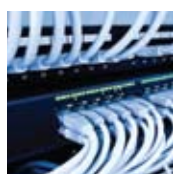
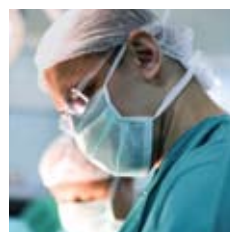


Annual report and accounts 2010

For Syndicates 510, 557, 807 and 308
managed by R J Kiln & Co Limited



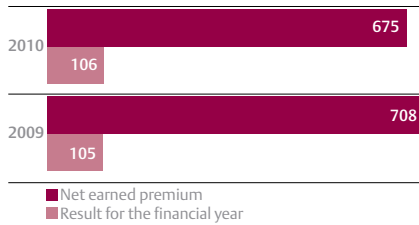
Clear thinking.

Results summary

Annual accounting results 2010

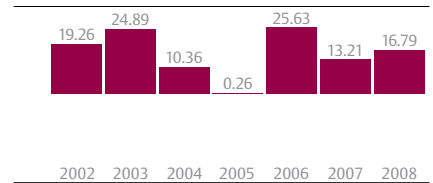
The 2009 calendar year syndicate results have been restated. The change in accounting policy is in accordance with a suite of financial reporting standards adopted as a consequence of the use of derivatives by the syndicates during the year to manage interest rate risk. Please see note 2 of the 'notes and principal accounting policies' on page 22 for further details.

Annual accounting results
£m



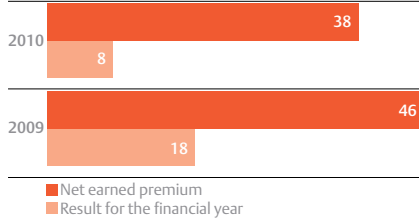
510

Year of account results
%



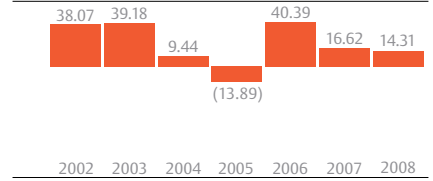
510

Annual accounting results
£m



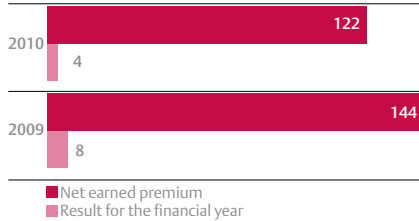
557

Year of account results
%



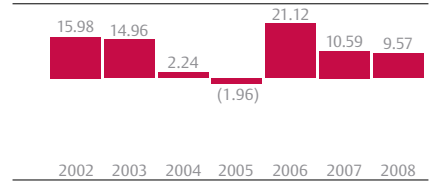
557

Annual accounting results
£m



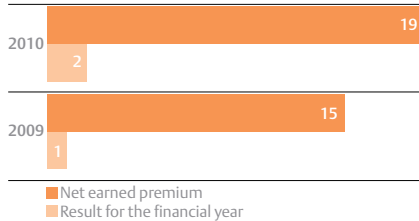
807

Year of account results
%



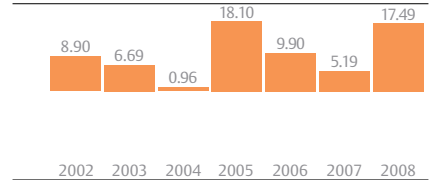
807

Annual accounting results
£m



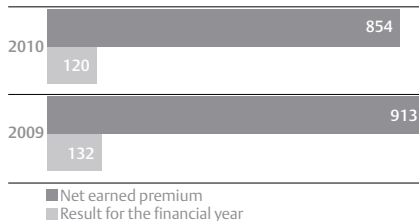
308

Year of account results
%



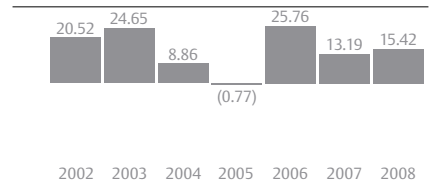
308

Annual accounting results
£m



Total

Year of account results
%



Total

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Paul Hewitt, Chairman

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Report of the chairman

Paul Hewitt
Chairman



This is my first report as chairman of R J Kiln & Co Limited, although I have known Kiln for several years both as a non-executive director and also as chairman of the audit, risk and compliance committee. I am particularly pleased as incoming chairman to report that Kiln, in challenging insurance and reinsurance markets and in an uncertain but improving economic environment, performed strongly to produce a very good set of results.

2010 presented a difficult environment for Kiln underwriters and insurance markets generally. It was a year of significant catastrophes such as the earthquakes in Haiti, Chile and New Zealand; the Deepwater Horizon disaster; storms in France and floods in Australia. However, none of the events were sufficient to turn the market or to create more favourable rating conditions. Significantly, Kiln suffered no Atlantic hurricane losses during the year. At the same time the global economy continued with its recovery and the economic climate is now far more positive than two years ago. Investment markets are improving but returns are subdued which means that there is all the more reason for Kiln's underwriters to underwrite for profit. Recessionary impacts have now very much diminished but there continued to be a background of economic uncertainty during the year as evidenced by the severe turbulence in some of the economies in the euro zone. In addition, the UK started to show a worrying upward trend in its rate of inflation. Fortunately, Kiln has performed extremely well in this demanding and often unpredictable environment.

Charles Franks will comment on the specific developments and achievements within the business that took place during 2010.

Tokio Marine Group

Kiln's relationship with its parent company continues to mature with Kiln making a significant contribution to the Group's international development. Kiln is now a well-established, valued and important part of the organisation, recognised for our highly disciplined underwriting approach with an emphasis on profitability.

Governance and the board

The new smaller R J Kiln & Co Limited board, which we announced this time last year, is performing very effectively as expected. The separate R J Kiln & Co Limited underwriting board, comprising senior underwriters and other underwriting related employees, has become a key additional feature in the governance of our underwriting activities and has operated successfully during its first year. Finally, I would like to welcome Ray Faires, chief information officer (CIO) who became a new member of the R J Kiln & Co Limited board in 2010. The new role of CIO reflects the importance of technology to the future development of Kiln and ensures that there is appropriate representation at board level.

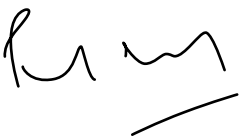
“Kiln has performed extremely well in this demanding and often unpredictable environment.”

Future prospects

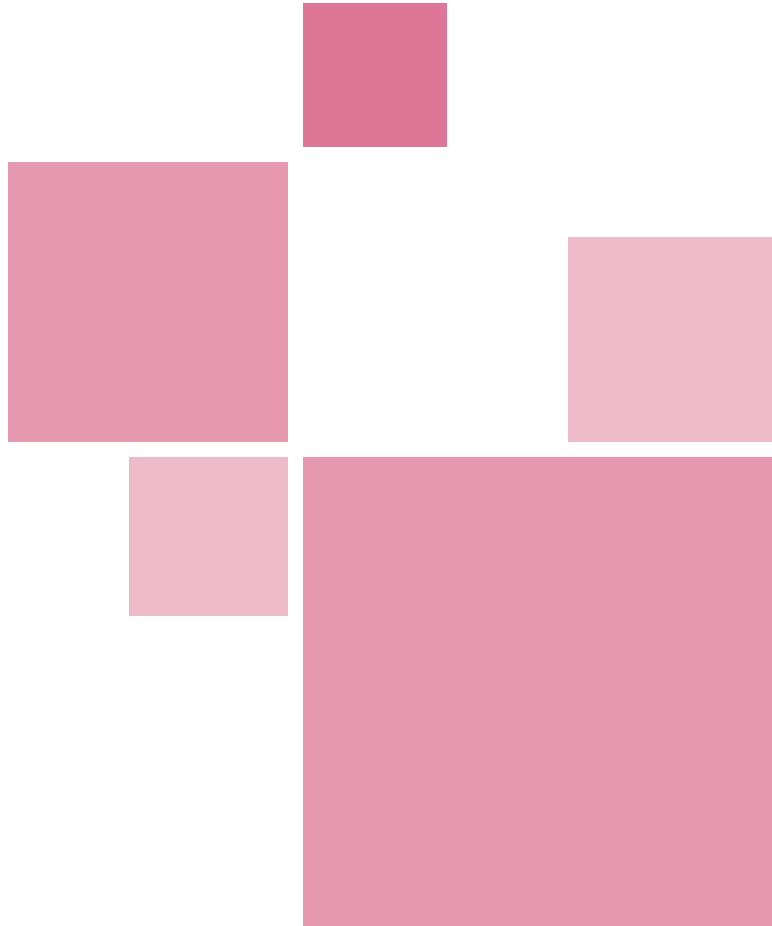
The challenging insurance and reinsurance environment is likely to continue in 2011 with persistent pressure on pricing. From a catastrophe perspective the year made a dramatic start with severe flooding in Australia and the 2011 earthquakes in New Zealand and Japan. During the year the global economy is likely to continue with its recovery but this will probably be at two speeds with subdued growth in the advanced economies, persistent high unemployment and the potential for further stresses in the euro zone; in emerging economies activity is likely to be far more buoyant but with inflationary pressures growing amid signs of economic overheating. Risks to the recovery could arise from sovereign debt issues or from the austerity measures that are being carried out in many economies. Global financial instability is likely to continue to be a significant potential risk. Investment returns will remain low at least in the immediate future. There is also an increasing risk of political turbulence, particularly in the Middle East as demonstrated by recent events. Kiln's underwriters and businesses are more than up to the challenge that this very varied environment will throw at them. We will continue to develop and prosper as a business and, importantly, will be in position to take advantage of opportunities when more favourable market conditions appear or when the market hardens.

I would like to take this opportunity to pay tribute to my predecessor Edward Creasy for his excellent chairmanship of R J Kiln & Co Limited. I would like to thank him for the support he has given me since I joined the board four years ago and wish him the very best for his future endeavours.

Finally, I would like to congratulate Charles Franks and all of the Kiln team for their hard work in producing an exceptional set of results from a challenging 2010 and to thank them all for their commitment during the course of the year.



Paul Hewitt
Chairman
R J Kiln & Co Limited
16 March 2011



Report of the chief executive officer

Charles Franks
Chief executive officer



From an insurance and reinsurance perspective 2010 was an unusual year. Predictions around a very active Atlantic hurricane season materialised with the second highest number of hurricanes since records began in 1851. The hurricane season was particularly exceptional because the US didn't suffer any hurricane landfalls and therefore for insurers, the season was benign. This was largely due to certain specific climatic conditions that unusually kept hurricanes away from the US during the peak months of August and September. However, the year was also characterised by several other very significant catastrophes elsewhere in the world involving major loss of life and substantial damage. The year started with the tragic Haiti earthquake which claimed more than 200,000 lives. This was followed by severe earthquakes in Chile, New Zealand and China. The contrast of the earthquake in Haiti with earthquakes suffered elsewhere underlines how critical it is that there is in place a regime of strict building regulation and enforcement to ensure that substantial loss of life and property damage is avoided. Other catastrophes during the year include Windstorm Xynthia in February which struck Western Europe; severe floods in Pakistan and China and the summer heat wave and forest fires in Russia. In addition, there was the explosion at the Deepwater Horizon drilling platform in the Gulf of Mexico, which resulted in the region's largest ever offshore energy loss. Finally, there were the heavy rains and severe flooding in Queensland, Australia at the end of 2010 and into 2011.

Kiln has a diverse and wide-ranging portfolio of risks that we insure and we have suffered material losses from both the Chile and 2010 New Zealand earthquakes and Australian floods, whilst each of these losses fall well within expected levels, Kiln also had some exposure to the Deepwater Horizon disaster, but only to a minimal extent. The overall effect is discussed more fully later in my report under '2010 year of account'.

During 2010 we kept to our strategy of expanding our product range and developing distribution through our network of service companies. Our logistics insurance business based in Ipswich is now fully established and is successfully developing marine liability covers such as freight forwarders and ports and terminals on a global basis. Our footprint in Continental Europe continues to expand. We have now been writing aviation and space business from Paris for over a year. Also, in recognition of the importance and opportunities in the German market, we opened an office in Frankfurt which will have an initial focus on marine business. Kiln now has offices in the three key Continental European markets of Germany, France and Belgium. Our business in Asia continues to expand with new capabilities for treaty reinsurance, facultative property and marine in Singapore. Our offices in South Africa continue to perform solidly. We are also seeing a steady stream of good opportunities from our office in Brazil.

Coverholders are a key distribution channel for much of Kiln's business. In October we successfully ran a three day coverholder event in Toronto for our Canadian coverholder network, which was also attended by many of Kiln's underwriters and other staff, as well as representatives from Lloyd's.

Finally, towards the end of 2010 we recruited a specialist liability underwriter to review and develop Kiln's liability portfolio. This is a new venture for Kiln and recognises both the size of the global liability market and potential opportunities for carefully and selectively underwritten business. Our intention is to develop slowly in this area, building on the small account we have already, and using our long-term relationships (many through coverholders) to grow our book in those parts of the world where the legal framework provides a predictable background.

We have had a difficult start to 2011 through the tragic earthquakes that struck Christchurch, New Zealand and Japan. It is too early at this stage to assess the full extent of these losses. However, Kiln is experienced at managing the business through periods of instability and uncertainty. At this time, we will continue to focus on high-quality underwriting and delivering a robust claims service for our clients.

At the time of going to press, it is hard to gauge the full extent of the devastating earthquake in Japan. It is clear, however, that the human tragedy is growing with each passing day and I extend our concern and sympathy to our friends and colleagues at Tokio Marine.

“Kiln now has an extensive network of offices in the UK, Continental Europe, Asia, South Africa and Latin America. We intend to grow these existing offices and regional ‘hubs’ as well as expand the range of products that they offer.”

Annual accounting result under UK GAAP

On a UK GAAP basis, the comparison between the two financial years is detailed in Table 1.

Table 1: Annual accounting results under UK GAAP

Syndicate	2010 annual accounting result	2009 annual accounting result (Restated)
	£m	£m
510	106	105
557	8	18
807	4	8
308	2	1
Total	120	132

Excluding the releases made on the closed years of account, the three non-life syndicates have shown a slightly reduced profit for 2010 compared with the 2009 calendar year. This reduction was partly driven by the impact of catastrophe losses such as earthquakes in Chile and New Zealand and floods in Australia. There was also general pricing pressure. The level of profit is very good in spite of the level of catastrophe activity and softening market conditions during the year. In addition, Syndicate 308 saw a doubling in its profit. The drivers of the syndicate and divisional results are discussed in more detail in the underwriters’ reports on pages 7 to 11.

2008 year of account

The 2008 year of account has closed with a very good profit for Names across Syndicates 510, 557, 807 and 308. This is particularly positive in light of Hurricanes Ike and Gustav, which affected this year of account.

The 2008 year of account results, as a percentage of allocated capacity for an unlimited Lloyd’s Name on our syndicates, are compared with the forecasts issued in the published 2009 report in Table 2.

Table 2: 2008 year of account results compared with the forecasts published in the 2009 report

Syndicate	Forecast range %	Actual %
510	5.1 to 10.1	16.8
557	9.5 to 14.5	14.3
807	3.0 to 8.0	9.6
308	8.5 to 13.5	17.5

The result for Syndicate 510 is 9.2% above the mid point of the forecast range presented at the end of the previous calendar year; Syndicate 557 closed with results inside the previous forecast; and Syndicate 807 closed at 4.1% above the mid point of the previous forecast range. These results were assisted by the positive impacts of reserve releases, favourable market conditions and selective underwriting. For Syndicate 308 the result was 6.5% above the mid point of the previous forecast range; this was due to the positive impact of the release of reserves from prior years on an Italian credit binder.

2009 year of account

The year continues to develop well and benefited from a favourable rating environment, particularly in catastrophe exposed classes. The combination of improved ratings and an uneventful US hurricane season means that there continue to be very good forecasts for Syndicates 510 and 557. Although these factors also benefited Syndicate 807 it was adversely affected by a number of losses on its worldwide book. Syndicate 308 still has some unearned exposure and is reserved to reflect this.

The forecast year of account range results as a percentage of allocated capacity for Syndicates 510, 557, 807 and 308 issued in Kiln’s press release of 2 March 2011 are shown in Table 3.

Table 3: 2009 forecast year of account range results issued in Kiln’s press release of 2 March 2011

Syndicate	Capacity £m	2009 year of account forecast range %
510	630	11.6 to 16.6
557	119	11.1 to 16.1
807	120	3.1 to 8.1
308	15	4.1 to 9.1

2010 year of account

The three non-life syndicates have been affected by tragic earthquakes in Chile and New Zealand, floods in Australia, and some smaller catastrophe losses. Table 4 shows the first published forecast ranges for Syndicates 510, 557, 807 and 308 issued in Kiln’s press release of 2 March 2011. These forecast ranges allow for the impact of the flooding in Queensland, Australia in early 2011 but were prepared before the 22 February 2011 Christchurch, New Zealand earthquake and the devastating earthquake which struck Japan on 11 March 2011. The industry’s understanding of how these losses might develop is at a very early stage. However, Kiln’s experience from the September 2010 New Zealand earthquake leads us to believe that the second New Zealand loss will still be contained within the forecast ranges below, which have been adjusted to reflect the different characteristics of our syndicates. It is too early to assess whether the losses arising in Japan will cause the result to fall outside these given ranges.

Table 4: 2010 forecast year of account range results issued in Kiln’s press release of 2 March 2011

Syndicate	Capacity £m	2010 year of account forecast range %
510	923	1.4 to 11.4
557	120	(9.1) to 10.9
807	141	(8.9) to 6.1
308	20	2.1 to 12.1

The combination of significant catastrophe activity and pricing pressures has meant that forecasts for Syndicate 510, 557 and 807 are lower than for previous years. Syndicate 308 has an improved forecast range compared with 2009.

Report of the chief executive officer

2011 year of account

Table 5 shows the Premium Rating Index (PRI) for Syndicates 510, 557, 807 and 308, which tracks the pricing of renewed risks over the year. The first column shows a mixture of rating movements during the year across Kiln's business lines but the general theme is of rate softening. The 2011 PRI data so far shows increasing pricing pressure and a generally tougher market environment. This is likely to affect premium volumes. Kiln's underwriters will continue to strive to exploit those parts of the account which prove most resistant to pressure to reduce prices.

Table 5: PRI for Syndicates 510, 557, 807 and 308

	2010 YOA as at	2011 YOA as at
	31 December 2010	28 February 2011
	%	%
Syndicate 510	99.5	98.3
Property & special lines	100.1	99.2
Marine & special risks	100.0	97.4
Reinsurance	97.6	96.5
Aviation	98.6	96.6
Accident & health	100.4	99.9
Enterprise risk	100.0	100.0
Syndicate 557	97.6	96.5
Syndicate 807	98.4	98.8
Syndicate 308	99.3	99.6

Solvency II

Solvency II is the new regulatory regime for insurers and reinsurers that operate in the European Union and is due to come into effect on 1 January 2013. Whilst this is almost two years away, Kiln is devoting substantial effort and resource to ensure that we are well prepared to meet the requirements of Solvency II. During 2010 Kiln has enhanced and put in place new structures, policies and processes to support our Solvency II initiative. These cover a wide range of areas including systems of governance, documentation standards, Internal Model scope and governance, technical provisions and Own Risk and Solvency Assessment among them.

Lloyd's has established a detailed scoring scheme setting out interim stages on a path to achieving a score of 10 by the end of 2011, which would denote full compliance across over 40 areas of operation. As at the December 2010 interim stage, Kiln scores are at or above the required standard in each area.

Looking forward to 2011, the intention is firmly to test and embed the new structures such that they enhance company performance as well as gaining regulatory approval.

The Quantitative Impact Study 5 (QIS5) exercise – a standard formula for solvency capital requirements – was completed for all of Kiln's syndicates. Overall the results show that our specialist business, particularly in respect of property catastrophe, is not suited to a standardised approach. For this reason we are concentrating our time and resource on developing our own Syndicate Internal Models for Solvency II approval.

The future

The large number of catastrophes during 2010 did not stop a general softening in market rates particularly for property facultative and direct business, and also for property catastrophe reinsurance. During 2011 we expect that we will continue to face challenging market conditions, against a background of an improving global economy but with persistent economic uncertainty. Insurance cycle management will more than ever therefore be key to ensuring that 2011 is a successful year for Kiln.

We will seek opportunities to develop and expand our specialist product range into new areas of business where we believe that we can make good profits and where we can access strong and experienced underwriting talent. We will also continue our new initiative to explore liability opportunities both in the UK and other territories, particularly where these will complement Kiln's existing range of business lines.

Kiln now has an extensive network of offices in the UK, Continental Europe, Asia, South Africa and Latin America. We intend to grow these existing offices and regional 'hubs' as well as expand the range of products that they offer.

Kiln and Tokio Marine Group

Kiln has now been a member of the Tokio Marine Group for three years. This has been a very successful relationship with Kiln playing a key role in the Group's international strategy. We will continue to work together with our Tokio Marine colleagues to explore how and where we can complement each other's product and service offering and skill-sets.

New chairman

With effect from 1 January 2011, Paul Hewitt was appointed chairman of R J Kiln & Co Limited. Paul has been an independent non-executive director of R J Kiln & Co Limited since 2007, and has chaired the audit, risk and compliance committee. This follows the decision by Edward Creasy to leave the company to pursue other opportunities after 11 successful years. I would like to thank Edward for his enormous contribution to the Kiln story over the past decade and in particular for his leadership and guidance during our acquisition by Tokio Marine. He leaves with our best wishes.

Finally, in a year of significant catastrophes and a background of an improving but still uncertain global economy, Kiln has performed extremely well and I would like to thank all of my colleagues in Kiln offices around the world for their hard work, enthusiasm and commitment towards making 2010 another successful year.



