabilities | | 9,912 |
| Increase in reinsurance recoveries anticipated on gross amounts retained to meet all known and unknown outstanding liabilities | 4 | (5,529) |
| Decrease in debtors | | 2,587 |
| (Decrease) in creditors | | (662) |
| Unrealised foreign currency losses | | 26 |
| **Net cash (outflow) from operating activities** | | **(6,091)** |
| **Cash flows from investing activities:** | | |
| (Purchase) of shares and other variable yield securities | | (2,929) |
| (Purchase) of debt securities and other fixed income securities | | (2) |
| Sale of debt securities and other fixed income securities | | 2 |
| Movements in deposits with credit institutions | | 69 |
| Movements in deposits with ceding undertakings | | 9 |
| **Net cash (outflow) from investing activities** | | **(2,851)** |
| **Cash flows from financing activities:** | | |
| Members' agents' fees paid on behalf of members | | (82) |
| Cash calls made to date | | 10,000 |
| **Net cash inflow from financing activities** | | **9,918** |
| **Net increase in cash and cash equivalents** | | **976** |
| Cash and cash equivalents at 1 January | | - |
| Foreign exchange (losses) on cash and cash equivalents | | (3) |
| Cash and cash equivalents at 31 December | | 973 |
| **Cash and cash equivalents consists of:** | | |
| Cash at bank and in hand | | 437 |
| Overseas deposits | 11 | 536 |
| **Cash and cash equivalents at 31 December 2019** | | **973** |

# Notes to the accounts

for the 36 months ended 31 December 2019

## 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 | 33,894 | (3,935) |
| Reinsurance acceptances | 2,671 | (310) |
| RITC received | 4,804 | 318 |
| | 41,369 | (3,927) |

i. Gross premiums written comprise gross premium written and the gross RITC premium receivable.

ii. The reinsurance balance comprises reinsurance recoveries anticipated on gross amounts retained to meet all known and unknown outstanding liabilities, 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 | 4,864 |
| Premiums under group contracts | 29,030 |
| | 33,894 |
| Periodic premiums | 16,312 |
| Single premiums | 17,582 |
| | 33,894 |

All business was 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 | 1,257 |
| Reinsurance acceptances | 319 |
| | 1,576 |

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 | 914 |
| Premiums under group contracts | 343 |
| | 1,257 |
| Periodic premiums | 914 |
| Single premiums | 343 |
| | 1,257 |

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

| | £'000s |
|---|---|
| UK | 29,220 |
| Other EU countries | 3,071 |
| US | 3,008 |
| Other | 6,069 |
| | 41,369 |

## 2. Reinsurance to close premium receivable

| | £'000s |
|---|---|
| Gross reinsurance to close premium receivable | 4,804 |
| Reinsurance recoveries anticipated | 318 |
| | 5,122 |

## 3. Investment income and expenses

| | £'000s |
|---|---|
| Investment income: | |
| Income from investments | 98 |
| | 98 |

### 4. Amount retained to meet all known and unknown outstanding liabilities

| | £'000s |
|---|---|
| Notified outstanding claims: | |
| Gross amounts retained to meet all known and unknown outstanding liabilities | 1,564 |
| Reinsurance recoveries anticipated on gross amounts retained to meet all known and unknown outstanding liabilities | (65) |
| | 1,499 |
| Provision for IBNR: | |
| Gross amounts retained to meet all known and unknown outstanding liabilities | 4,815 |
| Reinsurance recoveries anticipated on gross amounts retained to meet all known and unknown outstanding liabilities | 3,598 |
| | 8,413 |
| Other technical provisions: | |
| Provision for unexpired risks | 796 |
| | 10,708 |

### 5. Net operating expenses

| | £'000s |
|---|---|
| Acquisition costs | 8,432 |
| Administrative expenses | 5,293 |
| (Profit) on exchange | (1) |
| Gross operating expenses | 13,724 |
| Reinsurance commissions and profit participations | (16) |
| | 13,708 |

Included within administrative expenses is auditors' remuneration:

| | £'000s |
|---|---|
| Audit services: | |
| Fees payable to the syndicate's auditor for the audit of the syndicate accounts | 62 |
| Other services: | |
| Other services pursuant to legislation | 48 |
| | 110 |

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

### 6. Staff costs

The syndicate and its managing agent have no employees. Staff were employed by Tokio Marine Kiln Insurance Services Limited. The following amounts were recharged to the 2017 year of account in respect of salary costs and are included within administrative expenses:

| | £'000s |
|---|---|
| Wages, salaries and social security costs | 2,878 |
| Other pension costs | 184 |
| | 3,062 |

Of this amount £9,320 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.

