



TOKIO MARINE  
KILN

# Annual report and accounts 2016

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





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# Results summary

## Annual accounting results 2016

Syndicate		2016 £m	2015 £m
<b>510</b>	Net earned premium	1,009	900
	Profit for the financial year	115	111
<b>557</b>	Net earned premium	15	16
	Profit for the financial year	9	10
<b>308</b>	Net earned premium	30	26
	Profit/(loss) for the financial year	2	(2)
<b>Total</b>	Net earned premium	<b>1,054</b>	942
	Profit for the financial year	<b>126</b>	119

## Underwriting results

Over the seven year cycle from 2008 to 2014 the closed year of account underwriting results, as a percentage of allocated capacity, of managed syndicates 510, 557, 308 and 807 are:

Year of account	<b>510</b> %	<b>557</b> %	<b>308</b> %	<b>807</b> %	<b>All syndicates</b> %
2008	16.79	14.31	17.49	9.57	15.42
2009	19.05	15.42	6.35	8.21	16.87
2010	2.70	(25.39)	13.38	(24.44)	(3.08)
2011	7.49	10.22	9.17	6.00	7.48
2012	8.51	5.82	6.30	–	8.34
2013	10.88	15.32	1.23	–	10.83
2014	15.70	27.42	2.30	–	15.73

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

# Report of the Chairman

## Richard Bennison, Chairman



### Report of the Chairman

I am pleased to report that Tokio Marine Kiln (TMK) has produced a very good set of results for the 2014 year of account which closed this year. These results, along with encouraging forecasts for the 2015 and 2016 years of account, were achieved against a backdrop of challenging insurance and reinsurance markets in a highly volatile economic and political environment, reflecting our continued focus on underwriting discipline and the changing needs of customers.

As a dual-platform business operating in the Lloyd's and Company markets, TMK is committed to ensuring that all capital providers are treated equitably. The combined business, which is backed by one of the world's largest insurance groups, is in a good position to face the pricing, distribution, regulatory and continued volatile economic challenges of the current market. This will benefit all of our capital providers.

Charles Franks comments on TMK's specific developments and achievements in his report.

### Operating environment

2016 was another turbulent year from a geopolitical and economic standpoint. The sustained depression of global oil prices, which has been driven by oversupply, once again curtailed investment in the energy sector; a challenge that affects our clients and therefore our book of business. Though a number of oil-producing countries have agreed to cut production by five percent in an effort to stabilise the market from 2017, some commentators fear the cuts are not significant enough and it remains to be seen how effective this will be.

In the Middle East, the fallout from the 2011 Arab Spring continued as the Syrian Civil War and ensuing humanitarian crisis drew international

concern. Tensions between Russia and Ukraine also escalated with increased military intervention, and the migrant crisis in Europe continued. Furthermore, the threat of terrorism extended beyond the Middle East into Europe as the so-called Islamic State group reportedly called on its supporters to conduct a devastating wave of attacks in Nice, Brussels and Berlin, which resulted in a tragic loss of life and once again highlighted the indiscriminate nature of terror.

These volatile conditions have significant consequences for our clients, many of whom trade across borders and need to ensure they have the right protection in place to maintain their businesses. Consequently, demand for specialist trade credit and political risk insurance is growing and we are meeting this with innovative products and services.

### A year of dramatic surprise

2016 was also a year of dramatic surprise in two of the largest economies in the world. In July, the UK voted to leave the European Union (EU) triggering the Brexit process, a decision which has significant ramifications for the UK's future trade prospects. The value of the pound fell to a 31-year low against the US dollar amid fears of a 'hard Brexit' before recovering, and some analysts predict there is potential for it to fall further as the negotiations progress. The UK Prime Minister has outlined her intention to complete negotiations to leave the EU within a two-year time frame. Combined with a predicted rise in inflation, ongoing political uncertainty may curtail investment in the UK and Europe for some time.

Despite this uncertainty, economic prospects in Europe are encouraging. Gross domestic product (GDP) in the Euro area grew by 1.7% overall in 2016 while the UK's GDP grew by 2.0%, which although a slower rate compared to the previous two years remains healthy. TMK is advancing its plans to ensure the continued success and development of its operations on the Continent after Brexit.

The political surprises continued later in the year as the US, one of our largest markets, elected a new president in November. The new administration has reiterated its intention to 'put America first' and to withdraw from the North American Free Trade Agreement which has given rise to concerns around protectionism. The global economic growth outlook is susceptible to unknown risks and, to date, very little detail has been shared about the country's future trade and economic policies. While there could be upside from US expansionary fiscal policies which would benefit global trade, manufacturing and earnings, the protectionist stance in the US and rising populism in Europe could negatively impact global economies. As a surplus lines business operating in the US, we expect the impact of protectionist trade policies on TMK to be limited, but we will monitor US policy closely as it evolves. The US continues to show encouraging economic signs with GDP growing by 1.6% in 2016 and we are committed to developing and maintaining the strong business relationships we have established in the country.

Turning to emerging markets, China's GDP grew by 6.7% in 2016. While growth has slowed compared to previous years, rates of growth are still considerably more attractive than those which can be achieved in many western economies. However, the global economy's dependency on China is increasingly exposed in view of China's growing debt, which is currently estimated to be around two and a half times the size of its economy. Nonetheless, growth in Asian insurance markets has consistently outperformed GDP in the past and Asia remains a strategically significant territory for us.

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In this environment, we continue to face significant competitive pressures within the insurance industry driven by surplus capital and thinning margins as industry expenses continue to rise. The evolution of technology and the very real threat of digital disruption is also of growing concern. These issues show the sheer pace of change which is impacting our clients and reinforce the importance of the role insurers play in developing innovative products, delivering exceptional service and ensuring we remain competitive.

### **Governance**

In order to simplify the business and enable easier access to products and services, we restructured our underwriting function in 2016. TMK now comprises four underwriting departments: Property & Casualty; Marine, Aviation & Special Risks; Accident, Health & Life; and Reinsurance, with a single reporting line into Group Chief Underwriting Officer Paul Culham, who was appointed in March following the departure of Richard Lewis. The new structure has been well received by clients and has generated synergies, which remains a priority in 2017.

The new governance structure which was introduced at the beginning of 2016 is also working well. The boards of Tokio Marine Kiln Syndicates Limited and Tokio Marine Kiln Insurance Limited, which are regulated separately, now have a single chairman and common non-executive directors, enabling us to drive common standards across the group and provide additional expertise to each board. The changes can only benefit TMK's capital providers whose interests and respective rights remain unchanged.

During the year, Shinji Urano joined the board as Deputy Group Chief Executive Officer and we said goodbye to Yusuke Otsuka and Bruce Bowers. I would like to welcome Shinji, whose career in insurance spans more than 30 years, and say a personal thank you to Yusuke and Bruce for their contributions to TMK during their tenures.

### **Regulation**

The reputation of financial services businesses, particularly in the banking sector, has been damaged by a number of conduct scandals that have taken place over the past few years. That is why it is more important than ever that insurers take a lead role in doing business the right way and demonstrating their corporate and social value.

TMK has dedicated significant resource and commitment to delivering on its regulatory responsibilities and continues to embrace the changes that are taking place led by the Financial Conduct Authority (FCA) and the Prudential Regulatory Authority (PRA).

Following a successful implementation of our conduct risk approach in the UK, we launched our conduct framework to employees in France in February 2017, with Germany scheduled to follow later this year. The changing regulatory landscape has also affected our delegated underwriting partners, who are facing additional scrutiny and demands for data. These changes will continue in 2017 and we are working with Lloyd's and our coverholders to ensure we continue to meet these requirements.

### **Being a Good Company**

TMK aspires to be a global 'Good Company' by providing high quality insurance coverage that is tailored to our clients' needs and paying valid claims fairly and promptly. We aim to make a positive contribution to the communities in which we live and work by

providing clear leadership and acting responsibly in our marketplace, workplace, community and environment.

One of our key differentiators is the strength of our people, who seek to put customers at the heart of the business. Our success is achieved through a focus on empowering our people and engaging them in a consistent strategy to drive the profitability, innovation and the agility that will be needed to meet the demands of our clients in this complex and uncertain climate.

The business has developed a sound reputation for not only paying valid claims fairly and promptly, but also for providing an empathetic service to customers when they need us most. This approach was most recently recognised when TMK was commended for sending a team of claims personnel to Alberta, Canada during the wildfires whilst the evacuation order was still in place to ensure we could support our clients on the ground.

Beyond being a 'Good Company' in the way we provide insurance, we support a range of good causes and focus on building strong partnerships with organisations that make a real and substantial difference to people all over the world. In 2016, we donated £175,000 to charitable organisations, including Médecins Sans Frontières and London's Air Ambulance. In addition, we made donations to a local charity in each region where we have an office.

While funding is important, we also seek to engage our employees in the initiatives we support. In 2016, a team of six runners from TMK participated in the Sierra Leone Marathon in Makeni in aid of Street Child's 'Girls Speak Out' appeal. The charity, which TMK has supported since 2011, seeks to help vulnerable young people into homes and education in one of the poorest countries in the world. Furthermore, we maintained our long-standing relationship with The Brokerage – a City of London programme that provides work experience placements and opportunities for young people with high potential from diverse backgrounds.

### **Future prospects**

Geopolitical and economic uncertainty surrounding macroeconomic challenges, Brexit and US trade policies may impact investment in some areas, which could affect insurance buying. In addition, as the insurance market continues to attract excess capital, it is unlikely that the competitive pressures we have seen will ease in 2017.

In this environment, our consistent strategy, which involves getting closer to our customers; improving our competitiveness; increasing profitability; and investing in our people, will ensure that we are well placed to meet these challenges and look for new opportunities.

I would like to congratulate Charles and all of the TMK team for their hard work in producing a very good set of results from a challenging 2016 and to thank them all for their continued commitment.

### **Richard Bennison**

Chairman  
Tokio Marine Kiln Syndicates Limited  
17 March 2017

# Report of the Chief Executive Officer

## Charles Franks, Chief Executive Officer



### Overview

I am pleased to report that TMK has delivered a strong performance despite the continued political and economic uncertainties. The 2014 return on capacity for the non-life syndicates outperformed recent years, and the forecasts for 2015 and 2016 are encouraging.

2016 was an extraordinary year which was characterised by political and economic surprises. While many of us have grown accustomed to political instability in the Middle East, few could have predicted the UK's decision to leave the EU and the election of a Republican administration in the US, both of which have significant ramifications for our clients as well as the global financial services sector.

In addition to a dramatic geopolitical environment, we continued to face competitive challenges in the insurance industry. After a sustained period of relatively benign natural catastrophe activity, 2016 was the most expensive year since 2011 with economic losses reaching US\$175bn. These substantial losses, around US\$50bn of which were insured, had a significant impact on the market's performance and once again highlighted the threat and the opportunity presented by underinsurance.

September saw the arrival of Hurricane Matthew which brought devastation to parts of the Caribbean and the south east coast of the US, leaving an estimated 1,600 deaths in its path. It reached Category 5 strength and made landfall in Haiti and eastern Cuba before hitting the Bahamas and moving close to the coasts of Florida, Georgia, South Carolina and North Carolina. The storm

brought widespread flash flooding and record river flooding to eastern North Carolina where rainfall estimates reached up to seven inches per hour and generated the most significant claims for TMK in 2016. Though Matthew had the potential to generate vast losses, it ultimately skirted Florida, an area which has one of the highest concentrations of insured values in the US.

In May, wildfires in Fort McMurray, Alberta, Canada, forced the largest wildfire evacuation in Alberta's history. The event, which was Canada's costliest disaster on record, destroyed some 2,400 houses and buildings, and displaced a further 2,000 residents as contaminated homes were declared unsafe for reoccupation.

TMK also sustained significant claims arising from floods and hailstorms in Texas in March, which primarily affected our property account.

Despite the scale of these losses, trading conditions remained soft and rates continued to come under pressure in most classes through the year as new and alternative capital continued to enter the market. However, the losses served to expose the industry's fragile margins as the boost that has been provided by the release of catastrophe loads over several years of relatively limited catastrophe activity failed to materialise.

In the wake of a wave of consolidation activity in 2015, competition for business increased and the industry's appetite for top-line growth prevailed, as pressure to reduce rates and expand terms and conditions persisted. In addition, brokers continued to pursue a strategy of engaging with 'fewer but better friends', with many focusing on generating income through facilities and quota share agreements.

### Strategy

Against this backdrop, TMK pursues a consistent, long-term strategy which supports our ambition to be a leading international provider of specialist and corporate insurance for clients within the Lloyd's and Company markets. This aim is underpinned by our five strategic goals: growing profitability; getting closer to our customers; improving our competitiveness; investing in our people and being a 'Good Company'.

Our industry is facing several significant challenges which we believe will have a dramatic impact on the market's performance. With the continued imbalance of supply and demand in a market still awash with capital, pricing under significant pressure and many competitors focusing on top-line growth, we expect to see the effects of poor underwriting discipline on industry results manifesting themselves in the near future.

We are not immune to these conditions. However, we are committed to maintaining strict underwriting discipline and we will continue to focus on profit not premium as we seek to protect our capital and secure the continued support of our clients. We will not compromise our quality of service for business 'at any price'.

Although conditions are challenging, we continue to build our distribution in areas with strong economic potential and seek opportunities to develop innovative coverages to address our

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clients' changing risk profiles. These activities are supported through first-class customer service and operational excellence.

Our liability book, within Syndicate 510, remains an important area of strategic focus for us and we continue to expand to meet client demand.

As technology evolves and data breaches become increasingly commonplace, our cyber class is also producing positive results. Demand for this class is set to grow exponentially due to EU legislation which comes into effect in 2018, and we are well placed to support these changes through our market-leading Enterprise Risk team.

### **New talent**

We continue to seek out underwriters and teams who are looking to join a company that is part of a parent group with a proven, long-term growth strategy.

In July, we appointed Ben Amphlett in our Aviation team to focus on aviation contingency, airlines and aerospace business. While the aviation market has experienced some difficulties over the past few years, the TMK team has remained profitable thanks to their keen understanding of client needs and disciplined approach to underwriting.

We also appointed Gary Burke to our Enterprise Risk team as a trade credit and political risk underwriter in November, addressing growing client demand for this cover.

### **Broker distribution**

Our Broker Distribution team which supports our underwriters and helps to manage client relationships is delivering encouraging results. The team has seen a significant increase in broker facilities, a number of which we have written. The team is enabling us to identify new niche areas to explore that meet customers' demands. It is also exploring cross selling, retention management and new business opportunities.

During the year, we launched our digital platform to enable brokers to place risks online in real time from anywhere in the world, subject to licensing. The platform has seen a huge increase in demand and usage since it was launched and currently features two products, cargo and unmanned aerial systems (UAS), with more to be scheduled in 2017. The system provides an efficient and cost-effective method of doing business, giving brokers and underwriters more time with their clients to investigate new business opportunities. Making sure that our distribution channels enable us to reach the right customers and markets will continue to be a priority in 2017.

In recognition of our focus on innovation, TMK came out on top at the Lloyd's Innovation Awards for the second year in a row. Oliver Tozer won the 2017 'best innovation driven by a market practitioner under 35' award for his sports analytics for Accident & Health product idea. TMK also saw its digital platform shortlisted for the 'best non-product innovation' award.

### **Competitiveness**

With the rising costs of regulation and margins under pressure, the cost of doing business has come into the spotlight and TMK is committed to finding ways to ensure more of our clients' money is risk-bearing.

As part of the broader digital strategy at TMK, we are looking at how our processes and tools can support our business efficiently. In line with this, the London Market has launched a new target operating model to transform the way specialist products are distributed and supported operationally. The first major systems component to be rolled out is Placing Platform Limited, which aims to improve access to the market and speed up placement for the client by facilitating electronic risk capture, placing, signing and closing. TMK has been a strong supporter of the new system, which should deliver lower placement expenses and improve client service through easier and more efficient transactions.

### **Ogden rate**

It was recently announced that the 'Ogden rate', the discount rate used to calculate lump sum awards for UK bodily injury claims, will reduce to -0.75% following the Lord Chancellor's review and in light of the current low interest rate environment. This will take effect from 20 March, and is a reduction from 2.5%, the level at which it has stood since 2001. Although a significant development in the market, the impact to Syndicate 510 is not expected to be material based on our current exposure to UK motor and liability.

### **Conduct and regulation**

We are living in a world of significant regulatory oversight but through our work on conduct risk and Solvency II we continue to have very strong relationships with our regulators: the FCA, the PRA and Lloyd's.

In June, we appointed Catherine Marshall as Head of Compliance. Having joined on the graduate scheme, Catherine has been with TMK for more than 17 years and has undertaken a variety of roles in the business, including most recently her position as Head of Underwriting Management and Performance.

Meeting regulatory standards is all part of being a 'Good Company' which is one of our strategic goals and I am very pleased to report that significant progress has been recognised by our regulators in the areas of conduct, delegated management, claims, risk management, internal control framework and governance.

In September, we held a forum in Calgary, Canada with our key coverholders in the country to discuss the changing regulatory environment which was received well. A considerable amount of work has gone into ensuring that our delegated underwriting operations are set up to support these changes and we are committed to ensuring that our partners reach the highest possible standards.

In 2016, Syndicate 308 was withdrawn from the capacity auctions as it is subject to an ongoing regulatory process following the discovery that an international term life contract, written through one of its coverholders, may have been bound in breach of local licensing requirements. Tokio Marine Kiln Syndicates Limited reported the issue to the relevant local regulators once it was identified and we are continuing to work with all parties including regulators to resolve the matter. The matter has not yet been concluded, however we do not expect the issue or its resolution to have any material impact on the results of Syndicate 308.

### To be a Good Company

TMK aspires to be a global 'Good Company' which is underpinned by our values of empowerment, excellence, fairness, innovation and teamwork. One of the key ways that we can demonstrate our commitment to this ambition is through our approach to claims which is founded on principles outlined by Robert Kiln, who stipulated that insurers should "always look for a reason to pay a claim". We aim to adopt an empathetic, human approach to resolving clients' distress, a differentiating factor which is proving to be important to both brokers and clients when they are selecting insurers with whom to place business. This key strength has enabled us to build and maintain important relationships over many decades and will help to ensure our continued success.

### Annual accounting results under UK GAAP

The calendar year results have fared well compared with 2015 despite an increase in catastrophe activity, with the two most notable events, the Canadian Wildfires and Hurricane Matthew, both producing sizeable losses for the non-life syndicates. Syndicate 510 reported growth in premium income, through a focus on innovation and adapting to the challenging market conditions, boosted further by the depreciation of the pound.

On a UK GAAP basis, the comparison between the 2016 and 2015 calendar year results is shown below in Table 1.

**Table 1: Annual accounting results under UK GAAP**

Syndicate	2016 £m	2015 £m
<b>510</b>	115	111
<b>557</b>	9	10
<b>308</b>	2	(2)
<b>Total</b>	<b>126</b>	119

The drivers of the syndicate and divisional results are discussed in more detail in the underwriters' reports on pages 10 to 18.

### 2014 year of account

As a result of favourable claims, experience on both open and closed years of account, plus significant foreign exchange gains, the non-life syndicates closed the 2014 year of account with the highest return on capacity achieved in recent years. Syndicate 308 closed the 2014 year of account with a return at the mid-point of the forecast range published in 2015.

The 2014 year of account results, as a percentage of allocated capacity for an unlimited Lloyd's Name on our syndicates, are compared with the forecasts published in the 2015 report in Table 2.

**Table 2: 2014 year of account results compared with the forecasts published in the 2015 report**

Syndicate	Capacity £m	Actual %	Forecast range %
<b>510</b>	<b>1,064</b>	15.7	5.5 to 10.5
<b>557</b>	<b>39</b>	27.4	16.8 to 21.8
<b>308</b>	<b>32</b>	2.3	(0.3) to 4.7

### 2015 year of account

Syndicates 510 and 557 are on track to make a profit, as reflected in the revised forecasts issued in TMK's press release of 16 February 2017, shown in Table 3.

**Table 3: 2015 forecast year of account range results issued in TMK's press release of 16 February 2017**

Syndicate	Capacity £m	Forecast range %
<b>510</b>	<b>1,063</b>	6.0 to 11.0
<b>557</b>	<b>35</b>	23.9 to 28.9
<b>308</b>	<b>32</b>	(5.6) to (0.6)

The year of account has incurred minor losses from the Canadian Wildfires and Hurricane Matthew, in what has otherwise been a benign catastrophe experience, particularly for Syndicate 557. Syndicate 510 has also been exposed to losses from the Jubilee oil field off Ghana and the Tianjin explosions. Syndicate 308's forecast range is improved on that presented at the end of the previous calendar year as a result of favourable claims development during 2016. Despite this, the syndicate is still forecast to make a loss as a result of a series of early large claims.

### 2016 year of account

Table 4 shows the first published forecast ranges for Syndicates 510, 557 and 308 issued in TMK's press release of 16 February 2017.

**Table 4: 2016 forecast year of account range results issued in TMK's press release of 16 February 2017**

Syndicate	Capacity £m	Forecast range %
<b>510</b>	<b>1,063</b>	(3.0) to 7.0
<b>557</b>	<b>35</b>	5.6 to 15.6
<b>308</b>	<b>32</b>	(2.1) to 7.9

The non-life syndicates are showing profitable mid-points in their forecast ranges despite incurring catastrophe losses during the first calendar year, including losses from Hurricane Matthew and the Canadian Wildfires. Syndicate 510 has also incurred losses from the Louisiana Floods, the Gatlinburg Wildfire, hailstorms in the US and the tragic LaMia airline crash. A profitable mid-point is also being reported for Syndicate 308 at this early stage. Being only 12 months into their development there is still a large amount of unearned exposure on all syndicates and so the events of 2017 will remain critical to how the year of account develops.

### 2017 year of account

Table 5 shows the premium rating index (PRI) for Syndicates 510, 557 and 308, which tracks the pricing of renewed risks over the year. At a whole account level there was softening in premium rates in 2016 for all divisions of Syndicate 510, with the exception of the Accident & Health and Enterprise Risk divisions, where there was some hardening in rates, albeit minor. In the case of the Enterprise Risk division, the increase in rates was attributable to a continuation of the hardening seen in 2015 in the cyber open market class. At a syndicate level, the softening in Syndicate 510's rates was largely in line with its forecast for the year. Syndicate 308's premium rates were broadly flat in 2016, in line with plan, whilst Syndicate 557's premium rates did not soften to the extent originally forecasted. The softening in rates, which has been driven by the oversupply of capital in the market, has been accompanied by a trend of broadening terms and conditions. In this environment, maintaining a focus on risk selection continues to be of paramount importance.

**Table 5: PRI for Syndicates 510, 557 and 308**

	2016 YOA as at 31 December 2016 %	2017 YOA as at 28 February 2017 %
<b>Syndicate 510</b>	<b>97.5</b>	98.4
Property & Special Lines	<b>97.5</b>	98.8
Marine & Special Risks	<b>95.8</b>	97.0
Accident & Health	<b>101.5</b>	98.0
Reinsurance	<b>95.0</b>	98.5
Enterprise Risk	<b>100.7</b>	104.9
Aviation	<b>95.3</b>	98.3
<b>Syndicate 557</b>	<b>95.0</b>	98.5
<b>Syndicate 308</b>	<b>99.4</b>	100.0

### International

Our international offices in Europe and Asia continue to develop. At the start of 2017, Neil Wray, former Regional Manager for Asia, returned to London from Singapore to take up the newly created position of Head of International Business. With almost three decades of market experience, Neil has spent the last eight years in Singapore developing our Asian portfolio and will help drive the continued growth of our international operations.

Furthermore, we appointed Kin Lau as Head of Regional Liability for TMK. Kin, who is also responsible for managing our Hong Kong office, teams up with former colleague Wendy Law, who joined TMK as a liability underwriter in May to establish and grow our presence in the Asian liability market.

### Tokio Marine Kiln

Kiln was acquired by Tokio Marine nine years ago and the relationship between TMK and the wider Tokio Marine Group continues to go from strength to strength.

In 2016, we completed the final stages of the integration of Kiln with Tokio Marine Europe to form TMK with a new governance and underwriting management structure. Key roles in executive and senior management teams have now been rationalised and filled, and savings have been delivered as a result.