Charles Franks

Chief executive officer
R J Kiln & Co Limited
16 March 2011

Underwriters' reports

Syndicate 510

Overview

2008 underwriting year of account

Syndicate 510 made a very good underwriting profit of £98,655,195 (16.79%) on allocated capacity of £587,523,754 after taking account of operating expenses, Lloyd's expenses and investment income for the 2008 underwriting year of account.

The market softening across most lines of business that began in 2007 continued throughout the first part of the year. This changed in the last quarter following an active North Atlantic hurricane season that produced Hurricanes Ike and Gustav and resulted in a hardening in those lines of business most affected; US catastrophe classes and energy, and halted the softening in other areas.

Prior years' development

The 2008 year result improved by £33,237,185 as a result of reduced reserves from prior years. The incurred claims did not increase as much as had been expected across most of the account.

One year accounting result

On a UK GAAP basis the syndicate produced a technical account profit of £106,169,453 against gross premium written of £896,768,508 and net premium earned of £674,752,566 for the 2010 calendar year. The earthquakes in Chile and New Zealand and then the floods in Queensland, Australia have all had a significant effect on the year, and there have also been a number of smaller catastrophe losses. This effect has been countered to some degree by the continuing positive run-off of old years.

The combined ratio for the 2010 calendar year is 87.6%.

2011 development

We fully expect that the natural disasters in Chile, New Zealand and Australia will have a significant impact on rates, but only in the areas affected. In other parts of the world we expect further softening and increasing competition across all classes of the account.

Our own results have continued to be good, and we intend to continue to take advantage of those areas of the market where there is still a healthy level of potential profit. In some cases it will not require much in the way of rate reductions to take all the profit away, and it is in times such as this that underwriting discipline and focus make the difference. We are determined to use our abilities in this area to maximise our margins and provide a good return to our capital providers.

Syndicate 510

Property & special lines

2008 underwriting year of account

The property division made an underwriting profit of £24,872,530 (8.77%) on allocated capacity of £283,689,755 after taking account of operating expenses, Lloyd's expenses and investment income for the 2008 underwriting year of account.

The rate increases seen post Hurricane Katrina meant that the division was able to absorb losses from Hurricanes Ike and Gustav and still achieve a good profit.

Prior years' development

The underwriting year result benefited from a reduction of £13,053,089 in reserves from prior years. The release on the prior years is mostly attributed to benign claims development during 2010, with the attritional incurred claims reducing over the year. This can be explained partly by reserve reductions on some static claims, and also by reductions on reserves held for large property claims where the business interruption element of these losses turned out to be less severe than expected.

One year accounting result

On a UK GAAP basis, the division produced a technical account profit of £18,421,465 against gross premium written of £430,594,846 and a net premium earned of £353,025,460 for the 2010 calendar year. This year benefited from a relatively benign hurricane season, however there have been some catastrophe losses incurred from the earthquakes in Chile, Mexico and New Zealand. The non-catastrophe exposed business also ran reasonably well although we suffered a few large risk losses that have affected our portfolio and resulted in a thorough review of some of our large binders.

The combined ratio for the 2010 calendar year is 97.9%.

2011 development

The difficult market conditions experienced in 2010 continued into 2011, with new market participants and increased capacity putting pressure on rates. We will not follow this downward trend in rates and therefore we anticipate writing less income than originally planned. We will continue to focus on developing and sustaining the quality of our core business.

Canada, which is one of our main markets, continues to develop successfully and we will look for further opportunities there. We expect to see growth in our motor book as our motor underwriter continues to take advantage of new market opportunities. In addition, at the end of 2010 we recruited a specialist liability underwriter and in 2011 expect to write some new liability business on a selective basis.

In summary, we will continue in 2011 to focus on writing quality accounts and improving our book of business.

Underwriters' reports

Syndicate 510

Marine & special risks

2008 underwriting year of account

The marine & special risks division made an underwriting profit of £13,474,685 (11.89%) on allocated capacity of £113,347,510 after taking account of operating expenses, Lloyd's expenses and investment income for the 2008 underwriting year of account.

This is a very good result in a year which saw large market losses from hurricane activity in the Gulf of Mexico and increased claims activity associated with the global credit crisis.

Prior years' development

The underwriting year result benefited from a reduction of £7,841,850 in reserves from prior years. This arose from better than expected utilisation of attritional reserves.

One year accounting result

On a UK GAAP basis, the division produced a technical account profit of £30,326,558 against gross premium written of £172,480,242 and net premium earned of £142,629,669 for the 2010 calendar year. The benign hurricane season and increased energy prices following the Deepwater Horizon disaster have both contributed to this result.

By the end of 2010 overall pricing on renewal business was flat. This was a result of the softening influence of a benign hurricane season being negated by the hardening energy market following the Deepwater Horizon disaster.

The combined ratio for the 2010 calendar year is 81.6%.

2011 development

Following the estimated US\$2.5bn to US\$3.5bn of insured market losses arising from the Deepwater Horizon disaster, on which the division had a disproportionately small share, property damage rates on offshore properties associated with the oil and gas industries experienced rises of between 5% and 15%, reversing the reductions that this class had begun to experience at the start of 2010. At the same time, offshore energy liability and control of well rates have undergone a more fundamental 'back to basics' rethink resulting in rates increasing by 25% to 30%. These improvements in our energy classes will initially be maintained at the start of 2011. However, rates will come under pressure as the year progresses and the large amount of capital which has been attracted to these classes begins to aggressively seek premium income. We are alert to these cyclical pressures and will decline business that fails to meet our minimum pricing requirements.

Throughout 2011 we expect our marine and special risks books will benefit from increased turnovers and increases in limits as our insureds begin to recover from the recessionary pressures they have experienced in the last two years.

We continue to seek opportunities to enhance distribution of our products and to explore areas in which we currently do not operate. To that end we opened an office in Germany to write marine business in 2010, a territory in which we feel it is important to have a local presence, in order to source business which does not otherwise find its way into the London market.

Syndicate 510

Reinsurance

2008 underwriting year of account

The reinsurance division made an underwriting profit of £34,201,408 (29.75%) on allocated capacity of £114,979,867 after taking account of operating expenses, Lloyd's expenses and investment income for the 2008 underwriting year of account.

The largest claims event of 2008 was Hurricane Ike, which hit Texas in September. For many years we have taken the view that Texan risks have not been as attractively priced as many other parts of the US and as a consequence our exposure in the area was lower than it would otherwise have been, leaving us with a relatively modest loss from an event that caused insured losses in the market in excess of US\$12.5bn. This factor contributed to the excellent result the division achieved.

Prior years' development

The 2008 underwriting year result benefited from a reduction of £6,024,529 in the reserves from prior years. These reserve improvements arise from a slightly better than expected loss development pattern seen during 2010 and do not stem from any one particular event.

One year accounting result

On a UK GAAP basis, the division produced a technical account profit of £31,257,151 against gross premium written of £152,037,253 and net premium earned of £59,695,256 for the 2010 calendar year.

2010 was notable for a number of catastrophic events that occurred in several parts of the world, with earthquakes in Haiti, Chile and New Zealand, and storms in Europe and Australia. The year ended with severe flooding in Queensland, Australia, which continued into 2011. Our exposure to these events varied from the minimal to the significant, with our largest losses coming from New Zealand, but despite this the overall result is very good, mainly due to the benign year that we experienced in the US where we were exposed to a small number of minor losses from hail and winter weather events.

The combined ratio for the 2010 calendar year is 54.8%.

2011 development

With capital at more than adequate levels in the reinsurance industry, it is inevitable that rates will come under pressure, and we have seen a general market softening for the 2011 renewals that have taken place so far. There are, however, a number of factors which are serving to temper the rate reductions, allowing us to continue to write a book of business that is well priced in the aggregate. The events of 2010 have caused significant losses to the international market, and whilst they are not sufficiently large to move rates up across the board they will cause some upwards revisions in the countries where they have occurred. In addition, changes to the computer models that many reinsurers use may cause those who might be contemplating a significant reduction in rates to reconsider. We do not expect significant changes in pricing in the near-term, but we are well placed to take advantage of any opportunities that come our way and we will continue to work to identify areas for growth, either in the short or long-term.

Syndicate 510

Aviation

2008 underwriting year of account

The aviation division made an underwriting profit of £17,256,971 (47.22%) on allocated capacity of £36,549,243 after taking account of operating expenses, Lloyd's expenses and investment income for the 2008 underwriting year of account.

This is an excellent result for the division, produced in a year during which pricing came under further pressure. The division continued to underwrite very selectively and managed to avoid most of the headline losses affecting the 2008 year of account. This is reflected in the relatively low claims ratio of 57%.

Prior years' development

The 2008 underwriting year result benefited from a reduction of £4,017,581 in the claims reserves from prior years. The results from previous years improved due to better than anticipated claims development and a general release in reserves on specific losses.

One year accounting result

On a UK GAAP basis, the division produced a technical account profit of £12,914,470 against gross premium written of £51,824,189 and net premium earned of £46,355,655 for the 2010 calendar year. Whilst we did sustain some losses through the year we were still able, through disciplined underwriting, to produce a good result.

The combined ratio for the 2010 calendar year is 75.0%.

2011 development

2010 remained a very challenging year for aviation underwriters despite some efforts to improve the airline rating environment. We expect 2011 to be equally as testing given the overall capacity within the market and the arrival of some new entrants in the second half of 2010. We expect that rates will come under more pressure in 2011 unless there is an extraordinary run of sizeable catastrophes which forces capacity to withdraw from the market. Appetite for business will be at its greatest within the general aviation and aerospace segments of the business.

Despite the competitive trading conditions, we have no doubt that there will be some opportunities for new business and, as long as these fit the profile of our book, we will endeavour to capitalise on them wherever we can. In addition, we should also see further signs of recovery in the aviation industry itself following the very difficult times of 2008 and 2009 and a flat 2010.

We will continue with our proven business plan, focusing on the quality of business and the balance of classes within the account, together with the continuing development of our overseas service company business where this can be done profitably.

Syndicate 510

Accident & health

2008 underwriting year of account

The accident & health division made an underwriting profit of £8,849,601 (22.72%) on allocated capacity of £38,957,379 after taking account of operating expenses, Lloyd's expenses and investment income for the 2008 underwriting year of account.

Income grew by 10% and the pricing environment remained at attractive levels. The attritional loss ratio ran to plan and there were no specific losses to affect the account.

Prior years' development

The 2008 underwriting year result benefited from a reduction of £2,300,136 in the claims reserves from prior years. Given the generally short-tail nature of the business, it was encouraging to see the older years settling out within our reserve projections. Of note, the 2005 year of account benefited from an improvement of approximately £0.7m due to some specific reductions in individual reserves. The 2006 year of account benefited from a small improvement in claims and a higher than anticipated increase in premiums received in certain lines of business.

One year accounting result

On a UK GAAP basis, the division produced a technical account profit of £11,203,188 against gross premium written of £78,774,725 and net premium earned of £68,556,678 for the 2010 calendar year. Whilst the pricing has come under pressure from increased competition within Lloyd's and from international markets, our core book of renewal business continues to perform to plan. There were a number of attritional claims resulting from the closure of European airspace following the Icelandic volcanic ash cloud in April totalling just over £0.5m. On a positive note there was little evidence that recession related claims had affected the overall loss incidence.

The combined ratio for the 2010 calendar year is 86.1%.

2011 development

With a consistently profitable portfolio, and continuous growth, the accident & health division continues to be one of the leading teams writing this class of business in Lloyd's. The success of the class has attracted new capacity and we expect this to continue throughout 2011.

We will continue to develop our book of specialist accident and health business on an international basis and work with our coverholders, producing brokers and ceding companies. For 2011 we forecast modest growth in a tougher environment.

Underwriters' reports

Syndicate 510

Enterprise risk

2008 underwriting year of account

The risk solutions class became a separate profit centre for the 2009 year of account as the new enterprise risk division. The 2008 year of account results for the risk solutions class can be found within the marine & special risks division's 2008 year of account result.

Prior years' development

Reserves from prior years remain within the marine & special risks division.

One year accounting result

On a UK GAAP basis, the division produced a technical account profit of £2,046,621 against gross premium written of £11,057,253 and a net premium earned of £4,489,848 for the 2010 calendar year. During the year there was some claims activity in the form of circumstances notified by policyholders only, but at this stage it seems likely that these will all be handled within the policy deductibles and therefore none of this activity should result in any claims payment under the policies.

The combined ratio for the 2010 calendar year is 63.3%.

2011 development

Throughout 2010 the enterprise risk division saw premium income growth for data protection and information security products. This was driven by the strength of the Kiln brand and working with a network of specialist London wholesale brokers. Visits to Canada in 2010 illustrated a keen interest and a need for our products in this market. 2011 has commenced with a healthy deal flow from both the US and Canada and we anticipate that this will continue. Rates remain relatively flat.

The increased interest in reputational risk saw the appointment of a dedicated underwriter at the end of 2010. We have been working with a number of industry experts to develop a new reputational risk product which will launch later this year.

The division continues to explore ways to expand its product portfolio.

Syndicate 557

Overview

2008 underwriting year of account

Syndicate 557 made an underwriting profit of £17,077,927 (14.31%) on allocated capacity of £119,343,045 after taking account of operating expenses, Lloyd's expenses and investment income for the 2008 underwriting year of account.

The largest claims event of 2008 was Hurricane Ike, which hit Texas in September. For many years we have taken the view that Texan risks have not been as attractively priced as many other parts of the US and as a consequence our exposure in the area was lower than it would otherwise have been, leaving us with a relatively modest loss from an event that caused insured losses in the market in excess of US\$12.5bn. This factor contributed to the very good result that the syndicate achieved.

Prior years' development

The 2008 underwriting year result benefited from a reduction of £1,161,908 in the reserves from prior years.

One year accounting result

On a UK GAAP basis, the syndicate produced a technical account profit of £7,518,258 against gross premium written of £37,338,243 and net premium earned of £37,600,627 for the 2010 calendar year.

2010 was notable for a number of catastrophic events that occurred in several parts of the world, with earthquakes in Haiti, Chile and New Zealand, and storms in Europe and Australia. The year ended with severe flooding in Queensland, Australia, which continued into 2011. Our exposure to these events varied from the minimal to the significant, with our largest losses coming from New Zealand, but despite this the overall result is acceptable, mainly due to the benign year that we experienced in the US where we were exposed to a small number of minor losses from hail and winter weather events.

The combined ratio for the 2010 calendar year is 86.3%.

2011 development

With capital at more than adequate levels in the reinsurance industry, it is inevitable that rates will come under pressure, and we have seen a general market softening for the 2011 renewals that have taken place so far. There are, however, a number of factors which are serving to temper the rate reductions, allowing us to continue to write a book of business that is well priced in the aggregate. The events of 2010 have caused significant losses to the international market, and whilst they are not sufficiently large to move rates up across the board they will cause some upwards revisions in the countries where they have occurred. In addition changes to the computer models that many reinsurers use may cause those who might be contemplating a significant reduction in rates to reconsider. We do not expect significant changes in pricing in the near-term, but we are well placed to take advantage of any opportunities that come our way and will continue to work to identify areas for growth, either in the short or long-term.

Syndicate 807

Overview

2008 underwriting year of account

Syndicate 807 made an underwriting profit of £11,515,400 (9.57%) on allocated capacity of £120,328,803 after taking account of operating expenses, Lloyd's expenses and investment income for the 2008 underwriting year of account.

The account was affected by Hurricanes Ike and Gustav and also experienced a general deterioration in underlying loss experience as recessionary factors started to take effect. The account also suffered from a significantly lower premium volume than originally planned due to the loss of two major accounts.

Prior years' development

The 2008 underwriting year result benefited from a reduction of £3,068,042 in the reserves from prior years. Claims on years of account 2007 and prior continue to be settled below the reserves set.

One year accounting result

On a UK GAAP basis, the syndicate produced a technical account profit of £3,757,062 against gross written premium of £131,091,265 and net premium earned of £122,353,546 for the 2010 calendar year.

The year was significantly affected by the Chile and New Zealand earthquakes and additionally the Perth hailstorm producing a combined ratio for the 2010 calendar year of 98.4%.

2011 development

Competitive pressures continue to affect the rating environment with most classes experiencing a surplus of capacity. Rate levels on our January renewals were largely in line with our forecast with insurance rates in our key territories and classes remaining largely flat and reinsurance rates coming under further pressure, particularly outside of North America. The catastrophe losses of 2010, although significant, have not been material enough to affect catastrophe pricing generally, with only affected areas showing any increase in rates.

We have recently expanded our treaty reinsurance business into the Far East and also developed the international medical expenses class. Initial income plans from these initiatives are modest but they are an important part of our longer-term strategy of broadening our product range and distribution channels. Our overall planned income for 2011 will be slightly up on 2010 reflecting these new initiatives but is tempered by the competitive market conditions for the majority of our existing portfolio. We will continue to focus on underwriting profit and the overall account written will see little change in its composition.

The current market provides considerable challenges but with the benefit of our historic portfolio and experienced underwriting team we feel well placed to underwrite through this part of the cycle. We will continue to look for opportunities to diversify our underwriting whilst remaining focused on the existing accounts and positioning ourselves for a future improvement in the underwriting environment.

Syndicate 308

Overview

2008 underwriting year of account

Syndicate 308 made an underwriting profit of £2,564,709 (17.49%) on allocated capacity of £14,663,133 after taking account of operating expenses, Lloyd's expenses and investment income for the 2008 underwriting year of account.

Prior years' development

The 2008 underwriting year result benefited from a reduction of £685,934 in the reserves from prior years, which was due to an Italian credit binder performing better than expected.

One year accounting result

On a UK GAAP basis, the syndicate produced a technical account profit of £1,934,245 against gross written premium of £26,367,785 and net premium earned of £18,581,891 for the 2010 calendar year.

The combined ratio for the 2010 calendar year is 90.0%.

2011 development

We were pleased that our pre-emption for 2010 was justified by achieving good utilisation of the capacity. In order to improve our capital in 2011, and to allow for growth in some binding authorities, we have restructured a few of our accounts and obtained support from some of our peers within the market. This has led to some reciprocal business opportunities. We are also pleased that it has been a buoyant renewal season.

We do not intend to change our philosophy of underwriting specialist business; while technically complex, it attracts larger margins and less competition than more standard risks. There is no doubt that open market business has been subject to some pricing pressure but overall we are still achieving prudent margins.

Directors, active underwriters and administration

Managing agent

R J Kiln & Co Limited

Directors

Edward Creasy (chairman)
 Paul Hewitt (chairman)
 Charles Franks (chief executive officer)
 Shingo Batori
 Ian Brimecome (non-executive)
 James Dover
 Ray Faires
 Andrew Hitchcox
 Richard Lewis
 Elizabeth Walsh
 Paul Wilson (non-executive)

Resigned 31/12/2010
 Appointed 1/1/2011

Appointed 12/7/2010

Resigned 10/6/2010

Company secretary

Keith Grant
 Fiona Molloy

Retired 31/7/2010
 Appointed 1/8/2010

Managing agent's registered office

106 Fenchurch Street
 London
 EC3M 5NR

Managing agent's registered number

9216575

Bankers

Citibank N.A.
 HSBC
 Lloyds Banking Group
 Royal Bank of Canada

Syndicate

Kiln Combined 510
 Property & special lines
 Marine & special risks
 Reinsurance
 Aviation
 Accident & health
 Enterprise risk

Kiln Catastrophe 557
 Kiln Mathers 807
 Kiln Life 308

Active underwriter

Robin Hargreaves
 Paul Culham
 David Huckstepp
 Paul Letherbarrow
 Tim Prifti
 Dan Trueman to 16/12/2010
 Paul Culham from 16/12/2010
 David Huckstepp
 Lloyd Tunnicliffe
 Cathy Toomey

Investment managers

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

BlackRock Investment (UK) Ltd
 33 King William Street
 London
 EC4R 9AS

Registered auditors

PricewaterhouseCoopers LLP
 Hay's Galleria
 1 Hay's Lane
 London
 SE1 2RD

Solicitors

Norton Rose
 3 More London Riverside
 London
 SE1 2AQ

Related parties

Profit commission may be payable by Syndicates 510, 557, 807 and 308 to R J Kiln & Co 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 the 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. 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, 807 and 308 to R J Kiln & Co Limited based on percentage of capacity. In addition, expenses were paid to R J Kiln & Co Limited in reimbursement for expenses paid on behalf of each syndicate. The amounts are disclosed in the notes to the syndicate accounts.

Syndicates 510, 557 and 807 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 R J Kiln & Co Limited by virtue of the shareholding in Kiln Group Limited, the parent of R J Kiln & Co Limited, by Tokio Marine Holdings, Inc. All transactions with these entities were conducted at arm's length and at normal commercial terms.

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

Kiln Group Limited wholly owns the following companies, which participate as members on Syndicates 510, 807 and 308 as shown in the table below. Kiln Group Limited has no participation in Syndicate 557.

Percentages of capacity per year of account

Company	Syndicate	2008 %	2009 %	2010 %	2011 %
Kiln Underwriting Limited	510	53	53	53	53
	807	27	41	50	52
	308	19	19	27	50
Kiln Underwriting (807) Limited	807	11	10	–	–
Kiln Underwriting (308) Limited	308	31	31	23	–

Kiln Underwriting (807) Limited has a quota share reinsurance arrangement such that the beneficial ownership of the underwriting result rests with third parties. Kiln Underwriting (308) Limited had a similar arrangement that was commuted on 30 June 2010 with all future results residing with Kiln Underwriting Limited.

The following table shows allocated premium income of the directors past and present who were or are members of Lloyd's for the 2008 to 2011 years of account.

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

	Total for YOA	510 £'000s	557 £'000s	807 £'000s	308 £'000s
Stephen Mathers	2008	93	20	770	251
Bruce Shepherd	2008	–	–	250	–
	2009	–	–	250	–
Paul Wilson	2010	161	–	75	–
	2011	161	–	75	–

A Limited Liability Partnership (LLP) was established for employees of R J Kiln & Co Limited to participate on the 2010 year of account onwards of Syndicates 510 and 807. The amounts stated represent the directors' effective share in the total capacity through their involvement in the LLP.