### 7. Emoluments of the directors and Active Underwriter/Run-off Manager

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 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 £19,991 was charged as an expense to the 2017 year of account:

| | £'000s |
|---|---|
| Emoluments | 54 |

The Active Underwriter/ Run-off Manager received the following remuneration charged to the 2017 year of account as a syndicate expense:

| | £'000s |
|---|---|
| Emoluments | 7 |

### 8. Analysis of technical result

| | 2016 & prior years of account £'000s | 2017 pure year of account £'000s | Total 2017 run-off account £'000s |
|---|---|---|---|
| Technical account balance excluding investment return and operating expenses | 304 | 1,387 | 1,691 |
| Brokerage and commission on gross premium | – | (8,432) | (8,432) |
| Reinsurance commissions receivable | – | 16 | 16 |
| | 304 | (7,029) | (6,725) |
| Allocated investment return | – | 98 | 98 |
| Net operating expenses other than acquisition costs | – | (5,798) | (5,798) |
| | 304 | (12,729) | (12,425) |

All acquisition costs are attributable to business allocated to the 2017 pure year of account.

### 9. Other financial investments

| | Fair value £'000s | Purchase price £'000s |
|---|---|---|
| Shares and other variable yield securities | 6,694 | 6,694 |
| | 6,694 | 6,694 |

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 | 1,527 |
| Inter-year loans | 426 |
| Arising out of reinsurance operations | 709 |
| Other debtors | 4 |
| | 2,666 |

All amounts are due within one year.

### 11. Overseas deposits

Overseas deposits are lodged as a condition of conducting underwriting business in certain countries.

### 12. Creditors

| | £'000s |
|---|---|
| Arising out of direct insurance operations | 1,090 |
| Arising out of reinsurance operations | 3,828 |
| Other creditors | 536 |
| | 5,454 |

All amounts are due within one year.

### 13. Related parties

Syndicate 308 accepted inwards reinsurance business from 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. All transactions between these entities were conducted at arm's length and on normal commercial terms.

Syndicate 308 accepted written premium from related parties for the 2017 year of account of £17,762. Unpaid premiums of £6,244 were due from related parties at the period end. The outstanding claims (excluding IBNR) were £nil. No business was ceded to related parties.

No profit commission was payable by the syndicate to Tokio Marine Kiln Syndicates Limited in respect of profits for the 2017 year.

Managing agency fees of £227,541 were paid by the syndicate to Tokio Marine Kiln Syndicates Limited. In addition to this, expenses of £4,009,844 were paid to Tokio Marine Kiln Syndicates Limited for expenses paid on behalf of the syndicate.

The note on related parties on page 12 provides further information regarding all syndicates and related parties.

# Seven year summary (unaudited)

| | 2011 closed | 2012 closed | 2013 closed | 2014 closed | 2015 closed | 2016 closed | 2017 run-off |
|---|---|---|---|---|---|---|---|
| Syndicate allocated capacity £m | 20.00 | 22.50 | 26.50 | 31.98 | 32.00 | 31.88 | 30.89 |
| Number of underwriting members | 84 | 96 | 108 | 136 | 136 | 136 | 126 |
| Aggregate net premiums £m | 24.09 | 26.44 | 27.85 | 28.38 | 30.59 | 38.02 | 31.72 |
| Result £m | 1.83 | 1.42 | 0.33 | 0.74 | (2.00) | (3.02) | (12.43) |
| **Results for an illustrative share of £10,000** | | | | | | | |
| Gross premiums written and earned | 9,549 | 9,279 | 8,360 | 6,648 | 6,820 | 9,081 | 7,892 |
| – as a percentage of allocated capacity | 95% | 93% | 84% | 66% | 68% | 91% | 79% |
| Net premiums written and earned | 8,759 | 8,504 | 7,640 | 6,017 | 6,272 | 8,543 | 7,545 |
| – as a percentage of allocated capacity | 88% | 85% | 76% | 60% | 63% | 85% | 75% |
| RITC from an earlier year of account | 535 | 278 | 348 | 452 | 764 | 715 | 1,658 |
| Net claims incurred | (6,781) | (6,398) | (6,240) | (4,564) | (5,854) | (7,489) | (7,914) |
| RITC the year of account/amount retained | (313) | (409) | ( 545) | (764) | (712) | (1,607) | (3,466) |
| **Underwriting result** | 2,200 | 1,975 | 1,203 | 1,141 | 470 | 162 | (2,177) |
| Profit/(loss) on exchange | 7 | 31 | (53) | 43 | (25) | 36 | – |
| Syndicate operating expenses | (945) | (1,112) | (851) | (775) | (935) | (990) | (1,713) |
| **Balance on the technical account** | 1,262 | 894 | 299 | 409 | (490) | (792) | (3,890) |
| Investment return | 19 | 12 | 5 | 5 | 3 | 11 | 32 |
| **Result before personal expenses** | 1,281 | 906 | 304 | 414 | (487) | (781) | (3,858) |
| Illustrative personal expenses | (364) | (276) | (181) | (185) | (140) | (170) | (164) |
| **Result** | 917 | 630 | 123 | 229 | (627) | ( 951) | (4,022) |

# Empowered Expertise

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