2016 saw the departures of Richard Lewis, who was succeeded by Paul Culham as Group Chief Underwriting Officer, and Robin Hargreaves who retired from his position as Chairman of the Underwriting Board. Both Robin and Richard joined TMK on the Kiln graduate scheme and dedicated their entire careers to the business, overseeing a significant amount of change during their tenures. On behalf of the leadership team I would like to extend our thanks to Richard and Robin for their enormous contributions and steadfast commitment to the business.

### Outlook

As excess capital continues to enter the market and competitive pressures increase, there are no signs that conditions will improve in the near term. This environment underlines the importance of maintaining our underwriting discipline and protecting our core book of business, and our results and forecasts show that this strategy is effective. We will also embrace growth opportunities in areas where we can add value and continue to put innovation and customer centricity at the heart of what we do to ensure we stand strong as the market evolves. Finally we will continue to use the stability we benefit from as part of the Tokio Marine Group to retain and attract the very best people. I would like to extend my gratitude to our employees for their enormous efforts during the year.

Thank you for your continued support.

### Charles Franks

Chief Executive Officer  
Tokio Marine Kiln Syndicates Limited  
17 March 2017

# Underwriters' reports

## Syndicate 510

### Overview

#### 2014 underwriting year of account

Syndicate 510 made an underwriting profit of £167.1m (15.70%) on allocated capacity of £1,064.0m after taking account of operating expenses, Lloyd's expenses and investment income for the 2014 underwriting year of account.

This is an excellent result for the syndicate, which benefited from a benign catastrophe experience, and good profitable contributions from all of our underwriting divisions.

#### Prior years' development

The 2014 underwriting year result improved by £32.3m as a result of favourable claims development on prior years, including several cases where we have seen claims settling for less than their loss reserves. 2011 was the final year of account for Syndicate 807, which then reinsured to close into the 2012 year of account of Syndicate 510. Favourable claims development on prior years led to the book contributing £4.0m to the overall underwriting profit of Syndicate 510.

#### One year accounting result

On a UK GAAP basis the syndicate produced a profit of £115.3m against gross premium written of £1,296.7m and net premium earned of £1,009.4m for the 2016 calendar year.

2016 saw an increase in catastrophe loss activity compared to recent years, with the occurrence of Hurricane Matthew and the Canadian Wildfires of particular note. Other large losses in the year came from the Jubilee oil field off Ghana, hailstorms in Texas, flooding in Louisiana and the tragic LaMia airline crash.

Despite this run of large losses, and the prevailing tough trading conditions that continue to be experienced in the international specialist insurance markets, we have managed to produce a very good result in 2016, enhanced by a favourable US dollar exchange rate.

The combined ratio for the 2016 calendar year is 89.5%.

Overall rates were down 2.5%, with energy and open market property both down 6%, and reinsurance down 5%. In this market underwriting discipline is key. Our underwriters are not afraid to turn away business that does not meet our requirements for adequate pricing. It is not surprising that our written income has, therefore, fallen short of our original plans once again. Indeed, during 2016 we have focused increasingly on the expense of our owned distribution network and, following an internal review, took the decision to close our Ipswich office and to cease writing cargo insurance from our office in Belgium.

### 2017 development

We are not anticipating much change to the difficult trading conditions we experienced in 2016 as we progress into 2017. The insurance market continues to be impacted by an oversupply of capital.

We constantly scrutinise the underlying profitability of various aspects of our underwriting portfolio, changing the mix to capitalise on profitable growth opportunities in different locations, for different distribution methods, or different lines of business, whilst at the same time retrenching or reducing involvements in others.

We will continue to see our diverse portfolio of business evolve as we adjust it in light of the market conditions affecting each line of business, and also importantly, in light of changing demand from our customers as their risks change in line with new business models. As a consequence, the composition of our book has, and will continue to, change over time. Being alive to new opportunities is very important in a market which is seeing continued erosion of margins on more traditional classes, especially where these areas can be commoditised through more sophisticated modelling.

We expect to continue to see a flow of new product ideas through 2017. Our main growth opportunities are likely to be in cyber and our US coverholder book for smaller corporate property. We will look to expand our cyber offerings to Asian and European companies as we continue to diversify our cyber book geographically, capitalising on new privacy legislation in these territories. The strong, long-term relationships we have built with US coverholders mean we are well placed to grow our book, at a time when many are being forced to consolidate in light of the regulatory and market pressures, and as they look to reduce the number of insurance carriers they deal with. Our ability to distribute our products through an extensive coverholder network and Tokio Marine Group sister companies differentiates us within the Lloyd's market. It enables us to be focused on upstream distribution and therefore not overly reliant on large brokers who are exercising increased control over the London market.

We are entering a stage in the market's development where technology is going to be a primary catalyst for change, whether in how our products are distributed to our customers or in the effectiveness with which we analyse our books of business. However, the skill and ability of our underwriters to navigate their way through this current stage in the insurance cycle will be the key differentiator in the short term, and we know with certainty that we will not deviate from our focus on bottom-line profit and associated underwriting discipline.

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## Syndicate 510

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### Property & Special Lines

#### 2014 underwriting year of account

The Property & Special Lines division made an underwriting profit of £91.3m (17.04%) on allocated capacity of £535.6m after taking account of operating expenses, Lloyd's expenses and investment income for the 2014 underwriting year of account.

A strong underwriting performance meant the division was able to generate a very good profit in a year which only suffered minor natural catastrophe losses from Hurricane Odile, the California Wildfires and Texas Hailstorms.

#### Prior years' development

The 2014 underwriting year result improved by £14.3m as a result of reduced reserves from prior years, attributable to benign claims development during 2016.

#### One year accounting result

On a UK GAAP basis the division produced a profit of £53.9m against gross premium written of £709.4m and net premium earned of £542.3m for the 2016 calendar year.

2016 was impacted by a number of smaller catastrophes, including flooding in Louisiana, the Gatlinburg Wildfire and multiple US hail events, as well as two significant events; Hurricane Matthew and the Canadian Wildfires.

The combined ratio for the 2016 calendar year is 90.9%.

#### 2017 development

The division has increased its planned premium income moderately for 2017. The main driver of this growth continues to be our International Liability team, which has further developed its book of business, including employing two underwriters operating from Hong Kong, Kin Lau and Wendy Law.

We are also forecasting growth in our international motor book due to a combination of new, niche business, and organic growth in existing coverholder business.

Both the UK motor and liability books are affected by the Lord Chancellor's review of the 'Ogden rate', the discount rate used to calculate lump sum awards for UK bodily injury claims. We will be closely monitoring all future developments with respect to this, following the announcement on 27 February 2017 that the rate, which has been set at 2.5% since 2001, will reduce to -0.75% from 20 March driven by the current low interest rate environment. Based on consideration of the syndicate's current exposure to UK motor and liability, the impact of this change is expected to be an increase of £2.9m to Syndicate 510's net earned reserves across all years of account on a best estimate basis. We have chosen to make no adjustment to Syndicate 510's booked reserves as the impact is not material relative to the syndicate as a whole.

In terms of our open market business, we expect this book to decrease further as the soft market continues to affect pricing, in response to increased competition within both the Lloyd's and domestic markets.

We continue to focus on developing and sustaining the quality of our core business, whilst taking advantage of opportunities that may arise elsewhere. Going forward we will look to build on our relationships with our business partners worldwide to maintain our position in their markets to deliver profitable growth. This will include increased use of our extensive coverholder network to enable us to get closer to our customers, thereby ensuring we stay close to what they really want. This will in turn ensure we remain relevant to them.

In summary, in 2017 we will maintain our focus on underwriting discipline, seeking opportunities within the current soft market environment where they become available. There is no doubt 2017 will be challenging from a pricing perspective, but we will continue to select a quality portfolio of risks to deliver the division's business plan.

From 2017 the division will form part of the new Property & Casualty department of TMK.

## Syndicate 510

### Marine & Special Risks

#### 2014 underwriting year of account

The Marine & Special Risks division made an underwriting profit of £12.6m (6.08%) on allocated capacity of £205.3m after taking account of operating expenses, Lloyd's expenses and investment income for the 2014 underwriting year of account.

This is a pleasing result for the division given the impact of geopolitical events and lower commodity prices on the special risks classes of business, and continues the good run of results the division has produced in recent years.

#### Prior years' development

The 2014 underwriting year result improved by £1.5m attributable to favourable claims development on prior years, including several cases where we have seen claims settling for less than their reserves. These releases were, however, largely offset by adverse large loss experience on the special risks classes, which explains the much lower overall release compared to prior years.

#### One year accounting result

On a UK GAAP basis the division produced a profit of £14.4m against gross premium written of £196.2m and net premium earned of £178.1m for the 2016 calendar year.

Overall rates were down by over 4%, with the downward trend continuing in the energy and marine reinsurance accounts, where year-on-year rate reductions were 6% and 8% respectively. Our forecast ultimate premium for the 2016 year of account has again fallen short of the original plan, a function of our continuing underwriting discipline and the difficult decision we took during the course of the year to shut our Ipswich office, which was responsible for a large portion of the liability account.

During the course of the year we were advised of a large loss in respect of the Jubilee oilfield off Ghana impacting both our energy and marine reinsurance classes, for which we have set prudent reserves in line with the current market loss estimate. Although still at a relatively early stage of development, this loss is likely to have a substantial impact on most underwriters active in these sectors, however, whether it will in itself be enough to stop the rate reductions noted above remains to be seen.

We continue to maintain conservative reserves in respect of the exposures we have to the Tianjin explosions in 2015, particularly in our liability account. Thus far, advices have fallen well within our reserves, however we will continue to monitor developments closely.

The combined ratio for the 2016 calendar year is 92.9%.

#### 2017 development

Early indications for 2017 are not promising, with the current soft market conditions in all our classes of business showing no sign of abating. Aside from the closure of our Ipswich office, we have also exited our Belgian cargo business as well as retrenching from a number of unprofitable cargo binding authorities, as we continue to focus on more specialist elements of that account, with particular emphasis on growth in fine art, jewellers' block and specie.

The previous few years have been painful ones for our special risks portfolio, however this book has historically been a profitable one for us throughout the cycle. We are optimistic that a combination of risk selection and upstream distribution through our service companies and coverholders will result in better performance going forward. To support this plan, we have employed an additional specialist trade credit underwriter in London, on top of new appointments in Frankfurt and Singapore in previous years.

In contrast to the volatility being experienced in the remaining elements of our conventional marine account, our hull underwriters continue to maintain a steady income and consistent results.

From 2017 the division will form part of the new Marine, Aviation & Special Risks department of TMK.

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## Syndicate 510

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### Accident & Health

#### 2014 underwriting year of account

The Accident & Health division made an underwriting profit of £10.2m (9.80%) on allocated capacity of £104.5m after taking account of operating expenses, Lloyd's expenses and investment income for the 2014 underwriting year of account.

The result was profitable and in line with the original business targets for the division. Renewal retention rates were consistent, but while pricing conditions for the division's core binder account remained stable with steady organic growth, new business opportunities at attractive rates were increasingly difficult to find. This is reflected in only modest growth of top-line gross premium of 6%. There was strong growth in the equine book due to strengthening of the underwriting team and access to a more diverse international portfolio. The traditional personal accident portfolio proved consistently profitable.

#### Prior years' development

The 2014 underwriting year result included a £0.8m strengthening of reserves on prior years. This was primarily due to late losses reported on a non-renewed Norwegian account and individual US disability losses that were reported later than normal. This was an unusual development compared to prior years, especially since the deterioration came from established accounts that do not normally produce late losses.

#### One year accounting result

On a UK GAAP basis the division produced a profit of £9.1m against gross premium written of £142.9m and net premium earned £136.1m for the 2016 calendar year.

Once again, despite the division coming under pressure from increased competition within the Lloyd's and international markets, our core book of renewal business continued to perform as planned.

In spite of the tougher market conditions our book grew during 2016. We were able to take advantage of opportunities to grow the medical account, which continued to develop throughout the year as expected, as well as our diversified book of bloodstock and equestrian risks which continues to mature to plan. This result was achieved in a year that experienced two of the largest individual personal accident losses to the Lloyd's market totalling US\$85m, of which Syndicate 510 paid US\$3.7m.

The combined ratio for the 2016 calendar year is 93.7%.

#### 2017 development

To date, the portfolio, which has been consistently profitable, has grown modestly from year-to-year, with similar growth forecast for 2017. However, due to current market conditions, a wave of excess capital and greater empowerment of brokers, it is going to be a challenging year. In 2017 there will again be start-ups and teams of underwriters transferring within the Lloyd's market who are likely to add pressure to market rating. Notwithstanding this, we have a diversified Lloyd's and international platform in place that has been successful in attracting new business to TMK in the past and we will therefore seek to grow opportunistically where possible.

From 2017 the division will form part of the new Accident, Health & Life department of TMK.



## Syndicate 510

### Reinsurance

#### 2014 underwriting year of account

The Reinsurance division made an underwriting profit of £26.8m (21.25%) on allocated capacity of £126.3m after taking account of operating expenses, Lloyd's expenses and investment income for the 2014 underwriting year of account.

2014 was a very quiet year for catastrophe losses, with the largest event to affect the division being the summer storms that hit Nebraska, which produced only modest losses. The benign environment meant that both the US and worldwide catastrophe books had very good years, in particular the worldwide book, which was close to incurring nil losses.

#### Prior years' development

The 2014 underwriting year result improved by £2.2m as a result of a reduction in prior years' reserves on catastrophe losses.

#### One year accounting result

On a UK GAAP basis the division produced a profit of £13.2m against gross premium written of £101.3m and net premium earned of £34.6m for the 2016 calendar year.

2016 saw an increase in catastrophe activity compared to recent years, with the occurrence of the Canadian Wildfires and Hurricane Matthew. Neither of these events, however, produced a large loss for us, resulting in a satisfactory performance for the year.

The combined ratio for the 2016 calendar year is 64.4%.

#### 2017 development

The reinsurance market continues to be under pressure due to oversupply, and largely static demand. Good results produced in a relatively benign catastrophe period offset the effect of pricing pressures resulting from the lack of significant losses over the past few years. Whilst we expect the soft market to continue, it is clear that a number of our competitors are beginning to see the market as less attractive, and some are choosing to return excess capital to investors rather than try to use it in such difficult circumstances.

One benefit of this has been that whilst rates continue to fall, the rate of reduction on the US side of the business has started to slow. US business continues to offer the best opportunities for profit, albeit at a reduced level when compared to previous years, and as a result our book has remained relatively stable. We do not believe that this slowdown in price reductions is the first sign of a market turn, but it is an indication that reinsurers are beginning to tire of repeated double digit rate cuts and are now less willing to give up price in order to defend market share.

The non-US side of the business on the other hand continues to be extremely soft, with pricing generally at very low levels. Of equal, if not greater concern, is the on-going reduction in the standard of contract wordings, with extremely wide coverage being given without adequate pricing adjustments. Reinsurers seem to be driven to write 'diversifying' (non-US) business at almost any price, and are less willing to give up market share on this side of the account. We are having to pick and choose our way through this market, with the worldwide book being considerably smaller than it has been in the past.

The high quality of the accounts that we write, combined with the strong relationships that we have with many of our clients, affords us good opportunities in the current, if rather challenging, market. We believe that our long-term approach to business gives us the best chance of maximising returns across the cycle. Reinsurance remains a cyclical business and we are well placed to take advantage of opportunities as they arise.

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

From 2017 the division will form part of the new Reinsurance department of TMK.

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## Syndicate 510

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### Enterprise Risk

#### 2014 underwriting year of account

The Enterprise Risk division made an underwriting profit of £11.6m (29.89%) on allocated capacity of £38.7m after taking account of operating expenses, Lloyd's expenses and investment income for the 2014 underwriting year of account.

This is an excellent result for the division, building upon investments made in our cyber business in earlier years and benefiting from the decision made to exit affinity business in 2013. This profit was made in spite of a reserve being established in the closing quarter for a new large cyber loss.

#### Prior years' development

The 2014 underwriting year result improved by £4.4m attributable to favourable claims development on prior years, including several cases where we have seen claims settling for less than their reserves as well as the release of some of the reserves being held against adverse development of the affinity business.

#### One year accounting result

On a UK GAAP basis the division produced a profit of £16.9m against gross premium written of £95.3m and net premium earned of £74.3m for the 2016 calendar year.

Forecast ultimate premium for the 2016 year of account is somewhat down on the original plan, although it is one third up on the previous year. Controlled growth was achieved in both our cyber open market, and in particular, our cyber delegated accounts. Rate increases of 4% were achieved on the more volatile open market class, whereas the generally more attritional delegated class saw rate reductions averaging 4%.

The main loss activity for the year occurred in the 2015 year of account on our product recall book, which was unfortunately not immune to the spate of losses affecting that market.

Our intellectual property account saw continued growth during the year.

The combined ratio for the 2016 calendar year is 78.1%.

#### 2017 development

We are, quite rightly, ambitious for the growth of this division in 2017, having invested time, effort and money in building an infrastructure to enable us to capitalise on the opportunities presented by the exponential growth of the cyber insurance market. Namely, we have an experienced team of expert underwriters; using our own knowledge, specialist software and third party advisers, we believe that we are at the forefront of modelling capabilities, which will be vital for the future of this class; and we have upstream distribution capabilities in both the US and Europe, along with access to business through our Tokio Marine Group sister companies the world over.

Intellectual property will be a particular area of focus for us in the coming years, as we look to increase distribution of our specialist knowledge and experience throughout our network of service companies and coverholders. As a result, we have allocated additional resources to this account in order to further its development. Alongside this, we will continue to look for ways to deploy TMK's appetite for innovative insurance solutions.

From 2017 the division will form part of the new Marine, Aviation & Special Risks department of TMK.



## Syndicate 510

### Aviation

#### 2014 underwriting year of account

The Aviation division made an underwriting profit of £10.6m (19.80%) on allocated capacity of £53.6m after taking account of operating expenses, Lloyd's expenses and investment income for the 2014 underwriting year of account.

Given the ongoing challenging trading conditions within the aviation market, we are very pleased with the return made in 2014, particularly given the substantial loss incurred early in the year's development with our lead involvement on the Shoreham Airshow disaster. Disappointingly, we also experienced a number of late deteriorations in the closing quarter, particularly in the aerospace class, that tarnished what would have otherwise been an excellent result. Our overall closing year result has also been negatively affected by the delay of a number of satellite launches, which resulted in a portfolio transfer to later years. Despite these setbacks, and in conjunction with a favourable back year release of £6.7m, the final result for 2014 reflects very positively on the team's hard work.

#### Prior years' development

The 2014 underwriting year result improved by £6.7m attributable to favourable claims development on closed years.

#### One year accounting result

On a UK GAAP basis the division produced a profit of £4.0m against gross premium written of £52.0m and a net premium earned of £44.3m for the 2016 calendar year.

The market has continued to experience rate softening throughout the year affecting all areas of the portfolio. Despite these conditions, during the first three quarters of the year we produced an excellent result. This result was somewhat tempered by the final quarter of 2016, which was subject to a number of notable losses, including our exposure to the tragic LaMia airline crash and a large loss within our space book. However with the strength of the underlying book, together with favourable development on prior years, we have still been able to generate a positive result. This is especially satisfying given the pressure on rates and signed lines created by the current over-abundance of market capacity.

The combined ratio for the 2016 calendar year is 92.5%.

#### 2017 development

The rating environment during 2016 continued the trend of deterioration experienced in previous years. During the last quarter, however, it was apparent that whilst some risks saw familiar double digit reductions, the market was beginning to resist the more typical broad-brush approach to reductions of the past. Specifically, on certain risks the trend for verticalisations was being reduced, or even reversed, and we were able to secure participations on some risks at terms that would have been unachievable previously. It is likely that this will continue into 2017 as the wider market's continued poor performance demands more prudent underwriting from our competitors.

We remain very well positioned as a division, with a diversified portfolio and business model that allows us to better weather the likely continuing challenging market conditions during 2017. Furthermore, we have established and maintained strong partnerships with key clients that provide a degree of stability and security as we look to evolve our portfolio to find acceptable returns.

We continue to broaden our distribution channels, including the recent launch on 1 January of our UAS online portal and accompanying enhanced UAS product. This will offer significant cost savings and efficiencies to TMK, our brokers and producers and of course the product's end users. We also continue to extend our multi-line product offerings via our strong corporate coverholder relationships and sister companies within the Tokio Marine Group.

We will be focusing on developing our profitable banks and lease finance portfolio, a strategy that has been supported by the recent acquisition of the market leading underwriter in this class, Ben Amphlett. In addition, approval from Lloyd's for an increase in our capacity in this class has been granted (with effect from 1 January), which will enable us to offer a more meaningful lead line.

We remain focused on our innovative and diversified approach to the aviation market and anticipate a number of new initiatives further enhancing our already profitable portfolio through the coming year.

From 2017 the division will form part of the new Marine, Aviation & Special Risks department of TMK.

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## Syndicate 557

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### 2014 underwriting year of account

Syndicate 557 made an underwriting profit of £10.8m (27.42%) on allocated capacity of £39.3m after taking account of operating expenses, Lloyd's expenses and investment income for the 2014 underwriting year of account.

2014 was a very quiet year for catastrophe losses, with the largest event to affect the syndicate being the summer storms that hit Nebraska, which produced only modest losses. The benign environment meant that both the US and worldwide catastrophe books had very good years, in particular the worldwide book, which was close to incurring nil losses.

### Prior years' development

The 2014 underwriting year result improved by £0.5m as a result of a reduction in prior years' reserves on catastrophe losses.

### One year accounting result

On a UK GAAP basis the syndicate produced a profit of £8.5m against gross premium written of £16.7m and net premium earned of £15.1m for the 2016 calendar year.

2016 saw an increase in catastrophe activity compared to recent years, with the occurrence of the Canadian Wildfires and Hurricane Matthew. Neither of these events, however, produced a large loss for us, resulting in a satisfactory performance for the year.

The combined ratio for the 2016 calendar year is 46.0%.

### 2017 development

The reinsurance market continues to be under pressure due to oversupply, and largely static demand. Good results produced in a relatively benign catastrophe period offset the effect of pricing pressures resulting from the lack of significant losses over the past few years. Whilst we expect the soft market to continue, it is clear that a number of our competitors are beginning to see the market as less attractive, and some are choosing to return excess capital to investors rather than try to use it in such difficult circumstances.

One benefit of this has been that whilst rates continue to fall, the rate of reduction on the US side of the business has started to slow. US business continues to offer the best opportunities for profit, albeit at a reduced level when compared to previous years, and as a result our book has remained relatively stable. We do not believe that this slowdown in price reductions is the first sign of a market turn, but it is an indication that reinsurers are beginning to tire of repeated double digit rate cuts and are now less willing to give up price in order to defend market share.

The non-US side of the business on the other hand continues to be extremely soft, with pricing generally at very low levels. Of equal, if not greater concern, is the ongoing reduction in the standard of contract wordings, with extremely wide coverage being given without adequate pricing adjustments. Reinsurers seem to be driven to write 'diversifying' (non-US) business at almost any price, and are less willing to give up market share on this side of the account. We are having to pick and choose our way through this market, with the worldwide book being considerably smaller than it has been in the past.

The high quality of the accounts that we write, combined with the strong relationships that we have with many of our clients, affords us good opportunities in the current, if rather challenging, market. We believe that our long-term approach to business gives us the best chance of maximising returns across the cycle. Reinsurance remains a cyclical business and we are well placed to take advantage of opportunities as they arise.

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

From 2017 the syndicate will be managed through the new Reinsurance department of TMK.

## Syndicate 308

### 2014 underwriting year of account

Syndicate 308 made an underwriting profit of £0.7m (2.30%) on allocated capacity of £32.0m after taking account of operating expenses, Lloyd's expenses and investment income for the 2014 underwriting year of account. There was some consolidation of the business during the year following a change in underwriting personnel. Whilst most of the core account was retained, including key long-term client relationships that have demonstrated consistent profitability, there was a small contraction in the overall volume of business written.

### Prior years' development

The 2014 underwriting year result improved by £0.3m as a result of a small release from the prior years due to the positive run-off of some legacy accounts.

### One year accounting result

On a UK GAAP basis the syndicate produced a profit of £1.9m against gross premium written of £31.7m and net premium earned of £29.6m for the 2016 calendar year.