	2011 £'000s	Participation 2010 £'000s
Charles Franks	200	200
Ian Brimecome	400	400
James Dover	80	80
Paul Hewitt	200	200
Richard Lewis	400	400
Elizabeth Walsh	–	20
Paul Wilson	400	400

Syndicate forecast assumptions

Bases and assumptions upon which syndicate forecasts have been made:


- Ultimate net claims settlements have been estimated on the basis of paid and known outstanding claims as at 31 December 2010, 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 2011 and 2012 will be the same as at 31 December 2010.
- 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 2010.
- All potential reinsurance recoveries will be collected, except where specific provision has already been made.
- There will be no significant changes in governmental or legislative controls or policies affecting the activities or claims experience of the syndicates.
- Although a number of policies are still exposed to future losses, there will be no further abnormally large claims or aggregation of claims arising from catastrophe events or other causes.

Annual report and accounts 2010

For Syndicates 510, 557, 807 and 308 managed by R J Kiln & Co Limited

Annual accounting reports

under UK GAAP

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Syndicates

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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 2010 under UK GAAP. This report covers Syndicates 510, 557, 807 and 308 managed by R J Kiln & Co Limited as follows:

Kiln Combined	Syndicate 510	Composite syndicate
Kiln Catastrophe	Syndicate 557	Non-marine syndicate
Kiln Mathers	Syndicate 807	Non-marine syndicate
Kiln Life	Syndicate 308	Life syndicate

R J Kiln & Co Limited also manages Syndicate 1880, the report and accounts for which are presented in a separate document.

The annual reports for Syndicates 510, 557, 807 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 2008 year of account are available to syndicate members (pages 95 to 142).

Principal activity and review of the business

The principal activity of the syndicates' business 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 syndicates' Key financial Performance Indicators (KPIs) for the year are as follows:

Syndicate	KPI	2010 £'000s	2009 (Restated) £'000s	Change %
510	Gross written premium	896,769	925,288	(3.08)
	Net earned premium	674,753	708,286	(4.73)
	Profit for the financial year	106,169	104,936	1.18
	Claims ratio	54%	50%	8.00
	Combined ratio	88%	88%	-
557	Gross written premium	37,338	50,920	(26.67)
	Net earned premium	37,601	46,004	(18.27)
	Profit for the financial year	7,518	18,295	(58.91)
	Claims ratio	56%	13%	330.77
	Combined ratio	86%	65%	32.31
807	Gross written premium	131,091	153,524	(14.61)
	Net earned premium	122,354	143,574	(14.78)
	Profit for the financial year	3,757	8,413	(55.34)
	Claims ratio	55%	44%	25.00
	Combined ratio	98%	95%	3.16
308	Gross written premium	26,368	18,499	42.54
	Net earned premium	18,582	14,554	27.67
	Profit for the financial year	1,934	711	172.01
	Claims ratio	45%	54%	(16.67)
	Combined ratio	90%	96%	(6.25)

Note: The combined ratio is the ratio of net claims incurred and net operating expenses to net premiums earned. A lower combined ratio represents a better performance.

The non-life syndicates have decreased in both gross written premium and net earned premium for the 2010 calendar year. This is due to the effects of the softening market conditions with reduced rates on many books of business, combined with lower premium volumes as a result of our underwriting strategies not to accept undesirable business purely for volumes of premium income.

The claims ratio is only 4% higher for Syndicate 510 compared to 2009 in a year full of significant loss events due to the offset effect of better than expected attritional loss activity. Syndicate 308 also enjoyed a lower claims ratio as a result of positive development on an Italian credit binder. The claims ratios worsened on the other non-life syndicates due to the large number of catastrophe losses as aforementioned.

Results

The tables below analyse the annual accounting result across the open years of account for the 2010 and 2009 calendar years:

2010 calendar year

Year of account	Syndicate annual accounting result				
	510 £'000s	557 £'000s	807 £'000s	308 £'000s	Total £'000s
2010	6,277	1,439	(8,293)	(2,999)	(3,576)
2009	47,857	2,620	5,027	3,352	58,856
2008 and prior	52,035	3,459	7,023	1,581	64,098
Annual accounting result	106,169	7,518	3,757	1,934	119,378

2009 calendar year (Restated)

Year of account	Syndicate annual accounting result				
	510 £'000s	557 £'000s	807 £'000s	308 £'000s	Total £'000s
2009	33,473	12,890	1,389	(2,482)	45,270
2008	52,971	4,642	4,220	3,477	65,310
2007 and prior	18,492	763	2,804	(284)	21,775
Annual accounting result	104,936	18,295	8,413	711	132,355

Please see note 2 of the 'notes and principal accounting policies' on page 22 for further details of the 2009 calendar year restatement.

Principal risks and uncertainties

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

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

Capital assessment and allocation

Kiln has implemented a capital allocation model consistent with the Financial Services Authority (FSA) Individual Capital Assessment (ICA) requirements. Kiln sets risk appetite annually as part of the business planning and ICA process. The output from the model produces an amount of capital consistent with the Lloyd's Economic Capital Assessment (ECA) regime, which is set to achieve a desired credit rating.

The model enables Kiln to allocate 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.

Solvency II

The implementation of Solvency II, due to its sheer size and complexity, poses a challenge to Kiln's specialty insurance underwriting culture. During 2010, Kiln has successfully met all of the requirements of the Lloyd's Dry Run process for Internal Model approval. It has also completed the QIS5 exercise and the results show that the proposed standard formula for solvency capital implies a significantly higher capital requirement than currently calculated and required. Kiln is accordingly investing significant time and resource in order to pass the Internal Model tests, which would allow Kiln to use its own risk-based model to calculate capital requirements.

Insurance risk

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

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

Underwriting risk

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

Kiln manages insurance risk 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. Kiln then monitors volume and price performance against syndicate business plans monthly, and all of the components of the insurance result and risk appetite quarterly. It looks 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. Kiln uses catastrophe modelling software to model maximum probable losses from catastrophe-exposed business and as part of its Realistic Disaster Scenario (RDS) process.

Reinsurance risk

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

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

Reserving risk

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

Claims provisions represent estimates, based on both the underwriters' informed knowledge and judgement and on the internal reserving actuary's statistical projections, of Kiln's expectations of the ultimate settlement and administration costs of claims incurred. Kiln uses a variety of estimation techniques, 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. Kiln's policy is to reserve on a consistent basis with a reasonable margin for prudence, such that the syndicates are strongly reserved without being over-reserved. Syndicate 308 is reserved at a prudent level in accordance with life reserving actuarial guidance. Kiln uses claims run-off tables to monitor the history of reserve adequacy, and these show a trend of predominantly positive run-off since they were first prepared in 2001.

Credit risk

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

Credit exposure and aggregate exposure to reinsurers are managed by Kiln's reinsurance security committee. It assesses, and is required to approve, all new reinsurers before business is placed with them, and it monitors the credit ratings of all reinsurers used. The performance of premium debtors, from brokers and coverholders, is monitored quarterly by the credit control committee.

Market risk

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

Investments are held as a result of Kiln's underwriting activities either in premium trust funds or as capital support. The investment policy is set to protect the capital, rather than managed as a separate profit centre. Funds managed by our investment managers are subject to Kiln guidelines, and the on-going investment strategy and investment objectives that are agreed by the investment group, which meets regularly with the fund managers to review performance. Kiln syndicates maintain a diversified investment portfolio to restrict the concentration of assets. Kiln syndicates have no exposure to equity related investments and regular reviews are carried out to match requirements against liabilities by currency and duration.

Liquidity risk

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

To mitigate liquidity risk, Kiln's investment committee reviews syndicate cash flow projections quarterly, and also stress tests them against RDSs. In the event of a catastrophe loss of a significant size, some managed syndicates have the ability to take advantage of Outstanding Claims Advances (OCA) from their major non-marine reinsurers.

Report of the directors of the managing agent

Agency risk

The risk that managers do not act in the best interests of their principal. Kiln is aware of its fiduciary responsibilities to capital providers across each of its five syndicates and is careful to ensure equity between them.

Operational risk

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

Kiln seeks to manage this risk by the recruitment of high calibre staff and providing them with high quality training, and also through the use of a comprehensive risk register and a quarterly review system with departmental heads responsible for identifying, assessing and controlling operational risks effectively.

Kiln has 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 monthly basis and the audit, risk and compliance committee reviews the operational risk profile each quarter.

Regulatory risk

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

Kiln is required to comply with the requirements of the FSA and Lloyd's, including those imposed on the Lloyd's market by overseas regulators, particularly in respect of US situs business. Compliance with regulation and monitoring of regulatory change is part of the regular internal audit programme.

Future business risk

The risk that future earnings are lower or more volatile than expected.

Examples include:

- The insurance business is cyclical in nature with fluctuations in capacity, competition and the frequency and severity of losses, as a result of both man-made and natural disasters.
- As a result of competition premium rates can vary sharply in the short term.
- There can be no assurance that reinsurance or retrocession arrangements will be available in the future at a price that Kiln finds acceptable.
- 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.

Claims development

The following tables show the development of ultimate claims (after reinsurance recoveries) over the last seven years. The claims development tables are prepared on an underwriting year of account basis.

	2004 & prior £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m
Syndicate 510							
Year 1	1,756.0	489.9	337.2	353.6	432.7	364.1	414.5
Year 2	1,730.3	483.0	339.5	384.2	424.2	379.0	
Year 3	1,690.6	480.2	325.0	378.8	418.2		
Year 4	1,672.0	476.5	318.1	371.2			
Year 5	1,675.5	473.4	310.3				
Year 6	1,675.2	464.3					
Year 7	1,666.0						
Claims paid	1,622.3	429.3	274.2	299.2	295.0	165.8	28.0
Future claims	-	-	-	-	-	13.4	231.8
Outstanding claims reserve	43.7	35.0	36.1	72.0	123.2	199.8	154.7

	2004 & prior £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m
Syndicate 557							
Year 1	99.1	31.8	5.7	7.6	20.5	18.5	25.0
Year 2	97.2	30.3	3.5	4.4	14.5	14.7	
Year 3	95.9	30.1	2.4	3.4	12.7		
Year 4	92.9	28.7	2.4	3.1			
Year 5	90.0	28.4	2.2				
Year 6	88.8	28.1					
Year 7	88.6						
Claims paid	83.9	26.0	2.1	2.7	10.3	5.0	0.4
Future claims	-	-	-	-	-	0.1	7.2
Outstanding claims reserve	4.7	2.1	0.1	0.4	2.4	9.6	17.4

	2004 & prior £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m
Syndicate 807							
Year 1	334.7	92.6	59.4	68.4	74.2	66.7	73.3
Year 2	334.8	92.2	50.8	74.8	70.0	66.0	
Year 3	335.4	90.9	53.8	74.0	70.3		
Year 4	329.5	90.7	52.3	73.0			
Year 5	328.0	90.3	51.5				
Year 6	335.2	90.4					
Year 7	334.6						
Claims paid	330.4	88.9	49.5	66.1	56.4	34.2	6.7
Future claims	-	-	-	-	-	2.8	39.7
Outstanding claims reserve	4.2	1.5	2.0	6.9	13.9	29.0	26.9

	2004 & prior £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m
Syndicate 308							
Year 1	12.4	4.4	6.0	7.0	6.1	9.4	8.5
Year 2	12.5	2.4	4.4	5.4	6.1	9.5	
Year 3	12.2	2.0	5.4	5.4	7.0		
Year 4	11.8	1.9	5.6	5.4			
Year 5	11.8	1.9	5.1				
Year 6	11.8	1.9					
Year 7	11.8						
Claims paid	11.7	1.9	4.1	4.5	6.3	7.1	2.9
Future claims	-	-	-	-	-	0.8	4.0
Outstanding claims reserve	0.1	-	1.0	0.9	0.7	1.6	1.6

Underwriters' reports

The underwriters' reports on pages 7 to 11 set out further commentaries on the principal activities and one year annual accounting results for Syndicates 510, 557, 807 and 308 and also include commentaries on the year of account result for the 2008 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 2010 are reported under the section 'directors, active underwriters and administration' on page 12. The directors' participations in the premium income of the syndicates are set out in the related parties note on page 13.

Disclosure of information to the auditors

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

Reappointment of auditors

The board approved the reappointment of PricewaterhouseCoopers LLP as auditors for the current year and on an ongoing basis. PricewaterhouseCoopers LLP also acts as auditor to the managing agent R J Kiln & Co Limited and other Kiln Group entities.

Syndicate annual general meeting

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

Approved by the board of directors

Fiona Molloy

Company secretary
R J Kiln & Co Limited
16 March 2011

Statement of managing agent's responsibilities

The managing agent is responsible for preparing the syndicate annual report and annual accounts in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the managing agent to prepare syndicate annual accounts 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 syndicate 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 the 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 the 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 the 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 financial statements.

Independent auditors' report to the members of Syndicates 510, 557, 807 and 308

We have audited the syndicate annual accounts of each of Syndicates 510, 557, 807 and 308 for the year ended 31 December 2010 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, the cash flow statement, the statement of accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of the managing agent and the auditors

As explained more fully in the statement of managing agent's responsibilities (set out on page 20), the managing agent is responsible for the preparation of syndicate annual accounts which 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). 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 syndicates' members as a body in accordance with section 10 of part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the syndicate annual accounts

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 syndicates' 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.

Opinion on syndicate annual accounts

In our opinion the syndicate annual accounts:

- give a true and fair view of the state of the syndicates' affairs as at 31 December 2010 and of their profits 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.

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

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires us to report to you, if in our opinion:

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

Roy Clark

Senior statutory auditor

For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

16 March 2011

Notes and principal accounting policies applying to all syndicates

as at 31 December 2010

1. Basis of preparation

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

2. Changes in accounting policies

The accounting policies are consistent with those of the previous year except that the syndicates have adopted the following Financial Reporting Standards (FRS) during the year:

- FRS 23 'The effects of changes in foreign exchange rates',
- FRS 25 'Financial instruments, presentation',
- FRS 26 'Financial instruments, measurement', and
- FRS 29 'Financial instruments, disclosures'.

Adoption of these standards follows the use of derivative contracts in the syndicates' investment portfolios during 2010. Use of derivative contracts requires the syndicates to adopt FRS 26 to measure all of their financial instruments at fair value, including the new derivative contracts. In accordance with the financial reporting standards, FRS 26 may only be adopted as part of a package of standards consisting of FRS 23, FRS 25, FRS 26 and FRS 29.

Adoption of these standards required restating the comparatives of the financial performance and position of the syndicates, through the use of fair value accounting, the translation of certain foreign currency non-monetary assets and liabilities at historical rather than closing rates, and the inclusion of all foreign exchange gains and losses in the profit and loss account. Previously certain gains and losses were included in the statement of total recognised gains and losses (STRGL). They also give rise to additional disclosures, as shown in the notes to the accounts.

In accordance with FRS 3 'Reporting financial performance', the effect of a prior period adjustment on the results for the preceding period is disclosed in the STRGL for each syndicate. It is not practicable to give a quantified indication of the change in accounting policies on the syndicate results for the current period because all of the financial statements have been produced under the new set of accounting policies and it was considered inefficient to produce the results under the old set of accounting policies purely for comparison purposes. The following table shows the effect of the changes in accounting policy on both the profit for the 2009 calendar year members' balances as at 31 December 2009 and the profit for the 2009 calendar year.

	Syndicate 510 £'000s	Syndicate 557 £'000s	Syndicate 807 £'000s	Syndicate 308 £'000s
Effect of restatement:				
2009 profit	(37,686)	(5,138)	(6,193)	(310)
2009 members' balances	(1,217)	(45)	(34)	18

3. 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 FSA 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.

4. Accounting policies

a) Premiums written – general and life business

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 are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due to the syndicates not yet notified.

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

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

b) Earned premiums – general and life business

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

Reinstatement premiums arise 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. They are recognised as written and earned in full at the date of the event giving rise to the reinstatement premium.

c) Reinsurance premium ceded – general and life business

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

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

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

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

The estimation of claims IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the syndicate, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insurer until many years after the event giving rise to the claim has occurred. Classes of business where the IBNR proportion of the total reserves is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. Classes of business where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims a variety of estimation techniques 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 financial statements 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 claims reserves held at the balance sheet date.

Property, enterprise risk, reinsurance and accident and health

These business areas are predominantly short tail, in that there is not a significant delay between the occurrence of the claim and the claim being reported. 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.

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.

Notes and principal accounting policies applying to all syndicates

as at 31 December 2010

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 FSA's Prudential Sourcebook for Insurers. These are the amounts shown in the balance sheet. This statutory solvency basis is then adjusted in respect of general contingency reserves and other reserves required for statutory solvency purposes. This adjusted basis is referred to as the modified statutory solvency basis. Further details of the assumptions used are given in note 3 of the annual accounts of Syndicate 308.

e) Provision for unexpired risks

Provision is made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums provision and unexpired risks 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.

f) Acquisition costs

For both general and life business, acquisition costs, comprising commission and other costs related to the acquisition of new insurance contracts are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

g) Foreign currencies

Functional currency

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

Transactions and balances

Foreign currency transactions are recorded in the functional currency using the exchange rates prevailing at the dates of the transactions or an appropriate average rate of exchange. Foreign exchange gains and losses resulting from the settlement of monetary items relating to such transactions and from the measurement at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Non-monetary assets (i.e. those without a corresponding cash flow that are measured at historical cost) such as unearned premium reserves and deferred acquisition costs are recorded in the balance sheet at the exchange rate prevailing at the date of the original transaction (i.e. inception date of the related insurance policy).

Exchange rates used are as follows:

	Average rate		Year end rate	
	2010	2009	2010	2009
US dollar	1.55	1.57	1.57	1.61
Canadian dollar	1.59	1.78	1.56	1.69

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

h) Investments

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

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

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

The fair values of financial instruments traded in active markets are based on quoted bid prices on the balance sheet date. 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 and over-the-counter derivatives).

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

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 profit and loss account. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

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 and 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 current accounting period. Movements in unrealised gains and losses on investments represent the difference between the fair value at the balance sheet date and their purchase price or their fair value at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in the current accounting periods, in respect of investment disposals in the current period.

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

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 appreciation, investment income and accrued interest received during the year, after deducting investment management costs but before deducting tax. Average funds available is the average value of all investments (including accrued interest), deposits and surplus cash at the beginning of the year and at each month end revalued at market prices.

l) Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any US Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the syndicate during the year are included in the balance sheet under the heading 'other debtors'.

No provision has been made for any overseas tax payable by members on underwriting results.

m) Pension costs

R J Kiln & Co Limited operates a defined contribution scheme. Pension contributions relating to syndicate staff are charged to the syndicates and included within net operating expenses.

R J Kiln & Co Limited also operates a defined benefit scheme through the R.J.Kiln & Co. Limited Pension and Assurance Scheme (closed to future benefit accrued from 1 May 2003). The cost of providing benefits is determined by the scheme actuary with actuarial valuations being carried out at each balance sheet date. From 1 January 2005, pension scheme deficits are required to be placed on balance sheets under FRS 17 'Retirement benefits'. Accordingly, on that date the managing agent made a charge to syndicates representing the syndicates' proportion of the scheme's deficit at the previous year end.

The algorithm used to determine the relevant proportion of deficit charged to each syndicate is based on the working patterns of the scheme's active members as at the date of the closure of the scheme.

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

The managing agent makes adjusting charges and credits to reflect changes in the pension scheme liability such that the outstanding balance due from the syndicates at the reporting date represents their share of the overall scheme balance based on the algorithm. Any outstanding liability is reported as other creditors in each syndicate balance sheet with a corresponding matching entry as other debtors. The amount in other debtors represents an amount which is recoverable either from syndicate members in future years when further funding to the scheme is made and treated as an expense in each syndicate's accounts, or when actuarial gains on the scheme are made and a corresponding credit is received from the managing agent.

Notes and principal accounting policies applying to all syndicates

as at 31 December 2010

n) Profit commission

Profit commission is charged by the managing agent at a rate of 12.5% for Syndicate 510 and 17.5% for Syndicates 557, 807 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 accrued by the syndicates based on the interim annual accounting results of the year of account under UK GAAP and 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.

Profit commission is estimated on an ultimate basis for each year of account and accrued for on the basis of the proportion of the ultimate result earned to date.

o) Contingent consideration

A 30% holding in Ibex Insurance Services Ltd was acquired by R J Kiln & Co Limited on 24 January 2008. This acquisition was made on behalf of the members of Syndicate 510 (88%) and Syndicate 807 (12%). The company acts as an insurance agent writing business on behalf of the syndicates. The consideration paid for the company comprised cash and a portion of contingent consideration.

The contingent consideration is dependent on the company's financial performance over a five year period. A provision is established within other creditors in respect of this.

p) Post balance sheet events

January and February 2011 saw significant loss events from flooding in Queensland, Australia and the earthquake in Christchurch, New Zealand. We have also seen losses from the earthquake which struck Japan in March 2011. Whilst this will be a significant loss to the insurance industry, Kiln's exposure to the Japanese market has decreased since the Tokio Marine acquisition in 2008. It is too soon for us to estimate the full financial impact these catastrophes will have. However, the losses from these events will be material to the non-life syndicates. As these events occurred after the balance sheet date, they are deemed to be non-adjusting post balance sheet events in accordance with FRS 21 'Events after the balance sheet date'.

No amounts for these events have been recognised in the financial statements. The industry's understanding of how these events might develop is at a very early stage, however management expects that the majority of these losses will fall within the forecast ranges given for the syndicates in the report of the chief executive officer on page 5. It is too early to assess whether the Japanese earthquake will fall within these ranges.

Annual report and accounts 2010

For Syndicates 510, 557, 807 and 308 managed by R J Kiln & Co Limited
Annual accounting reports under UK GAAP

Syndicate 510

Kiln Combined Syndicate
Composite

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Profit and loss account: technical account – general business

for the year ended 31 December 2010

	Note	2010 £'000s	2009 (Restated) £'000s
Earned premiums, net of reinsurance			
Gross premiums written	1	896,769	925,288
Outward reinsurance premiums		(193,267)	(225,685)
Net premiums written		703,502	699,603
Change in the provision for unearned premiums:			
Gross amount		(26,283)	6,967
Reinsurers' share		(2,466)	1,716
Change in the net provision for unearned premiums		(28,749)	8,683
Earned premiums, net of reinsurance		674,753	708,286
Allocated investment return transferred from the non-technical account		22,235	19,493
Claims incurred, net of reinsurance			
Claims paid:			
Gross amount		(381,285)	(445,323)
Reinsurers' share		61,807	73,894
Net claims paid		(319,478)	(371,429)
Change in the provision for claims:			
Gross amount		(67,972)	52,445
Reinsurers' share		25,530	(33,390)
Change in the net provision for claims		(42,442)	19,055
Claims incurred, net of reinsurance		(361,920)	(352,374)
Members' standard personal expenses		(30,783)	(27,460)
Net operating expenses	3,4,5	(198,116)	(243,009)
Balance on the general business technical account		106,169	104,936

All operations are continuing.

Profit and loss account: non-technical account

for the year ended 31 December 2010

	Note	2010 £'000s	2009 (Restated) £'000s
Balance on the general business technical account		106,169	104,936
Investment income	6	24,724	19,020
Net unrealised gains on investments	6	–	898
Investment expenses and charges	6	(555)	(425)
Net unrealised losses on investments	6	(1,934)	–
Allocated investment return transferred to general business technical account	6,7	(22,235)	(19,493)
Profit for the financial year		106,169	104,936

Statement of total recognised gains and losses

	Note	2010 £'000s	2009 (Restated) £'000s
Profit for the financial year		106,169	104,936
Total recognised gains related to the year		106,169	104,936
Note on prior period adjustment			
Total recognised gains related to the year as above		106,169	
Prior period adjustment (see note below)		(1,217)	
Total gains recognised since the last annual report		104,952	

Use of derivatives by the syndicate during the year required the adoption of new financial reporting standards including FRS 23, the effect of which changed the accounting method for non-monetary items and foreign exchange gains and losses on revaluation of the opening balance sheet. As a consequence, the prior year results have been restated and the effect is a decrease in members' balances of £1,217,357.

Balance sheet: assets

as at 31 December 2010

	Note	2010 £'000s	2009 (Restated) £'000s
Investments			
Other financial investments	8	713,856	655,560
Deposits with ceding undertakings			
		865	723
Reinsurers' share of technical provisions			
Provision for unearned premiums		57,907	63,106
Claims outstanding	2	175,462	146,545
		233,369	209,651
Debtors			
Debtors arising out of direct insurance operations	9	273,984	208,577
Debtors arising out of reinsurance operations		120,743	168,868
Other debtors		17,929	22,398
		412,656	399,843
Other assets			
Cash at bank and in hand		10,237	10,165
Other	10	77,231	68,930
		87,468	79,095
Prepayments and accrued income			
Deferred acquisition costs		103,848	93,733
Other prepayments and accrued income		5,333	4,311
		109,181	98,044
Total assets		1,557,395	1,442,916

Balance sheet: liabilities

as at 31 December 2010

	Note	2010 £'000s	2009 (Restated) £'000s
Capital and reserves			
Members' balances	11	138,690	133,911
Technical provisions			
Provision for unearned premiums		377,977	347,517
Claims outstanding	2	844,246	759,605
		1,222,223	1,107,122
Deposits received from reinsurers		2,266	2,810
Creditors			
Creditors arising out of direct insurance operations	12	50,295	53,388
Creditors arising out of reinsurance operations		86,656	86,133
Other creditors	13	41,659	43,565
		178,610	183,086
Accruals and deferred income			
Reinsurers' share of deferred acquisition costs		14,758	15,311
Other accruals and deferred income		848	676
		15,606	15,987
Total liabilities		1,557,395	1,442,916

The annual accounts, which comprise pages 28 to 44 and the notes and principal accounting policies applicable to all syndicates on pages 22 to 26, were approved by the board of R J Kiln & Co Limited on 7 March 2011 and were signed on its behalf by

James Dover

Finance director
R J Kiln & Co Limited
16 March 2011

Cash flow statement

for the year ended 31 December 2010

	Note	2010 £'000s	2009 £'000s
Net cash inflow from operating activities	14	144,289	155,941
Transfer to members in respect of underwriting participants		(98,079)	(76,712)
Financing			
Distribution loss collected		4	3
Members' agents' fees paid on behalf of members		(3,315)	(2,232)
Net cash flows		42,899	77,000
Cash flows were invested as follows:			
Increase/(decrease) in cash holdings	15	67	(21,292)
Increase in deposits	15	7,716	17,421
Net portfolio investments	15,16	35,116	80,871
Net investment of cash flows		42,899	77,000

Notes to the accounts

as at 31 December 2010

1. Segmental analysis

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

Year ended 31 December 2010	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	430,595	409,675	(233,786)	(154,235)	(19,760)	1,894	518,167
Marine & special risks	171,688	166,686	(78,386)	(54,213)	(7,622)	26,465	237,886
Reinsurance	152,037	160,886	(80,244)	(32,701)	(18,784)	29,157	35,467
Aviation	51,824	51,357	(20,924)	(15,540)	(2,811)	12,082	126,604
Accident & health	78,775	74,640	(34,850)	(25,808)	(1,688)	12,294	64,158
Enterprise risk	11,850	7,242	(1,067)	(3,530)	(603)	2,042	6,572
	896,769	870,486	(449,257)	(286,027)	(51,268)	83,934	988,854

Of the above divisions the following have accepted inwards reinsurance business: reinsurance (100%); aviation (33.5%); accident & health (32.9%); marine & special risks (28.0%); property & special lines (17.0%) and enterprise risk (4.7%).

Year ended 31 December 2009 (Restated)	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	413,672	430,809	(210,848)	(168,357)	(27,792)	23,812	429,680
Marine & special risks	184,615	181,219	(101,480)	(57,939)	(14,086)	7,714	207,851
Reinsurance	194,218	191,860	(31,028)	(42,287)	(80,576)	37,969	107,143
Aviation	53,492	54,498	(12,357)	(19,361)	(5,921)	16,859	98,920
Accident & health	75,790	71,811	(36,474)	(32,417)	(3,487)	(567)	52,179
Enterprise risk	3,501	2,058	(691)	(1,480)	(231)	(344)	1,698
	925,288	932,255	(392,878)	(321,841)	(132,093)	85,443	897,471

Of the above divisions the following have accepted inwards reinsurance business: reinsurance (100%); aviation (35.7%); accident & health (21.0%); property & special lines (18.3%) and marine & special risks (17.8%).

All premiums were concluded in the UK.

The total commission payable on direct business was £194,345,533 (2009: £201,594,496).

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

	2010 £'000s	2009 £'000s
UK	67,546	71,339
Other EU countries	89,231	87,600
US	330,382	400,436
Other	409,610	365,913
	896,769	925,288

2. Claims outstanding

Within the calendar year technical result, a surplus of £28.1m relates to the reassessment of net premium earned and net claims incurred for previous accident years. This movement is mainly attributable to the property & special lines and reinsurance divisions.

Notes to the accounts

as at 31 December 2010

3. Net operating expenses

	2010 £'000s	2009 (Restated) £'000s
Acquisition costs	233,971	245,452
Change in deferred acquisition costs	(9,112)	(2,544)
Administrative expenses	40,863	27,216
(Profit)/loss on exchange	(10,478)	24,257
Gross operating expenses	255,244	294,381
Reinsurance commissions and profit participations	(57,128)	(51,372)
Net operating expenses	198,116	243,009

Administrative expenses include:

	2010 £'000s	2009 £'000s
Auditors' remuneration:		
Audit services	206	211

Audit services are defined as fees payable to the syndicate's auditors for the audit of the syndicate's accounts.

No non-audit services were provided by the auditors.

4. Staff numbers and costs

All 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:

	2010 £'000s	2009 £'000s
Wages and salaries	14,749	13,512
Social security costs	1,452	1,356
Other pension costs	947	947
	17,148	15,815

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

	2010 £'000s	2009 £'000s
Initial charge of defined benefit scheme (surplus) to the syndicate on 1 January	-	(741)
Net debit from managing agent during year	947	1,687
Amount funded in year	947	946

The amounts funded were allocated to all open years of account.

The average number of full-time employees employed by Tokio Marine Kiln Insurance Services Limited but working for the syndicate during the year was as follows:

	2010	2009
Administration and finance	77	75
Underwriting	71	62
Claims	13	8
	161	145

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.

5. Emoluments of the directors of R J Kiln & Co Limited

The directors of R J Kiln & Co Limited received the following aggregate remuneration in relation to their work on the syndicate. The Kiln group of companies operates a bonus pooling arrangement such that profit-related pay is generated from both profit commission and the group's share of the underwriting result through its corporate member Kiln Underwriting Limited. A considerable portion of the profit-related pay is therefore borne by other Kiln group entities. The profit commission included within the emoluments is in relation to the 2007 year of account, as the allocation to underwriters is only determined following its closure.

	2010 £'000s	2009 £'000s
Emoluments	1,564	5,248

The active underwriters received the following remuneration charged as a syndicate expense:

	2010 £'000s	2009 £'000s
Emoluments	3,793	3,743

6. Investment income and expense

	2010 £'000s	2009 £'000s
Investment income:		
Income from investments	23,066	21,095
Net gains on the realisation of investments	1,658	–
Net unrealised gains on investments	–	898
Investment expenses:		
Investment management expenses, including interest	(555)	(425)
Net losses on the realisation of investments	–	(2,075)
Net unrealised losses on investments	(1,934)	–
	22,235	19,493

7. Calendar year investment yield

	2010 £'000s	2009 (Restated) £'000s
Average amount of syndicate funds during the year	771,168	702,054
Aggregate gross investment return:		
Before investment expenses	22,790	19,918
After investment expenses	22,235	19,493
Calendar year investment yield:	%	%
Before investment expenses	3.0	2.8
After investment expenses	2.9	2.8
Analysis of calendar year investment yield by fund:	%	%
Sterling fund	4.3	5.1
US dollar fund	2.9	2.7
Canadian dollar fund	1.7	1.2
Euro fund	0.6	0.4

The 2009 comparative has been restated to correct an error in the calculation of the average amount of syndicate funds.

Notes to the accounts

as at 31 December 2010

8. Other financial investments

	Carrying value		Purchase price	
	2010 £'000s	2009 £'000s	2010 £'000s	2009 £'000s
Debt securities and other fixed income securities	544,822	594,013	546,745	588,805
Shares and other variable yield securities	168,777	61,547	168,777	61,547
Deposits with credit institutions	257	–	257	–
	713,856	655,560	715,779	650,352

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

9. Debtors arising out of direct insurance operations

	2010 £'000s	2009 (Restated) £'000s
Amounts due from intermediaries within one year	273,947	208,463
Amounts due from intermediaries after one year	37	114
	273,984	208,577

During the year the syndicate changed its accounting treatment for the balances relating to the acquisition of service companies owned by R J Kiln & Co Limited for the beneficial membership of the syndicate's members. These balances were previously held as technical debtors and creditors but have been moved to other debtors and creditors as management considers this treatment to be more appropriate.

10. Other assets

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

11. Reconciliation of members' balances

	2010 £'000s	2009 (Restated) £'000s
Members' balances at 1 January	133,911	77,084
Prior period adjustment	–	30,831
Members' balances restated at 1 January	133,911	107,915
Profit for the financial year	106,169	104,936
Payments of profit to members' personal reserve funds	(98,075)	(76,709)
Members' agents' fee advances	(3,315)	(2,232)
Exchange differences arising on members' balances	–	1
Members' balances carried forward at 31 December	138,690	133,911

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

12. Creditors arising out of direct insurance operations

	2010 £'000s	2009 (Restated) £'000s
Amounts due to intermediaries within one year	50,295	53,388

13. Other creditors

Included within other creditors are balances relating to contingent consideration associated with the 2008 Ibex Insurance Services Ltd acquisition made by the managing agent on behalf of the members of Syndicate 510 and balances relating to the derivatives held by the syndicate:

	2010 £'000s	2009 £'000s
Balance due within one year for contingent consideration	237	–
Balance due in more than one year for contingent consideration	–	1,025
Variation margin account payable	84	–
	321	1,025

The syndicate manages its interest rate risks in the investment portfolio by using Treasury futures:

	Fair value (liability)		Contract/notional amount	
	2010 £'000s	2009 £'000s	2010 £'000s	2009 £'000s
Treasury future contracts – held for trading	(39)	–	31,827	–

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

	2010 £'000s	2009 (Restated) £'000s
Operating profit on ordinary activities	106,169	104,936
Realised and unrealised investment (gain)/loss including foreign exchange	(24,456)	108,231
(Increase) in debtors	(23,950)	(7,414)
Increase/(decrease) in net technical provisions	91,383	(51,226)
(Decrease)/increase in creditors	(4,857)	1,413
Exchange loss arising on members' balances	–	1
Net cash inflow from operating activities	144,289	155,941

Notes to the accounts

as at 31 December 2010

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

	2010 £'000s	2009 £'000s
Net cash inflow/(outflow) for the year	67	(21,292)
Cash flow		
Deposits	7,716	17,421
Portfolio investments	35,116	80,871
Movement arising from cash flows	42,899	77,000
Changes in market value and exchange rates	24,456	(108,231)
Total movement in portfolio investments	67,355	(31,231)
Portfolio at 1 January	732,568	763,799
Portfolio at 31 December	799,923	732,568

Movement in cash, portfolio investments and financing

	At 1 January 2010 £'000s	Cash flow £'000s	Changes to market value and currencies £'000s	At 31 December 2010 £'000s
Cash at bank and in hand	10,165	67	5	10,237
Debt securities and other fixed income securities	594,013	(72,736)	23,545	544,822
Shares and other variable yield securities	61,547	107,595	(365)	168,777
Deposits with credit institutions	–	257	–	257
Total portfolio investments	655,560	35,116	23,180	713,856
Deposits received from reinsurers	(2,810)	616	(72)	(2,266)
Overseas deposits	68,930	6,974	1,327	77,231
Deposits with ceding undertakings	723	126	16	865
Total cash, portfolio investments and financing	732,568	42,899	24,456	799,923

The syndicate writes business in certain jurisdictions that require the deposit of cash and investments in locally held trust funds therefore preventing the free transfer of cash between currencies and locations. The total held in these funds at 31 December 2010 was £422,582,344 (2009: £394,214,301).

16. Net cash (outflow) on portfolio investments

	2010 £'000s	2009 £'000s
Purchase of debt securities and other fixed income securities	(1,411,999)	(2,297,517)
Sale of debt securities and other fixed income securities	1,484,735	2,258,145
Shares and other variable yield securities	(107,595)	(64,209)
Deposits with credit institutions	(257)	22,710
Net cash (outflow) on portfolio investments	(35,116)	(80,871)

17. Related parties

Syndicate 510 accepted inwards reinsurance business from, and placed outwards reinsurance business with, other Tokio Marine Group entities, including Syndicate 1880, that are deemed to be related parties of R J Kiln & Co Limited by virtue of the shareholding in Kiln Group Limited by Tokio Marine Holdings, Inc. All transactions with these entities were conducted at arm's length and at normal commercial terms.

Syndicate 510 accepted premiums from related parties in the 2010 calendar year of £3,025,067 (2009: £3,336,412). The unpaid premiums due from related parties at the period end were £493,605 (2009: £830,449). The outstanding claims, including an element of IBNR, were £257,519 (2009: £499,682).

Written premiums ceded by Syndicate 510 to related parties for the 2010 calendar year were £64,811,312 (2009: £77,577,019). Paid recoveries from related parties during 2010 were £16,149,986 (2009: £9,225,383). Unpaid recoveries at the year end amounted to £4,773,704 (2009: £172,932) and future recoveries on outstanding claims, including an element of IBNR, were £60,781,831 (2009: £20,911,282).

The syndicate receives business from the following service and related companies, investments in which are held ultimately by the managing agent: Kiln Asia Limited (100% owned), Kiln South Africa (Proprietary) Limited (100% owned), Kiln Regional Underwriting Limited (100% owned) and Ibex Insurance Services Ltd (30% owned). These businesses each produce less than 2% of the syndicate's gross premium income.

The syndicate also receives business from Kiln Europe S.A. which is 100% owned by Kiln Group Limited.

Profit commission of £22,787,183 is payable by the syndicate to R J Kiln & Co Limited in respect of profits for the 2010 calendar year (2009: £23,469,555). Profit commission was accrued by the syndicates based on the interim annual accounting results of the 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 £6,692,313 (2009: £4,796,277) were paid by the syndicate to R J Kiln & Co Limited. In addition to this, expenses of £28,585,701 (2009: £24,259,950) were paid to R J Kiln & Co Limited for expenses paid on behalf of the syndicate.

The note on related parties on page 13 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 16 to 18.

(a) Insurance risk

Further details on the management of the syndicate's insurance risk are given on page 17.

Concentrations of insurance risk

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

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

2010	Gross claims provision £'000s	Reinsurance claims provision £'000s	Net claims provision £'000s
Division			
Property & special lines	368,903	(27,957)	340,946
Marine & special risks	185,593	(19,002)	166,591
Reinsurance	148,627	(120,941)	27,686
Aviation	105,319	(3,621)	101,698
Accident & health	34,110	(2,789)	31,321
Enterprise risk	1,694	(1,152)	542
	844,246	(175,462)	668,784

Notes to the accounts

as at 31 December 2010

2009	Gross claims provision £'000s	Reinsurance claims provision £'000s	Net claims provision £'000s
Division			
Property & special lines	344,046	(47,182)	296,864
Marine & special risks	186,037	(41,461)	144,576
Reinsurance	96,909	(53,004)	43,905
Aviation	96,952	(1,865)	95,087
Accident & health	34,770	(2,546)	32,224
Enterprise risk	891	(487)	404
	759,605	(146,545)	613,060
		Gross claims provision	
		2010	2009
		£'000s	£'000s
UK		61,667	57,988
Other EU countries		186,688	193,792
US		402,971	410,683
Other		192,920	97,142
		844,246	759,605

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 £8.7m (2009: £9.3m) more premium being reported (gross of acquisition cost), and applying the underlying attritional loss ratio this would result in an estimated increase in net profit (after acquisition costs) of £1.5m (2009: £2.0m). A decrease of 1% would result in £8.7m (2009: £9.3m) less premium being reported and an estimated £1.5m (2009: £2.0m) reduction in net profit. The profit impact is at the net level i.e. after the reinsurance adjustment and profit commission effects.

Claims sensitivity analysis

The claims ratio for 2010 is 54% (2009: 50%). 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 £6.7m (2009: £7.1m) and profit reducing by £5.6m (2009: £5.8m).

(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 17.

The following table provides information regarding credit risk exposures of the syndicate by classifying assets according to credit ratings of the counterparties. During the year, no exposure limits were exceeded.

	AAA £'000s	AA £'000s	A £'000s	<A £'000s	NR £'000s	Total £'000s
2010						
Reinsurers' share of outstanding claims including reinsurers' IBNR	3,976	43,163	108,034	2,823	17,466	175,462
Financial investments						
Other financial investments	458,049	105,609	133,237	16,265	696	713,856
Overseas deposits	32,592	9,793	18,279	–	16,567	77,231
Cash at bank and in hand	–	–	10,237	–	–	10,237
Total credit risk exposure	494,617	158,565	269,787	19,088	34,729	976,786
2009						
Reinsurers' share of outstanding claims including reinsurers' IBNR	6,996	29,245	71,045	6,937	32,322	146,545
Financial investments						
Other financial investments	516,668	69,447	69,445	–	–	655,560
Overseas deposits	58,904	4,181	5,743	–	102	68,930
Cash at bank and in hand	10,165	–	–	–	–	10,165
Total credit risk exposure	592,733	102,873	146,233	6,937	32,424	881,200

Of the total reinsurers' share of outstanding claims including reinsurers' IBNR, 2.0% (2009: 3.1%) is collected under OCA agreements which is a form of cash deposit allowing crystallisation of an outstanding reinsurance recovery. The majority of the collateral values relating to the granting of OCAs are for US Situs losses only. Surplus reinsurance treaties allow the syndicate to call upon OCAs at its discretion.

The largest potential reinsurance credit exposure to the syndicate at 31 December 2010 was 35.4% with A+ rated security (2009: 34.2% A+ rated security). The reinsurance security committee of the managing agent reviews the level of this exposure and takes appropriate action where necessary.

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

	Fully performing £'000s	Past due £'000s	Impairment £'000s	Total £'000s
2010				
Financial investments				
Other financial investments	713,856	–	–	713,856
Overseas deposits	77,231	–	–	77,231
Deposits with ceding undertakings	865	–	–	865
Reinsurance assets	14,693	5,448	(4,422)	15,719
Insurance receivables	356,645	22,363	–	379,008
Cash at bank and in hand	10,237	–	–	10,237
	1,173,527	27,811	(4,422)	1,196,916
2009				
Financial investments				
Other financial investments	655,560	–	–	655,560
Overseas deposits	68,930	–	–	68,930
Deposits with ceding undertakings	723	–	–	723
Reinsurance assets	19,092	8,342	(5,071)	22,363
Insurance receivables	338,522	16,560	–	355,082
Cash at bank and in hand	10,165	–	–	10,165
	1,092,992	24,902	(5,071)	1,112,825

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

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as at 31 December 2010

Liquidity risk

For details of the management of the syndicate's liquidity risks please refer to page 17.

The syndicate writes a significant proportion of US Situs business and as such must deposit appropriate monies in 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 2010 the balance held in these trust funds was US\$367.7m (2009: US\$391.7m).