Despite competition for new business, a combination of organic growth, high retention rates and constant PRIs have allowed the syndicate to achieve forecast growth of over 10% of gross premium for the 2016 year of account.

Whilst the underlying book continues to produce profitable results, the account was negatively affected by a higher than normal loss frequency.

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

The combined ratio for the 2016 calendar year is 93.5%.

### 2017 development

There are two key opportunities for the syndicate in 2017. Firstly, the completion of projects currently underway that will distribute some exciting new products to the market, and secondly, capitalising on targeted business opportunities arising from the withdrawal of a large Lloyd's Life syndicate from the market for 2017.

During 2016 it emerged, under instruction from the PRA, that Lloyd's Life syndicates would not be able to write ancillary products. Whilst we do underwrite a small portfolio of critical illness and some incidental disability risks, we do not envisage that this will have a major effect on our overall account.

We expect to produce satisfactory results across the underwriting cycle, and shall not be changing our target markets and underwriting philosophy: that is, specialist or niche business from Lloyd's licensed territories, with the aim of writing for profit rather than income alone. To achieve this, we maintain a strong focus on our relationship with clients, to the extent that we consider the quality of our client service be a key part of our offering, and one that enables us to attract and retain the best quality business.

Looking at the wider term life market, we have not seen any changes in the stance of our company competitors (where they exist).

From 2017 the syndicate will form part of the new Accident, Health & Life department of TMK.

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# Directors, Active Underwriters and administration

## Managing agent

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Tokio Marine Kiln Syndicates Limited

## Directors

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Richard Bennison (Chairman)

Charles Franks (Chief Executive Officer)

Bruce Bowers (non-executive)      Appointed 19/2/2016  
Resigned 31/10/2016

Richard Bucknall (non-executive)      Appointed 11/2/2016

David Constable (non-executive)

Rosemary Harris (non-executive)

Anthony Hulse (non-executive)      Appointed 15/2/2016

Paul Culham

James Dover

Denise Garland

Andrew Hitchcox

Yusuke Otsuka      Appointed 28/1/2016  
Resigned 31/3/2016

Shinji Urano      Appointed 15/7/2016

## Company Secretary

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Fiona Molloy

## Registered office

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20 Fenchurch Street  
London EC3M 3BY

## Registered number

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729671

## Bankers

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Barclays Bank plc

Citibank, N.A.

Royal Bank of Canada

J.P. Morgan Europe Limited

Lloyds Bank plc

HSBC Bank plc

## Syndicate

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### Tokio Marine Kiln Combined 510

Property & Special Lines

Mark Mortlock

Marine & Special Risks

Peter Merton

Accident & Health

Tim Prifti

Reinsurance

David Huckstepp

Enterprise Risk

Peter Merton

Aviation

James Walker

### Tokio Marine Kiln Catastrophe 557

David Huckstepp

### Tokio Marine Kiln Life 308

Tim Prifti

## Investment managers

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

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

## Statutory auditor

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

## 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 Syndicates 510 and 308, as shown in the table below.

Percentages of capacity per year of account					
Company	Syndicate	2014 %	2015 %	2016 %	2017 %
Tokio Marine Underwriting Limited	<b>510</b>	55	55	55	55
	<b>308</b>	50	50	50	52

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

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

Managing agency fees were paid by Syndicates 510, 557 and 308 to Tokio Marine Kiln Syndicates Limited based on a percentage of capacity. In addition, expenses were paid to Tokio Marine Kiln Insurance Services Limited in reimbursement 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 2015 to 2017 years of account during the period of their appointment. Figures stated are for participations as an individual member underwriting through a Name company.

	Total for YOA	<b>510</b> £'000s	<b>557</b> £'000s	<b>308</b> £'000s
Paul Culham	2015	105	14	–
	2016	105	14	–
	2017	112	14	–

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

	Participation			
	2014 £'000s	2015 £'000s	2016 £'000s	2017 £'000s
Charles Franks	197	197	197	197
Paul Culham	n/a	400	400	428
James Dover	109	109	103	103
Paul Hewitt*	197	197	n/a	n/a
Richard Lewis*	295	295	n/a	n/a

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

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# Syndicate forecast assumptions

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

- Ultimate net claims settlements have been estimated on the basis of paid and known outstanding claims as at 31 December 2016, together with an assessment of future claim settlements derived from projections based on previous claims history.
- Where liabilities of previous years have been assumed, no profit or loss will arise from their run-off.
- The exchange rates for US dollars and Canadian dollars at 31 December 2017 and 2018 will be the same as at 31 December 2016.
- There will be no significant deviation from projected cash flow patterns or in investment income forecasts.
- The inherent volatility in claims development will not cause the ultimate claim settlements to be materially divergent from those estimated on the basis of underwriting statistics available at 31 December 2016.
- All potential reinsurance recoveries will be collected, except where a specific provision has already been made.
- Aside from the outcome of the Lord Chancellor's review of the 'Ogden rate', as discussed in the underwriting report of the Property & Special Lines division, there will be no significant changes in governmental or legislative controls or policies affecting the activities or claims experience of the syndicates.
- Although a number of policies are still exposed to future losses, there will be no further abnormally large claims or aggregation of claims arising from catastrophe events or other causes.



Annual report and accounts 2016

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

# Annual accounts

under UK Generally Accepted Accounting Practice (GAAP)

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## 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 2016 under UK GAAP. This report covers Syndicates 510, 557 and 308 managed by Tokio Marine Kiln Syndicates Limited as follows:

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

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

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

Separate underwriting year accounts for the closed 2014 year of account are set out on pages 111 to 156.

### Principal activity and review of the business

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. The principal activity of Syndicate 308 remains the transaction of term life business in the Lloyd's market.

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

### Annual accounting results 2016

The syndicates' key financial performance indicators (KPIs) for the year are shown below.

Syndicate	KPI	2016 £'000s	2015 £'000s
510	Gross written premium	1,296,737	1,162,882
	Net earned premium	1,009,413	900,158
	Result for the financial year	115,260	111,336
	Claims ratio	54%	49%
	Combined ratio	89%	88%

Note: The claims ratio is the proportion of net claims incurred to net premiums earned and the combined ratio is the proportion of net claims incurred, net operating expenses (including personal expenses) and profit or loss on exchange to net premiums earned. In each case, a lower ratio represents a better performance. Excluding profit or loss on exchange the combined ratio is 96% (2015: 88%).

Syndicate 510 is showing growth in both gross written and net earned premium, driven by a continued focus on innovation and adapting to the current challenging market conditions. This growth has been boosted by the depreciation of the pound during 2016. The claims ratio has increased as the syndicate has incurred a greater level of catastrophe losses compared to the prior year, following the Canadian Wildfires and Hurricane Matthew. The combined ratio is just above that of the prior year, reflecting the benefit of the profit on exchange.

The significant foreign exchange gain reported in 2016 reflects the weakening of the pound post the Brexit referendum in June 2016. The gain recognised comprises gains on non-sterling settlement currency assets held to back distributable profits, primarily US dollars, in addition to gains on assets and hedges held to match non-sterling non-settlement currency underwriting reserves. The largest non-sterling non-settlement underwriting reserve exposures relate to Euros and Australian dollars.

Syndicate	KPI	2016 £'000s	2015 £'000s
557	Gross written premium	16,718	17,366
	Net earned premium	15,117	15,796
	Result for the financial year	8,544	9,868
	Claims ratio	42%	10%
	Combined ratio	46%	39%

Excluding profit or loss on exchange the combined ratio is 74% (2015: 41%).

Syndicate 557 is showing a reduction in gross written and net earned premium as a result of a reduction in income written in response to the current rating environment. The result has deteriorated due to an increase in catastrophe losses compared to the prior year, driven primarily by the Canadian Wildfires. This has been reflected in the claims ratio, which is showing a material increase compared to 2015, which had minimal exposure to catastrophes. The combined ratio has also increased, but only by 7 percentage points, reflecting the benefit of profit on exchange.

Syndicate	KPI	2016 £'000s	2015 £'000s
308	Gross written premium	31,701	27,576
	Net earned premium	29,639	26,366
	Result for the financial year	1,940	(2,068)
	Claims ratio	49%	65%
	Combined ratio	93%	108%

Excluding profit or loss on exchange the combined ratio is 93% (2015: 107%).

Syndicate 308 is showing growth in gross written and net earned premium driven by new business as well as organic growth. The syndicate has returned to profit having reported a loss in 2015 following a series of large losses and higher than normal loss activity on the underlying book.

<b>2016</b>				
<b>Syndicate annual accounting result</b>				
<b>Year of account</b>	<b>510</b> £'000s	<b>557</b> £'000s	<b>308</b> £'000s	<b>Total</b> £'000s
2016	(66,548)	2,846	(3,423)	(67,125)
2015	81,759	2,306	4,427	88,492
2014 & prior	100,049	3,392	936	104,377
	<b>115,260</b>	<b>8,544</b>	<b>1,940</b>	<b>125,744</b>

<b>2015</b>				
<b>Syndicate annual accounting result</b>				
<b>Year of account</b>	<b>510</b> £'000s	<b>557</b> £'000s	<b>308</b> £'000s	<b>Total</b> £'000s
2015	(12,664)	6,099	(5,924)	(12,489)
2014	79,988	2,036	2,487	84,511
2013 & prior	44,012	1,733	1,369	47,114
	<b>111,336</b>	<b>9,868</b>	<b>(2,068)</b>	<b>119,136</b>

### Principal risks and uncertainties

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

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

## Capital management

### Capital framework at Lloyd's

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

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 overall and member level only respectively, not at 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 comprised of 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 SCR is therefore determined by the sum of the member's share of the syndicate SCR 'to ultimate'. 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 not a 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 by assets held in trust by Lloyd's specifically for that member (Funds at Lloyd's) or as the member's share of the members' balances on each syndicate on which it participates.

Accordingly all of the assets less liabilities of the syndicate, as represented in the members' balances reported on the respective balance sheets, represent resources available to meet members' and Lloyd's capital requirements. The capital uplift applied for 2017 is 35% of the member's SCR 'to ultimate'.

## Capital allocation

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

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

### Insurance risk

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 underwriting risk, reinsurance risk and reserving risk.

### 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 syndicates' appetite for these risks annually through the business plan, which sets out targets for volumes, pricing, line sizes and retention by class of business. Volume and price performance is monitored against syndicate business plans monthly, and all of the components of the insurance result and risk appetite quarterly. We look for opportunities outside the plan, and where appropriate may deviate from the plan in light of changing events or understanding of the risks being taken. Catastrophe modelling software is used to model maximum probable losses from catastrophe-exposed business and as part of the realistic disaster scenario (RDS) process. TMK have adopted a cyber aggregate monitoring tool to manage the growing exposures in this area.

A significant proportion of Syndicate 510's and Syndicate 308's business is written through delegated authorities. A dedicated Delegated Authorities team monitors coverholder performance, to carry out annual due diligence on coverholders and manage 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.

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

## Reserving risk

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

In addition, the estimates are subject to independent review by external actuaries, who sign an annual Statement of Actuarial Opinion on the sufficiency of the reserves for each of the syndicates. Our policy is to reserve on a consistent basis with a reasonable margin for prudence, such that the syndicates are strongly reserved without being over-reserved. Syndicate 308 is reserved at a prudent level in accordance with life reserving actuarial requirements. 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 Reinsurance Security Committee. It assesses, and is required to approve, all new reinsurers before business is placed with them, and it monitors the credit ratings of all reinsurers used. The performance of premium debtors, from brokers and coverholders, is monitored quarterly by the Credit Control Committee. The Investment Committee regularly tracks and reviews our investment portfolio, which is outsourced to two 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 the fund managers to review performance. The syndicates have no direct exposure to equity related investments and

we regularly review our balance of assets and liabilities. Our syndicates maintain a diversified investment portfolio to restrict the concentration of assets.

## 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 Finance Group reviews syndicate cash flow projections quarterly, and also stress tests them against RDSs. In the event of a catastrophe loss of a significant size, Syndicates 510, 557 and 308 have the ability to take advantage of outstanding claims advances from their major reinsurers.

## Agency risk

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

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

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

## Operational risk

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

We seek to manage this risk by the recruitment of high calibre staff and providing them with high quality training. Operational risk forms a significant part of the syndicates' Risk Register. Risks are reviewed on a regular basis with departmental heads responsible for identifying, assessing and controlling operational risks effectively. To assist with this, all departments have in place an Internal Control Framework, documenting their controls. These controls are independently assessed on an annual basis by the Risk Management team.

There is a strong risk reporting and risk governance system in place to ensure effective risk management of operational risk. Management receives operational risk updates on a quarterly basis through the Operations Committee, and the Risk and Compliance Committee also reviews the most material elements of the operational risk profile quarterly, in line with the risk management framework. Particular attention is paid to how the risks from cyber security threats are managed by the Information Security Group.

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

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

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

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

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

### Reputational risk

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.

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

Reputational risk is included in the syndicates' Risk Register and risk assessment process. It is reported on a quarterly basis as part of the ORSA process to the Executive Risk Committee and the Risk and Compliance Committee.

### Emerging risk

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

We are committed to the continual research and identification of emerging risks and actively undertake research independently, and via Lloyd's as a representative on the Lloyd's Emerging Risks Special Interest Group. Emerging risk analysis is included in the TMK 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 it has done in the past, we will readily seize opportunities arising in the area of emerging risks.

### Future business risk

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

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

These risks can be mitigated to a reasonable extent by maintaining good underwriting discipline, but while their incidence is ultimately outside management control, they are managed by regular oversight from the Risk Management team and the Risk and Compliance Committee.

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## **Underwriters' reports**

The underwriters' reports on pages 10 to 18 set out further commentaries on the principal activities and one year annual accounting results for Syndicates 510, 557 and 308. They also include commentaries on the year of account result for the 2014 closed year, and a discussion of future developments in the coming year.

## **Directors**

The directors of the managing agent who served during the year ended 31 December 2016 are listed under the section 'Directors, Active Underwriters and administration' on page 19. The directors' participations in the premium income of the syndicates are set out in the related parties note on page 20.

## **Disclosure of information to the auditor**

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 auditor in connection with its report, of which the auditor is unaware. Having made enquiries of fellow directors of the managing agent and the syndicates' auditor, 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 auditor is aware of that information.

## **Reappointment of auditor**

The board approved the reappointment of PricewaterhouseCoopers LLP as auditor 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 auditor for a further 12 months can be made by syndicate members in writing to the Company Secretary within 21 days of this notice.

## **Approved by the Board of directors**

### **Fiona Molloy**

Company Secretary  
Tokio Marine Kiln Syndicates Limited  
17 March 2017



## 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 basis that each syndicate will continue to write future business unless it is inappropriate to presume that the syndicate will do so.

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

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

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

# Notes and principal accounting policies applying to all syndicates

as at 31 December 2016

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.

## 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. Critical accounting judgements and estimation uncertainty

The preparation of the syndicates' annual accounts requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the syndicates' accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are those listed below. The judgements and estimation uncertainty are disclosed within the individual accounting policies:

- Premiums written – general and life business
- Earned premiums – general and life business
- Claims provisions and related recoveries – general and life business
- Acquisition costs
- Investments
- Pension costs

## 4. Accounting policies

### a) Premiums written – general and life business

Inwards premiums written comprise premiums on contracts incepting during the financial year as well as adjustments made in the year to premiums on contracts incepting in prior accounting periods. Premiums in respect of insurance contracts underwritten under facilities such as binding authorities, lineslips or consortium 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 written on an annual basis, at the anniversary of inception, into the youngest year of account.

### b) Earned premiums – general and life business

Inwards and outwards earned premium represents the amount of written premium deemed to have been exposed to loss according to defined earnings patterns. The 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.

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

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

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including outstanding claims estimated on a case by case basis and also the cost of claims Incurred But Not Reported (IBNR). The estimated cost of claims includes expenses to be incurred in settling claims. All reasonable steps are taken to ensure that the appropriate information regarding claims exposures is obtained. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. All claims provisions are reported on an undiscounted basis, with the exception of Syndicate 308 where a discount rate is applied (see note 2 of the Syndicate 308 annual accounts).

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

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

- changes in syndicate processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous periods;

- changes in the legal environment;
- the effects of inflation;
- changes in the mix of business;
- the impact of large losses; and
- movements in industry benchmarks.

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

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

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

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

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

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

### Property, Enterprise Risk, Reinsurance, and Accident & Health

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

incurred in previous periods have developed over time to reflect changes in the underlying estimates of the cost of notified claims and late notifications.

### Liability

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

### Marine and aviation

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

### Life

The long-term business provision is determined annually by an actuarial valuation and is calculated initially to comply with the reporting requirements of the PRA's Prudential Sourcebook for Insurers. These are the amounts shown in the balance sheet. This statutory solvency basis is then adjusted in respect of general contingency reserves and other reserves required for statutory solvency purposes. This adjusted basis is referred to as the modified statutory solvency basis. Further details of the assumptions used are given in note 2 of the annual accounts of Syndicate 308.

### d) Provision for unexpired risks

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

### e) Acquisition costs

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

inwards acquisition costs is calculated and deferred in line with the outwards unearned premium at the balance sheet date.

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

### f) Foreign currencies

#### Functional currency

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

#### Transactions and balances

Foreign currency transactions are recorded in the functional currency using the exchange rates prevailing at the dates of the transactions or an appropriate average rate of exchange. 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 and deferred acquisition costs) 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	
	2016	2015	2016	2015
US dollar	1.35	1.53	1.24	1.47
Canadian dollar	1.79	1.95	1.66	2.05

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.

### g) Cash and cash equivalents

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

### h) 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'

and 'deposits with credit institutions' – all at fair value through profit or loss. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

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 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.

#### **i) 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.

#### **j) 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.

#### **k) 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.

#### **l) 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.

#### **m) 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.

#### **n) 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.

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#### **o) Pension costs**

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

Tokio Marine Kiln Syndicates Limited also operates a defined benefit scheme through the R J Kiln & Co. Limited Pension and Assurance Scheme (closed to future benefit accruals from 1 May 2003). 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 surplus or deficit arising on the scheme at each balance sheet date is transferred or recharged to the syndicates. The syndicates share of the surplus or deficit is based on the working patterns of the scheme's active members as at the date of the closure of the Scheme and is recognised as an asset or liability respectively. The syndicates also recognise a corresponding liability or asset which represents the amount which is recoverable from syndicate members in future years.

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.

#### **p) 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 payable to underwriting staff, again subject to the operation of a divisional two year deficit clause. Profit commission is estimated on an ultimate basis for each year of account, and accrued by the syndicates based on the interim annual accounting results of the year of account under UK GAAP. Final settlement to the managing agent is made when the year of account closes; normally at 36 months. Divisional profit share does not become payable until after the appropriate year of account closes; normally at 36 months.

#### **q) 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 2016

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

Annual accounts under UK GAAP

# Syndicate 510

Tokio Marine Kiln Combined Syndicate  
Composite

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## Independent auditor's report to the members of Syndicate 510 – Report on the syndicate annual accounts

### Our opinion

In our opinion the syndicate annual accounts, defined below:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

### What we have audited

The syndicate annual accounts for the year ended 31 December 2016, which are prepared by the managing agent, comprise:

- the statement of comprehensive income for the year then ended;
- the balance sheet as at 31 December 2016;
- the statement of changes in members' balances;
- the statement of cash flows;
- the accounting policies; and
- the notes to the syndicate annual accounts, which include other explanatory information.

The financial reporting framework that has been applied in the preparation of the syndicate annual accounts is United Kingdom Accounting Standards, comprising FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', and applicable law (United Kingdom Generally Accepted Accounting Practice).

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

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

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

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

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

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

We have no exceptions to report arising from this responsibility.

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

As explained more fully in the statement of managing agent's responsibilities set out on page 30, the managing agent is responsible for the preparation of syndicate annual accounts and for being satisfied that they give a true and fair view.

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

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

### What an audit of syndicate annual accounts involves

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

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

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

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

### Mark Bolton

Senior Statutory Auditor

For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London, 17 March 2017

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

for the year ended 31 December 2016

	Note	2016 £'000s	2015 £'000s
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	1	1,296,737	1,162,882
Outward reinsurance premiums		(288,543)	(250,959)
Net premiums written		1,008,194	911,923
Change in the provision for unearned premiums:			
Gross amount		(7,460)	(15,755)
Reinsurers' share		8,679	3,990
Change in the net provision for unearned premiums		1,219	(11,765)
<b>Earned premiums, net of reinsurance</b>		<b>1,009,413</b>	<b>900,158</b>
<b>Allocated investment return transferred from the non-technical account</b>		<b>9,226</b>	<b>5,825</b>
<b>Claims incurred, net of reinsurance</b>			
Claims paid:			
Gross amount		(580,964)	(544,692)
Reinsurers' share		106,284	97,357
Net claims paid		(474,680)	(447,335)
Change in the provision for claims:			
Gross amount		(88,112)	38,488
Reinsurers' share		16,117	(29,242)
Change in the net provision for claims		(71,995)	9,246
<b>Claims incurred, net of reinsurance</b>		<b>(546,675)</b>	<b>(438,089)</b>
<b>Members' standard personal expenses</b>		<b>(40,726)</b>	<b>(31,716)</b>
<b>Net operating expenses</b>	2,3,4	<b>(377,486)</b>	<b>(321,960)</b>
<b>Balance on the technical account for general business</b>		<b>53,752</b>	<b>114,218</b>

All operations are continuing.



## Statement of comprehensive income: non-technical account

for the year ended 31 December 2016

	Note	2016 £'000s	2015 £'000s
<b>Balance on the general business technical account</b>		<b>53,752</b>	114,218
Investment income	5	<b>15,916</b>	12,692
Investment expenses and charges	5	<b>(3,784)</b>	(3,855)
Net unrealised losses on investments	5	<b>(2,906)</b>	(3,012)
Allocated investment return transferred to the general business technical account	5,6	<b>(9,226)</b>	(5,825)
Profit/(loss) on exchange		<b>61,508</b>	(2,882)
<b>Profit for the financial year</b>		<b>115,260</b>	111,336

There is no other comprehensive income.