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

2010	Up to 1 year £'000s	1-3 years £'000s	3-5 years £'000s	Over 5 years £'000s	Total £'000s
Assets					
Financial investments	273,638	262,649	175,176	2,393	713,856
Insurance receivables	378,955	53	–	–	379,008
Cash at bank and in hand	10,237	–	–	–	10,237
Overseas deposits	77,231	–	–	–	77,231
	740,061	262,702	175,176	2,393	1,180,332
2009					
	Up to 1 year £'000s	1-3 years £'000s	3-5 years £'000s	Over 5 years £'000s	Total £'000s
Assets					
Financial investments	172,769	358,328	124,463	–	655,560
Insurance receivables	354,891	191	–	–	355,082
Cash at bank and in hand	10,165	–	–	–	10,165
Overseas deposits	68,930	–	–	–	68,930
	606,755	358,519	124,463	–	1,089,737
Liabilities					
Inter-syndicate loans	(5,236)	–	–	–	(5,236)

Foreign currency market risk

For further details of the management of the syndicate's market risk please refer to page 17.

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

Foreign currency liquidity and exposure for the syndicate is the responsibility of the finance director. Strategy is agreed by the investment group and ratified by the investment committee. The syndicate currency exposure and future cash flows are monitored in each currency and potential exposures and shortfalls addressed by foreign currency transactions or cash calls on members.

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

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 profit. The correlation of variables will have a significant effect in determining the ultimate impact. However, to isolate and demonstrate the effect due to changes in variables, each variable has been changed on an individual basis. It should be noted that movements in these variables are non-linear.

The following table shows the impact on profits of a 10 cents movement in the US dollar and Canadian dollar to pounds sterling exchange rates.

	2010 £'000s	2009 £'000s
10 cents increase in USD	(12,285)	(12,227)
10 cents increase in CAD	(2,371)	(3,622)
10 cents decrease in USD	13,957	13,846
10 cents decrease in CAD	2,696	4,077

Interest rate market risk

For further details of the management of the syndicate's market risk please refer to page 17.

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

The syndicate started using Treasury future derivatives to manage its exposure to interest rate risks in the latter part of 2010. The use of financial derivatives is governed by the syndicate's policies approved by Kiln's investment committee, which provide 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 profit. 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 profits of a 1% increase in the US, UK, Canadian and Euro interest rates on the market value of the syndicate's investments.

	2010 £'000s	2009 £'000s
1% increase in the US interest rates	7,578	7,439
1% increase in the UK interest rates	786	2,504
1% increase in the Canadian interest rates	1,867	1,673
1% increase in the Euro interest rates	523	634

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(c) Fair value estimation

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

- Level 1 financial instruments comprise government bonds and securities maturing in less than three months. These have been valued at fair value using quoted prices in an active market.
- Level 2 financial instruments are less regularly traded government agency bonds, supranational bonds, corporate bonds and currency derivatives. These fair values have been derived from quoted prices.
- The fair values for level 3 financial instruments are generally derived from inputs that are not based on observable market data. The syndicate does not currently hold any level 3 financial instruments.

	Level 1	Level 2	2010 £'000s	Level 3	Total
Derivative financial instruments:					
Treasury future derivatives	(39)	–		–	(39)
Debt securities:					
Government securities	141,091	–		–	141,091
Listed debt securities	–	572,765		–	572,765
Total financial investments at fair value through profit and loss – designated upon initial recognition	141,052	572,765		–	713,817

	Level 1	Level 2	2009 £'000s	Level 3	Total
Debt securities:					
Government securities	224,471	–		–	224,471
Listed debt securities	–	431,089		–	431,089
Total financial investments at fair value through profit and loss – designated upon initial recognition	224,471	431,089		–	655,560

All listed investments are recognised securities on exchanges around the world.

At 31 December 2010 the syndicate held Treasury future contracts. The fair value at 31 December 2010 is a liability of £39,243 (2009: nil) with the loss going through the investment income in the profit and loss account.

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For Syndicates 510, 557, 807 and 308 managed by R J Kiln & Co Limited

Annual accounting reports under UK GAAP

Syndicate 557

Kiln Catastrophe Syndicate
Non-marine

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Profit and loss account: technical account – general business

for the year ended 31 December 2010

	Note	2010 £'000s	2009 (Restated) £'000s
Earned premiums, net of reinsurance			
Gross premiums written	1	37,338	50,920
Outward reinsurance premiums		(4,635)	(5,095)
Net premiums written		32,703	45,825
Change in the provision for unearned premiums:			
Gross amount		4,918	37
Reinsurers' share		(20)	142
Change in the net provision for unearned premiums		4,898	179
Earned premiums, net of reinsurance		37,601	46,004
Allocated investment return transferred from the non-technical account		2,373	2,296
Claims incurred, net of reinsurance			
Claims paid:			
Gross amount		(7,177)	(9,202)
Reinsurers' share		354	476
Net claims paid		(6,823)	(8,726)
Change in the provision for claims:			
Gross amount		(14,131)	3,170
Reinsurers' share		(99)	(209)
Change in the net provision for claims		(14,230)	2,961
Claims incurred, net of reinsurance		(21,053)	(5,765)
Members' standard personal expenses		(2,523)	(6,662)
Net operating expenses	3,4,5	(8,880)	(17,578)
Balance on the general business technical account		7,518	18,295

All operations are continuing.

Profit and loss account: non-technical account

for the year ended 31 December 2010

	Note	2010 £'000s	2009 (Restated) £'000s
Balance on the general business technical account		7,518	18,295
Investment income	6	2,458	2,057
Net unrealised gains on investments	6	–	296
Investment expenses and charges	6	(66)	(57)
Net unrealised losses on investments	6	(19)	–
Allocated investment return transferred to general business technical account	6,7	(2,373)	(2,296)
Profit for the financial year		7,518	18,295

Statement of total recognised gains and losses

	Note	2010 £'000s	2009 (Restated) £'000s
Profit for the financial year		7,518	18,295
Total recognised gains related to the year		7,518	18,295
Note on prior period adjustment			
Total recognised gains related to the year as above		7,518	
Prior period adjustment (see note below)		(45)	
Total gains recognised since the last annual report		7,473	

Use of derivatives by the syndicate during the year required the adoption of new financial reporting standards including FRS 23, the effect of which changed the accounting method for non-monetary items and foreign exchange gains and losses on revaluation of the opening balance sheet. As a consequence, the prior year results have been restated and the effect is a decrease in members' balances of £45,215.

Balance sheet: assets

as at 31 December 2010

	Note	2010 £'000s	2009 (Restated) £'000s
Investments			
Other financial investments	8	76,462	83,496
Reinsurers' share of technical provisions			
Provision for unearned premiums		808	865
Claims outstanding	2	288	379
		1,096	1,244
Debtors			
Debtors arising out of reinsurance operations		3,742	2,326
Other debtors		432	299
		4,174	2,625
Other assets			
Cash at bank and in hand		811	695
Other	9	203	244
		1,014	939
Prepayments and accrued income			
Deferred acquisition costs		1,279	2,773
Other prepayments and accrued income		1	-
		1,280	2,773
Total assets		84,026	91,077

Balance sheet: liabilities

as at 31 December 2010

	Note	2010 £'000s	2009 (Restated) £'000s
Capital and reserves			
Members' balances	10	31,242	43,853
Technical provisions			
Provision for unearned premiums		7,009	11,608
Claims outstanding	2	37,256	22,729
		44,265	34,337
Creditors			
Creditors arising out of direct insurance operations	11	–	76
Creditors arising out of reinsurance operations		1,177	2,896
Other creditors	12	7,341	9,915
		8,518	12,887
Accruals and deferred income			
Other accruals and deferred income		1	–
Total liabilities		84,026	91,077

The annual accounts, which comprise pages 46 to 60 and the notes and principal accounting policies applicable to all syndicates on pages 22 to 26, were approved by the board of R J Kiln & Co Limited on 7 March 2011 and were signed on its behalf by

James Dover

Finance director
R J Kiln & Co Limited
16 March 2011

Cash flow statement

for the year ended 31 December 2010

	Note	2010 £'000s	2009 £'000s
Net cash inflow from operating activities	13	9,787	26,270
Transfer to members in respect of underwriting participations		(19,197)	(21,766)
Financing			
Distribution loss collected		3	3
Members' agents' fees paid on behalf of members		(935)	(922)
Net cash flows		(10,342)	3,585
Cash flows were invested as follows:			
Increase/(decrease) in cash holdings	14	117	(4,589)
(Decrease)/increase in deposits	14	(48)	363
Net portfolio investments	14,15	(10,411)	7,811
Net investment of cash flows		(10,342)	3,585

Notes to the accounts

as at 31 December 2010

1. Segmental analysis

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

	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
Year ended 31 December 2010							
Direct insurance							
Accident and health	–	–	–	–	–	–	(38)
Fire and other damage to property	(16)	(16)	(45)	–	84	23	380
Miscellaneous	–	–	(4)	–	–	(4)	470
	(16)	(16)	(49)	–	84	19	812
Reinsurance acceptances	37,354	42,272	(21,259)	(11,403)	(4,484)	5,126	42,357
	37,338	42,256	(21,308)	(11,403)	(4,400)	5,145	43,169

	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
Year ended 31 December 2009 (Restated)							
Direct insurance							
Accident and health	6	8	31	(49)	–	(10)	(48)
Fire and other damage to property	(23)	145	516	(1,627)	81	(885)	4,474
Miscellaneous	4	6	(2)	(10)	–	(6)	323
	(13)	159	545	(1,686)	81	(901)	4,749
Reinsurance acceptances	50,933	50,798	(6,577)	(22,554)	(4,767)	16,900	28,344
	50,920	50,957	(6,032)	(24,240)	(4,686)	15,999	33,093

All premiums were concluded in the UK.

The total commission payable on direct business was £91 (2009: £323,688).

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

	2010 £'000s	2009 £'000s
UK	37,338	50,920

2. Claims outstanding

Within the calendar year technical result, a surplus of £0.6m relates to the reassessment of net premium earned and net claims incurred for previous accident years. This movement is mainly attributable to the inwards reinsurance business.

Notes to the accounts

as at 31 December 2010

3. Net operating expenses

	2010	2009 (Restated)
	£'000s	£'000s
Acquisition costs	5,250	10,256
Change in deferred acquisition costs	1,580	(92)
Administrative expenses	2,900	2,135
(Profit)/loss on exchange	(850)	5,279
Gross and net operating expenses	8,880	17,578

Administrative expenses include:

	2010	2009
	£'000s	£'000s
Auditors' remuneration:		
Audit services	39	41

Audit services are defined as fees payable to the syndicate's auditors for the audit of the syndicate's accounts.

No non-audit services were provided by the auditors.

4. Staff numbers and costs

All 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:

	2010	2009
	£'000s	£'000s
Wages and salaries	1,076	1,163
Social security costs	104	122
Other pension costs	87	87
	1,267	1,372

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

	2010	2009
	£'000s	£'000s
Initial charge of defined benefit scheme (surplus) to the syndicate on 1 January	–	(68)
Net debit from managing agent during year	87	155
Amount funded in year	87	87

The amounts funded were allocated to all open years of account.

The average number of full-time employees employed by Tokio Marine Kiln Insurance Services Limited but working for the syndicate during the year was as follows:

	2010	2009
Administration and finance	9	9
Underwriting	2	2
Claims	1	–
	12	11

Where staff work for more than one syndicate the time is allocated based on the proportion of time spent. The relevant percentage of full-time employees is applied in the table above.

5. Emoluments of the directors of R J Kiln & Co Limited

The directors of R J Kiln & Co Limited received the following aggregate remuneration in relation to their work on the syndicate. The Kiln group of companies operates a bonus pooling arrangement such that profit-related pay is generated from both profit commission and the group's share of the underwriting result through its corporate member Kiln Underwriting Limited. A considerable portion of the profit-related pay is therefore borne by other Kiln group entities. The profit commission included within the emoluments is in relation to the 2007 year of account, as the allocation to underwriters is only determined following its closure.

	2010 £'000s	2009 £'000s
Emoluments	157	313

The active underwriter received the following remuneration charged as a syndicate expense:

	2010 £'000s	2009 £'000s
Emoluments	282	177

6. Investment income and expenses

	2010 £'000s	2009 £'000s
Investment income:		
Income from investments	2,109	2,220
Net gains on the realisation of investments	349	–
Net unrealised gains on investments	–	296
Investment expenses:		
Investment management expenses, including interest	(66)	(57)
Net losses on the realisation of investments	–	(163)
Net unrealised losses on investments	(19)	–
	2,373	2,296

7. Calendar year investment yield

	2010 £'000s	2009 (Restated) £'000s
Average amount of syndicate funds during the year	78,396	81,576
Aggregate gross investment return:		
Before investment expenses	2,439	2,353
After investment expenses	2,373	2,296
Calendar year investment yield:	%	%
Before investment expenses	3.1	2.9
After investment expenses	3.0	2.8
Analysis of calendar year investment yield by fund:	%	%
Sterling fund	1.7	3.2
US dollar fund	3.3	2.9
Canadian dollar fund	0.5	0.5
Euro fund	0.4	–

The 2009 comparative has been restated to correct an error in the calculation of the average amount of syndicate funds.

Notes to the accounts

as at 31 December 2010

8. Other financial investments

	Carrying value		Purchase price	
	2010 £'000s	2009 £'000s	2010 £'000s	2009 £'000s
Debt securities and other fixed income securities	56,590	78,561	56,601	77,666
Shares and other variable yield securities	19,822	4,935	19,822	4,935
Deposits with credit institutions	50	–	50	–
	76,462	83,496	76,473	82,601

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

9. Other assets

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

10. Reconciliation of members' balances

	2010 £'000s	2009 (Restated) £'000s
Members' balances at 1 January	43,853	46,250
Prior period adjustment	–	1,993
Members' balances restated at 1 January	43,853	48,243
Profit for the financial year	7,518	18,295
Payments of profit to members' personal reserve funds	(19,194)	(21,763)
Members' agents' fee advances	(935)	(922)
Members' balances carried forward at 31 December	31,242	43,853

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

11. Creditors arising out of direct insurance operations

	2010 £'000s	2009 £'000s
Amounts due to intermediaries within one year	–	76

12. Other creditors

Included within other creditors are balances relating to the derivatives held by the syndicate:

	2010 £'000s	2009 £'000s
Variation margin account payable	17	–

The syndicate manages its interest rate risks in the investment portfolio by using Treasury futures:

	Fair value (liability)		Contract/notional amount	
	2010 £'000s	2009 £'000s	2010 £'000s	2009 £'000s
Treasury future contracts – held for trading	(8)	–	6,216	–

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

	2010	2009 (Restated)
	£'000s	£'000s
Operating profit on ordinary activities	7,518	18,295
Realised and unrealised investment (gain)/loss including foreign exchange	(3,383)	7,580
(Increase) in debtors	(56)	(214)
Increase/(decrease) in net technical provisions	10,076	(3,729)
(Decrease)/increase in creditors	(4,368)	4,338
Net cash inflow from operating activities	9,787	26,270

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

	2010	2009
	£'000s	£'000s
Net cash inflow/(outflow) for the year	117	(4,589)
Cash flow		
Deposits	(48)	363
Portfolio investments	(10,411)	7,811
Movement arising from cash flows	(10,342)	3,585
Changes in market value and exchange rates	3,383	(7,580)
Total movement in portfolio investments	(6,959)	(3,995)
Portfolio at 1 January	84,435	88,430
Portfolio at 31 December	77,476	84,435

Movement in cash, portfolio investments and financing

	At 1 January 2010 £'000s	Cash flow £'000s	Changes to market value and currencies £'000s	At 31 December 2010 £'000s
Cash at bank and in hand	695	117	(1)	811
Debt securities and other fixed income securities	78,562	(25,160)	3,188	56,590
Shares and other variable yield securities	4,934	14,699	189	19,822
Deposits with credit institutions	–	50	–	50
Total portfolio investments	83,496	(10,411)	3,377	76,462
Overseas deposits	244	(48)	7	203
Total cash, portfolio investments and financing	84,435	(10,342)	3,383	77,476

The syndicate writes business in certain jurisdictions that require the deposit of cash and investments in locally held trust funds therefore preventing the free transfer of cash between currencies and locations. The total held in these funds at 31 December 2010 was £7,382,415 (2009: £7,399,960).

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as at 31 December 2010

15. Net cash inflow/(outflow) on portfolio investments

	2010 £'000s	2009 £'000s
Purchase of debt securities and other fixed income securities	(112,451)	(315,487)
Sale of debt securities and other fixed income securities	137,611	311,265
Shares and other variable yield securities	(14,699)	(5,130)
Deposits with credit institutions	(50)	1,541
Net cash inflow/(outflow) on portfolio investments	10,411	(7,811)

16. Related parties

Syndicate 557 did not accept inwards reinsurance business from, or place outwards reinsurance business with, other Tokio Marine Group entities, including Syndicate 1880, that are deemed to be related parties of R J Kiln & Co Limited by virtue of the shareholding in Kiln Group Limited by Tokio Marine Holdings, Inc.

Profit commission of £1,626,527 is payable by the syndicate to R J Kiln & Co Limited in respect of profits for the 2010 calendar year (2009: £5,766,979). Profit commission was accrued by the syndicates based on the interim annual accounting results of the 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 £896,415 (2009: £895,286) were paid by the syndicate to R J Kiln & Co Limited. In addition to this, expenses of £2,060,773 (2009: £2,044,680) were paid to R J Kiln & Co Limited for expenses paid on behalf of the syndicate.

The note on related parties on page 13 provides further information regarding all syndicates and related parties.

17. Risk management

Details of the syndicate's risk management framework are given in the 'principal risks and uncertainties section' on pages 16 to 18.

(a) Insurance risk

Further details on the management of the syndicate's insurance risk are given on page 17.

Concentrations of insurance risk

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

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

2010	Gross claims provision £'000s	Reinsurance claims provision £'000s	Net claims provision £'000s
Accident and health	(38)	–	(38)
Fire and other damage to property	380	–	380
Miscellaneous	470	–	470
Reinsurance acceptances	36,444	(288)	36,156
	37,256	(288)	36,968

2009	Gross claims provision £'000s	Reinsurance claims provision £'000s	Net claims provision £'000s
Accident and health	(48)	–	(48)
Fire and other damage to property	4,474	–	4,474
Miscellaneous	323	–	323
Reinsurance acceptances	17,980	(379)	17,601
	22,729	(379)	22,350

	Gross claims provision 2010 £'000s	2009 £'000s
UK	1,935	997
Other EU countries	5,031	3,217
US	26,354	16,299
Other	3,936	2,216
	37,256	22,729

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 £0.4m (2009: £0.5m) more premium being reported (gross of acquisition cost), and applying the underlying attritional loss ratio this would result in an estimated increase in net profit (after acquisition costs) of £0.2m (2009: £0.3m). A decrease of 1% would result in £0.4m (2009: £0.5m) less premium being reported and an estimated £0.2m (2009: £0.3m) reduction in net profit. The profit impact is at the net level i.e. after the reinsurance adjustment and profit commission effects.

Claims sensitivity analysis

The claims ratio for 2010 is 56% (2009: 13%). 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 £0.4m (2009: £0.5m) and profit reducing by £0.3m (2009: £0.4m).

(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.

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as at 31 December 2010

Credit risk

For details of the management of the syndicate's credit risk please refer to page 17.

The following table provides information regarding credit risk exposures of the syndicate by classifying assets according to credit ratings of the counterparties. During the year, no exposure limits were exceeded.

2010	AAA £'000s	AA £'000s	A £'000s	<A £'000s	NR £'000s	Total £'000s
Reinsurers' share of outstanding claims including reinsurers' IBNR	–	1	132	62	93	288
Financial investments						
Other financial investments	41,543	11,072	21,282	2,565	–	76,462
Overseas deposits	134	29	36	–	4	203
Cash at bank and in hand	–	–	811	–	–	811
Total credit risk exposure	41,677	11,102	22,261	2,627	97	77,764
2009	AAA £'000s	AA £'000s	A £'000s	<A £'000s	NR £'000s	Total £'000s
Reinsurers' share of outstanding claims including reinsurers' IBNR	–	–	258	–	121	379
Financial investments						
Other financial investments	63,134	10,517	9,845	–	–	83,496
Overseas deposits	208	15	21	–	–	244
Cash at bank and in hand	695	–	–	–	–	695
Total credit risk exposure	64,037	10,532	10,124	–	121	84,814

The largest potential reinsurance credit exposure to the syndicate at 31 December 2010 was 50.0% with AA- rated security (2009: 49.3% AA- rated security). The reinsurance security committee of the managing agent reviews the level of this exposure and takes appropriate action where necessary.

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

2010	Fully performing £'000s	Past due £'000s	Impairment £'000s	Total £'000s
Financial investments				
Other financial investments	76,462	–	–	76,462
Overseas deposits	203	–	–	203
Reinsurance assets	74	23	–	97
Insurance receivables	3,645	–	–	3,645
Cash at bank and in hand	811	–	–	811
	81,195	23	–	81,218
2009	Fully performing £'000s	Past due £'000s	Impairment £'000s	Total £'000s
Financial investments				
Other financial investments	83,496	–	–	83,496
Overseas deposits	244	–	–	244
Reinsurance assets	63	13	–	76
Insurance receivables	2,250	–	–	2,250
Cash at bank and in hand	695	–	–	695
	86,748	13	–	86,761

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

Liquidity risk

For details of the syndicate's management of liquidity risks please refer to page 17.

The syndicate writes a significant proportion of US Situs business and as such must deposit appropriate monies in 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 2010 the balance held in the trust funds was US\$10.8m (2009: US\$11.1m).