## Balance sheet: assets

as at 31 December 2016

	Note	2016 £'000s	2015 £'000s
<b>Investments</b>			
Other financial investments	7	1,024,482	832,793
Deposits with ceding undertakings		606	509
		<b>1,025,088</b>	833,302
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums	8	123,980	99,220
Claims outstanding	8,9	272,566	223,824
		<b>396,546</b>	323,044
<b>Debtors</b>			
Debtors arising out of direct insurance operations	10	426,559	391,527
Debtors arising out of reinsurance operations		216,642	166,304
Other debtors		24,882	22,724
		<b>668,083</b>	580,555
<b>Other assets</b>			
Cash at bank and in hand		19,843	10,927
Overseas deposits	11	158,730	117,183
		<b>178,573</b>	128,110
<b>Prepayments and accrued income</b>			
Deferred acquisition costs	12	193,951	168,723
Other prepayments and accrued income		1,170	1,574
		<b>195,121</b>	170,297
<b>Total assets</b>		<b>2,463,411</b>	2,035,308



## Balance sheet: liabilities

as at 31 December 2016

	Note	2016 £'000s	2015 £'000s
<b>Capital and reserves</b>			
Members' balances		158,464	102,099
<b>Technical provisions</b>			
Provision for unearned premiums	8	641,551	555,002
Claims outstanding	8,9	1,307,362	1,070,529
		<b>1,948,913</b>	1,625,531
<b>Deposits received from reinsurers</b>			
		<b>1,344</b>	1,004
<b>Creditors</b>			
Creditors arising out of direct insurance operations	13	93,753	90,443
Creditors arising out of reinsurance operations		171,485	145,815
Other creditors	14	53,594	39,255
		<b>318,832</b>	275,513
<b>Accruals and deferred income</b>			
Reinsurers' share of deferred acquisition costs	12	35,434	30,912
Other accruals and deferred income		424	249
		<b>35,858</b>	31,161
<b>Total liabilities</b>		<b>2,463,411</b>	2,035,308

The annual accounts, which comprise pages 37 to 62 and the notes and principal accounting policies applicable to all syndicates on pages 31 to 36, were approved by the Board of Tokio Marine Kiln Syndicates Limited on 9 March 2017 and were signed on its behalf by

### Paul Culham

Chief Underwriting Officer  
Tokio Marine Kiln Syndicates Limited  
17 March 2017

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## Statement of changes in members' balances

for the year ended 31 December 2016

	<b>2016</b> <b>£'000s</b>	<b>2015</b> <b>£'000s</b>
Members' balances brought forward at 1 January	<b>102,099</b>	102,141
Profit for the financial year	<b>115,260</b>	111,336
Payments of profit to members' personal reserve funds	<b>(55,173)</b>	(107,638)
Members' agents' fee advances	<b>(3,722)</b>	(3,740)
Members' balances carried forward at 31 December	<b>158,464</b>	102,099

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 2016

Note	2016 £'000s	2015 £'000s
<b>Cash flows from operating activities:</b>		
Operating profit on ordinary activities	115,260	111,336
Increase in gross technical provisions	323,382	19,836
(Increase)/decrease in reinsurers' share of technical provisions	(73,502)	14,331
(Increase) in debtors	(112,352)	(38,570)
Increase in creditors	48,016	24,743
Unrealised foreign currency (gains)	(163,037)	(37,845)
Investment return	(9,226)	(5,825)
<b>Net cash inflow from operating activities</b>	<b>128,541</b>	<b>88,006</b>
<b>Cash flows from investing activities:</b>		
Purchase of shares and other variable yield securities	–	(9,471)
Sale of shares and other variable yield securities	27,368	–
Purchase of debt securities and other fixed income securities	(1,048,571)	(1,093,419)
Sale of debt securities and other fixed income securities	997,817	1,098,902
Purchase of derivatives	(599)	–
Sale of derivatives	–	169
Investment income received	13,760	10,048
Other	(5,332)	(8,385)
<b>Net cash (outflow) from investing activities</b>	<b>(15,557)</b>	<b>(2,156)</b>
<b>Cash flows from financing activities:</b>		
Transfer to members in respect of underwriting participations	(55,173)	(107,638)
Members' agents' fees paid on behalf of members	(3,722)	(3,740)
<b>Net cash (outflow) from financing activities</b>	<b>(58,895)</b>	<b>(111,378)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>54,089</b>	<b>(25,528)</b>
Cash and cash equivalents at beginning of year	130,634	158,823
Foreign exchange gains/(losses) on cash and cash equivalents	10,753	(2,661)
Cash and cash equivalents at end of year	195,476	130,634
<b>Cash and cash equivalents consists of:</b>		
Cash at bank and in hand	19,843	10,927
Overseas deposits	158,730	117,183
Short-term deposits presented within other financial investments	16,903	2,524
	11	
<b>Cash and cash equivalents at end of year</b>	<b>195,476</b>	<b>130,634</b>

## Notes to the accounts

as at 31 December 2016

### 1. Segmental analysis

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

2016	Gross premium written £'000s	Gross premium earned £'000s	Gross incurred claims £'000s	Gross operating expenses £'000s	Reinsurance balance £'000s	Total £'000s	Net technical provisions £'000s
Division:							
Property & Special Lines	709,398	703,899	(386,561)	(280,419)	(21,422)	15,497	753,967
Marine & Special Risks	196,193	203,302	(115,173)	(71,944)	(12,727)	3,458	342,165
Accident & Health	142,945	141,858	(78,538)	(59,311)	(2,231)	1,778	139,191
Reinsurance	101,317	104,009	(33,085)	(31,673)	(31,743)	7,508	99,119
Enterprise Risk	95,311	84,829	(32,808)	(35,304)	(5,047)	11,670	109,106
Aviation	51,987	51,794	(25,481)	(21,506)	(3,943)	864	100,047
Syndicate 807 run-off	(414)	(414)	2,570	–	1,595	3,751	8,772
	<b>1,296,737</b>	<b>1,289,277</b>	<b>(669,076)</b>	<b>(500,157)</b>	<b>(75,518)</b>	<b>44,526</b>	<b>1,552,367</b>

The divisions accepted the following inwards reinsurance business as a proportion of gross written premium: Reinsurance (100%); Aviation (28.2%); Accident & Health (26.0%); Marine & Special Risks (16.7%); Property & Special Lines (12.5%) and Enterprise Risk (10.5%). The approach taken to calculate the proportion of inwards reinsurance business written was revised for the year ended 31 December 2016, and as such the prior year figures have been re-presented on a comparable basis.

2015	Gross premium written £'000s	Gross premium earned £'000s	Gross incurred claims £'000s	Gross operating expenses £'000s	Reinsurance balance £'000s	Total £'000s	Net technical provisions £'000s
Division:							
Property & Special Lines	625,880	612,738	(264,163)	(236,789)	(52,819)	58,967	620,982
Marine & Special Risks	197,867	201,077	(112,156)	(70,857)	(11,678)	6,386	300,790
Accident & Health	118,514	121,242	(67,910)	(47,119)	(2,964)	3,249	118,095
Reinsurance	103,196	104,008	(11,772)	(30,412)	(37,927)	23,897	98,496
Enterprise Risk	66,655	54,402	(25,453)	(21,970)	(1,279)	5,700	65,364
Aviation	50,911	53,801	(26,424)	(20,087)	(465)	6,825	85,042
Syndicate 807 run-off	(141)	(141)	1,674	–	1,836	3,369	13,718
	<b>1,162,882</b>	<b>1,147,127</b>	<b>(506,204)</b>	<b>(427,234)</b>	<b>(105,296)</b>	<b>108,393</b>	<b>1,302,487</b>

The divisions accepted the following inwards reinsurance business as a proportion of gross written premium: Reinsurance (100.0%); Aviation (29.9%); Accident & Health (25.7%); Marine & Special Risks (19.0%); Enterprise Risk (16.1%) and Property & Special Lines (10.8%).

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 – 62% fire and other damage to property (2015: 64%), 20% third party liability (2015: 17%), 6% motor (other classes) (2015: 6%) and 3% motor (third party liability) (2015: 4%)
- Marine & Special Risks – 57% marine, aviation and transport (2015: 62%) and 16% pecuniary loss (2015: 18%).
- Accident & Health – 84% accident and health (2015: 87%)
- Enterprise Risk – 97% third party liability (2015: 90%)
- Aviation – 100% marine, aviation and transport (2015: 100%)

All business was concluded in the UK.



The total commission payable on direct business was £338,594,197 (2015: £301,156,883).

The geographical analysis of premium by location of the client is below. The basis of determining the location of the client was revised for the year ended 31 December 2016, and as such the prior year figures have been re-presented on a comparable basis.

	<b>2016</b> <b>£'000s</b>	<b>2015</b> <b>£'000s</b>
UK	<b>158,765</b>	131,002
Other EU countries	<b>136,627</b>	125,932
US	<b>582,549</b>	510,722
Canada	<b>143,427</b>	125,486
Other	<b>275,369</b>	269,740
	<b>1,296,737</b>	1,162,882

## 2. Net operating expenses

	<b>2016</b> <b>£'000s</b>	<b>2015</b> <b>£'000s</b>
Acquisition costs	<b>388,409</b>	345,986
Change in deferred acquisition costs	<b>(2,482)</b>	(11,648)
Administrative expenses	<b>73,504</b>	61,180
Gross operating expenses	<b>459,431</b>	395,518
Reinsurance commissions and profit participations	<b>(81,945)</b>	(73,558)
	<b>377,486</b>	321,960

Included within administrative expenses is auditor's remuneration:

	<b>2016</b> <b>£'000s</b>	<b>2015</b> <b>£'000s</b>
Audit services:		
Fees payable to the syndicate's auditor for the audit of the syndicate annual accounts	<b>148</b>	152
Other services:		
Other services pursuant to legislation	<b>337</b>	331
	<b>485</b>	483

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

### 3. Staff numbers and costs

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

	<b>2016</b> <b>£'000s</b>	<b>2015</b> <b>£'000s</b>
Wages and salaries	<b>24,047</b>	23,366
Social security costs	<b>2,618</b>	2,541
Other pension costs	<b>2,398</b>	1,925
	<b>29,063</b>	27,832

Of this amount £126,852 (2015: £54,071) 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:

	<b>2016</b> <b>£'000s</b>	<b>2015</b> <b>£'000s</b>
Net charge from managing agent during year	<b>1,138</b>	1,138
Amount funded in year	<b>1,138</b>	1,138

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

	<b>2016</b>	<b>2015</b>
Administration and finance	<b>129</b>	119
Underwriting	<b>92</b>	88
Claims	<b>38</b>	42
	<b>259</b>	249

Where staff work for more than one syndicate the time is allocated based on the proportion of time spent. The relevant percentage of full-time employees is applied in the table above. Of this number 256 (2015: 247) are employed by Tokio Marine Kiln Insurance Services Limited and the remainder by other Tokio Marine Group companies.



#### 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, 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:

	<b>2016</b> <b>£'000s</b>	<b>2015</b> <b>£'000s</b>
Emoluments	<b>2,002</b>	2,562

Of the above amount, £1,042,059 (2015: £1,234,896) 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:

	<b>2016</b> <b>£'000s</b>	<b>2015</b> <b>£'000s</b>
Emoluments	<b>2,356</b>	2,420

The profit commission included within the emoluments is in relation to the 2013 year of account (2015: 2012 YOA), as the allocation to underwriters was only determined following its closure.

#### 5. Investment income and expenses

	<b>2016</b> <b>£'000s</b>	<b>2015</b> <b>£'000s</b>
Investment income:		
Income from investments	<b>13,388</b>	11,108
Realised gains on investments	<b>2,528</b>	1,584
Unrealised gains on investments	<b>4,777</b>	699
Investment expenses:		
Investment management expenses, including interest	<b>(1,628)</b>	(1,211)
Realised losses on investments	<b>(2,156)</b>	(2,644)
Unrealised losses on investments	<b>(7,683)</b>	(3,711)
	<b>9,226</b>	5,825

## 6. Calendar year investment yield

	2016 £'000s	2015 £'000s
Average amount of syndicate funds during the year:		
Sterling fund	64,919	106,448
US dollar fund	669,135	573,277
Canadian dollar fund	245,987	182,664
Euro fund	60,779	46,695
Aggregate gross investment return:		
Before investment expenses	10,854	7,036
After investment expenses	9,226	5,825
Calendar year investment yield:	%	%
Before investment expenses	1.0	0.8
After investment expenses	0.9	0.6
Analysis of calendar year investment yield by fund:	%	%
Sterling fund	1.5	0.4
US dollar fund	1.0	0.5
Canadian dollar fund	0.3	1.1
Euro fund	1.7	1.2

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

## 7. Other financial investments

	Fair value		Purchase price	
	2016 £'000s	2015 £'000s	2016 £'000s	2015 £'000s
Shares and other variable yield securities	201,594	172,299	195,077	172,705
Debt securities and other fixed income securities	817,148	656,367	822,192	657,282
Deposits with credit institutions	5,106	4,091	5,106	4,091
Other investments	634	36	–	–
	<b>1,024,482</b>	832,793	<b>1,022,375</b>	834,078

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 2016 was £50,471,418 (2015: £1,818,802).



## 8. Reconciliation of insurance balances

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

	Gross		Reinsurers' share	
	2016 £'000s	2015 £'000s	2016 £'000s	2015 £'000s
<b>At 1 January</b>	<b>555,002</b>	525,100	<b>(99,220)</b>	(92,075)
Premiums written during the year	<b>1,296,737</b>	1,162,882	<b>(288,543)</b>	(250,959)
Premiums earned during the year	<b>(1,289,277)</b>	(1,147,127)	<b>279,864</b>	246,969
Foreign exchange adjustments	<b>79,089</b>	14,147	<b>(16,081)</b>	(3,155)
<b>At 31 December</b>	<b>641,551</b>	555,002	<b>(123,980)</b>	(99,220)

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

	Gross		Reinsurers' share	
	2016 £'000s	2015 £'000s	2016 £'000s	2015 £'000s
<b>At 1 January</b>	<b>1,070,529</b>	1,080,595	<b>(223,824)</b>	(245,300)
Claims incurred during the year	<b>669,076</b>	506,204	<b>(122,401)</b>	(68,115)
Claims paid during the year	<b>(580,964)</b>	(544,692)	<b>106,284</b>	97,357
Foreign exchange adjustments	<b>148,721</b>	28,422	<b>(32,625)</b>	(7,766)
<b>At 31 December</b>	<b>1,307,362</b>	1,070,529	<b>(272,566)</b>	(223,824)

## 9. Claims outstanding

Within the calendar year technical result, a surplus of £16.2m (2015: £21.9m) 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 six 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	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m
Year 1	377.6	462.4	315.8	339.4	283.2	362.5
Year 2	685.1	737.1	648.2	659.1	638.2	
Year 3	684.8	759.3	669.0	678.4		
Year 4	674.9	755.8	661.8			
Year 5	657.2	754.7				
Year 6	648.0					
Cumulative claims paid	604.4	645.8	549.9	462.6	251.5	85.3
Outstanding claims reserve	43.6	108.9	111.9	215.8	386.7	277.2

### Net of reinsurance

Year of Account	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m
Year 1	293.7	330.7	261.3	259.2	246.8	290.5
Year 2	577.7	574.6	534.5	540.1	545.2	
Year 3	598.9	587.7	547.9	557.2		
Year 4	568.3	583.5	539.7			
Year 5	552.1	580.8				
Year 6	543.8					
Cumulative claims paid	508.0	499.6	442.1	379.5	219.7	72.1
Outstanding claims reserve	35.8	81.2	97.6	177.7	325.5	218.4



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

	2016 £'000s	2015 £'000s
Amounts due from intermediaries within one year	420,481	380,704
Amounts due from intermediaries after one year	6,078	10,823
	<b>426,559</b>	391,527

### 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	
	2016 £'000s	2015 £'000s	2016 £'000s	2015 £'000s
<b>At 1 January</b>	<b>168,723</b>	153,302	<b>(30,912)</b>	(26,901)
Expenses for the acquisition of insurance contracts deferred during the year	<b>388,409</b>	345,986	<b>(81,393)</b>	(76,468)
Amortisation	<b>(385,927)</b>	(334,338)	<b>81,945</b>	73,558
Foreign exchange adjustments	<b>22,746</b>	3,773	<b>(5,074)</b>	(1,101)
<b>At 31 December</b>	<b>193,951</b>	168,723	<b>(35,434)</b>	(30,912)

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

	2016 £'000s	2015 £'000s
Amounts due to intermediaries within one year	91,081	87,217
Amounts due to intermediaries after one year	2,672	3,226
	<b>93,753</b>	90,443

### 14. Other creditors

The following balances are included within other creditors:

	2016 £'000s	2015 £'000s
Forward currency contracts – held to maturity	257	183
	<b>257</b>	183

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 2016 was £122,851,699 (2015: £14,560,415). The above balances are stated at fair value.

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## 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 2016 calendar year of £6,863,993 (2015: £1,874,519). The unpaid premiums due from related parties at the period end were £1,458,815 (2015: £2,609,443). The outstanding claims, including an element of IBNR, were £3,673,018 (2015: £1,493,489). Written premiums ceded by Syndicate 510 to related parties for the 2016 calendar year were £79,107,080 (2015: £72,263,614). Paid recoveries from related parties during the period were £28,345,271 (2015: £50,157,524). Unpaid recoveries at the period end amounted to £78,613,048 (2015: £53,289,218) and future recoveries on outstanding claims, including an element of IBNR, were £117,413,641 (2015: £102,408,275).

Treaty profit commission due to Syndicate 510 from related parties for the 2016 calendar year was nil (2015: £1,890,855). Profit commissions received from related parties during the period were nil (2015: £1,761,996). Profit commission receivable at the period end amounted to nil (2015: £134,118).

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

The syndicate also receives business through Tokio Marine Kiln Europe S.A. which is 100% owned by Tokio Marine Kiln Group Limited, WNC Insurance Services, Inc., whose parent WNC Holding Company, LP is 49% owned within the Tokio Marine Kiln Group and NAS Insurance Services, Inc. which is 49% owned within the Tokio Marine Kiln Group. Profit commission on inwards business of £918,602 was paid to related parties for the 2016 calendar year (2015: £604,111) and profit commission payable was nil as at the balance sheet date (2015: £830,321).

Profit commission of £33,520,771 is payable by the syndicate to Tokio Marine Kiln Syndicates Limited in respect of the 2016 calendar year (2015: £22,938,077.) Profit commission is accrued by the syndicate based on the interim annual accounting results of each year of account under UK GAAP and final settlement to the managing agent is paid when the year of account is closed after three years.

Managing agency fees of £7,833,933 (2015: £7,879,087) were paid by the syndicate to Tokio Marine Kiln Syndicates Limited. In addition to this, expenses of £52,343,065 (2015: £48,728,218) were paid to Tokio Marine Kiln Syndicates Limited for expenses paid on behalf of the syndicate.

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



## 16. Risk management

Details of the syndicate's risk management framework are given in the 'principal risks and uncertainties section' on pages 25 to 29.

### a) Insurance risk

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

#### Concentrations of insurance risk

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

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

2016	Gross claims provision £'000s	Reinsurance claims provision £'000s	Net claims provision £'000s
Division:			
Property & Special Lines	603,109	(136,047)	467,062
Marine & Special Risks	295,197	(39,169)	256,028
Accident & Health	78,338	(4,208)	74,130
Reinsurance	117,465	(24,561)	92,904
Enterprise Risk	74,780	(11,024)	63,756
Aviation	122,262	(50,119)	72,143
Syndicate 807 run-off	16,211	(7,438)	8,773
	<b>1,307,362</b>	<b>(272,566)</b>	<b>1,034,796</b>

2015	Gross claims provision £'000s	Reinsurance claims provision £'000s	Net claims provision £'000s
Division:			
Property & Special Lines	458,301	(88,700)	369,601
Marine & Special Risks	265,186	(48,949)	216,237
Accident & Health	63,473	(3,641)	59,832
Reinsurance	111,406	(19,855)	91,551
Enterprise Risk	44,373	(9,082)	35,291
Aviation	103,019	(42,544)	60,475
Syndicate 807 run-off	24,771	(11,053)	13,718
	<b>1,070,529</b>	<b>(223,824)</b>	<b>846,705</b>

The following table sets out the concentration of gross claims provision by geographical location. The basis of determining the geographical location was revised for the year ended 31 December 2016, and as such the prior year figures have been re-presented on a comparable basis.

	<b>Gross claims provision</b>	
	<b>2016</b> <b>£'000s</b>	<b>2015</b> <b>£'000s</b>
UK	113,114	76,058
Other EU countries	205,945	135,748
US	505,357	422,709
Other	482,946	436,014
	<b>1,307,362</b>	1,070,529

#### **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 £12.9m (2015: £11.5m) more premium being reported (gross of acquisition costs), and applying the underlying attritional loss ratio would result in an estimated increase in the net result (after acquisition costs) of £1.8m (2015: £1.7m). A decrease of 1% would result in £12.9m (2015: £11.5m) less premium being reported and an estimated £1.8m (2015: £1.7m) 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 2016 is 54% (2015: 49%). 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 £10.1m (2015: £9.0m) and the result reducing by £8.3m (2015: £7.4m).

#### **b) Financial risk**

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

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



### Credit risk

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

The following table provides information regarding credit risk exposures of the syndicate by classifying assets according to the blended 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. The basis of determining the credit rating was revised for the year ended 31 December 2016, and as such the prior year figures have been re-presented on a comparable basis.

2016	AAA £'000s	AA £'000s	A £'000s	<A £'000s	NR £'000s	Total £'000s
Financial investments:						
Other financial investments	333,339	249,550	225,934	23,602	192,057	1,024,482
Overseas deposits	63,667	43,163	16,719	35,174	7	158,730
Deposits with ceding undertakings	–	–	–	–	606	606
Cash at bank and in hand	–	–	17,118	2,725	–	19,843
Reinsurers' share of outstanding claims including reinsurers' IBNR	40,645	32,007	173,205	2,870	23,839	272,566
Reinsurance recoverable on paid claims neither due nor impaired	15,771	2,189	16,605	799	1,052	36,416
	453,422	326,909	449,581	65,170	217,561	1,512,643

2015	AAA £'000s	AA £'000s	A £'000s	<A £'000s	NR £'000s	Total £'000s
Financial investments:						
Other financial investments	197,903	329,960	136,999	25,765	142,166	832,793
Overseas deposits	43,637	32,837	33,198	7,511	–	117,183
Deposits with ceding undertakings	–	–	–	–	509	509
Cash at bank and in hand	–	–	8,917	2,010	–	10,927
Reinsurers' share of outstanding claims including reinsurers' IBNR	26,456	56,961	122,471	1,860	16,076	223,824
Reinsurance recoverable on paid claims neither due nor impaired	4,817	3,746	2,827	260	181	11,831
	272,813	423,504	304,412	37,406	158,932	1,197,067

Of the total reinsurers' share of outstanding claims including reinsurers' IBNR, 0.5% (2015: 0.4%) is collected under Outstanding Claims Advances (OCAs) which is a form of cash deposit allowing crystallisation of an outstanding reinsurance recovery. The majority of the collateral values relating to the granting of OCAs are for US Situs losses only. Surplus reinsurance treaties allow the syndicate to call upon OCAs at its discretion.

The total reinsurers' share of outstanding claims including reinsurers' IBNR also includes collateral held as security, which comprises letters of credit and trust accounts totalling \$542.6m (2015: \$254.8m and £4.7m).

The largest potential reinsurance credit exposure to the syndicate at 31 December 2016 was 23.0% (2015: 14.3%) with Tokio Marine & Nichido Fire Insurance Co. Ltd, which is an A+ rated security. The Reinsurance Security Committee of the managing agent reviews the level of this exposure and takes appropriate action where necessary. This includes requesting a letter of credit for all reinsurers, related parties included.

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

<b>2016</b>	<b>Fully performing £'000s</b>	<b>Past due £'000s</b>	<b>Impairment £'000s</b>	<b>Total £'000s</b>
Financial investments:				
Other financial investments	1,024,482	–	–	1,024,482
Overseas deposits	158,730	–	–	158,730
Deposits with ceding undertakings	606	–	–	606
Cash at bank and in hand	19,843	–	–	19,843
Reinsurers' share of outstanding claims including reinsurers' IBNR	272,566	–	–	272,566
Insurance debtors	376,515	50,044	–	426,559
Reinsurance recoverable on paid claims	36,416	5,530	–	41,946
Other debtors	518,679	–	–	518,679
	<b>2,407,837</b>	<b>55,574</b>	–	<b>2,463,411</b>

<b>2015</b>	<b>Fully performing £'000s</b>	<b>Past due £'000s</b>	<b>Impairment £'000s</b>	<b>Total £'000s</b>
Financial investments:				
Other financial investments	832,793	–	–	832,793
Overseas deposits	117,183	–	–	117,183
Deposits with ceding undertakings	509	–	–	509
Cash at bank and in hand	10,927	–	–	10,927
Reinsurers' share of outstanding claims including reinsurers' IBNR	223,824	–	–	223,824
Insurance debtors	360,510	31,017	–	391,527
Reinsurance recoverable on paid claims	11,831	6,720	–	18,551
Other debtors	439,994	–	–	439,994
	<b>1,997,570</b>	<b>37,737</b>	–	<b>2,035,308</b>

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 27.

The syndicate writes a significant proportion of US Situs and Canadian business which requires the deposit of appropriate monies into specific trust funds. Some of these trust funds are regulated, requiring quarterly assessment of the adequacy of funding. Surplus funds or additional funding requirements are settled each quarter between the regulated and non-regulated trust funds. In exceptional circumstances, and with approval from Lloyd's, inter-fund settlement can take place outside the quarterly process. As at 31 December 2016 the balance held in these trust funds was US\$423.6m (2015: US\$434.5m) and Canadian \$398.0m (2015: Canadian \$313.8m).

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.