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

2010	Up to 1 year £'000s	1-3 years £'000s	3-5 years £'000s	Over 5 years £'000s	Total £'000s
Financial investments	26,634	29,218	20,160	450	76,462
Insurance receivables	3,645	-	-	-	3,645
Cash at bank and in hand	811	-	-	-	811
Overseas deposits	203	-	-	-	203
	31,293	29,218	20,160	450	81,121

2009	Up to 1 year £'000s	1-3 years £'000s	3-5 years £'000s	Over 5 years £'000s	Total £'000s
Financial investments	17,359	49,007	17,130	-	83,496
Insurance receivables	2,250	-	-	-	2,250
Cash at bank and in hand	695	-	-	-	695
Overseas deposits	244	-	-	-	244
	20,548	49,007	17,130	-	86,685

Foreign currency risk

For further details of the management of the syndicate's market risk please refer to page 17.

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

Foreign currency liquidity and exposure for the syndicate is the responsibility of the finance director. Strategy is agreed by the investment group and ratified by the investment committee. The syndicate currency exposure and future cash flows are monitored in each currency and potential exposures and shortfalls addressed by foreign currency transactions or cash calls on members.

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

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 profit. The correlation of variables will have a significant effect in determining the ultimate impact. However, to isolate and demonstrate the impact due to changes in variables, each variable has been changed on an individual basis. It should be noted that movements in these variables are non-linear.

The following table shows the impact of a 10 cents movement in the US dollar and Canadian dollar to pounds sterling exchange rates.

	2010 £'000s	2009 £'000s
10 cents increase in USD	(2,804)	(3,008)
10 cents increase in CAD	(135)	(118)
10 cents decrease in USD	3,186	3,407
10 cents decrease in CAD	154	133

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as at 31 December 2010

Interest rate market risk

For further details of the management of the syndicate's market risk please refer to page 17.

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

The syndicate started using Treasury future derivatives to manage its exposure to interest rate risks in the latter part of 2010. The use of financial derivatives is governed by the syndicate's policies approved by the managing agent's investment committee, which provide 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 profit. The correlation of variables will have a significant effect in determining the ultimate impact. However, to isolate and demonstrate the impact 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 of a 1% increase in the US, UK and Canadian interest rates on the market value of the syndicate's investments.

	2010 £'000s	2009 £'000s
1% increase in the US interest rates	882	1,234
1% increase in the UK interest rates	121	226
1% increase in the Canadian interest rates	1	33

(c) Fair value estimation

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

- Level 1 financial instruments comprise government bonds and securities maturing in less than three months. These have been valued at fair value using quoted prices in an active market.
- Level 2 financial instruments are less regularly traded government agency bonds, supranational bonds, corporate bonds and currency derivatives. These fair values have been derived from quoted prices.
- The fair values for level 3 financial instruments are generally derived from inputs that are not based on observable market data. The syndicate does not currently hold any level 3 financial instruments.

	Level 1	Level 2	2010 £'000s	Level 3	Total
Derivative financial instruments:					
Treasury future derivatives	(8)	–		–	(8)
Debt securities:					
Government securities	5,735	–		–	5,735
Listed debt securities	–	70,727		–	70,727
Total financial investments at fair value through profit and loss – designated upon initial recognition	5,727	70,727		–	76,454

	Level 1	Level 2	2009 £'000s	Level 3	Total
Debt securities:					
Government securities	27,222	–		–	27,222
Listed debt securities	–	56,274		–	56,274
Total financial investments at fair value through profit and loss – designated upon initial recognition	27,222	56,274		–	83,496

All listed investments are recognised securities on exchanges around the world.

At 31 December 2010 the syndicate held Treasury future contracts. The fair value at 31 December 2010 is a liability of £7,664 (2009: nil) with the loss going through the investment income in the profit and loss account.

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Syndicate 807

Kiln Mathers Syndicate
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Profit and loss account: technical account – general business

for the year ended 31 December 2010

	Note	2010 £'000s	2009 (Restated) £'000s
Earned premiums, net of reinsurance			
Gross premiums written	1	131,091	153,524
Outward reinsurance premiums		(23,893)	(17,610)
Net premiums written		107,198	135,914
Change in the provision for unearned premiums:			
Gross amount		14,659	5,697
Reinsurers' share		497	1,963
Change in the net provision for unearned premiums		15,156	7,660
Earned premiums, net of reinsurance		122,354	143,574
Allocated investment return transferred from the non-technical account		1,831	1,860
Claims incurred, net of reinsurance			
Claims paid:			
Gross amount		(68,338)	(64,382)
Reinsurers' share		2,793	1,817
Net claims paid		(65,545)	(62,565)
Change in the provision for claims:			
Gross amount		(16,619)	(2,246)
Reinsurers' share		14,898	1,597
Change in the net provision for claims		(1,721)	(649)
Claims incurred, net of reinsurance		(67,266)	(63,214)
Members' standard personal expenses		(4,712)	(4,348)
Net operating expenses	3,4,5	(48,450)	(69,459)
Balance on the general business technical account		3,757	8,413

All operations are continuing.

Profit and loss account: non-technical account

for the year ended 31 December 2010

	Note	2010 £'000s	2009 (Restated) £'000s
Balance on the general business technical account		3,757	8,413
Investment income	6	2,055	1,837
Net unrealised gains on investments	6	–	62
Investment expenses and charges	6	(58)	(39)
Net unrealised losses on investments	6	(166)	–
Allocated investment return transferred to general business technical account	6,7	(1,831)	(1,860)
Profit for the financial year		3,757	8,413

Statement of total recognised gains and losses

	Note	2010 £'000s	2009 (Restated) £'000s
Profit for the financial year		3,757	8,413
Total recognised gains related to the year		3,757	8,413
Note on prior period adjustment			
Total recognised gains related to the year as above		3,757	
Prior period adjustment (see note below)		(34)	
Total gains recognised since the last annual report		3,723	

Use of derivatives by the syndicate during the year required the adoption of new financial reporting standards including FRS 23, the effect of which changed the accounting method for non-monetary items and foreign exchange gains and losses on revaluation of the opening balance sheet. As a consequence, the prior year results have been restated and the effect is a decrease in members' balances of £33,802.

Balance sheet: assets

as at 31 December 2010

	Note	2010 £'000s	2009 (Restated) £'000s
Investments			
Other financial investments	8	71,069	70,448
Deposits with ceding undertakings			
		14	79
Reinsurers' share of technical provisions			
Provision for unearned premiums		3,425	3,125
Claims outstanding	2	17,040	2,229
		20,465	5,354
Debtors			
Debtors arising out of direct insurance operations	9	20,434	17,946
Debtors arising out of reinsurance operations		24,649	42,417
Other debtors		1,532	2,032
		46,615	62,395
Other assets			
Cash at bank and in hand		3,784	2,465
Other	10	32,344	29,258
		36,128	31,723
Prepayments and accrued income			
Deferred acquisition costs		19,675	28,329
Total assets		193,966	198,328

Balance sheet: liabilities

as at 31 December 2010

	Note	2010 £'000s	2009 (Restated) £'000s
Capital and reserves			
Members' balances	11	8,513	17,671
Technical provisions			
Provision for unearned premiums		54,986	68,457
Claims outstanding	2	101,833	83,778
		156,819	152,235
Creditors			
Creditors arising out of direct insurance operations	12	2,583	6,341
Creditors arising out of reinsurance operations		21,107	17,382
Other creditors	13	4,437	4,699
		28,127	28,422
Accrual and deferred income			
Reinsurers' share of deferred acquisition costs		505	–
Other accruals and deferred income		2	–
		507	–
Total liabilities		193,966	198,328

The annual accounts, which comprise pages 62 to 78 and the notes and principal accounting policies applicable to all syndicates on pages 22 to 26, were approved by the board of R J Kiln & Co Limited on 7 March 2011 and were signed on its behalf by

James Dover

Finance director
R J Kiln & Co Limited
16 March 2011

Cash flow statement

for the year ended 31 December 2010

	Note	2010 £'000s	2009 (Restated) £'000s
Net cash inflow from operating activities	14	14,008	16,005
Transfer to members in respect of underwriting participations		(12,500)	(8,501)
Financing			
Distribution loss collected		2	2
Members' agents' fees paid on behalf of members		(417)	(345)
Net cash flows		1,093	7,161
Cash flows were invested as follows:			
Increase/(decrease) in cash holdings	15	1,319	(4,519)
Increase in deposits	15	2,276	13,113
Net portfolio investments	15,16	(2,502)	(1,433)
Net investment of cash flows		1,093	7,161

Notes to the accounts

as at 31 December 2010

1. Segmental analysis

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

	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
Year ended 31 December 2010							
Direct insurance							
Accident and health	16,620	16,872	(11,056)	(5,063)	(95)	658	11,053
Fire and other damage to property	66,554	66,984	(33,483)	(26,767)	(7,510)	(776)	60,685
Motor combined	3,437	3,402	(1,766)	(1,241)	(62)	333	3,338
Miscellaneous	5,174	5,217	(1,560)	(2,549)	(1,233)	(125)	5,346
	91,785	92,475	(47,865)	(35,620)	(8,900)	90	80,422
Reinsurance acceptances	39,306	53,275	(37,092)	(18,393)	4,046	1,836	55,932
	131,091	145,750	(84,957)	(54,013)	(4,854)	1,926	136,354

	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
Year ended 31 December 2009 (Restated)							
Direct insurance							
Accident and health	14,399	17,059	(9,871)	(8,087)	620	(279)	14,353
Fire and other damage to property	74,464	74,178	(40,496)	(33,643)	(4,327)	(4,288)	75,628
Motor combined	3,570	3,101	(1,659)	(1,152)	(25)	265	4,008
Miscellaneous	2,961	3,442	(2,559)	(2,098)	(1)	(1,216)	5,881
	95,394	97,780	(54,585)	(44,980)	(3,733)	(5,518)	99,870
Reinsurance acceptances	58,130	61,441	(12,043)	(28,827)	(8,500)	12,071	47,011
	153,524	159,221	(66,628)	(73,807)	(12,233)	6,553	146,881

All premiums were concluded in the UK.

The total commission payable on direct business was £30,940,308 (2009: £34,226,771).

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

	2010 £'000s	2009 £'000s
UK	16,464	21,447
Other EU countries	5,664	6,497
US	63,755	72,982
Other	45,208	52,598
	131,091	153,524

2. Claims outstanding

Within the calendar year technical result, a surplus of £5.7m relates to the reassessment of net premium earned and net claims incurred for previous accident years. This movement is mainly attributable to the fire and other damage to property and reinsurance lines of business.

Notes to the accounts

as at 31 December 2010

3. Net operating expenses

	2010 £'000s	2009 (Restated) £'000s
Acquisition costs	37,767	58,148
Change in deferred acquisition costs	8,892	2,205
Administrative expenses	5,198	4,087
(Profit)/loss on exchange	(2,556)	5,019
Gross operating expenses	49,301	69,459
Reinsurance commissions and profit participations	(851)	–
Net operating expenses	48,450	69,459

Administrative expenses include:

	2010 £'000s	2009 £'000s
Auditors' remuneration:		
Audit services	73	67

Audit services are defined as fees payable to the syndicate's auditors for the audit of the syndicate's accounts.

No non-audit services were provided by the auditors.

4. Staff numbers and costs

All 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:

	2010 £'000s	2009 £'000s
Wages and salaries	2,402	2,361
Social security costs	235	243
Other pension costs	192	192
	2,829	2,796

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

	2010 £'000s	2009 £'000s
Initial charge of defined benefit scheme (surplus) to the syndicate on 1 January	–	(150)
Net debit from managing agent during year	192	341
Amount funded in year	192	191

The amounts funded were allocated to all open years of account.

The average number of full-time employees employed by Tokio Marine Kiln Insurance Services Limited but working for the syndicate during the year was as follows:

	2010	2009
Administration and finance	14	13
Underwriting	9	9
Claims	2	2
	25	24

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.

5. Emoluments of the directors of R J Kiln & Co Limited

The directors of R J Kiln & Co Limited received the following aggregate remuneration in relation to their work on the syndicate. The Kiln group of companies operates a bonus pooling arrangement such that profit-related pay is generated from both profit commission and the group's share of the underwriting result through its corporate member Kiln Underwriting Limited. A considerable portion of the profit-related pay is therefore borne by other Kiln group entities. The profit commission included within the emoluments is in relation to the 2007 year of account, as the allocation to underwriters is only determined following its closure.

	2010 £'000s	2009 £'000s
Emoluments	253	759

The active underwriter received the following remuneration charged as a syndicate expense:

	2010 £'000s	2009 £'000s
Emoluments	420	309

6. Investment income and expenses

	2010 £'000s	2009 £'000s
Investment income:		
Income from investments	2,154	2,070
Net unrealised gains on investments	–	62
Investment expenses:		
Investment management expenses, including interest	(58)	(39)
Net losses on the realisation of investments	(99)	(233)
Net unrealised losses on investments	(166)	–
	1,831	1,860

7. Calendar year investment yield

	2010 £'000s	2009 (Restated) £'000s
Average amount of syndicate funds during the year	100,309	95,742
Aggregate gross investment return:		
Before investment expenses	1,889	1,899
After investment expenses	1,831	1,860
Calendar year investment yield:	%	%
Before investment expenses	1.9	2.0
After investment expenses	1.8	1.9
Analysis of calendar year investment yield by fund:	%	%
Sterling fund	2.6	3.1
US dollar fund	1.7	1.9
Canadian dollar fund	1.8	1.2
Euro fund	0.4	–

The 2009 comparative has been restated to correct an error in the calculation of the average amount of syndicate funds.

Notes to the accounts

as at 31 December 2010

8. Other financial investments

	Carrying value		Purchase price	
	2010 £'000s	2009 £'000s	2010 £'000s	2009 £'000s
Debt securities and other fixed income securities	45,305	62,628	45,523	62,165
Shares and other variable yield securities	25,748	7,820	25,748	7,820
Deposits with credit institutions	16	–	16	–
	71,069	70,448	71,287	69,985

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

9. Debtors arising out of direct insurance operations

	2010 £'000s	2009 (Restated) £'000s
Amounts due from intermediaries within one year	20,346	17,619
Amounts due from intermediaries after one year	88	327
	20,434	17,946

During the year the syndicate changed its accounting treatment for the balances relating to the acquisition of service companies owned by R J Kiln & Co Limited for the beneficial membership of the syndicate's members. These balances were previously held as technical debtors and creditors but have been moved to other debtors and creditors as management considers this treatment to be more appropriate.

10. Other assets

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

11. Reconciliation of members' balances

	2010 £'000s	2009 (Restated) £'000s
Members' balances at 1 January	17,671	13,548
Prior period adjustment	–	4,553
Members' balances restated at 1 January	17,671	18,101
Profit for the financial year	3,757	8,413
Payments of profit to members' personal reserve funds	(12,498)	(8,499)
Members' agents' fee advances	(417)	(345)
Exchange differences arising on members' balances	–	1
Members' balances carried forward at 31 December	8,513	17,671

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

12. Creditors arising out of direct insurance operations

	2010 £'000s	2009 £'000s
Amounts due to intermediaries within one year	2,582	6,341
Amounts due to intermediaries after one year	1	–
	2,583	6,341

13. Other creditors

Included within other creditors are balances payable in future years in relation to the 2008 Ibex Insurance Services Ltd acquisition made by the managing agent on behalf of the members of Syndicate 807 and balances relating to the derivatives held by the syndicate:

	2010 £'000s	2009 (Restated) £'000s
Balance due within one year for contingent consideration	17	–
Balance due in more than one year for contingent consideration	–	140
Variation margin account payable	433	484
	450	624

The syndicate manages its interest rate risks in the investment portfolio by using Treasury futures. It also holds a forward currency contract to sell Japanese yen and to buy US dollars for the purpose of solvency funding in Lloyd's Japan:

	Fair value (liability)		Contract/notional amount	
	2010 £'000s	2009 £'000s	2010 £'000s	2009 £'000s
Treasury future contracts – held for trading	(3)	–	2,022	–
Forward currency contract – held to maturity	(431)	(484)	11,396	9,669
	(434)	(484)	13,418	9,669

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

	2010 £'000s	2009 (Restated) £'000s
Operating profit on ordinary activities	3,757	8,413
Realised and unrealised investment (gain)/loss including foreign exchange	(3,868)	10,339
Decrease/(increase) in debtors	24,434	(11,166)
(Decrease) in net technical provisions	(10,527)	(8,736)
Increase in creditors	212	17,154
Exchange loss arising on members' balances	–	1
Net cash inflow from operating activities	14,008	16,005

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as at 31 December 2010

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

	2010 £'000s	2009 (Restated) £'000s
Net cash inflow/(outflow) for the year	1,319	(4,519)
Cash flow		
Deposits	2,276	13,113
Portfolio investments	(2,502)	(1,433)
Movement arising from cash flows	1,093	7,161
Changes in market value and exchange rates	3,868	(10,339)
Total movement in portfolio investments	4,961	(3,178)
Portfolio at 1 January	102,250	105,428
Portfolio at 31 December	107,211	102,250

Movement in cash, portfolio investments and financing

	At 1 January 2010 (Restated) £'000s	Cash flow £'000s	Changes to market value and currencies £'000s	At 31 December 2010 £'000s
Cash at bank and in hand	2,465	1,319	–	3,784
Debt securities and other fixed income securities	62,628	(20,289)	2,966	45,305
Shares and other variable yield securities	7,820	17,771	157	25,748
Deposits with credit institutions	–	16	–	16
Total portfolio investments	70,448	(2,502)	3,123	71,069
Overseas deposits	29,258	2,341	745	32,344
Deposit with ceding undertakings	79	(65)	–	14
Total cash, portfolio investments and financing	102,250	1,093	3,868	107,211

The syndicate writes business in certain jurisdictions that require the deposit of cash and investments in locally held trust funds therefore preventing the free transfer of cash between currencies and locations. The total held in these funds at 31 December 2010 was £81,979,602 (2009: £68,372,553).

16. Net cash inflow on portfolio investments

	2010 £'000s	2009 £'000s
Purchase of debt securities and other fixed income securities	(162,347)	(264,338)
Sale of debt securities and other fixed income securities	182,636	269,221
Shares and other variable yield securities	(17,771)	(8,293)
Deposits with credit institutions	(16)	4,843
Net cash inflow on portfolio investments	2,502	1,433

17. Related parties

Syndicate 807 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 R J Kiln & Co Limited by virtue of the shareholding in Kiln Group Limited by Tokio Marine Holdings, Inc. All transactions with these entities were conducted at arm's length and at normal commercial terms. None of these transactions are material to either party.

Syndicate 807 accepted premiums from related parties in the 2010 calendar year of £48,050 (2009: £457,169). There were no unpaid premiums due or outstanding claims for the 2010 and 2009 calendar years.

Written premiums ceded by Syndicate 807 to related parties for the 2010 calendar year were £7,767,697 (2009: nil). Paid recoveries from related parties during 2010 were £27,145 (2009: nil). Unpaid recoveries at the year end amounted to £53,693 (2009: nil) and future recoveries on outstanding claims, including an element of IBNR, were £8,358,605 (2009: nil).

The syndicate also receives business from Kiln Asia Limited, which is 100% owned by R J Kiln & Co Limited and Ibex Insurance Services Limited, which is 30% owned by R J Kiln & Co Limited.

Profit commission of £2,472,196 is payable by the syndicate to R J Kiln & Co Limited in respect of profits for the 2010 calendar year (2009: £2,937,214). Profit commission was accrued by the syndicates based on the interim annual accounting results of the 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 £975,137 (2009: £833,127) were paid by the syndicate to R J Kiln & Co Limited. In addition to this, expenses of £4,501,800 (2009: £4,105,443) were paid to R J Kiln & Co Limited for expenses paid on behalf of the syndicate.

The note on related parties on page 13 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 16 to 18.

(a) Insurance risk

Further details of the management of the syndicate's insurance risks are given on page 17.

Concentrations of insurance risk

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

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

2010	Gross claims provision £'000s	Reinsurance claims provision £'000s	Net claims provision £'000s
Accident and health	7,032	9	7,041
Fire and other damage to property	43,941	(1,159)	42,782
Motor combined	2,280	–	2,280
Miscellaneous	4,695	–	4,695
Reinsurance acceptances	43,885	(15,890)	27,995
	101,833	(17,040)	84,793
2009	Gross claims provision £'000s	Reinsurance claims provision £'000s	Net claims provision £'000s
Accident and health	7,867	–	7,867
Fire and other damage to property	45,527	(1,665)	43,862
Motor combined	2,288	–	2,288
Miscellaneous	4,604	(519)	4,085
Reinsurance acceptances	23,492	(45)	23,447
	83,778	(2,229)	81,549

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as at 31 December 2010

	Gross claims provision	
	2010 £'000s	2009 £'000s
UK	13,532	6,664
Other EU countries	10,085	44,750
US	38,488	9,570
Other	39,728	22,794
	101,833	83,778

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 £1.5m (2009: £1.6m) more premium being reported (gross of acquisition cost), and applying the underlying attritional loss ratio this would result in an estimated increase in net profit (after acquisition costs) of £0.3m (2009: £0.2m). A decrease of 1% would result in £1.5m (2009: £1.6m) less premium being reported and an estimated £0.3m (2009: £0.2m) reduction in net profit. The profit impact is at the net level i.e. after the reinsurance adjustment and profit commission effects.

Claims sensitivity analysis

The claims ratio for 2010 is 55% (2009: 44%). 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 £1.2m (2009: £1.4m) and profit reducing by £1.0m (2009: £1.2m).

(b) Financial risk

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

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

Credit risk

For details of the management of the syndicate's credit risk please refer to page 17.

The following table provides information regarding credit risk exposures of the syndicate by classifying assets according to credit ratings of the counterparties. During the year, no exposure limits were exceeded.