<b>2016</b>	<b>Up to 1 year £'000s</b>	<b>1–3 years £'000s</b>	<b>3–5 years £'000s</b>	<b>Over 5 years £'000s</b>	<b>Total £'000s</b>
Forward currency contracts	257	–	–	–	257
Deposits received from reinsurers	1,344	–	–	–	1,344
Creditors	296,178	9,575	12,822	–	318,575
Financial liabilities	297,779	9,575	12,822	–	320,176
Claims outstanding	540,557	451,018	173,134	142,653	1,307,362
Financial liabilities and claims outstanding	838,336	460,593	185,956	142,653	1,627,538

<b>2015</b>	<b>Up to 1 year £'000s</b>	<b>1–3 years £'000s</b>	<b>3–5 years £'000s</b>	<b>Over 5 years £'000s</b>	<b>Total £'000s</b>
Forward currency contracts	183	–	–	–	183
Deposits received from reinsurers	1,004	–	–	–	1,004
Creditors	253,228	11,664	10,438	–	275,330
Financial liabilities	254,415	11,664	10,438	–	276,517
Claims outstanding	446,601	381,150	134,797	107,981	1,070,529
Financial liabilities and claims outstanding	701,016	392,814	145,235	107,981	1,347,046

## Foreign currency market risk

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

The syndicate maintains bank accounts, investment portfolios and claims reserves in pounds sterling, US dollars, and Canadian dollars (the Lloyd's closing currencies). Additionally, bank accounts and investment portfolios are maintained in Euros. Transactions arising in other currencies are translated to the Lloyd's closing currencies as they occur. Certain other currencies are held for regulatory purposes. 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 by the Finance Group 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 arising from material losses 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. It should be noted that movements in these variables are non-linear.

The following table gives an indication of the impact on the result and net assets 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.

	2016 £'000s	2015 £'000s
Sterling strengthens 10% against US dollar	(33,166)	(25,095)
Sterling strengthens 10% against Canadian dollar	(575)	(2,074)
Sterling weakens 10% against US dollar	40,536	30,672
Sterling weakens 10% against Canadian dollar	703	2,535



**Interest rate market risk**

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

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

The 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 of a 50 basis point movement in interest rates on the market value of the syndicate’s investments.

	<b>2016</b> <b>£'000s</b>	<b>2015</b> <b>£'000s</b>
Impact of 50 basis point increase on result	<b>(8,782)</b>	(3,459)
Impact of 50 basis point decrease on result	<b>8,662</b>	3,267
Impact of 50 basis point increase on net assets	<b>(8,782)</b>	(3,459)
Impact of 50 basis point decrease on net assets	<b>8,662</b>	3,267

### 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. The Financial Reporting Council amendments to FRS 102 fair value hierarchy disclosures have been adopted for the year ended 31 December 2016, and as such the prior year figures have been re-presented on a comparable basis.

- 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 no level 3 securities as at 31 December 2016.

2016	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Derivative financial instruments:				
Forward currency derivatives – assets	634	–	–	634
Forward currency derivatives – liabilities	(257)	–	–	(257)
Shares and other variable yield securities	–	201,594	–	201,594
Debt securities and other fixed income securities	238,934	578,214	–	817,148
Loans and deposits with credit institutions	5,106	–	–	5,106
Overseas deposits	98,792	59,938	–	158,730
	<b>343,209</b>	<b>839,746</b>	–	<b>1,182,955</b>

2015	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Derivative financial instruments:				
Forward currency derivatives – assets	36	–	–	36
Forward currency derivatives – liabilities	(183)	–	–	(183)
Shares and other variable yield securities	–	172,299	–	172,299
Debt securities and other fixed income securities	352,739	303,628	–	656,367
Loans and deposits with credit institutions	4,091	–	–	4,091
Overseas deposits	74,595	42,588	–	117,183
	<b>431,278</b>	<b>518,515</b>	–	<b>949,793</b>

At 31 December 2016 the syndicate held forward currency contracts, for which the fair value is a net asset of £377,387 (2015: net liability of £147,987) with the gain (2015: loss) going through investment income in the statement of comprehensive income.



Annual report and accounts 2016

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

Annual accounts under UK GAAP

# Syndicate 557

Tokio Marine Kiln Catastrophe Syndicate

Non-marine

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## Independent auditor's report to the members of Syndicate 557 – Report on the syndicate annual accounts

### Our opinion

In our opinion the syndicate annual accounts, defined below:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

### What we have audited

The syndicate annual accounts for the year ended 31 December 2016, which are prepared by the managing agent, comprise:

- the statement of comprehensive income for the year then ended;
- the balance sheet as at 31 December 2016;
- the statement of changes in members' balances;
- the cash flow statement;
- the accounting policies; and
- the notes to the syndicate annual accounts, which include other explanatory information.

The financial reporting framework that has been applied in the preparation of the syndicate annual accounts is United Kingdom Accounting Standards, comprising FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', and applicable law (United Kingdom Generally Accepted Accounting Practice).

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

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

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

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

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

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

We have no exceptions to report arising from this responsibility.

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

As explained more fully in the statement of managing agent's responsibilities set out on page 30, the managing agent is responsible for the preparation of syndicate annual accounts and for being satisfied that they give a true and fair view.

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

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

### What an audit of syndicate annual accounts involves

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

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

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

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

### Mark Bolton

Senior Statutory Auditor  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London, 17 March 2017

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

for the year ended 31 December 2016

	Note	2016 £'000s	2015 £'000s
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	1	16,718	17,366
Outward reinsurance premiums		(2,064)	(1,790)
Net premiums written		14,654	15,576
Change in the provision for unearned premiums:			
Gross amount		509	329
Reinsurers' share		(46)	(109)
Change in the net provision for unearned premiums		463	220
<b>Earned premiums, net of reinsurance</b>		<b>15,117</b>	15,796
<b>Allocated investment return transferred from the non-technical account</b>		<b>375</b>	235
<b>Claims incurred, net of reinsurance</b>			
Claims paid:			
Gross amount		(9,043)	(12,858)
Reinsurers' share		(2)	1,185
Net claims paid		(9,045)	(11,673)
Change in the provision for claims:			
Gross amount		2,659	10,682
Reinsurers' share		2	(619)
Change in the net provision for claims		2,661	10,063
<b>Claims incurred, net of reinsurance</b>		<b>(6,384)</b>	(1,610)
<b>Members' standard personal expenses</b>		<b>(2,068)</b>	(2,316)
<b>Net operating expenses</b>	2,3,4	<b>(2,734)</b>	(2,529)
<b>Balance on the technical account for general business</b>		<b>4,306</b>	9,576

All operations are continuing.



## Statement of comprehensive income: non-technical account

for the year ended 31 December 2016

	Note	2016 £'000s	2015 £'000s
<b>Balance on the general business technical account</b>		<b>4,306</b>	9,576
Investment income	5	<b>804</b>	759
Investment expenses and charges	5	<b>(255)</b>	(348)
Net unrealised losses on investments	5	<b>(174)</b>	(176)
Allocated investment return transferred to the general business technical account	5,6	<b>(375)</b>	(235)
Profit on exchange		<b>4,238</b>	292
<b>Profit for the financial year</b>		<b>8,544</b>	9,868

There is no other comprehensive income.

## Balance sheet: assets

as at 31 December 2016

	Note	2016 £'000s	2015 £'000s
<b>Investments</b>			
Other financial investments	7	50,813	46,501
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums	8	377	372
Claims outstanding	8,9	1,535	1,294
		1,912	1,666
<b>Debtors</b>			
Debtors arising out of reinsurance operations		3,593	3,884
Other debtors		221	112
		3,814	3,996
<b>Other assets</b>			
Cash at bank and in hand		806	2,426
Overseas deposits	10	19	20
		825	2,446
<b>Prepayments and accrued income</b>			
Deferred acquisition costs	11	99	115
Other prepayments and accrued income		6	1
		105	116
<b>Total assets</b>		<b>57,469</b>	<b>54,725</b>



## Balance sheet: liabilities

as at 31 December 2016

	Note	2016 £'000s	2015 £'000s
<b>Capital and reserves</b>			
Members' balances		21,141	19,541
<b>Technical provisions</b>			
Provision for unearned premiums	8	3,296	3,323
Claims outstanding	8,9	27,621	27,076
		<b>30,917</b>	30,399
<b>Creditors</b>			
Creditors arising out of reinsurance operations		652	179
Other creditors	12	4,759	4,606
		<b>5,411</b>	4,785
<b>Total liabilities</b>		<b>57,469</b>	54,725

The annual accounts, which comprise pages 63 to 84 and the notes and principal accounting policies applicable to all syndicates on pages 31 to 36, were approved by the Board of Tokio Marine Kiln Syndicates Limited on 9 March 2017 and were signed on its behalf by

### Paul Culham

Chief Underwriting Officer  
Tokio Marine Kiln Syndicates Limited  
17 March 2017

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## Statement of changes in members' balances

for the year ended 31 December 2016

	<b>2016</b> <b>£'000s</b>	<b>2015</b> <b>£'000s</b>
Members' balances brought forward at 1 January	<b>19,541</b>	12,782
Profit for the financial year	<b>8,544</b>	9,868
Payments of profit to members' personal reserve funds	<b>(6,659)</b>	(2,823)
Members' agents' fee advances	<b>(285)</b>	(286)
Members' balances carried forward at 31 December	<b>21,141</b>	19,541

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 2016

	Note	2016 £'000s	2015 £'000s
<b>Cash flows from operating activities:</b>			
Operating profit on ordinary activities		8,544	9,868
Increase/(decrease) in gross technical provisions		518	(9,870)
(Increase)/decrease in reinsurers' share of technical provisions		(246)	619
Decrease in debtors		193	266
Increase in creditors		626	1,191
Unrealised foreign currency (gains)		(6,153)	(1,284)
Investment return		(375)	(235)
<b>Net cash inflow from operating activities</b>		<b>3,107</b>	555
<b>Cash flows from investing activities:</b>			
Purchase of shares and other variable yield securities		(5,831)	–
Sale of shares and other variable yield securities		–	1,797
Purchase of debt securities and other fixed income securities		(57,241)	(73,962)
Sale of debt securities and other fixed income securities		62,773	74,551
Purchase of derivatives		(14)	–
Sale of derivatives		–	8
Investment income received		582	444
Other		(206)	(209)
<b>Net cash inflow from investing activities</b>		<b>63</b>	2,629
<b>Cash flows from financing activities:</b>			
Transfer to members in respect of underwriting participations		(6,659)	(2,823)
Members' agents' fees paid on behalf of members		(285)	(286)
<b>Net cash (outflow) from financing activities</b>		<b>(6,944)</b>	(3,109)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(3,774)</b>	75
Cash and cash equivalents at beginning of year		4,516	4,466
Foreign exchange gains/(losses) on cash and cash equivalents		83	(25)
Cash and cash equivalents at end of year		825	4,516
<b>Cash and cash equivalents consists of:</b>			
Cash at bank and in hand		806	2,426
Overseas deposits	10	19	20
Short-term deposits presented within other financial investments		–	2,070
<b>Cash and cash equivalents at end of year</b>		<b>825</b>	4,516

## Notes to the accounts

as at 31 December 2016

### 1. Segmental analysis

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

<b>2016</b>	<b>Gross premium written £'000s</b>	<b>Gross premium earned £'000s</b>	<b>Gross incurred claims £'000s</b>	<b>Gross operating expenses £'000s</b>	<b>Reinsurance balance £'000s</b>	<b>Total £'000s</b>	<b>Net technical provisions £'000s</b>
Reinsurance acceptances	<b>16,718</b>	<b>17,227</b>	<b>(6,384)</b>	<b>(4,802)</b>	<b>(2,110)</b>	<b>3,931</b>	<b>29,005</b>
	<b>16,718</b>	<b>17,227</b>	<b>(6,384)</b>	<b>(4,802)</b>	<b>(2,110)</b>	<b>3,931</b>	<b>29,005</b>

<b>2015</b>	<b>Gross premium written £'000s</b>	<b>Gross premium earned £'000s</b>	<b>Gross incurred claims £'000s</b>	<b>Gross operating expenses £'000s</b>	<b>Reinsurance balance £'000s</b>	<b>Total £'000s</b>	<b>Net technical provisions £'000s</b>
Direct insurance	–	–	–	–	–	–	12
Reinsurance acceptances	17,366	17,695	(2,176)	(4,845)	(1,333)	9,341	28,721
	17,366	17,695	(2,176)	(4,845)	(1,333)	9,341	28,733

All business was concluded in the UK.

The total commission payable on direct business was nil (2015: nil).

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

	<b>2016 £'000s</b>	<b>2015 £'000s</b>
UK	<b>16,718</b>	17,366
	<b>16,718</b>	17,366



## 2. Net operating expenses

	2016 £'000s	2015 £'000s
Acquisition costs	610	619
Change in deferred acquisition costs	26	(2)
Administrative expenses	2,098	1,912
Gross and net operating expenses	2,734	2,529

Included within administrative expenses is auditor's remuneration:

	2016 £'000s	2015 £'000s
Audit services:		
Fees payable to the syndicate's auditor for the audit of the syndicate annual accounts	26	27
Other services:		
Other services pursuant to legislation	61	57
	87	84

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

### 3. Staff numbers and costs

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

	2016 £'000s	2015 £'000s
Wages and salaries	1,045	1,019
Social security costs	110	109
Other pension costs	140	123
	<b>1,295</b>	1,251

Of this amount £8,642 (2015: £4,244) 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:

	2016 £'000s	2015 £'000s
Net charge from managing agent during year	87	87
Amount funded in year	87	87

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

	2016	2015
Administration and finance	9	8
Underwriting	2	1
Claims	1	1
	<b>12</b>	10

Where staff work for more than one syndicate the time is allocated based on the proportion of time spent. The relevant percentage of full-time employees is applied in the table above. Of this number, the equivalent of less than one full-time employee was employed by other Tokio Marine Group companies (2015: less than one).

### 4. Emoluments of the directors and Active Underwriter

The Tokio Marine Kiln Group of companies operates a bonus pooling arrangement such that profit-related pay is generated from the managing agency profit commission, the group's share of the underwriting result through 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:

	2016 £'000s	2015 £'000s
Emoluments	25	53

Of the above amount £13,105 (2015: £24,907) was charged to the syndicate as an expense, with the remainder borne by other group entities.



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

	<b>2016</b> <b>£'000s</b>	<b>2015</b> <b>£'000s</b>
Emoluments	<b>131</b>	66

The profit commission included within the emoluments is in relation to the 2013 year of account (2015: 2012 YOA), as the allocation to underwriters was only determined following its closure.

### 5. Investment income and expenses

	<b>2016</b> <b>£'000s</b>	<b>2015</b> <b>£'000s</b>
Investment income:		
Income from investments	<b>603</b>	704
Realised gains on investments	<b>201</b>	55
Unrealised gains on investments	<b>28</b>	8
Investment expenses:		
Investment management expenses, including interest	<b>(33)</b>	(33)
Realised losses on investments	<b>(222)</b>	(315)
Unrealised losses on investments	<b>(202)</b>	(184)
	<b>375</b>	235

### 6. Calendar year investment yield

	<b>2016</b> <b>£'000s</b>	<b>2015</b> <b>£'000s</b>
Average amount of syndicate funds during the year:		
Sterling fund	<b>13,692</b>	15,346
US dollar fund	<b>34,379</b>	31,293
Canadian dollar fund	<b>1,558</b>	1,311
Euro fund	<b>537</b>	475
Aggregate gross investment return:		
Before investment expenses	<b>408</b>	268
After investment expenses	<b>375</b>	235
Calendar year investment yield:	%	%
Before investment expenses	<b>0.8</b>	0.6
After investment expenses	<b>0.7</b>	0.5
Analysis of calendar year investment yield by fund:	%	%
Sterling fund	<b>1.2</b>	0.6
US dollar fund	<b>0.6</b>	0.4
Canadian dollar fund	<b>0.6</b>	0.6
Euro fund	-	-

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

## 7. Other financial investments

	Fair value		Purchase price	
	2016 £'000s	2015 £'000s	2016 £'000s	2015 £'000s
Shares and other variable yield securities	24,205	6,993	24,179	6,993
Debt securities and other fixed income securities	26,589	39,502	26,689	39,527
Deposits with credit institutions	5	6	5	6
Other investments	14	–	–	–
	<b>50,813</b>	46,501	<b>50,873</b>	46,526

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 2016 was £6,583,281 (2015: nil).

## 8. Reconciliation of insurance balances

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

	Gross		Reinsurers' share	
	2016 £'000s	2015 £'000s	2016 £'000s	2015 £'000s
<b>At 1 January</b>	<b>3,323</b>	3,511	<b>(372)</b>	(459)
Premiums written during the year	16,718	17,366	(2,064)	(1,790)
Premiums earned during the year	(17,227)	(17,695)	2,110	1,899
Foreign exchange adjustments	482	141	(51)	(22)
<b>At 31 December</b>	<b>3,296</b>	3,323	<b>(377)</b>	(372)

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

	Gross		Reinsurers' share	
	2016 £'000s	2015 £'000s	2016 £'000s	2015 £'000s
<b>At 1 January</b>	<b>27,076</b>	36,758	<b>(1,294)</b>	(1,826)
Claims incurred during the year	6,384	2,176	–	(566)
Claims paid during the year	(9,043)	(12,858)	(2)	1,185
Foreign exchange adjustments	3,204	1,000	(239)	(87)
<b>At 31 December</b>	<b>27,621</b>	27,076	<b>(1,535)</b>	(1,294)

### 9. Claims outstanding

Within the calendar year technical result, a surplus of £1.9m (2015: £2.4m) 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 six 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	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m
Year 1	25.2	30.9	14.9	8.7	3.5	7.1
Year 2	22.8	28.5	16.9	8.9	4.5	
Year 3	21.6	27.6	16.2	8.1		
Year 4	20.4	28.7	15.7			
Year 5	19.5	28.4				
Year 6	19.1					
Cumulative claims paid	18.3	23.1	14.2	7.0	1.2	1.4
Outstanding claims reserve	0.8	5.3	1.5	1.1	3.3	5.7

#### Net of reinsurance

Year of Account	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m
Year 1	24.9	30.9	14.9	8.7	3.5	7.1
Year 2	22.8	28.5	16.9	8.9	4.5	
Year 3	21.5	27.6	16.2	8.1		
Year 4	20.3	28.7	15.7			
Year 5	19.4	28.4				
Year 6	19.0					
Cumulative claims paid	18.5	23.1	14.2	7.0	1.2	1.4
Outstanding claims reserve	0.5	5.3	1.5	1.1	3.3	5.7

## 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:

	2016 £'000s	2015 £'000s
<b>At 1 January</b>	<b>115</b>	111
Expenses for the acquisition of insurance contracts deferred during the year	<b>610</b>	619
Amortisation	<b>(636)</b>	(617)
Foreign exchange adjustments	<b>10</b>	2
<b>At 31 December</b>	<b>99</b>	115

## 12. Other creditors

The following balances are included within other creditors:

	2016 £'000s	2015 £'000s
Forward currency contracts – held to maturity	–	40
	–	40

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 2016 was nil (2015: £8,494,096). The above balances are stated at fair value.

## 13. Related parties

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

Syndicate 557 accepted written premium from Syndicate 510 in the 2016 calendar year of £16,108,476 (2015: £16,700,293). The unpaid premiums due from Syndicate 510 at the period end were £3,275,830 (2015: £3,430,242). The outstanding claims, including an element of IBNR, were £27,621,378 (2015: £27,075,761). No business was ceded to related parties.

Profit commission of £1,808,682 is payable by the syndicate to Tokio Marine Kiln Syndicates Limited in respect of the 2016 calendar year (2015: £2,054,246). 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 £259,781 (2015: £261,527) were paid by the syndicate to Tokio Marine Kiln Syndicates Limited. In addition to this, expenses of £2,317,098 (2015: £2,153,825) were paid to Tokio Marine Kiln Syndicates Limited for expenses paid on behalf of the syndicate.

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

## 14. Risk management

Details of the syndicate's risk management framework are given in the 'principal risks and uncertainties section' on pages 25 to 29.

### a) Insurance risk

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

#### Concentrations of insurance risk

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

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

2016	Gross claims provision £'000s	Reinsurance claims provision £'000s	Net claims provision £'000s
Reinsurance acceptances	27,621	(1,535)	26,086
	27,621	(1,535)	26,086

2015	Gross claims provision £'000s	Reinsurance claims provision £'000s	Net claims provision £'000s
Direct insurance	13	(1)	12
Reinsurance acceptances	27,063	(1,293)	25,770
	27,076	(1,294)	25,782

The following table sets out the concentration of gross claims provision by geographical location. The basis of determining the geographical location was revised for the year ended 31 December 2016, and as such the prior year figures have been re-presented on a comparable basis.

	Gross claims provision	
	2016 £'000s	2015 £'000s
UK	–	458
Other EU countries	3,260	2,887
US	13,459	13,696
Other	10,902	10,035
	27,621	27,076

#### 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 (2015: £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 (2015: £0.1m). A decrease of 1% would result in £0.2m (2015: £0.2m) less premium being reported and an estimated £0.1m (2015: £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 2016 is 42% (2015: 10%). 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 (2015: £0.2m) and the result reducing by £0.1m (2015: £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 27.

The following table provides information regarding credit risk exposures of the syndicate by classifying assets according to the blended 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. The basis of determining the credit rating was revised for the year ended 31 December 2016, and as such the prior year figures have been re-presented on a comparable basis.

2016	AAA £'000s	AA £'000s	A £'000s	<A £'000s	NR £'000s	Total £'000s
Financial investments:						
Other financial investments	19,542	7,425	9,536	2,125	12,185	50,813
Overseas deposits	1	14	3	1	–	19
Cash at bank and in hand	–	–	806	–	–	806
Reinsurers' share of outstanding claims including reinsurers' IBNR	–	–	1,464	–	71	1,535
	19,543	7,439	11,809	2,126	12,256	53,173

2015	AAA £'000s	AA £'000s	A £'000s	<A £'000s	NR £'000s	Total £'000s
Financial investments:						
Other financial investments	16,226	20,378	4,331	2,971	2,595	46,501
Overseas deposits	2	14	3	1	–	20
Cash at bank and in hand	–	–	2,426	–	–	2,426
Reinsurers' share of outstanding claims including reinsurers' IBNR	1,122	–	114	–	58	1,294
Reinsurance recoverable on paid claims neither due nor impaired	173	–	34	–	6	213
	17,523	20,392	6,908	2,972	2,659	50,454

The total reinsurers' share of outstanding claims including reinsurers' IBNR includes collateral held as security, which comprises letters of credit and trust accounts totalling \$5.5m (2015: \$7.5m).

The largest potential reinsurance credit exposure to the syndicate at 31 December 2016 was 50% with a fully collateralised security (2015: 50% with a fully collateralised security). The Reinsurance Security Committee 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.

2016	Fully performing £'000s	Past due £'000s	Impairment £'000s	Total £'000s
Financial investments:				
Other financial investments	50,813	–	–	50,813
Overseas deposits	19	–	–	19
Cash at bank and in hand	806	–	–	806
Reinsurers' share of outstanding claims including reinsurers' IBNR	1,535	–	–	1,535
Reinsurance recoverable on paid claims	–	3	–	3
Other debtors	4,293	–	–	4,293
	<b>57,466</b>	<b>3</b>	<b>–</b>	<b>57,469</b>

2015	Fully performing £'000s	Past due £'000s	Impairment £'000s	Total £'000s
Financial investments:				
Other financial investments	46,501	–	–	46,501
Overseas deposits	20	–	–	20
Cash at bank and in hand	2,426	–	–	2,426
Reinsurers' share of outstanding claims including reinsurers' IBNR	1,294	–	–	1,294
Reinsurance recoverable on paid claims	213	(94)	–	119
Other debtors	4,365	–	–	4,365
	<b>54,819</b>	<b>(94)</b>	<b>–</b>	<b>54,725</b>

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 27.

The syndicate writes a significant proportion of US Situs business and a smaller proportion of Canadian business which require the deposit of appropriate monies into specific trust funds. Some of these trust funds are regulated, requiring quarterly assessment of the adequacy of funding. Surplus funds or additional funding requirements are settled each quarter between the regulated and non-regulated trust funds. In exceptional circumstances, and with approval from Lloyd's, inter-fund settlement can take place outside the quarterly process. As at 31 December 2016 the balance held in these trust funds was US\$1.5m (2015: US\$1.5m) and Canadian \$7,839 (2015: Canadian \$12,917).

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.