2010	AAA £'000s	AA £'000s	A £'000s	<A £'000s	NR £'000s	Total £'000s
Reinsurers' share of outstanding claims including reinsurers' IBNR	216	455	15,081	1,227	61	17,040
Financial investments						
Other financial investments	52,512	9,363	8,462	732	–	71,069
Overseas deposits	6,745	22,840	2,759	–	–	32,344
Cash at bank and in hand	–	–	3,784	–	–	3,784
Total credit risk exposure	59,473	32,658	30,086	1,959	61	124,237
2009	AAA £'000s	AA £'000s	A £'000s	<A £'000s	NR £'000s	Total £'000s
Reinsurers' share of outstanding claims including reinsurers' IBNR	12	59	1,870	–	288	2,229
Financial investments						
Other financial investments	56,163	7,234	7,051	–	–	70,448
Overseas deposits	25,002	1,774	2,438	–	44	29,258
Cash at bank and in hand	2,465	–	–	–	–	2,465
Total credit risk exposure	83,642	9,067	11,359	–	332	104,400

The largest potential reinsurance credit exposure to the syndicate at 31 December 2010 was 50.3% with A+ rated security (2009: 34.1% A+ rated security). The reinsurance security committee of the managing agent reviews the level of this exposure and takes appropriate action where necessary.

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

2010	Fully performing £'000s	Past due £'000s	Impairment £'000s	Total £'000s
Financial investments				
Other financial investments	71,069	–	–	71,069
Overseas deposits	32,344	–	–	32,344
Deposits with ceding undertakings	14	–	–	14
Reinsurance assets	147	309	(295)	161
Insurance receivables	44,836	86	–	44,922
Cash at bank and in hand	3,784	–	–	3,784
	152,194	395	(295)	152,294
2009	Fully performing £'000s	Past due £'000s	Impairment £'000s	Total £'000s
Financial investments				
Other financial investments	70,448	–	–	70,448
Overseas deposits	29,258	–	–	29,258
Deposits with ceding undertakings	79	–	–	79
Reinsurance assets	1,031	529	(308)	1,252
Insurance receivables	51,851	7,260	–	59,111
Cash at bank and in hand	2,465	–	–	2,465
	155,132	7,789	(308)	162,613

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

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Liquidity risk

For details of the management of the syndicate's liquidity risks please refer to page 17.

The syndicate writes a significant proportion of US Situs business and as such must deposit appropriate monies in 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 2010 the balance held in the trust funds was US\$59.6m (2009: US\$50.4m).

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

2010	Up to 1 year £'000s	1-3 years £'000s	3-5 years £'000s	Over 5 years £'000s	Total £'000s
Assets					
Financial investments	31,599	23,562	15,812	96	71,069
Insurance receivables	43,639	1,283	–	–	44,922
Cash at bank and in hand	3,784	–	–	–	3,784
Overseas deposits	32,344	–	–	–	32,344
	111,366	24,845	15,812	96	152,119
2009					
	Up to 1 year £'000s	1-3 years £'000s	3-5 years £'000s	Over 5 years £'000s	Total £'000s
Assets					
Financial investments	17,792	39,165	13,491	–	70,448
Insurance receivables	50,559	8,552	–	–	59,111
Cash at bank and in hand	2,465	–	–	–	2,465
Overseas deposits	29,258	–	–	–	29,258
	100,074	47,717	13,491	–	161,282
Liabilities					
Inter-syndicate loans	(2)	–	–	–	(2)

Foreign currency market risk

For further details of the management of the syndicate's market risk please refer to page 17.

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

Foreign currency liquidity and exposure for the syndicate is the responsibility of the finance director. Strategy is agreed by the investment group and ratified by the investment committee. The syndicate currency exposure and future cash flows are monitored in each currency and potential exposures and shortfalls addressed by foreign currency transactions or cash calls on members.

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

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 profit. The correlation of variables will have a significant effect in determining the ultimate impact. However, to isolate and demonstrate the impact due to changes in variables, each variable has been changed on an individual basis. It should be noted that movements in these variables are non-linear.

The following table shows the effect of a 10 cents movement in the US dollar and Canadian dollar to pounds sterling exchange rates.

	2010 £'000s	2009 £'000s
10 cents increase in USD	(2,809)	(2,465)
10 cents increase in CAD	(424)	(287)
10 cents decrease in USD	3,191	2,792
10 cents decrease in CAD	482	323

Interest rate market risk

For further details of the management of the syndicate's market risk please refer to page 17.

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

The syndicate started using Treasury future derivatives to manage its exposure to interest rate risks in the latter part of 2010. The use of financial derivatives is governed by the syndicate's policies approved by Kiln's investment committee, which provide 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 profit. The correlation of variables will have a significant effect in determining the ultimate impact. However, to isolate and demonstrate the impact 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 of a 1% increase in the US, UK and Canadian interest rates on the market value of the syndicate's investments.

	2010 £'000s	2009 £'000s
1% increase in the US interest rates	836	806
1% increase in the UK interest rates	31	129
1% increase in the Canadian interest rates	251	133

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(c) Fair value estimation

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

- Level 1 financial instruments comprise government bonds and securities maturing in less than three months. These have been valued at fair value using quoted prices in an active market.
- Level 2 financial instruments are less regularly traded government agency bonds, supranational bonds, corporate bonds and currency derivatives. These fair values have been derived from quoted prices.
- The fair values for level 3 financial instruments are generally derived from inputs that are not based on observable market data. The syndicate does not currently hold any level 3 financial instruments

	Level 1	Level 2	2010 £'000s	Level 3	Total
Derivative financial instruments:					
Treasury future derivatives	(3)	–		–	(3)
Forward currency derivatives	–	(431)		–	(431)
Debt securities:					
Government securities	17,316	–		–	17,316
Listed debt securities	–	53,753		–	53,753
Total financial investments at fair value through profit and loss – designated upon initial recognition	17,313	53,322		–	70,635

	Level 1	Level 2	2009 £'000s	Level 3	Total
Derivative financial instruments:					
Forward currency derivatives	–	(484)		–	(484)
Debt securities:					
Government securities	26,993	–		–	26,993
Listed debt securities	–	43,455		–	43,455
Total financial investments at fair value through profit and loss – designated upon initial recognition	26,993	42,971		–	69,964

All listed investments are recognised securities on exchanges around the world.

At 31 December 2010 the syndicate held Treasury future contracts and forward currency contracts. The fair value at 31 December 2010 is a liability of £433,801 (2009: £483,565 liability) with the loss going through the investment income in the profit and loss account.

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Annual accounting reports under UK GAAP

Syndicate 308

Kiln Life Syndicate
Life

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

for the year ended 31 December 2010

	Note	2010 £'000s	2009 (Restated) £'000s
Earned premiums, net of reinsurance			
Gross premiums written	1	26,368	18,499
Outward reinsurance premiums		(4,204)	(2,626)
Change in the provision for unearned premiums, net of reinsurance		(3,582)	(1,319)
Earned premiums, net of reinsurance		18,582	14,554
Investment income	7,8	116	119
Claims incurred, net of reinsurance			
Claims paid:			
Gross amount		(10,280)	(7,954)
Reinsurers' share		27	18
Net claims paid		(10,253)	(7,936)
Change in the long-term business provision, net of reinsurance:			
Gross amount		653	308
Reinsurers' share		1,192	(260)
Change in the net long-term business provision	3	1,845	48
Claims incurred, net of reinsurance		(8,408)	(7,888)
Members' standard personal expenses		(861)	(385)
Net operating expenses	4,5,6	(7,493)	(5,687)
Investment expenses and charges	7,8	(2)	(2)
Balance on the technical account for long-term business and profit for the year		1,934	711

There are no non-technical items.

All operations are continuing.

Statement of total recognised gains and losses

for the year ended 31 December 2010

	Note	2010 £'000s	2009 (Restated) £'000s
Profit for the financial year		1,934	711
Total recognised gains related to the year		1,934	711
Note on prior period adjustment			
Total recognised gains related to the year as above		1,934	
Prior period adjustment (see note below)		18	
Total gains recognised since the last annual report		1,952	

To be consistent with the other syndicates managed by R J Kiln & Co Limited, Syndicate 308 adopted FRS 26 and the package of financial reporting standards during the year including FRS 23, the effect of which changed the accounting method for non-monetary items and foreign exchange gains and losses on revaluation of the opening balance sheet. As a consequence, the prior year results have been restated and the effect is an increase in members' balances of £18,109.

Balance sheet: assets

as at 31 December 2010

	Note	2010 £'000s	2009 (Restated) £'000s
Investments			
Other financial investments	9	4,259	2,505
Deposits with ceding undertakings			
		-	2
Reinsurers' share of technical provisions			
Provision for unearned premiums		1,059	2
Long-term business provision	3	1,485	289
		2,544	291
Debtors			
Debtors arising out of direct insurance operations	10	11,954	7,732
Debtors arising out of reinsurance operations		1,697	1,731
Other debtors		7	5,258
		13,658	14,721
Other assets			
Cash at bank and in hand		5,920	744
Other	11	186	329
		6,106	1,073
Prepayments and accrued income			
Deferred acquisition costs		3,249	1,710
Total assets		29,816	20,302

Balance sheet: liabilities

as at 31 December 2010

	Note	2010 £'000s	2009 (Restated) £'000s
Capital and reserves			
Members' balances	12	333	(820)
Technical provisions			
Provision for unearned premiums		11,291	6,546
Long-term business provision	3	7,433	8,055
		18,724	14,601
Creditors			
Creditors arising out of direct insurance operations	13	5,769	4,378
Creditors arising out of reinsurance operations		4,115	1,689
Other creditors		817	454
		10,701	6,521
Accruals and deferred income			
Reinsurers' share of deferred acquisition costs		58	–
Total liabilities		29,816	20,302

The annual accounts, which comprise pages 80 to 94 and the notes and principal accounting policies applicable to all syndicates on pages 22 to 26, were approved by the board of R J Kiln & Co Limited on 7 March 2011 and were signed on its behalf by

James Dover

Finance director
R J Kiln & Co Limited
16 March 2011

Cash flow statement

for the year ended 31 December 2010

	Note	2010 £'000s	2009 £'000s
Net cash inflow/(outflow) from operating activities	14	7,613	(3,480)
Transfer to members in respect of underwriting participations		(740)	(1,272)
Financing			
Members' agents' fees paid on behalf of members		(41)	(30)
Net cash flows		6,832	(4,782)
Cash flows were invested as follows:			
Increase/(decrease) in cash holdings	15	5,164	(8,409)
(Decrease)/increase in deposits	15	(147)	1,122
Net portfolio investments	15,16	1,815	2,505
Net investment of cash flows		6,832	(4,782)

Notes to the accounts

as at 31 December 2010

1. Segmental analysis

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

	Year ended 31 December 2010		Year ended 31 December 2009	
	Gross premiums written £'000s	Reinsurance balance £'000s	Gross premiums written £'000s	Reinsurance balance £'000s
Direct insurance	23,603	(1,979)	14,840	(3,049)
Reinsurance acceptances	2,765	(246)	3,659	(543)
	26,368	(2,225)	18,499	(3,592)

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

	2010 £'000s	2009 £'000s
Individual premiums	2,271	2,627
Premiums under group contracts	21,332	12,213
	23,603	14,840
Periodic premiums	23,435	11,649
Single premiums	168	3,191
	23,603	14,840

An analysis of the gross new business premium and related reinsurance balances is set out below:

	Year ended 31 December 2010		Year ended 31 December 2009	
	Gross premiums written £'000s	Reinsurance balance £'000s	Gross premiums written £'000s	Reinsurance balance £'000s
Direct insurance	4,088	(343)	3,064	(630)
Reinsurance acceptances	71	(6)	92	(13)
	4,159	(349)	3,156	(643)

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

	2010 £'000s	2009 £'000s
Individual premiums	428	270
Premiums under group contracts	3,660	2,794
	4,088	3,064
Periodic premiums	4,084	2,013
Single premiums	4	1,051
	4,088	3,064

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

	2010 £'000s	2009 £'000s
UK	13,070	8,925
Other EU countries	6,221	3,531
US	1,672	1,623
Other	5,405	4,420
	26,368	18,499

Notes to the accounts

as at 31 December 2010

2. Significant loss events

Within the calendar year technical result, a surplus of £1.2m relates to the reassessment of net premium earned and net claims incurred for previous accident years.

3. Long-term business provision

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

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

The principal assumptions are:

- Valuation interest rate is 0% (2009:1%).
- Renewal expenses are assumed at 8% of the premium.
- Mortality remains at 110% 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. Where the smoker status was not known or the binder was not priced on a smoker/non-smoker basis the flat rate of 110% of TM/FC00 base mortality was used.

4. Net operating expenses

	2010 £'000s	2009 (Restated) £'000s
Acquisition costs	7,147	4,618
Change in deferred acquisition costs	(1,197)	10
Administrative expenses	1,765	1,051
Loss on exchange	76	345
Gross operating expenses	7,791	6,024
Reinsurance commissions and profit participations	(298)	(337)
Net operating expenses	7,493	5,687

Administrative expenses include:

	2010 £'000s	2009 £'000s
Auditors' remuneration:		
Audit services	56	52

Audit services are defined as fees payable to the syndicate's auditors for the audit of the syndicate's accounts.

No non-audit services were provided by the auditors.

5. Staff numbers and costs

All 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:

	2010 £'000s	2009 £'000s
Wages and salaries	1,005	903
Social security costs	96	91
Other pension costs	40	41
	1,141	1,035

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

	2010 £'000s	2009 £'000s
Initial charge of defined benefit scheme (surplus) to the syndicate on 1 January	–	(31)
Net debit from managing agent during year	40	72
Amount funded in year	40	41

The amounts funded were allocated to all open years of account.

The average number of full-time employees employed by Tokio Marine Kiln Insurance Services Limited but working for the syndicate during the year was as follows:

	2010	2009
Administration and finance	6	5
Underwriting	6	5
	12	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.

6. Emoluments of the directors of R J Kiln & Co Limited

The directors of R J Kiln & Co Limited received the following aggregate remuneration in relation to their work on the syndicate. The Kiln group of companies operates a bonus pooling arrangement such that profit-related pay is generated from both profit commission and the group's share of the underwriting result through its corporate member Kiln Underwriting Limited. A considerable portion of the profit-related pay is therefore borne by other Kiln group entities. The profit commission included within the emoluments is in relation to the 2007 year of account, as the allocation to underwriters is only determined following its closure.

	2010 £'000s	2009 £'000s
Emoluments	130	90

The active underwriter received the following remuneration charged as a syndicate expense:

	2010 £'000s	2009 £'000s
Emoluments	266	253

7. Investment income and expenses

	2010 £'000s	2009 £'000s
Income from investments	116	119
Investment management expenses, including interest	(2)	(2)
	114	117

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as at 31 December 2010

8. Calendar year investment yield

	2010 £'000s	2009 (Restated) £'000s
Average amount of syndicate funds during the year	9,952	8,370
Aggregate gross investment return:		
Before investment expenses	116	119
After investment expenses	114	117
Calendar year investment yield:		
Before investment expenses	%	%
After investment expenses	1.2	1.4
	1.1	1.4
Analysis of calendar year investment yield by fund:		
Sterling fund	%	%
US dollar fund	1.8	1.4
Euro fund	0.5	0.6
	0.7	0.2

The 2009 comparative has been restated to correct an error in the calculation of the average amount of syndicate funds.

9. Other financial investments

	Carrying value		Purchase price	
	2010 £'000s	2009 £'000s	2010 £'000s	2009 £'000s
Shares and other variable yield securities	4,259	2,505	4,259	2,505

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

10. Debtors arising out of direct insurance operations

	2010 £'000s	2009 £'000s
Amounts due from intermediaries within one year	11,954	7,732

11. Other assets

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

12. Reconciliation of members' balances

	2010 £'000s	2009 (Restated) £'000s
Members' balances at 1 January	(820)	(543)
Prior period adjustment	-	314
Members' balances restated at 1 January	(820)	(229)
Profit for the financial year	1,934	711
Payments of profit to members' personal reserve funds	(740)	(1,272)
Members' agents' fee advances	(41)	(30)
Members' balances carried forward at 31 December	333	(820)

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

13. Creditors arising out of direct insurance operations

	2010 £'000s	2009 £'000s
Amounts due to intermediaries within one year	5,769	4,378

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

	2010 £'000s	2009 (Restated) £'000s
Operating profit on ordinary activities	1,934	711
Realised and unrealised investment loss including foreign exchange	47	344
(Increase) in debtors	(476)	(9,201)
Increase in net technical provisions	1,870	1,320
Increase in creditors	4,238	3,346
Net cash inflow/(outflow) from operating activities	7,613	(3,480)

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

	2010 £'000s	2009 £'000s
Net cash inflow/(outflow) for the year	5,164	(8,409)
Cash flow		
Deposits	(147)	1,122
Portfolio investments	1,815	2,505
Movement arising from cash flows	6,832	(4,782)
Changes in market value and exchange rates	(47)	(344)
Total movement in portfolio investments	6,785	(5,126)
Portfolio at 1 January	3,580	8,706
Portfolio at 31 December	10,365	3,580

Movement in cash, portfolio investments and financing

	At 1 January 2010 £'000s	Cash flow £'000s	Changes to market value and currencies £'000s	At 31 December 2010 £'000s
Cash at bank and in hand	744	5,164	12	5,920
Shares and other variable yield securities	2,505	1,815	(61)	4,259
Overseas deposits	329	(145)	2	186
Deposits with ceding undertakings	2	(2)	-	-
Total cash, portfolio investments and financing	3,580	6,832	(47)	10,365

The syndicate writes US business that requires the deposit of cash and investments in locally held trust funds therefore preventing the free transfer of cash between currencies and locations. The total held in these funds at 31 December 2010 was £183,746 (2009: £344,808).

16. Net cash (outflow) on portfolio investments

	2010 £'000s	2009 £'000s
Shares and other variable yield securities	(1,815)	(2,505)
Net cash (outflow) on portfolio investments	(1,815)	(2,505)

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17. Management of insurance risk

a) Capital management

Syndicate 308 maintains an efficient capital structure, consistent with the managing agent's risk profile and the regulatory and market requirements of its 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 corporate members maintain funds at Lloyd's determined in accordance with Lloyd's ECA and also in accordance with the FSA's ICA regime. These funds are deposited at Lloyd's by the members and therefore are off balance sheet. The syndicate's capital requirement is £9.6m as at 31 December 2010 (2009: £8.5m).

c) Restrictions on available capital reserves

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.

	2010	2009 (Restated)
	£'000s	£'000s
Other UK life business		
Members' balances	333	(820)
Other disallowance under GENPRU – decrease in overdue premium and sundry debtors	(33)	(52)
Solvency adjustments:		
Expense run-off reserve	(1,347)	(850)
Currency mismatch reserve	(400)	(391)
Unearned premium reserve and deferred acquisition cost measurement at closing rates not historic rates	18	(19)
Total solvency adjustments	(1,729)	(1,260)
Deferred acquisition costs (including reinsurance commissions)	(3,191)	(2,089)
Total available capital resource	(4,620)	(4,221)
Provision for unearned premiums	(11,291)	(6,566)
Long-term business provision	(7,433)	(8,055)
Technical provisions in the balance sheet	(18,724)	(14,621)

	2010	2009 (Restated)
	£'000s	£'000s
Movements in capital resource		
Balance at 1 January	(4,221)	(3,744)
Other disallowance under GENPRU – decrease in overdue premium and sundry debtors	21	(13)
Solvency adjustments:		
Expense run-off reserve	(497)	(100)
Currency mismatch reserve	(9)	160
Unearned premium reserve and deferred acquisition cost measurement at closing rates not historic rates	36	281
Total solvency adjustments	(470)	341
Deferred acquisition costs (including reinsurance commissions)	(1,103)	(228)
Movement in members' balances	1,153	(577)
Balance as at 31 December	(4,620)	(4,221)

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, and
- mortality risk, which would arise if mortality of the lives insured were heavier than that assumed, possibly because of an epidemic or catastrophe.

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

18. Related parties

Syndicate 308 did not accept inwards reinsurance business from, or place outwards reinsurance business with, other Tokio Marine Group entities, including Syndicate 1880, that are deemed to be related parties of R J Kiln & Co Limited by virtue of the shareholding in Kiln Group Limited by Tokio Marine Holdings, Inc.

Profit commission of £481,323 is payable by the syndicate to R J Kiln & Co Limited in respect of profits for the 2010 calendar year (2009: £200,335). Profit commission was accrued by the syndicates based on the interim annual accounting results of the 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 £147,431 (2009: £108,090) were paid by the syndicate to R J Kiln & Co Limited. In addition to this, expenses of £1,955,023 (2009: £1,683,939) were paid to R J Kiln & Co Limited for expenses paid on behalf of the syndicate.

The note on related parties on page 13 provides further information regarding all syndicates and related parties.

19. Risk management

Details of the syndicate's risk management framework are given in the 'principal risks and uncertainties section' on pages 16 to 18.

(a) Insurance risk

Further details on the management of the syndicate's insurance risk are given on page 17.

Concentrations of insurance risk

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

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

2010	Gross claims provision £'000s	Reinsurance claims provision £'000s	Net claims provision £'000s
Life	7,433	(1,485)	5,948
2009	Gross claims provision £'000s	Reinsurance claims provision £'000s	Net claims provision £'000s
Life	8,055	(289)	7,766

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	Gross claims provision	
	2010 £'000s	2009 £'000s
UK	2,310	3,133
Other EU countries	1,865	221
US	3,024	3,576
Other	234	1,125
	7,433	8,055

Earned premium sensitivity analysis

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 £0.2m (2009: £0.2m) more premium being reported (gross of acquisition cost), and applying the underlying attritional loss ratio this would result in an estimated increase in net profit (after acquisition costs) of £0.04m (2009: £0.03m). A decrease of 1% would result in £0.2m (2009: £0.2m) less premium being reported and an estimated £0.04m (2009: £0.03m) reduction in net profit. The profit impact is at the net level i.e. after the reinsurance adjustment and profit commission effects.

Claims sensitivity analysis

The claims ratio for 2010 is 45% (2009: 54%). 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 (2009: £0.1m) and profit reducing by £0.2m (2009: £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 17.

The following table provides information regarding credit risk exposures of the syndicate by classifying assets according to credit ratings of the counterparties. During the year, no exposure limits were exceeded.