<b>2016</b>	<b>Up to 1 year £'000s</b>	<b>1-3 years £'000s</b>	<b>3-5 years £'000s</b>	<b>Over 5 years £'000s</b>	<b>Total £'000s</b>
Creditors	5,411	–	–	–	5,411
Claims outstanding	13,797	8,682	2,782	2,360	27,621
Financial liabilities and claims outstanding	19,208	8,682	2,782	2,360	33,032

<b>2015</b>	<b>Up to 1 year £'000s</b>	<b>1-3 years £'000s</b>	<b>3-5 years £'000s</b>	<b>Over 5 years £'000s</b>	<b>Total £'000s</b>
Forward currency contracts	40	–	–	–	40
Creditors	4,745	–	–	–	4,745
Financial liabilities	4,785	–	–	–	4,785
Claims outstanding	12,360	9,335	3,014	2,367	27,076
Financial liabilities and claims outstanding	17,145	9,335	3,014	2,367	31,861



### Foreign currency market risk

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

The syndicate maintains bank accounts, investment portfolios and claims reserves in pounds sterling, US dollars, and Canadian dollars (the Lloyd's closing currencies). Additionally, bank accounts and investment portfolios are maintained in Euros. Transactions arising in other currencies are translated to the Lloyd's closing currencies as they occur. Certain other currencies are held for regulatory purposes. 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 by the Finance Group 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 forward currency contracts to manage its exposure to foreign currency risks arising from material losses 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. It should be noted that movements in these variables are non-linear.

The following table gives an indication of the impact on the result and net assets 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.

	2016 £'000s	2015 £'000s
Sterling strengthens 10% against US dollar	(2,491)	(2,424)
Sterling strengthens 10% against Canadian dollar	(80)	(35)
Sterling weakens 10% against US dollar	3,044	2,963
Sterling weakens 10% against Canadian dollar	98	43

### Interest rate market risk

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

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

The 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 of a 50 basis point movement in interest rates on the market value of the syndicate's investments.

	2016 £'000s	2015 £'000s
Impact of 50 basis point increase on result	(377)	(186)
Impact of 50 basis point decrease on result	372	171
Impact of 50 basis point increase on net assets	(377)	(186)
Impact of 50 basis point decrease on net assets	372	171

### 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. The Financial Reporting Council amendments to FRS 102 fair value hierarchy disclosures have been adopted for the year ended 31 December 2016, and as such the prior year figures have been re-presented on a comparable basis.

- 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 2016.

2016	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Derivative financial instruments:				
Forward currency derivatives – assets	14	–	–	14
Shares and other variable yield securities	–	24,205	–	24,205
Debt securities and other fixed income securities	3,891	22,698	–	26,589
Loans and deposits with credit institutions	5	–	–	5
Overseas deposits	11	8	–	19
	3,921	46,911	–	50,832

2015	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Derivative financial instruments:				
Forward currency derivatives – liabilities	(40)	–	–	(40)
Shares and other variable yield securities	–	6,993	–	6,993
Debt securities and other fixed income securities	26,123	13,379	–	39,502
Loans and deposits with credit institutions	6	–	–	6
Overseas deposits	14	6	–	20
	26,103	20,378	–	46,481

At 31 December 2016 the syndicate held forward currency contracts, for which the fair value is a net asset of £14,149 (2015: net liability of £39,630) with the gain (2015: loss) going through investment income in the statement of comprehensive income.



Annual report and accounts 2016

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

Annual accounts under UK GAAP

# Syndicate 308

Tokio Marine Kiln Life Syndicate  
Life

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## Independent auditor's report to the members of Syndicate 308 – Report on the syndicate annual accounts

### Our opinion

In our opinion the syndicate annual accounts, defined below:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

### What we have audited

The syndicate annual accounts for the year ended 31 December 2016, which are prepared by the managing agent, comprise:

- the statement of comprehensive income for the year then ended;
- the balance sheet as at 31 December 2016;
- the statement of changes in members' balances
- the cash flow statement;
- the accounting policies; and
- the notes to the syndicate annual accounts, which include other explanatory information.

The financial reporting framework that has been applied in the preparation of the syndicate annual accounts is United Kingdom Accounting Standards, comprising FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', and applicable law (United Kingdom Generally Accepted Accounting Practice).

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

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

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

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

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

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

We have no exceptions to report arising from this responsibility.

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

As explained more fully in the statement of managing agent's responsibilities set out on page 30, the managing agent is responsible for the preparation of syndicate annual accounts and for being satisfied that they give a true and fair view.

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

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

### What an audit of syndicate annual accounts involves

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

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

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

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

### Mark Bolton

Senior Statutory Auditor  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London, 17 March 2017

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

for the year ended 31 December 2016

	Note	2016 £'000s	2015 £'000s
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	1	31,701	27,576
Outward reinsurance premiums		(1,495)	(1,851)
Net premiums written		30,206	25,725
Change in the provision for unearned premiums:			
Gross amount		(540)	542
Reinsurers' share		(27)	99
Change in the net provision for unearned premiums		(567)	641
<b>Earned premiums, net of reinsurance</b>		<b>29,639</b>	<b>26,366</b>
<b>Investment income</b>	2,3	<b>39</b>	<b>28</b>
<b>Claims incurred, net of reinsurance</b>			
Claims paid:			
Gross amount		(14,506)	(16,054)
Reinsurers' share		574	–
Net claims paid		(13,932)	(16,054)
Change in the long-term business provision:			
Gross amount		(334)	(1,964)
Reinsurers' share		(182)	813
Change in the net long-term business provision	4	(516)	(1,151)
<b>Claims incurred, net of reinsurance</b>		<b>(14,448)</b>	<b>(17,205)</b>
<b>Members' standard personal expenses</b>		<b>(586)</b>	<b>(511)</b>
<b>Net operating expenses</b>	5,6,7	<b>(12,672)</b>	<b>(10,732)</b>
<b>Investment expenses and charges</b>	2	<b>(8)</b>	<b>(9)</b>
<b>Net unrealised losses on investments</b>	2	<b>(24)</b>	<b>(5)</b>
<b>Balance on the technical account for long-term business and profit/(loss) for the year</b>		<b>1,940</b>	<b>(2,068)</b>

There are no non-technical items.

All operations are continuing.

There is no other comprehensive income.



## Balance sheet: assets

as at 31 December 2016

	Note	2016 £'000s	2015 £'000s
<b>Investments</b>			
Other financial investments	8	2,949	2,472
Deposits with ceding undertakings		264	223
		<b>3,213</b>	2,695
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums	9	74	100
Long-term business provision	9,10	845	1,014
		<b>919</b>	1,114
<b>Debtors</b>			
Debtors arising out of direct insurance operations	11	13,307	11,430
Debtors arising out of reinsurance operations		3,857	3,288
Other debtors		436	114
		<b>17,600</b>	14,832
<b>Other assets</b>			
Cash at bank and in hand		1,975	1,706
Overseas deposits	12	222	136
		<b>2,197</b>	1,842
<b>Prepayments and accrued income</b>			
Deferred acquisition costs	13	4,271	4,082
<b>Total assets</b>		<b>28,200</b>	24,565

## Balance sheet: liabilities

as at 31 December 2016

	Note	2016 £'000s	2015 £'000s
<b>Capital and reserves</b>			
Members' balances		(4,526)	(6,111)
<b>Technical provisions</b>			
Provision for unearned premiums	9	13,639	12,557
Long-term business provision	9,10	10,925	10,154
		<b>24,564</b>	22,711
<b>Creditors</b>			
Creditors arising out of direct insurance operations	14	6,198	5,645
Creditors arising out of reinsurance operations		1,534	1,823
Other creditors		153	462
		<b>7,885</b>	7,930
<b>Accruals and deferred income</b>			
Reinsurers' share of deferred acquisition costs	13	19	35
Other accruals and deferred income		258	–
		<b>277</b>	35
<b>Total liabilities</b>		<b>28,200</b>	24,565

The annual accounts, which comprise pages 85 to 110, and the notes and principal accounting policies applicable to all syndicates on pages 31 to 36, were approved by the Board of Tokio Marine Kiln Syndicates Limited on 9 March 2017 and were signed on its behalf by

### Paul Culham

Chief Underwriting Officer  
Tokio Marine Kiln Syndicates Limited  
17 March 2017



## Statement of changes in members' balances

for the year ended 31 December 2016

	2016 £'000s	2015 £'000s
Members' balances brought forward at 1 January	(6,111)	(2,577)
Profit/(loss) for the financial year	1,940	(2,068)
Payments of profit to members' personal reserve funds	(240)	(1,350)
Members' agents' fee advances	(115)	(116)
Members' balances carried forward at 31 December	(4,526)	(6,111)

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 2016

	Note	2016 £'000s	2015 £'000s
<b>Cash flows from operating activities:</b>			
Operating profit/(loss) on ordinary activities		1,940	(2,068)
Increase in gross technical provisions		1,853	1,776
Decrease/(increase) in reinsurers' share of technical provisions		195	(920)
(Increase)/decrease in debtors		(2,957)	1,524
Increase in creditors		197	205
Unrealised foreign currency (gains)		(303)	(70)
Investment return		(7)	(14)
<b>Net cash inflow from operating activities</b>		<b>918</b>	433
<b>Cash flows from investing activities:</b>			
Sale of shares and other variable yield securities		583	1,106
Purchase of debt securities and other fixed income securities		(4,234)	(4,050)
Sale of debt securities and other fixed income securities		3,398	4,218
Investment income received		33	23
Other		(19)	(312)
<b>Net cash (outflow)/inflow from investing activities</b>		<b>(239)</b>	985
<b>Cash flows from financing activities:</b>			
Transfer to members in respect of underwriting participations		(240)	(1,350)
Members' agents' fees paid on behalf of members		(115)	(116)
<b>Net cash (outflow) from financing activities</b>		<b>(355)</b>	(1,466)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>324</b>	(48)
Cash and cash equivalents at beginning of year		1,842	1,897
Foreign exchange gains/(losses) on cash and cash equivalents		31	(7)
Cash and cash equivalents at end of year		2,197	1,842
<b>Cash and cash equivalents consists of:</b>			
Cash at bank and in hand		1,975	1,706
Overseas deposits	12	222	136
<b>Cash and cash equivalents at end of year</b>		<b>2,197</b>	1,842

## Notes to the accounts

as at 31 December 2016

### 1. Segmental analysis

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

	2016		2015	
	Gross premiums written £'000s	Reinsurance balance £'000s	Gross premiums written £'000s	Reinsurance balance £'000s
Direct insurance	27,219	(1,132)	23,391	(779)
Reinsurance acceptances	4,482	31	4,185	(98)
	<b>31,701</b>	<b>(1,101)</b>	27,576	(877)

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

	2016 £'000s	2015 £'000s
Individual premiums	4,274	3,961
Premiums under group contracts	22,945	19,430
	<b>27,219</b>	23,391
Periodic premiums	15,201	14,042
Single premiums	12,018	9,349
	<b>27,219</b>	23,391

All business was concluded in the UK.

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

	<b>2016</b>	<b>2015</b>
	<b>Gross premiums written £'000s</b>	<b>Gross premiums written £'000s</b>
Direct insurance	<b>1,381</b>	1,401
Reinsurance acceptances	<b>1,733</b>	116
	<b>3,114</b>	1,517

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

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

	<b>2016</b>	<b>2015</b>
	<b>£'000s</b>	<b>£'000s</b>
Individual premiums	<b>132</b>	85
Premiums under group contracts	<b>1,249</b>	1,316
	<b>1,381</b>	1,401
Periodic premiums	<b>147</b>	85
Single premiums	<b>1,234</b>	1,316
	<b>1,381</b>	1,401

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

	<b>2016</b>	<b>2015</b>
	<b>£'000s</b>	<b>£'000s</b>
UK	<b>20,301</b>	18,451
Other EU countries	<b>2,675</b>	3,561
US	<b>3,907</b>	4,345
Other	<b>4,818</b>	1,219
	<b>31,701</b>	27,576

## 2. Investment income and expenses

	2016 £'000s	2015 £'000s
Investment income:		
Income from investments	35	28
Realised gains on investments	4	–
Investment expenses:		
Investment management expenses, including interest	(2)	(4)
Realised losses on investments	(6)	(5)
Unrealised losses on investments	(24)	(5)
	<b>7</b>	<b>14</b>

## 3. Calendar year investment yield

	2016 £'000s	2015 £'000s
Average amount of syndicate funds during the year:		
Sterling fund	2,614	3,175
US dollar fund	2,563	1,908
Euro fund	326	248
Aggregate gross investment return:		
Before investment expenses	9	18
After investment expenses	7	14
Calendar year investment yield:	%	%
Before investment expenses	0.2	0.3
After investment expenses	0.1	0.3
Analysis of calendar year investment yield by fund:	%	%
Sterling fund	0.5	0.5
US dollar fund	(0.2)	0.0
Euro fund	0.0	0.0

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

#### 4. Long-term business provision

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

- 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 are:

- Valuation interest rate and claims discount rate is 0% (2015: 0%);
- Renewal expenses are 8% of regular premiums (2015: 8%) and 1% p.a. of the initial premium paid on single premium business (2015: 1%);
- Mortality is 90% (2015: 95%) of the TM/F00 ultimate tables. Where business was priced on a smoker/non-smoker basis the TM/FS00 and TM/FN00 tables were used. 90% of TM/FC00 was used where smoker status was unknown (2015: 95% of TM/FS00, except where a significant number of policies did not have a smoker status recorded, in which case 95% TM/FN00 was used in line with expected smoker status on these policies).

#### 5. Net operating expenses

	2016 £'000s	2015 £'000s
Acquisition costs	9,656	7,624
Change in deferred acquisition costs	(56)	53
Administrative expenses	2,903	2,839
Loss on exchange	198	278
Gross operating expenses	12,701	10,794
Reinsurance commissions and profit participations	(29)	(62)
	12,672	10,732

Included within administrative expenses is auditor's remuneration:

	2016 £'000s	2015 £'000s
Audit services:		
Fees payable to the syndicate's auditor for the audit of the syndicate annual accounts	51	36
Other services:		
Other services pursuant to legislation	55	37
	106	73

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 numbers and costs

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

	2016 £'000s	2015 £'000s
Wages and salaries	1,535	1,467
Social security costs	171	144
Other pension costs	133	90
	<b>1,839</b>	1,701

Of this amount £10,877 (2015: 3,370) 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:

	2016 £'000s	2015 £'000s
Net charge from managing agent during year	40	40
Amount funded in year	40	40

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

	2016	2015
Administration and finance	12	11
Underwriting	6	6
Claims	1	1
	<b>19</b>	18

Where staff work for more than one syndicate the time is allocated based on the proportion of time spent. The relevant percentage of full-time employees is applied in the table above. Of this number, the equivalent of less than one full-time employee was employed by other Tokio Marine Group companies (2015: less than one).

## 7. Emoluments of the directors and Active Underwriter

The Tokio Marine Kiln Group of companies operates a bonus pooling arrangement such that profit-related pay is generated from the managing agency profit commission, the group's share of the underwriting result through 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:

	2016 £'000s	2015 £'000s
Emoluments	58	70

Of the above amount £30,051 (2015: £33,131) was charged to the syndicate as an expense, with the remainder borne by other group entities.

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

	2016 £'000s	2015 £'000s
Emoluments	3	30

Following the appointment of Tim Prifti as the Active Underwriter for both Syndicate 308 and the Accident & Health division in Syndicate 510, his remuneration is shared between these syndicates.

The profit commission included within the emoluments is in relation to the 2013 year of account (2015: 2012 YOA), as the allocation to underwriters was only determined following its closure.

## 8. Other financial investments

	Fair value		Purchase price	
	2016 £'000s	2015 £'000s	2016 £'000s	2015 £'000s
Shares and other variable yield securities	565	1,127	565	1,127
Debt securities and other fixed income securities	2,309	1,263	2,329	1,266
Deposits with credit institutions	75	82	75	82
	<b>2,949</b>	2,472	<b>2,969</b>	2,475

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	
	2016 £'000s	2015 £'000s	2016 £'000s	2015 £'000s
<b>At 1 January</b>	<b>12,557</b>	12,888	<b>(100)</b>	–
Premiums written during the year	<b>31,701</b>	27,576	<b>(1,495)</b>	(1,851)
Premiums earned during the year	<b>(31,161)</b>	(28,118)	<b>1,522</b>	1,752
Foreign exchange adjustments	<b>542</b>	211	<b>(1)</b>	(1)
<b>At 31 December</b>	<b>13,639</b>	12,557	<b>(74)</b>	(100)

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

	Gross		Reinsurers' share	
	2016 £'000s	2015 £'000s	2016 £'000s	2015 £'000s
<b>At 1 January</b>	<b>10,154</b>	8,047	<b>(1,014)</b>	(194)
Claims incurred during the year	<b>14,840</b>	18,018	<b>(392)</b>	(813)
Claims paid during the year	<b>(14,506)</b>	(16,054)	<b>574</b>	–
Foreign exchange adjustments	<b>437</b>	143	<b>(13)</b>	(7)
<b>At 31 December</b>	<b>10,925</b>	10,154	<b>(845)</b>	(1,014)

## 10. Claims outstanding

Within the calendar year technical result, a surplus of £0.8m (2015: surplus of £1.0m) 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 six 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.

As noted in the 308 underwriter's report, the syndicate is required to hold additional reserves under rules for syndicates with long-term insurance liabilities. The total outstanding claims reserve shown in the 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	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m
Year 1	6.8	7.6	9.7	7.0	10.2	8.8
Year 2	15.2	16.0	18.1	16.1	16.7	
Year 3	14.5	16.1	17.6	16.6		
Year 4	14.7	16.3	17.5			
Year 5	14.7	16.2				
Year 6	14.6					
Cumulative claims paid	14.5	15.8	17.2	15.0	14.6	2.5
Outstanding claims reserve	0.1	0.4	0.3	1.6	2.1	6.3

### Net of reinsurance

Year of Account	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m
Year 1	6.3	7.5	9.2	7.0	10.2	8.8
Year 2	15.2	15.7	17.6	15.2	16.7	
Year 3	14.5	15.8	17.1	15.3		
Year 4	14.7	16.0	17.0			
Year 5	14.7	15.9				
Year 6	14.6					
Cumulative claims paid	14.5	15.5	16.7	14.5	14.6	2.5
Outstanding claims reserve	0.1	0.4	0.3	0.8	2.1	6.3

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

	2016 £'000s	2015 £'000s
Amounts due from intermediaries within one year	<b>13,307</b>	11,430

### 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	
	2016 £'000s	2015 £'000s	2016 £'000s	2015 £'000s
<b>At 1 January</b>	<b>4,082</b>	3,993	<b>(35)</b>	–
Expenses for the acquisition of insurance contracts deferred during the year	<b>9,656</b>	7,624	<b>(12)</b>	(52)
Amortisation	<b>(9,600)</b>	(7,677)	<b>29</b>	62
Foreign exchange adjustments	<b>246</b>	90	<b>(1)</b>	(45)
FRS102 adjustment	<b>(113)</b>	52	–	–
<b>At 31 December</b>	<b>4,271</b>	4,082	<b>(19)</b>	(35)

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

	2016 £'000s	2015 £'000s
Amounts due to intermediaries within one year	<b>6,198</b>	5,645

### 15. Contingent liability

As disclosed in the 2016 Auctions, it has become apparent that an international term life contract written by Syndicate 308, through one of its coverholders, may have been bound in breach of relevant local licensing requirements. Once discovered, Tokio Marine Kiln Syndicates Limited (TMKS) reported the issue to the relevant local regulators. TMKS will continue to work with all parties (including regulators) to resolve the situation. The potential solutions to resolving the issue may involve a contingent liability within the syndicate. The triggering event to crystallise and quantify any liability will be the decision of the regulator. Should this triggering event happen, TMKS will put in place a mechanism whereby there is no net impact on the syndicate or its members.

## 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.

### b) Regulatory capital requirements

The members maintain Funds at Lloyd's determined in accordance with Lloyd's ECA and also in accordance with the PRA's SCR. These funds are deposited at Lloyd's by the members and therefore are off balance sheet. The syndicate's capital requirement is £19.0m as at 31 December 2016 (2015: £15.7m).

### 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	2016 £'000s	2015 £'000s
Members' balances	(4,526)	(6,111)
Disallowance – overdue premium and sundry debtors	167	73
Solvency adjustments:		
Expense run-off reserve	(676)	(424)
Currency mismatch reserve	(557)	(490)
Total solvency adjustments	(1,233)	(914)
Deferred acquisition costs	(4,271)	(4,082)
Total available capital resource	(9,863)	(11,034)
Provision for unearned premiums	(13,639)	(12,557)
Long-term business provision	(10,925)	(10,154)
Gross technical provisions in the balance sheet	(24,564)	(22,711)



During 2016 a change in mortality assumptions led to a £1.02m decrease in gross technical provisions. There was no such change during 2015.

	2016 £'000s	2015 £'000s
<b>Movements in capital resource</b>		
Balance at 1 January	(11,034)	(7,516)
Disallowance – increase in overdue premium and sundry debtors	94	56
Solvency adjustments:		
Expense run-off reserve	(252)	85
Currency mismatch reserve	(67)	(36)
Total solvency adjustments	(319)	49
Deferred acquisition costs	(189)	(89)
Movement in members' balances	1,585	(3,534)
Balance as at 31 December	<b>(9,863)</b>	(11,034)

#### d) Capital resource sensitivities

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

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

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

## 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 2016 calendar year of £41,024 (2015: nil). The unpaid premiums due from related parties at the period end were £315,376 (2015: nil). Claims paid to related parties during 2016 were nil (2015: nil). The outstanding claims, including an element of IBNR, were nil (2015: nil).

Profit commission of £152,039 is payable by the syndicate to Tokio Marine Kiln Syndicates Limited in respect of the 2016 calendar year (2015: £66,900). 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 £234,984 (2015: £235,890) were paid by the syndicate to Tokio Marine Kiln Syndicates Limited. In addition to this, expenses of £3,218,129 (2015: £3,185,012) were paid to Tokio Marine Kiln Syndicates Limited for expenses paid on behalf of the syndicate.

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

## 18. Risk management

Details of the syndicate's risk management framework are given in the 'principal risks and uncertainties section' on pages 25 to 29.

### a) Insurance risk

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

#### Concentrations of insurance risk

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

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

	Gross claims provision £'000s	Reinsurance claims provision £'000s	Net claims provision £'000s
<b>2016</b>			
Life	10,925	(845)	10,080
<b>2015</b>			
Life	10,154	(1,014)	9,140

The following table sets out the concentration of gross claims provision by geographical location. The basis of determining the geographical location was revised for the year ended 31 December 2016, and as such the prior year figures have been re-presented on a comparable basis.

	<b>Gross claims provision</b>	
	<b>2016</b> £'000s	<b>2015</b> £'000s
UK	<b>5,056</b>	3,634
Other EU countries	<b>2,458</b>	1,308
US	<b>1,856</b>	472
Other	<b>1,555</b>	4,740
	<b>10,925</b>	10,154

#### **Earned premium sensitivity analysis**

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

A sensitivity analysis has been applied by adjusting the percentage earned of each open year of account by 1%. This indicates that an increase in earned premium of 1% would result in £0.3m (2015: £0.3m) more premium being reported (gross of acquisition costs), and applying the underlying attritional loss ratio would result in an estimated increase in the net result (after acquisition costs) of £0.04m (2015: 0.04m). A decrease of 1% would result in £0.3m (2015: £0.3m) less premium being reported and an estimated £0.04m reduction in the net result (2015: £0.04m). The impact on the result is at the net level i.e. after the adjustment for the effect of profit commission.

#### **Claims sensitivity analysis**

The claims ratio for 2016 is 49% (2015: 65%). A sensitivity analysis has been applied by adjusting the claims ratio by 1%. This indicates that an increase in the claims ratio of 1% would result in claims increasing by £0.3m (2015: £0.3m) and result reducing by £0.2m (2015: £0.3m).

#### **b) Financial risk**

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

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

## Credit risk

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

The following table provides information regarding credit risk exposures of the syndicate by classifying assets according to the blended 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.

<b>2016</b>	<b>AAA £'000s</b>	<b>AA £'000s</b>	<b>A £'000s</b>	<b>&lt;A £'000s</b>	<b>NR £'000s</b>	<b>Total £'000s</b>
Financial investments:						
Other financial investments	742	2,009	198	–	–	2,949
Overseas deposits	69	152	1	–	–	222
Deposits with ceding undertakings	–	–	–	–	264	264
Cash at bank and in hand	–	–	1,975	–	–	1,975
Reinsurers' share of outstanding claims including reinsurers' IBNR	–	145	700	–	–	845
	<b>811</b>	<b>2,306</b>	<b>2,874</b>	<b>–</b>	<b>264</b>	<b>6,255</b>
<b>2015</b>	<b>AAA £'000s</b>	<b>AA £'000s</b>	<b>A £'000s</b>	<b>&lt;A £'000s</b>	<b>NR £'000s</b>	<b>Total £'000s</b>
Financial investments:						
Other financial investments	1,047	1,153	156	–	116	2,472
Overseas deposits	44	88	2	2	–	136
Deposits with ceding undertakings	–	–	–	–	223	223
Cash at bank and in hand	–	–	1,706	–	–	1,706
Reinsurers' share of outstanding claims including reinsurers' IBNR	–	134	880	–	–	1,014
	<b>1,091</b>	<b>1,375</b>	<b>2,744</b>	<b>2</b>	<b>339</b>	<b>5,551</b>

The largest potential reinsurance credit exposure to the syndicate at 31 December 2016 was 40.5% with an A+ rated security (2015: 40.5% with an A+ rated security). The Reinsurance Security Committee 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.

2016	Fully performing £'000s	Past due £'000s	Impairment £'000s	Total £'000s
Financial investments:				
Other financial investments	2,949	–	–	2,949
Overseas deposits	222	–	–	222
Deposits with ceding undertakings	264	–	–	264
Cash at bank and in hand	1,975	–	–	1,975
Reinsurers' share of outstanding claims including reinsurers' IBNR	845	–	–	845
Insurance debtors	11,627	1,680	–	13,307
Reinsurance recoverable on paid claims	–	288	–	288
Other debtors	8,350	–	–	8,350
	<b>26,232</b>	<b>1,968</b>	<b>–</b>	<b>28,200</b>

2015	Fully performing £'000s	Past due £'000s	Impairment £'000s	Total £'000s
Financial investments:				
Other financial investments	2,472	–	–	2,472
Overseas deposits	136	–	–	136
Deposits with ceding undertakings	223	–	–	223
Cash at bank and in hand	1,706	–	–	1,706
Reinsurers' share of outstanding claims including reinsurers' IBNR	1,014	–	–	1,014
Insurance debtors	9,541	1,889	–	11,430
Other debtors	7,584	–	–	7,584
	<b>22,676</b>	<b>1,889</b>	<b>–</b>	<b>24,565</b>

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 27. 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.

	No Stated Maturity	Up to 1 year £'000s	1–3 years £'000s	3–5 years £'000s	Over 5 years £'000s	Total £'000s
<b>2016</b>						
Creditors	–	(7,885)	–	–	–	(7,885)
Long-term business provision	(681)	(7,746)	(2,255)	(226)	(17)	(10,925)
Financial liabilities and long-term business provision	(681)	(15,631)	(2,255)	(226)	(17)	(18,810)
	No Stated Maturity	Up to 1 year £'000s	1–3 years £'000s	3–5 years £'000s	Over 5 years £'000s	Total £'000s
<b>2015</b>						
Creditors	–	(7,930)	–	–	–	(7,930)
Long-term business provision	(570)	(7,592)	(1,815)	(135)	(42)	(10,154)
Financial liabilities and long-term business provision	(570)	(15,522)	(1,815)	(135)	(42)	(18,084)

## Foreign currency market risk

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

The syndicate maintains bank accounts, investment portfolios and claims reserves in pounds sterling, US dollars, and Canadian dollars (the Lloyd's closing currencies). Additionally, bank accounts and investment portfolios are maintained in Euros. Transactions arising in other currencies are translated to the Lloyd's closing currencies as they occur. Certain other currencies are held for regulatory purposes. 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 by the Finance Group 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. It should be noted that movements in these variables are non-linear.

The following table gives an indication of the impact on the result and net assets 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.

	2016 £'000s	2015 £'000s
Sterling strengthens 10% against US dollar	93	177
Sterling weakens 10% against US dollar	(113)	(216)

### Interest rate market risk

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

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

### Interest rate sensitivity analysis

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

The table below shows the estimated impact on the result and net assets of a 50 basis point movement in interest rates on the market value of the syndicate's investments.

	2016 £'000s	2015 £'000s
Impact of 50 basis point increase on result	(19)	(6)
Impact of 50 basis point decrease on result	20	6
Impact of 50 basis point increase on net assets	(19)	(6)
Impact of 50 basis point decrease on net assets	20	6

### 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. The Financial Reporting Council amendments to FRS 102 fair value hierarchy disclosures have been adopted for the year ended 31 December 2016, and as such the prior year figures have been re-presented on a comparable basis.

- 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 2016.

<b>2016</b>	<b>Level 1 £'000s</b>	<b>Level 2 £'000s</b>	<b>Level 3 £'000s</b>	<b>Total £'000s</b>
Shares and other variable yield securities	–	565	–	565
Debt securities and other fixed income securities	1,930	379	–	2,309
Loans and deposits with credit institutions	75	–	–	75
Overseas deposits	222	–	–	222
	<b>2,227</b>	<b>944</b>	–	<b>3,171</b>

<b>2015</b>	<b>Level 1 £'000s</b>	<b>Level 2 £'000s</b>	<b>Level 3 £'000s</b>	<b>Total £'000s</b>
Shares and other variable yield securities	–	1,127	–	1,127
Debt securities and other fixed income securities	1,070	193	–	1,263
Loans and deposits with credit institutions	82	–	–	82
Overseas deposits	136	–	–	136
	<b>1,288</b>	<b>1,320</b>	–	<b>2,608</b>



Annual report and accounts 2016

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

# Underwriting year accounts for the closed year of account 2014

- 112 Report of the directors of the managing agent
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## Report of the directors of the managing agent

The managing agent presents its report at 31 December 2016 for the 2014 closed year of account for the following syndicates:

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

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

### 2014 closed year of account

The 2014 year of account closed for the syndicates with the following results:

510	£'000s	% of capacity
<b>Profit after standard personal expenses</b>	<b>167,054</b>	<b>15.70</b>

The underwriting surplus (excluding investment return and operating expenses, other than acquisition costs) attributable to the reinsurance to close (RITC) of the 2013 year of account was £32,273,328.

557	£'000s	% of capacity
<b>Profit after standard personal expenses</b>	<b>10,770</b>	<b>27.42</b>

The underwriting surplus (excluding investment return and operating expenses, other than acquisition costs) attributable to the RITC of the 2013 year of account was £450,221.

308	£'000s	% of capacity
<b>Profit after standard personal expenses</b>	<b>736</b>	<b>2.30</b>

The underwriting surplus (excluding investment return and operating expenses, other than acquisition costs) attributable to the RITC of the 2013 year of account was £321,445.

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

### Disclosure of information to the auditor

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 auditor in connection with its report, of which the auditor is unaware. Having made enquiries of fellow directors of the managing agent and the syndicates’ auditor, 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 auditor is aware of that information.

### Reappointment of auditor

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

### Approved by the Board of directors

#### Fiona Molloy

Company Secretary  
Tokio Marine Kiln Syndicates Limited  
17 March 2017

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## 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 2016

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

### 1. Statement of compliance

These underwriting year accounts have been prepared in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, the Lloyd's Syndicate Accounting Byelaw (No.8 of 2005) and applicable Accounting Standards in the United Kingdom, 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.

Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These underwriting year accounts relate to the 2014 year of account which has been closed by RITC as at 31 December 2016. Consequently the balance sheet represents the assets and liabilities of the 2014 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 2014 year of account to the date of closure. Accordingly, this is the only reporting period and so comparative amounts are not shown.

### 2. Critical accounting judgements and estimation uncertainty

The preparation of the syndicates' underwriting accounts requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the syndicates' accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are those listed below. The judgements and estimation uncertainty are disclosed within the individual accounting policies:

- Premiums written – general and life business
- Earned premiums – general and life business
- Claims provisions and related recoveries – general and life business
- Acquisition costs
- Investments
- Pension costs

### 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.

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

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

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

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

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

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

### **c) Foreign currencies**

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

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

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

### **d) Cash and cash equivalents**

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

### **e) 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' and 'deposits with credit institutions' – all at fair value through profit or loss. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

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 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.

### f) 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.

### g) 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.

### h) 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.

### i) 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.

### j) 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.

### k) Taxation

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

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

### l) Pension costs

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

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

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

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#### **m) Profit commission**

Profit commission is charged by the managing agent at a rate of 12.5% of profit for Syndicate 510 and 17.5% for Syndicates 557 and 308, subject to the operation of a two year deficit clause. 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.

#### **l) 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 2016

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

Underwriting year accounts for the 2014 closed year of account

# Syndicate 510

Tokio Marine Kiln Combined Syndicate  
Composite

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## Independent auditor's report to the members of Syndicate 510 on the 2014 closed underwriting year of account

### Our opinion

In our opinion, 510's syndicate underwriting year accounts for the 2014 year of account for the three years ended 31 December 2016 (the 'syndicate underwriting year accounts'):

- give a true and fair view of the state of the syndicate's profit for the 2014 closed year of account; 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).

### What we have audited

The syndicate underwriting year accounts, included within Syndicate 510 underwriting year accounts (the 'Annual Report'), comprise:

- the statement of comprehensive income for the 36 months then ended;
- the balance sheet as at 31 December 2016;
- the cash flow statement for the 36 months then ended;
- the accounting policies; and
- the notes to the syndicate underwriting year accounts, which include other explanatory information.

The financial reporting framework that has been applied in the preparation of the syndicate underwriting year accounts is applicable law and United Kingdom Accounting Standards, comprising FRS 102 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' ('FRS102') 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).

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

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

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

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

We have no exceptions to report arising from this responsibility.

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

As explained more fully in the statement of managing agent's responsibilities set out on page 113, the managing agent is responsible for the preparation of the syndicate underwriting year accounts in accordance with the financial reporting framework described above and for being satisfied that they give a true and fair view of the result for the 2014 closed year of account.

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

This report, including the opinions, has been prepared for and only for the syndicate's members as a body in accordance with part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and 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.

### What an audit of syndicate underwriting year accounts involves

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

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

We primarily focus our work in these areas by assessing the managing agent's judgements against available evidence, forming our own judgements, and evaluating disclosures in the syndicate underwriting year accounts.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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

### Mark Bolton

Senior Statutory Auditor

For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London, 17 March 2017

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

for the 36 months ended 31 December 2016

	Note	2014 £'000s
<b>Syndicate allocated capacity</b>		1,063,968
<b>Earned premiums, net of reinsurance</b>		
Gross premiums written	1	1,395,837
Outward reinsurance premiums		(339,890)
<b>Earned premiums, net of reinsurance</b>		1,055,947
<b>Reinsurance to close premium receivable, net of reinsurance</b>	2	427,438
<b>Allocated investment return transferred from the non-technical account</b>		9,355
<b>Claims incurred, net of reinsurance</b>		
Claims paid:		
Gross amount		(620,354)
Reinsurers' share		115,400
Reinsurance to close premium payable, net of reinsurance	3	(488,849)
<b>Claims incurred, net of reinsurance</b>		(993,803)
<b>Members' standard personal expenses</b>		(40,063)
<b>Net operating expenses</b>	4,5,6	(364,946)
<b>Balance on the technical account for general business</b>	7	93,928



## Statement of comprehensive income: non-technical account

for the 36 months ended 31 December 2016

	Note	2014 £'000s
<b>Balance on the general business technical account</b>		93,928
Investment income	8	17,789
Investment expenses and charges	8	(4,380)
Net unrealised losses on investments	8	(4,054)
Allocated investment return transferred to the general business technical account	8	(9,355)
Profit on exchange		73,126
<b>Profit for the 2014 closed year of account</b>		167,054

There is no other comprehensive income

## Balance sheet

for the 2014 closed year of account as at 31 December 2016

<b>Assets</b>	<b>Note</b>	<b>2014 £'000s</b>
<b>Investments</b>		
Other financial investments	9	535,782
Deposits with ceding undertakings		102
<b>Debtors</b>	10	169,709
<b>Reinsurance recoveries anticipated on gross reinsurance to close premium payable to close the account</b>	3	161,071
<b>Other assets</b>		
Cash at bank and in hand		9,213
Overseas deposits	11	93,289
<b>Total assets</b>		<b>969,166</b>
<b>Liabilities</b>	<b>Note</b>	<b>2014 £'000s</b>
<b>Amounts due to members</b>	12	163,379
<b>Reinsurance to close premium payable to close the account – gross amount</b>	3	649,920
<b>Deposits received from reinsurers</b>		1,064
<b>Creditors</b>	13	154,569
<b>Accruals and deferred income</b>		234
<b>Total liabilities</b>		<b>969,166</b>

The underwriting year accounts, which comprise pages 119 to 132 and the notes and principal accounting policies applicable to all syndicates on pages 114 to 118, were approved by the Board of Tokio Marine Kiln Syndicates Limited on 9 March 2017 and were signed on its behalf by

### **Paul Culham**

Chief Underwriting Officer  
Tokio Marine Kiln Syndicates Limited  
17 March 2017



## Cash flow statement

for the 36 months ended 31 December 2016

	Note	2014 £'000s
<b>Cash flows from operating activities:</b>		
Operating profit on ordinary activities		167,054
Non-cash consideration for net RITC receivable		(355,965)
Net RITC premium payable	3	488,849
(Increase) in debtors		(17,740)
Increase in creditors		34,034
Unrealised foreign currency (gains)		(56,595)
<b>Net cash inflow from operating activities</b>		<b>259,637</b>
<b>Cash flows from investing activities:</b>		
Purchase of shares and other variable yield securities		(46,783)
Purchase of debt securities and other fixed income securities		(986,319)
Sale of debt securities and other fixed income securities		891,266
Movements in deposits with credit institutions		(4,883)
Movements in other investments		(362)
Movements in deposits		183
<b>Net cash (outflow) from investing activities</b>		<b>(146,898)</b>
<b>Cash flows from financing activities:</b>		
Members' agents' fees paid on behalf of members		(3,675)
<b>Net cash (outflow) from financing activities</b>		<b>(3,675)</b>
<b>Net increase in cash and cash equivalents</b>		<b>109,064</b>
Cash and cash equivalents at beginning of the 36 months		–
Foreign exchange gains on cash and cash equivalents		2,414
Cash and cash equivalents at end of the 36 months		111,478
<b>Cash and cash equivalents consists of:</b>		
Cash at bank and in hand		9,213
Overseas deposits	11	93,289
Short-term deposits presented within other financial investments		8,976
<b>Cash and cash equivalents at end of the 36 months</b>		<b>111,478</b>

## Notes to the accounts

for the 36 months ended 31 December 2016

### 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
Division:					
Property & Special Lines	741,482	(369,382)	(285,102)	(53,455)	33,543
Marine & Special Risks	247,273	(181,199)	(66,371)	(3,584)	(3,881)
Accident & Health	145,658	(84,077)	(55,862)	(2,883)	2,836
Reinsurance	142,177	(42,393)	(38,556)	(45,052)	16,176
Enterprise Risk	55,191	(21,919)	(25,146)	(4,189)	3,937
Aviation	64,056	(43,268)	(21,438)	339	(311)
	1,395,837	(742,238)	(492,475)	(108,824)	52,300
RITC received	544,530	(528,036)	–	15,779	32,273
	1,940,367	(1,270,274)	(492,475)	(93,045)	84,573

Of the above divisions the following have accepted inwards reinsurance business: Reinsurance (100%); Aviation (36.4%); Accident & Health (24.6%); Marine & Special Risks (23.1%); Enterprise Risk (18.5%) and Property & Special Lines (13.9%). The approach taken to calculate the proportion of inwards reinsurance business written was revised for the 36 months ended 31 December 2016.

- 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. The basis of determining the location of the client was revised for the 36 months ended 31 December 2016.

	£'000s
UK	681,647
Other EU countries	129,754
US	687,294
Canada	141,658
Other	300,014
	1,940,367



## 2. Reinsurance to close premium receivable

	<b>£'000s</b>
Gross reinsurance to close premium receivable	544,530
Reinsurance recoveries anticipated	(117,092)
	427,438

## 3. Reinsurance to close premium payable

	<b>£'000s</b>
Gross notified outstanding claims	411,699
Reinsurance recoveries anticipated	(103,705)
Net notified outstanding claims	307,994
Provision for gross claims IBNR	238,221
Reinsurance recoveries anticipated on IBNR	(57,366)
Provision for net IBNR	180,855
	488,849

The reinsurance to close is effected to the 2015 year of account of Syndicate 510.

## 4. Net operating expenses

	<b>£'000s</b>
Acquisition costs	392,021
Administrative expenses	60,391
Gross operating expenses	452,412
Reinsurance commissions and profit participations	(87,466)
	364,946

Included within administrative expenses is auditor's remuneration:

	<b>£'000s</b>
Audit services:	
Fees payable to the syndicate's auditor for the audit of the syndicate accounts	137
Other services:	
Other services pursuant to legislation	139
	276

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

## 5. Staff numbers and costs

Staff were employed by Tokio Marine Kiln Insurance Services Limited. The following amounts were recharged to the 2014 year of account in respect of salary costs and are included within administrative expenses:

	<b>£'000s</b>
Wages, salaries and social security costs	21,710
Other pension costs	1,254
	<b>22,964</b>

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

The average number of full-time employees working for the syndicate on the 2014 year of account was as follows:

Administration and finance	117
Underwriting	88
Claims	38
	<b>243</b>

Where staff work for more than one syndicate the time is allocated based on the proportion of time spent. The relevant percentage of full-time employees is applied in the table above. Of this number 241 were employed by Tokio Marine Kiln Insurance Services Limited and the remainder by other Tokio Marine Group companies.

## 6. Emoluments of the directors and Active Underwriters

The Tokio Marine Kiln Group of companies operate a bonus pooling arrangement such that profit-related pay is generated from the managing agency profit commission, the group's share of the underwriting result through 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 £1,186,241 was charged as an expense to the 2014 year of account:

	<b>£'000s</b>
Emoluments	2,382

The Active Underwriters received the following remuneration charged to the 2014 year of account as a syndicate expense:

	<b>£'000s</b>
Emoluments	4,099



## 7. Analysis of technical result

	2013 & prior years of account £'000s	2014 pure year of account £'000s	Total 2014 £'000s
Technical account balance excluding investment return and operating expenses	32,273	457,309	489,582
Brokerage and commission on gross premium	–	(392,021)	(392,021)
Reinsurance commissions receivable	–	87,466	87,466
	32,273	152,754	185,027
Allocated investment return transferred from the non-technical account	–	9,355	9,355
Net operating expenses other than acquisition costs	–	(100,454)	(100,454)
	32,273	61,655	93,928

All acquisition costs are attributable to business allocated to the 2014 pure year of account.

## 8. Investment income and expenses

	£'000s
Investment income:	
Income from investments	15,258
Realised gains on investments	2,531
Unrealised gains on investments	3,283
Investment expenses:	
Investment management expenses, including interest	(1,642)
Realised losses on investments	(2,738)
Unrealised losses on investments	(7,337)
	9,355

## 9. Other financial investments

	Fair value £'000s	Purchase price £'000
Shares and other variable yield securities	164,725	159,400
Debt securities and other fixed income securities	365,785	368,043
Deposits with credit institutions	4,910	4,910
Other investments	362	–
	535,782	532,353

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 2016 was £32,895,969.

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## 10. Debtors

	<b>£'000s</b>
Due within one year:	
Arising out of direct insurance operations:	
Due from intermediaries	49,824
Arising out of reinsurance operations	102,340
Other debtors	10,231
	162,395
Due after one year:	
Other debtors	7,314
	169,709

## 11. Overseas deposits

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

## 12. Amounts due to members

	<b>£'000s</b>
Profit for the 2014 closed year of account	167,054
Members' agents' fee advances	(3,675)
Amounts due to members at 31 December 2016	163,379

## 13. Creditors

	<b>£'000s</b>
Arising out of direct insurance operations:	
Due to intermediaries	49,568
Inter-year loans	11,638
Arising out of reinsurance operations	56,341
Other creditors	37,022
	154,569

All amounts are due within one year.



#### 14. 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 2014 year of account of £6,040,188. Unpaid premium of £428,759 was due from related parties at the period end. The outstanding claims, including an element of IBNR, were £1,135,547.

Written premiums ceded by Syndicate 510 to related parties for the 2014 year of account were £82,635,372. Paid recoveries from related parties during the period were £22,462,933. Unpaid recoveries at the period end amounted to £7,481,654 and future recoveries on outstanding claims, including an element of IBNR, were £15,838,440.

Treaty profit commission due to Syndicate 510 from related parties for the 2014 year of account was £34,437. Profit commission received from related parties during the period was nil. Profit commission receivable at the period end amounted to £41,935.

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

The syndicate also received business through Tokio Marine Kiln Europe S.A. which is 100% owned by Tokio Marine Kiln Group Limited, WNC Insurance Services, Inc., whose parent WNC Holding Company, LP is 49% owned within the Tokio Marine Kiln Group and NAS Insurance Services, Inc. which is 49% owned within the Tokio Marine Kiln Group. Profit commission on inwards business of £971,123 was paid to related parties for the 2014 year of account and £76,127 of profit commission was payable at the period end.

Profit commission of £33,829,931 is payable by the syndicate to Tokio Marine Kiln Syndicates Limited in respect of profits for the 2014 year.

Managing agency fees of £7,777,418 were paid by the syndicate to Tokio Marine Kiln Syndicates Limited. In addition to this, expenses of £43,375,078 were paid to Tokio Marine Kiln Syndicates Limited for expenses paid on behalf of the syndicate.

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

## Seven year summary (unaudited)

	2008	2009	2010	2011	2012	2013	2014
Syndicate allocated capacity £m	587.52	629.65	922.53	922.31	1,062.27	1,063.67	1,063.97
Number of underwriting members	1,459	1,460	1,540	1,577	1,647	1,661	1,660
Aggregate net premiums £m	595.70	666.33	707.01	739.10	906.73	913.83	1,055.95
Result £m	98.66	119.93	24.88	69.05	90.43	115.69	167.05
<b>Results for an illustrative share of £10,000</b>							
Gross premiums written and earned	9,958	10,577	7,403	7,532	8,143	8,029	9,435
– as a percentage of allocated capacity	100%	106%	74%	75%	81%	80%	94%
Net premiums written and earned	7,346	7,811	5,548	5,778	6,156	6,268	7,062
– as a percentage of allocated capacity	73%	78%	55%	58%	62%	63%	71%
RITC from an earlier year of account	5,017	5,052	3,596	3,701	3,529	4,007	4,017
Net claims incurred	(6,190)	(5,194)	(4,586)	(4,261)	(4,140)	(4,367)	(4,746)
RITC the year of account	(5,483)	(5,269)	(3,700)	(3,706)	(4,012)	(4,019)	(4,595)
<b>Underwriting result</b>	690	2,400	858	1,512	1,533	1,889	1,738
Profit/(loss) on exchange	1,459	268	(106)	(120)	1	(55)	687
Syndicate operating expenses	(589)	(577)	(450)	(475)	(524)	(511)	(568)
<b>Balance on the technical account</b>	1,560	2,091	302	917	1,010	1,323	1,857
Investment return	531	264	155	90	87	74	88
<b>Result before personal expenses</b>	2,091	2,355	457	1,007	1,097	1,397	1,945
Illustrative personal expenses	(412)	(450)	(187)	(259)	(245)	(309)	(377)
<b>Result</b>	1,679	1,905	270	748	852	1,088	1,568



Annual report and accounts 2016

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

Underwriting year accounts for the 2014 closed year of account

# Syndicate 557

Tokio Marine Kiln Catastrophe Syndicate

Non-marine

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## Independent auditor's report to the members of Syndicate 557 on the 2014 closed underwriting year of account

### Our opinion

In our opinion, the syndicate underwriting year accounts for the 2014 year of account for the three years ended 31 December 2016 (the 'syndicate underwriting year accounts'):

- give a true and fair view of the state of the syndicate's profit for the 2014 closed year of account; 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).

### What we have audited

The syndicate underwriting year accounts, included within Syndicate 557 underwriting year accounts (the 'Annual Report'), comprise:

- the balance sheet as at 31 December 2016;
- the statement of comprehensive income for the 36 months then ended;
- the cash flow statement for the 36 months then ended;
- the accounting policies; and
- the notes to the syndicate underwriting year accounts, which include other explanatory information.

The financial reporting framework that has been applied in the preparation of the syndicate underwriting year accounts is applicable law and United Kingdom Accounting Standards, comprising FRS 102 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' ('FRS102') 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).

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

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

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

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

We have no exceptions to report arising from this responsibility.

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

As explained more fully in the statement of managing agent's responsibilities set out on page 113, the managing agent is responsible for the preparation of the syndicate underwriting year accounts in accordance with the financial reporting framework described above and for being satisfied that they give a true and fair view of the result for the 2014 closed year of account.

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

This report, including the opinions, has been prepared for and only for the syndicate's members as a body in accordance with part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and 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.

### What an audit of syndicate underwriting year accounts involves

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

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

We primarily focus our work in these areas by assessing the managing agent's judgements against available evidence, forming our own judgements, and evaluating disclosures in the syndicate underwriting year accounts.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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

### Mark Bolton

Senior Statutory Auditor  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London, 17 March 2017

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

for the 36 months ended 31 December 2016

	Note	2014 £'000s
<b>Syndicate allocated capacity</b>		39,283
<b>Earned premiums, net of reinsurance</b>		
Gross premiums written	1	25,491
Outward reinsurance premiums		(3,307)
<b>Earned premiums, net of reinsurance</b>		22,184
<b>Reinsurance to close premium receivable, net of reinsurance</b>	2	19,054
<b>Allocated investment return transferred from the non-technical account</b>		389
<b>Claims incurred, net of reinsurance</b>		
Claims paid:		
Gross amount		(12,753)
Reinsurers' share		(2)
Reinsurance to close premium payable, net of reinsurance	3	(16,256)
<b>Claims incurred, net of reinsurance</b>		(29,011)
<b>Members' standard personal expenses</b>		(2,575)
<b>Net operating expenses</b>	4,5,6	(2,391)
<b>Balance on the technical account for general business</b>	7	7,650



## Statement of comprehensive income: non-technical account

for the 36 months ended 31 December 2016

	Note	2014 £'000s
<b>Balance on the general business technical account</b>		7,650
Investment income	8	900
Investment expenses and charges	8	(299)
Net unrealised losses on investments	8	(212)
Allocated investment return transferred to the general business technical account	8	(389)
Profit on exchange		3,120
<b>Profit for the 2014 closed year of account</b>		10,770

There is no other comprehensive income.

## Balance sheet

for the 2014 closed year of account as at 31 December 2016

<b>Assets</b>	<b>Note</b>	<b>2014 £'000s</b>
<b>Investments</b>		
Other financial investments	9	27,866
<b>Debtors</b>	10	1,093
<b>Reinsurance recoveries anticipated on gross reinsurance to close premium payable to close the account</b>	3	1,480
<b>Other assets</b>		
Cash at bank and in hand		653
Overseas deposits	11	19
<b>Prepayments and accrued income</b>		3
<b>Total assets</b>		31,114

  

<b>Liabilities</b>	<b>Note</b>	<b>2014 £'000s</b>
<b>Amounts due to members</b>	12	10,460
<b>Reinsurance to close premium payable to close the account – gross amount</b>	3	17,736
<b>Creditors</b>	13	2,918
<b>Total liabilities</b>		31,114

The underwriting year accounts, which comprise pages 133 to 144 and the notes and principal accounting policies applicable to all syndicates on pages 114 to 118, were approved by the Board of Tokio Marine Kiln Syndicates Limited on 9 March 2017 and were signed on its behalf by

### **Paul Culham**

Chief Underwriting Officer  
Tokio Marine Kiln Syndicates Limited  
17 March 2017



## Cash flow statement

for the 36 months ended 31 December 2016

	Note	2014 £'000s
<b>Cash flows from operating activities:</b>		
Operating profit on ordinary activities		10,770
Non-cash consideration for net RITC receivable		(19,035)
Net RITC premium payable	3	16,256
(Increase) in debtors		(703)
Increase in creditors		1,070
Unrealised foreign currency (gains)		(2,421)
<b>Net cash inflow from operating activities</b>		<b>5,937</b>
<b>Cash flows from investing activities:</b>		
Purchase of shares and other variable yield securities		(11,445)
Purchase of debt securities and other fixed income securities		(58,941)
Sale of debt securities and other fixed income securities		65,448
Movements in deposits with credit institutions		(3)
Movements in other investments		(10)
<b>Net cash (outflow) from investing activities</b>		<b>(4,951)</b>
<b>Cash flows from financing activities:</b>		
Members' agents' fees paid on behalf of members		(310)
<b>Net cash (outflow) from financing activities</b>		<b>(310)</b>
<b>Net increase in cash and cash equivalents</b>		<b>676</b>
Cash and cash equivalents at beginning of the 36 months		-
Foreign exchange (losses) on cash and cash equivalents		(4)
Cash and cash equivalents at end of the 36 months		672
<b>Cash and cash equivalents consists of:</b>		
Cash at bank and in hand		653
Overseas deposits	11	19
<b>Cash and cash equivalents at end of the 36 months</b>		<b>672</b>

# Notes to the accounts

for the 36 months ended 31 December 2016

## 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	25,491	(11,885)	(4,966)	(1,829)	6,811
RITC received	20,246	(18,604)	–	(1,192)	450
	45,737	(30,489)	(4,966)	(3,021)	7,261

- 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	20,246
Reinsurance recoveries anticipated	(1,192)
	19,054

## 3. Reinsurance to close premium payable

	£'000s
Gross notified outstanding claims	9,591
Reinsurance recoveries anticipated	(1,066)
Net notified outstanding claims	8,525
Provision for gross claims IBNR	8,145
Reinsurance recoveries anticipated on IBNR	(414)
Provision for net IBNR	7,731
	16,256

The reinsurance to close is effected to the 2015 year of account of Syndicate 557.



#### 4. Net operating expenses

	£'000s
Acquisition costs	765
Administrative expenses	1,626
Gross and net operating expenses	2,391

Included within administrative expenses is auditor's remuneration:

	£'000s
Audit services:	
Fees payable to the syndicate's auditor for the audit of the syndicate accounts	23
Other services:	
Other services pursuant to legislation	25
	48

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

#### 5. Staff numbers and costs

Staff were employed by Tokio Marine Kiln Insurance Services Limited. The following amounts were recharged to the 2014 year of account in respect of salary costs and are included within administrative expenses:

	£'000s
Wages, salaries and social security costs	968
Other pension costs	117
	1,085

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

The average number of full-time employees working for the syndicate on the 2014 year of account was as follows:

Administration and finance	8
Underwriting	1
Claims	1
	10

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

## 6. Emoluments of the directors and Active Underwriter

The Tokio Marine Kiln Group of companies 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 £25,677 was charged as an expense to the 2014 year of account:

	<b>£'000s</b>
Emoluments	52

The Active Underwriter received the following remuneration charged to the 2014 year of account as a syndicate expense:

	<b>£'000s</b>
Emoluments	176

## 7. Analysis of technical result

	<b>2013 &amp; prior years of account £'000s</b>	<b>2014 pure year of account £'000s</b>	<b>Total 2014 £'000s</b>
Technical account balance excluding investment return and operating expenses	450	11,777	12,227
Brokerage and commission on gross premium	–	(765)	(765)
	450	11,012	11,462
Allocated investment return transferred from the non-technical account	–	389	389
Net operating expenses other than acquisition costs	–	(4,201)	(4,201)
	450	7,200	7,650

All acquisition costs are attributable to business allocated to the 2014 pure year of account.

## 8. Investment income and expenses

	<b>£'000s</b>
Investment income:	
Income from investments	731
Realised gains on investments	169
Unrealised gains on investments	28
Investment expenses:	
Investment management expenses, including interest	(32)
Realised losses on investments	(267)
Unrealised losses on investments	(240)
	389



### 9. Other financial investments

	Fair value £'000s	Purchase price £'000s
Shares and other variable yield securities	15,074	15,058
Debt securities and other fixed income securities	12,779	12,827
Deposits with credit institutions	3	3
Other investments	10	–
	27,866	27,888

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

Other investments are comprised of forward currency contracts. The total notional value of these contracts at 31 December 2016 was £6,164,308.

### 10. Debtors

	£'000s
Arising out of reinsurance operations	598
Inter-year loans	486
Other debtors	9
	1,093

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. Amounts due to members

	£'000s
Profit for the 2014 closed year of account	10,770
Members' agents' fee advances	(310)
Amounts due to members at 31 December 2016	10,460

### 13. Creditors

	£'000s
Arising out of reinsurance operations	546
Other creditors	2,372
	2,918

All amounts are due within one year.

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#### **14. 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 2014 year of account of £25,490,828. The unpaid premiums due from Syndicate 510 at the period end were nil. The outstanding claims, including an element of IBNR, were £1,075,235. No business was ceded to related parties.

Profit commission of £2,281,044 is payable by the syndicate to Tokio Marine Kiln Syndicates Limited in respect of profits for the 2014 year.

Managing agency fees of £294,245 were paid by the syndicate to Tokio Marine Kiln Syndicates Limited. In addition to this, expenses of £1,959,565 were paid to Tokio Marine Kiln Syndicates Limited for expenses paid on behalf of the syndicate.

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



## Seven year summary (unaudited)

	2008	2009	2010	2011	2012	2013	2014
Syndicate allocated capacity £m	119.34	119.44	119.54	59.87	56.27	45.82	39.28
Number of underwriting members	1,038	1,077	1,129	1,144	1,086	932	810
Aggregate net premiums £m	34.86	43.33	34.57	25.72	28.06	26.06	22.18
Result £m	17.08	18.42	(30.35)	6.12	3.27	7.02	10.77
<b>Results for an illustrative share of £10,000</b>							
Gross premiums written and earned	2,611	3,225	2,737	4,876	5,954	6,637	6,295
– as a percentage of allocated capacity	26%	32%	27%	49%	60%	66%	63%
Net premiums written and earned	2,300	2,810	2,349	4,151	4,819	5,488	5,453
– as a percentage of allocated capacity	23%	28%	23%	42%	48%	55%	55%
RITC from an earlier year of account	749	858	885	4,535	3,328	4,653	4,851
Net claims incurred	(905)	(815)	(3,264)	(4,150)	(3,510)	(3,613)	(3,247)
RITC the year of account	(859)	(886)	(2,271)	(3,128)	(3,789)	(4,158)	(4,138)
<b>Underwriting result</b>	1,285	1,967	(2,301)	1,408	848	2,370	2,919
Profit/(loss) on exchange	401	(29)	(53)	(43)	27	(72)	794
Syndicate operating expenses	(178)	(161)	(171)	(332)	(309)	(437)	(414)
<b>Balance on the technical account</b>	1,508	1,777	(2,525)	1,033	566	1,861	3,299
Investment return	302	167	60	64	91	70	99
<b>Result before personal expenses</b>	1,810	1,944	(2,465)	1,097	657	1,931	3,398
Illustrative personal expenses	(378)	(402)	(75)	(75)	(75)	(399)	(656)
<b>Result</b>	1,432	1,542	(2,540)	1,022	582	1,532	2,742

Annual report and accounts 2016

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

Underwriting year accounts for the 2014 closed year of account

# Syndicate 308

Tokio Marine Kiln Life Syndicate  
Life

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## Independent auditor's report to the members of Syndicate 308 on the 2014 closed underwriting year of account

### Our opinion

In our opinion, the syndicate underwriting year accounts for the 2014 year of account for the 3 years ended 31 December 2016 (the 'syndicate underwriting year accounts'):

- give a true and fair view of the state of the syndicate's profit for the 2014 closed year of account; 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).

### What we have audited

The syndicate underwriting year accounts, included within Syndicate 308 underwriting year accounts (the 'Annual Report'), comprise:

- the balance sheet as at 31 December 2016;
- the statement of comprehensive income for the 36 months then ended;
- the cash flow statement for the 36 months then ended;
- the accounting policies; and
- the notes to the syndicate underwriting year accounts, which include other explanatory information.

The financial reporting framework that has been applied in the preparation of the syndicate underwriting year accounts is applicable law and United Kingdom Accounting Standards, comprising FRS 102 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' ('FRS102') 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).

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

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

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

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

We have no exceptions to report arising from this responsibility.

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

As explained more fully in the statement of managing agent's responsibilities set out on page 113, the managing agent is responsible for the preparation of the syndicate underwriting year accounts in accordance with the financial reporting framework described above and for being satisfied that they give a true and fair view of the result for the 2014 closed year of account.

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

This report, including the opinions, has been prepared for and only for the syndicate's members as a body in accordance with part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and 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.

### What an audit of syndicate underwriting year accounts involves

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

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

We primarily focus our work in these areas by assessing the managing agent's judgements against available evidence, forming our own judgements, and evaluating disclosures in the syndicate underwriting year accounts.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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

### Mark Bolton

Senior Statutory Auditor  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London, 17 March 2017

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

for the 36 months ended 31 December 2016

	Note	2014 £'000s
<b>Syndicate allocated capacity</b>		31,980
<b>Earned premiums, net of reinsurance</b>		
Gross premiums written	1	30,437
Outward reinsurance premiums		(2,062)
<b>Earned premiums, net of reinsurance</b>		28,375
<b>Reinsurance to close premium receivable, net of reinsurance</b>	2	1,444
<b>Investment income</b>	3	50
<b>Claims incurred, net of reinsurance</b>		
Claims paid:		
Gross amount		(15,184)
Reinsurers' share		589
Reinsurance to close premium payable, net of reinsurance	4	(2,444)
<b>Claims incurred, net of reinsurance</b>		(17,039)
<b>Members' standard personal expenses</b>		(592)
<b>Net operating expenses</b>	5,6,7	(11,469)
<b>Investment expenses and charges</b>	3	(13)
<b>Net unrealised (losses) on investments</b>	3	(20)
<b>Balance on the technical account for long-term business and profit for the 2014 closed year of account</b>	8	736

There are no non-technical items.

There is no other comprehensive income.



## Balance sheet

for the 2014 closed year of account as at 31 December 2016

<b>Assets</b>	<b>Note</b>	<b>2014 £'000s</b>
<b>Investments</b>		
Other financial investments	9	1,689
<b>Debtors</b>		
	10	4,055
<b>Reinsurance recoveries anticipated on gross reinsurance to close premium payable to close the account</b>	4	910
<b>Other assets</b>		
Cash at bank and in hand		655
Overseas deposits	11	22
<b>Total assets</b>		<b>7,331</b>
<b>Liabilities</b>		
<b>Amounts due to members</b>	12	624
<b>Reinsurance to close premium payable to close the account – gross amount</b>	4	3,354
<b>Creditors</b>	13	3,353
<b>Total liabilities</b>		<b>7,331</b>

The underwriting year accounts, which comprise pages 145 to 156 and the notes and principal accounting policies applicable to all syndicates on pages 114 to 118, were approved by the Board of Tokio Marine Kiln Syndicates Limited on 9 March 2017 and were signed on its behalf by

### Paul Culham

Chief Underwriting Officer  
Tokio Marine Kiln Syndicates Limited  
17 March 2017

## Cash flow statement

for the 36 months ended 31 December 2016

	Note	2014 £'000s
<b>Cash flows from operating activities:</b>		
Operating profit on ordinary activities		736
Non-cash consideration for net RITC receivable		(1,236)
Net RITC premium payable	4	2,444
(Increase) in debtors		(449)
Increase in creditors		29
Unrealised foreign currency (gains)		(177)
<b>Net cash inflow from operating activities</b>		<b>1,347</b>
<b>Cash flows from investing activities:</b>		
Sale of shares and other variable yield securities		27
Purchase of debt securities and other fixed income securities		(4,089)
Sale of debt securities and other fixed income securities		3,480
Movements in deposits with credit institutions		7
<b>Net cash (outflow) from investing activities</b>		<b>(575)</b>
<b>Cash flows from financing activities:</b>		
Members' agents' fees paid on behalf of members		(112)
<b>Net cash (outflow) from financing activities</b>		<b>(112)</b>
<b>Net increase in cash and cash equivalents</b>		<b>660</b>
Cash and cash equivalents at beginning of the 36 months		–
Foreign exchange gains on cash and cash equivalents		17
Cash and cash equivalents at end of the 36 months		677
<b>Cash and cash equivalents consists of:</b>		
Cash at bank and in hand		655
Overseas deposits	11	22
<b>Cash and cash equivalents at end of the 36 months</b>		<b>677</b>

## Notes to the accounts

for the 36 months ended 31 December 2016

### 1. Segmental analysis

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

	<b>Gross premiums written (note i) £'000s</b>	<b>Reinsurance balance (note ii) £'000s</b>
Direct insurance	26,990	(460)
Reinsurance acceptances	3,447	(59)
RITC received	1,666	(222)
	<b>32,103</b>	<b>(741)</b>

- i. Gross premiums written comprise gross premium written and the gross RITC premium receivable.
- ii. The reinsurance balance comprises reinsurance recoveries on claims paid, reinsurance recoveries anticipated on RITC payable, reinsurance commissions receivable less reinsurance premiums ceded and reinsurance recoveries anticipated on RITC receivable.

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

	<b>£'000s</b>
Individual premiums	5,340
Premiums under group contracts	21,650
	<b>26,990</b>
Periodic premiums	14,679
Single premiums	12,311
	<b>26,990</b>

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:

	<b>Gross premiums written £'000s</b>
Direct insurance	1,405
Reinsurance acceptances	292
	<b>1,697</b>

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:

	<b>£'000s</b>
Individual premiums	246
Premiums under group contracts	1,159
	1,405
Periodic premiums	246
Single premiums	1,159
	1,405

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

	<b>£'000s</b>
UK	20,447
Other EU countries	2,482
US	5,954
Other	3,220
	32,103

## **2. Reinsurance to close premium receivable**

	<b>£'000s</b>
Gross reinsurance to close premium receivable	1,666
Reinsurance recoveries anticipated	(222)
	1,444

## **3. Investment income and expenses**

	<b>£'000s</b>
Investment income:	
Income from investments	47
Realised gains on investments	3
Unrealised gains on investments	–
Investment expenses:	
Investment management expenses, including interest	(3)
Realised losses on investments	(10)
Unrealised losses on investments	(20)
	17



**4. Reinsurance to close premium payable**

	<b>£'000s</b>
Gross notified outstanding claims	2,576
Reinsurance recoveries anticipated	(489)
Net notified outstanding claims	2,087
Provision for gross claims IBNR	778
Reinsurance recoveries anticipated on IBNR	(421)
Provision for net IBNR	357
	<b>2,444</b>

The reinsurance to close is effected to the 2015 year of account of Syndicate 308.

**5. Net operating expenses**

	<b>£'000s</b>
Acquisition costs	9,176
Administrative expenses	2,476
Profit on exchange	(139)
Gross operating expenses	11,513
Reinsurance commissions and profit participations	(44)
	<b>11,469</b>

Included within administrative expenses is auditor's remuneration:

	<b>£'000s</b>
Audit services:	
Fees payable to the syndicate's auditor for the audit of the syndicate accounts	32
Other services:	
Other services pursuant to legislation	34
	<b>66</b>

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 numbers and costs**

Staff were employed by Tokio Marine Kiln Insurance Services Limited. The following amounts were recharged to the 2014 year of account in respect of salary costs and are included within administrative expenses:

	<b>£'000s</b>
Wages, salaries and social security costs	1,489
Other pension costs	74
	<b>1,563</b>

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

The average number of full-time employees working for the syndicate on the 2014 year of account was as follows:

Administration and finance	11
Underwriting	7
Claims	1
	19

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

#### 7. Emoluments of the directors and Active Underwriter

The Tokio Marine Kiln Group of companies operates a bonus pooling arrangement such that profit-related pay is generated from the managing agency profit commission, the group's share of the underwriting result through 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 £34,168 was charged as an expense to the 2014 year of account:

	<b>£'000s</b>
Emoluments	69

The Active Underwriter received the following remuneration charged to the 2014 year of account as a syndicate expense:

	<b>£'000s</b>
Emoluments	211

#### 8. Analysis of technical result

	<b>2013 &amp; prior years of account £'000s</b>	<b>2014 pure year of account £'000s</b>	<b>Total 2014 £'000s</b>
Technical account balance excluding investment return and operating expenses	321	12,459	12,780
Brokerage and commission on gross premium	–	(9,176)	(9,176)
Reinsurance commissions receivable	–	44	44
	321	3,327	3,648
Allocated investment return	–	17	17
Net operating expenses other than acquisition costs	–	(2,929)	(2,929)
	321	415	736

All acquisition costs are attributable to business allocated to the 2014 pure year of account.



**9. Other financial investments**

	Fair value £'000s	Purchase price £'000s
Shares and other variable yield securities	318	318
Debt securities and other fixed income securities	1,299	1,310
Deposits with credit institutions	72	72
	1,689	1,700

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	2,493
Arising out of reinsurance operations	1,473
Other debtors	89
	4,055

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. Amounts due to members**

	£'000s
Profit for the 2014 closed year of account	736
Members' agents' fee advances	(112)
Amounts due to members at 31 December 2016	624

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### 13. Creditors

	£'000s
Arising out of direct insurance operations:	
Due to intermediaries	1,959
Inter-year loans	108
Arising out of reinsurance operations	1,134
Other creditors	152
	3,353

All amounts are due within one year.

### 14. 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 2014 year of account of £41,027. Unpaid premiums of £14,970 were due from related parties at the period end. No business was ceded to related parties.

Profit commission of £152,040 is payable by the syndicate to Tokio Marine Kiln Syndicates Limited in respect of profits for the 2014 year.

Managing agency fees of £235,740 were paid by the syndicate to Tokio Marine Kiln Syndicates Limited. In addition to this, expenses of £2,887,755 were paid to Tokio Marine Kiln Syndicates Limited for expenses paid on behalf of the syndicate.

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

## Seven year summary (unaudited)

	2008	2009	2010	2011	2012	2013	2014
Syndicate allocated capacity £m	14.66	14.66	20.00	20.00	22.50	26.50	31.98
Number of underwriting members	30	35	46	84	96	108	136
Aggregate net premiums £m	14.69	16.88	17.30	24.09	26.44	27.85	28.38
Result £m	2.57	0.93	2.68	1.83	1.42	0.33	0.74
<b>Results for an illustrative share of £10,000</b>							
Gross premiums written and earned	7,464	9,330	8,977	9,549	9,279	8,360	6,648
– as a percentage of allocated capacity	75%	93%	90%	95%	93%	84%	66%
Net premiums written and earned	6,582	8,090	6,068	8,759	8,504	7,640	6,017
– as a percentage of allocated capacity	66%	81%	61%	88%	85%	76%	60%
RITC from an earlier year of account	2,551	2,135	1,256	535	278	348	452
Net claims incurred	(4,561)	(6,597)	(4,075)	(6,781)	(6,398)	(6,240)	(4,564)
RITC the year of account	(2,135)	(1,712)	(535)	(313)	(409)	(545)	(764)
<b>Underwriting result</b>	<b>2,437</b>	<b>1,916</b>	<b>2,714</b>	<b>2,200</b>	<b>1,975</b>	<b>1,203</b>	<b>1,141</b>
Profit/(loss) on exchange	897	(24)	(69)	7	31	(53)	43
Syndicate operating expenses	(1,197)	(988)	(890)	(945)	(1,112)	(851)	(775)
<b>Balance on the technical account</b>	<b>2,137</b>	<b>904</b>	<b>1,755</b>	<b>1,262</b>	<b>894</b>	<b>299</b>	<b>409</b>
Investment return	128	35	26	19	12	5	5
<b>Result before personal expenses</b>	<b>2,265</b>	<b>939</b>	<b>1,781</b>	<b>1,281</b>	<b>906</b>	<b>304</b>	<b>414</b>
Illustrative personal expenses	(515)	(305)	(444)	(364)	(276)	(181)	(185)
<b>Result</b>	<b>1,750</b>	<b>634</b>	<b>1,337</b>	<b>917</b>	<b>630</b>	<b>123</b>	<b>229</b>

# Empowered Expertise

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**Tokio Marine Kiln Syndicates Limited**

Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority under Firm Reference Number: 204909  
Registered office is located at 20 Fenchurch Street, London EC3M 3BY Registered Number: 729671. Tokio Marine Kiln is a trading name.