2010	AAA £'000s	AA £'000s	A £'000s	<A £'000s	NR £'000s	Total £'000s
Reinsurers' share of outstanding claims including reinsurers' IBNR	–	22	1,430	–	33	1,485
Financial investments						
Other financial investments	4,259	–	–	–	–	4,259
Overseas deposits	–	178	8	–	–	186
Cash at bank and in hand	2,849	–	3,071	–	–	5,920
Total credit risk exposure	7,108	200	4,509	–	33	11,850
2009	AAA £'000s	AA £'000s	A £'000s	<A £'000s	NR £'000s	Total £'000s
Reinsurers' share of outstanding claims including reinsurers' IBNR	–	1	128	–	160	289
Financial investments						
Other financial investments	2,505	–	–	–	–	2,505
Overseas deposits	281	20	28	–	–	329
Cash at bank and in hand	744	–	–	–	–	744
Total credit risk exposure	3,530	21	156	–	160	3,867

The largest potential reinsurance credit exposure to the syndicate at 31 December 2010 was 39.1% with A+ rated security (2009: 39.5% A+ rated security). The reinsurance security committee of the managing agent has reviewed and accepted this level of exposure, which is supported by a contractual cut through to the reinsurer's ultimate parent, an authorised reinsurer.

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

2010	Fully performing £'000s	Past due £'000s	Impairment £'000s	Total £'000s
Financial investments				
Other financial investments	4,259	–	–	4,259
Overseas deposits	186	–	–	186
Reinsurance assets	13	12	–	25
Insurance receivables	13,272	354	–	13,626
Cash at bank and in hand	5,920	–	–	5,920
	23,650	366	–	24,016
2009	Fully performing £'000s	Past due £'000s	Impairment £'000s	Total £'000s
Financial investments				
Other financial investments	2,505	–	–	2,505
Overseas deposits	329	–	–	329
Deposits with ceding undertakings	2	–	–	2
Reinsurance assets	6	23	–	29
Insurance receivables	9,136	298	–	9,434
Cash at bank and in hand	744	–	–	744
	12,722	321	–	13,043

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

Liquidity risk

For details of the management of the syndicate's liquidity risks please refer to page 17.

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

2010	Up to 1 year £'000s	1-3 years £'000s	3-5 years £'000s	Over 5 years £'000s	Total £'000s
Financial investments	4,259	–	–	–	4,259
Insurance receivables	13,626	–	–	–	13,626
Cash at bank and in hand	5,920	–	–	–	5,920
Overseas deposits	186	–	–	–	186
	23,991	–	–	–	23,991
2009	Up to 1 year £'000s	1-3 years £'000s	3-5 years £'000s	Over 5 years £'000s	Total £'000s
Financial investments	2,505	–	–	–	2,505
Insurance receivables	9,432	2	–	–	9,434
Cash at bank and in hand	744	–	–	–	744
Overseas deposits	329	–	–	–	329
Inter-syndicate loans	5,238	–	–	–	5,238
	18,248	2	–	–	18,250

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Foreign currency market risk

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

Foreign currency liquidity and exposure for the syndicate is the responsibility of the finance director. Strategy is agreed by the investment group and ratified by the investment committee. The syndicate currency exposure and future cash flows are monitored in each currency and potential exposures and shortfalls addressed by foreign currency transactions or cash calls on members.

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

Exchange rate sensitivity analysis

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

The following table shows the impact of a 10 cents movement in the US dollar to pounds sterling exchange rates.

	2010 £'000s	2009 £'000s
10 cents increase in USD	(118)	(49)
10 cents decrease in USD	134	58

Interest rate market risk

The syndicate invests in and holds cash and cash equivalent in its balance sheet and the value of its investment portfolio is not affected by movements in interest rates.

(c) Fair value estimation

The syndicate invests in and holds cash and cash equivalent in its balance sheet and the value of its investment portfolio is not determined by the measurements detailed in the fair value hierarchy as in other syndicates previously disclosed.

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Report of the directors of the managing agent

The managing agent presents its report at 31 December 2010 for the 2008 closed year of account for the following syndicates:

Kiln Combined	Syndicate 510	Composite syndicate
Kiln Catastrophe	Syndicate 557	Non-marine syndicate
Kiln Mathers	Syndicate 807	Non-marine syndicate
Kiln Life	Syndicate 308	Life syndicate

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, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Review of the 2008 closed year of account

The 2008 year of account closed for Kiln syndicates with the following results:

510	£'000s	% of capacity
Profit after standard personal expenses	98,655	16.79

The underwriting surplus (excluding investment return and operating expenses, other than acquisition costs) attributable to the reinsurance to close (RITC) of the 2007 year of account was £33,237,185.

557	£'000s	% of capacity
Profit after standard personal expenses	17,078	14.31

The underwriting surplus (excluding investment return and operating expenses, other than acquisition costs) attributable to the RITC of the 2007 year of account was £1,161,908.

807	£'000s	% of capacity
Profit after standard personal expenses	11,515	9.57

The underwriting surplus (excluding investment return and operating expenses, other than acquisition costs) attributable to the RITC of the 2007 year of account was £3,068,042.

308	£'000s	% of capacity
Profit after standard personal expenses	2,565	17.49

The underwriting surplus (excluding investment return and operating expenses, other than acquisition costs) attributable to the RITC of the 2007 year of account was £685,934.

The underwriters' reports on pages 7 to 11 and the report of the directors of the managing agent on pages 16 to 19 provide further commentary.

Reappointment of auditors

The board approved the reappointment of PricewaterhouseCoopers LLP as auditors on an ongoing basis. PricewaterhouseCoopers LLP also acts as auditor to the managing agent R J Kiln & Co Limited and other Kiln Group entities.

Approved by the board of directors

Fiona Molloy

Company secretary
R J Kiln & Co Limited
16 March 2011

Statement of managing agent's responsibilities

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 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 as 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 as 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 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 financial statements.

Independent auditors' report to the members of Syndicates 510, 557, 807 and 308 on the 2008 closed underwriting year of account

We have audited the syndicate underwriting year accounts for the 2008 year of account of syndicates 510, 557, 807 and 308 for the three years ended 31 December 2010 which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of the managing agent and auditors

As explained more fully in the statement of managing agent's responsibilities (set out on page 97), the managing agent is responsible for the preparation of the syndicate underwriting year accounts, under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and in accordance with the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005), which give a true and fair view. Our responsibility is to audit and express an opinion on the syndicate underwriting year accounts in accordance with applicable legal and regulatory requirements and International Standards on Auditing (UK and Ireland). 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 syndicates' members as a body in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the syndicate underwriting year accounts

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 syndicates' 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.

Opinion on syndicate underwriting year accounts

In our opinion the syndicate underwriting year accounts:

- give a true and fair view of the profit and cash flows for the 2008 closed year of account,
- 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 and have been properly prepared in accordance with the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) requires us to report to you if, in our opinion:

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

Roy Clark

Senior statutory auditor

For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

London

16 March 2011

Notes and principal accounting policies applying to all syndicates

as at 31 December 2010

1. Basis of preparation

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

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 2008 year of account which has been closed by RITC as at 31 December 2010. Consequently the balance sheet represents the assets and liabilities of the 2008 year of account at the date of closure. The profit and loss account and cash flow statement reflect the transactions for that year of account during the three year period until closure.

These underwriting year accounts cover the three years from the date of inception of the 2008 year of account to the date of closure. Accordingly, this is the only reporting period and so comparative amounts are not shown.

2. Changes in accounting policies

The accounting policies are consistent with those of the previous year except that the syndicates have adopted the following FRSs during the year:

- FRS 23 'The effects of changes in foreign exchange rates',
- FRS 25 'Financial instruments, presentation',
- FRS 26 'Financial instruments, measurement', and
- FRS 29 'Financial instruments, disclosures'.

Adoption of these standards followed the use of derivative contracts in the syndicates' investment portfolio during 2010. Use of derivative contracts requires the syndicates to adopt FRS 26 to measure all of their financial instruments at fair value, including the new derivative contracts. In accordance with the financial reporting standards, FRS 26 may only be adopted as part of a package of standards consisting of FRS 23, FRS 25, FRS 26 and FRS 29. There is no impact on the results in respect of the change in accounting policies.

Additional risk management disclosure has not been made in the underwriting year accounts because the 2008 year of account results have already crystallised and therefore those risks are not relevant for the Names that participated on that year of account. Continuing Names can find relevant sections in the annual accounting reports where risk management policies and relevant analysis covering all years of account are disclosed.

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) Premiums written

Gross premiums are allocated to years of account on the basis of the inception date of the policy. Premiums in respect of insurance contracts underwritten under a binding authority, line slip or consortium arrangement are allocated to the year of account corresponding to the calendar year of inception of the arrangement. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them.

Premiums written are treated as fully earned.

b) Reinsurance premium ceded

Initial reinsurance premiums paid to purchase policies which give excess of loss protection are charged to the year of account in which the protection commences. Premiums for other reinsurances are charged to the same year of account as the risks being protected.

c) 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.

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 in the event of a claim being made are charged to the same year of account as that to which the recovery is credited.

An estimate of the future cost of indirect claims handling is calculated based on historical claims data and actual claims handling expense.

d) Reinsurance to close premium payable

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.

Notes and principal accounting policies applying to all syndicates

as at 31 December 2010

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.

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.

e) Foreign currencies

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

Exchange differences are included in the technical account.

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

f) Investments

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

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

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

The fair values of financial instruments traded in active markets are based on quoted bid prices on the balance sheet date. 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 and over-the-counter derivatives).

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

g) Derivative financial instruments

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

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

h) Investment return

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

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

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

i) Operating expenses

Where expenses are incurred by, or on behalf of, the managing agent on the administration of Syndicates 510, 557, 807 and 308, these expenses are apportioned using varying methods depending on the type of expense. Expenses which are incurred jointly for the Kiln group of companies and managed syndicates are apportioned between the 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.

j) Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any US Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the syndicate during the year are included in the balance sheet under the heading 'other debtors'.

No provision has been made for any overseas tax payable by members on underwriting results.

k) Pension costs

R J Kiln & Co Limited operates a defined contribution scheme. Pension contributions relating to syndicate staff are charged to the syndicates and included within net operating expenses.

R J Kiln & Co Limited also operates a defined benefit scheme through the R.J. Kiln & Co. Limited Pension and Assurance Scheme (closed to future benefit accrued from 1 May 2003). The level of funding is agreed between the 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 Kiln group entities and Syndicates 510, 557, 807 and 308. The algorithm is 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.

Notes and principal accounting policies applying to all syndicates

as at 31 December 2010

l) Profit commission

Profit commission is charged by the managing agent at a rate of 17.5% (Syndicate 510-12.5%) of profit subject to the operation of a two year deficit clause. Where profit commission is charged, it is included within members' standard personal expenses within administrative 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.

m) Seven year summary - unaudited

The seven year summary has been prepared from the audited accounts of the syndicates. Gross and net premiums after reinsurance are stated net of brokerage and commissions from the 2003 year of account onwards so as to make the figures comparable to earlier years. From the 2003 year of account onwards 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 2010

For Syndicates 510, 557, 807 and 308 managed by R J Kiln & Co Limited
Underwriting year accounts for the closed year of account 2008

Syndicate 510

Kiln Combined Syndicate
Composite

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Profit and loss account: technical account – general business

for the 36 months ended 31 December 2010

	Note	2008 £'000s
Syndicate allocated capacity		587,524
Earned premiums, net of reinsurance		
Gross premiums written	1	793,070
Outward reinsurance premiums		(193,284)
Earned premiums, net of reinsurance		599,786
Reinsurance to close premium received, net of reinsurance	2	294,757
Allocated investment return transferred from the non-technical account		31,201
Claims incurred, net of reinsurance		
Claims paid:		
Gross amount		(452,809)
Reinsurers' share		89,153
Reinsurance to close premium payable, net of reinsurance	3	(318,078)
Claims incurred, net of reinsurance		(681,734)
Members' standard personal expenses		(24,211)
Net operating expenses	4,5,6	(121,144)
Balance on the general business technical account	7	98,655

Profit and loss account: non-technical account

for the 36 months ended 31 December 2010

	Note	2008 £'000s
Balance on the general business technical account		98,655
Investment income	8	31,233
Net unrealised gains on investments	8	534
Investment expenses and charges	8	(566)
Allocated investment return transferred to general business technical account		(31,201)
Profit for the 2008 closed year of account		98,655

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

Balance sheet

for the 2008 closed year of account as at 31 December 2010

Assets	Note	2008 £'000s
Investments	9	301,701
Deposits with ceding undertakings		535
Debtors	10	107,517
Reinsurance recoveries anticipated on gross reinsurance to close premium payable to close the account	3	76,960
Other assets		
Cash at bank and in hand		5,175
Other	11	43,131
Prepayments and accrued income		4,244
Total assets		539,263
<hr/>		
Liabilities	Note	2008 £'000s
Amounts due to members	12	56,632
Reinsurance to close premium payable to close the account – gross amount	3	395,038
Deposits received from reinsurers		2,266
Creditors	13	84,638
Accruals and deferred income		689
Total liabilities		539,263

The underwriting year accounts, which comprise pages 104 to 112 and the notes and principal accounting policies applicable to all syndicates on pages 99 to 102, were approved by the board of R J Kiln & Co Limited on 7 March 2011 and were signed on its behalf by

James Dover

Finance director
R J Kiln & Co Limited
16 March 2011

Cash flow statement

for the 36 months ended 31 December 2010

	Note	2008 £'000s
Net cash inflow from operating activities	14	117,454
Transfers to members in respect of underwriting participations	12	(39,937)
Financing		
Members' agents' fees paid on behalf of members	12	(2,086)
Net cash inflows		75,431
Cash flows were invested as follows:		
Increase in cash holdings	15	4,412
Increase in deposits	15	6,455
Net portfolio investments	15,16	64,564
Net investment of cash flows		75,431

Notes to the accounts

for the 36 months ended 31 December 2010

1. Segmental analysis

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

Division	Gross premiums written (notes i & iv) £'000s	Gross claims incurred (note ii) £'000s	Gross operating expenses £'000s	Reinsurance balance (note iii) £'000s	Total £'000s
Property & special lines	383,662	(336,376)	(89,286)	38,454	(3,546)
Marine & special risks	152,588	(138,015)	(36,236)	21,620	(43)
Reinsurance	154,942	(53,982)	(35,218)	(43,561)	22,181
Aviation	49,225	(18,484)	(14,445)	(4,880)	11,416
Accident & health	52,653	(37,748)	(14,121)	3,425	4,209
	793,070	(584,605)	(189,306)	15,058	34,217
RITC received	364,010	(263,242)	–	(67,531)	33,237
	1,157,080	(847,847)	(189,306)	(52,473)	67,454

Of the above divisions the following have accepted inwards reinsurance business: reinsurance (100%); aviation (36.1%); accident & health (26.6%); marine & special risks (24.6%) and property & special lines (15.1%).

- Gross premiums earned are identical to gross premiums written.
- Gross claims incurred comprise gross claims paid and gross RITC premium payable.
- 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.
- All premiums are concluded in the UK.

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

	£'000s
UK	423,362
Other EU countries	77,103
US	326,382
Other	330,233
	1,157,080

2. Reinsurance to close premium receivable

	£'000s
Gross reinsurance to close premium receivable	364,010
Reinsurance recoveries anticipated	(69,253)
	294,757

3. Reinsurance to close premium payable

	£'000s
Gross notified outstanding claims	282,872
Reinsurance recoveries anticipated	(60,134)
Net notified outstanding claims	222,738
Provision for gross claims IBNR	112,166
Reinsurance recoveries anticipated on IBNR	(16,826)
Provision for net IBNR	95,340
	318,078

The reinsurance to close is effected to the 2009 year of account of Syndicate 510.

4. Net operating expenses

	£'000s
Acquisition costs	208,043
Administrative expenses	34,614
(Profit) on exchange	(77,562)
Gross operating expenses	165,095
Reinsurance commissions and profit participations	(43,951)
	121,144

Within administrative expenses were £251,423 of audit fees charged to the 2008 year of account; no non-audit services were provided by the auditors.

5. Staff numbers and costs

All staff are employed by Tokio Marine Kiln Insurance Services Limited. The following amounts were recharged to the 2008 year of account in respect of salary costs:

	£'000s
Wages, salaries and social security costs	13,411
Other pension costs	1,364
	14,775

The average number of full-time employees employed by Tokio Marine Kiln Insurance Services Limited but working on the 2008 year of account was as follows:

Administration and finance	77
Underwriting	62
Claims	10
	149

6. Emoluments of the directors and active underwriters

The active underwriters received cumulative remuneration of £3,398,908 charged to the 2008 year of account. After the closure of the year of account profit-related remuneration based on 5% of the divisional result at closure is calculated and allocated across the divisional underwriting staff or into the Kiln group of companies corporate bonus pool. Each active underwriter will consequently receive further profit-related pay during 2011, as an allocation from the provision which has already been charged to the 2008 year of account. The Kiln group of companies operates a bonus pooling arrangement such that profit-related pay is generated from both profit commission and the group's share of the underwriting result through its corporate member Kiln Underwriting Limited. A considerable portion of the profit-related pay is therefore borne by other Kiln Group entities.

The directors received £708,899 of emoluments charged to the 2008 year of account.

7. Analysis of technical result

	£'000s
Balance excluding investment return and operating expenses, other than acquisition costs:	
Amount attributable to business allocated to the 2008 year of account	15,480
Surplus on the RITC of the 2007 year of account	33,237
	48,717
Allocated investment return transferred from the non-technical account	31,201
Net operating expenses other than acquisition costs	18,737
	98,655

All acquisition costs are attributable to business allocated to the 2008 pure year of account.

Notes to the accounts

for the 36 months ended 31 December 2010

8. Investment income and expenses

	£'000s
Income from investments	28,326
Net gains on the realisation of investments	2,907
Net unrealised gains on investments	534
Investment management expenses, including interest	(566)
	31,201

9. Investments

	Fair value £'000s	Cost £'000s
Debt securities and other fixed income securities	235,517	236,348
Shares and other variable yield securities	66,100	66,100
Deposits with credit institutions	84	84
	301,701	302,532

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

10. Debtors

	£'000s
Due within one year:	
Arising out of direct insurance operations:	
Due from intermediaries	47,516
Inter-year loans	9,290
Arising out of reinsurance operations	40,380
Other debtors	2,432
	99,618
Due after one year:	
Arising out of direct insurance operations	39
Other debtors	7,860
	7,899
	107,517

11. Other assets

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

12. Amounts due to members

	£'000s
Profit for the 2008 closed year of account	98,655
Early profit release to members	(39,937)
Members' agents' fee advances	(2,086)
Amounts due to members at 31 December 2010	56,632

13. Creditors

	£'000s
Arising out of direct insurance operations	32,466
Arising out of reinsurance operations	31,623
Other creditors	20,549
	84,638

All amounts are due within one year

14. Reconciliation of profit for the year of account to net cash inflow from operating activities

	£'000s
Profit for the closed year of account on ordinary activities	98,655
Realised and unrealised investment loss including foreign exchange	4,394
Net RITC premium payable	318,078
Non-cash consideration for net RITC receivable	(294,757)
(Increase) in debtors	(17,263)
Increase in creditors	8,347
Net cash inflow from operating activities	117,454

Consideration for net RITC receivable comprised:

	£'000s
Non-cash consideration:	
Portfolio investments	243,080
Deposits	34,159
Debtors	94,498
Creditors	(76,980)
	294,757
Cash	–
	294,757

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

	£'000s
Net cash inflow for the 36 months	4,412
Cash flow	
Deposits	6,455
Portfolio investments	64,564
Movement arising from cash flows	75,431
Received as consideration for net RITC receivable	277,239
Changes in market value and exchange rates	(4,394)
Total movement in portfolio investments	348,276
Portfolio at 1 January 2008	–
Portfolio at 31 December 2010	348,276

Movement in cash, portfolio investments and financing

	At 1 January 2008 £'000s	Cash flow £'000s	Received as consideration for RITC £'000s	Changes to market value and currencies £'000s	At 31 December 2010 £'000s
Cash at bank and in hand	–	4,412	–	763	5,175
Debt securities and other fixed income securities	–	(2,445)	243,080	(5,118)	235,517
Shares and other variable yield securities	–	66,927	–	(827)	66,100
Deposits with credit institutions	–	82	–	2	84
Total portfolio investments	–	64,564	243,080	(5,943)	301,701
Deposits with ceding undertakings	–	170	285	80	535
Overseas deposits	–	5,731	36,684	716	43,131
Deposits received from reinsurers	–	554	(2,810)	(10)	(2,266)
Total cash, portfolio investments and financing	–	75,431	277,239	(4,394)	348,276

Notes to the accounts

for the 36 months ended 31 December 2010

16. Net cash inflow on portfolio investments

	£'000s
Purchase of debt securities and other fixed income securities	(1,844,603)
Sale of debt securities and other fixed income securities	1,842,158
Deposits with credit institutions	82
Shares and other variable yield securities	66,927
Net cash inflow on portfolio investments	64,564

17. Related parties

Syndicate 510 accepted inwards reinsurance business from, and placed outwards reinsurance business with, other Tokio Marine Group entities that are deemed to be related parties of R J Kiln & Co Limited by virtue of the shareholding in Kiln Group Limited by Tokio Marine Holdings, Inc. All transactions with these entities were conducted at arm's length and at normal commercial terms.

Syndicate 510 accepted written premium from related parties for the 2008 year of account of £599,450. The unpaid premiums due from related parties at the period end were £63,585. There were no outstanding claims for the 2008 year of account.

Written premiums ceded by Syndicate 510 to related parties for the 2008 year of account were £29,349,601. Paid recoveries from related parties during the period were £17,010,757. Unpaid recoveries at the period end amounted to £1,998,260 and future recoveries on outstanding claims, including an element of IBNR, were £2,081,208.

The syndicate received business from the following service and related companies whose investments are held ultimately by the managing agent: Kiln Asia Limited (100% owned), Kiln South Africa (Proprietary) Limited (100% owned), Kiln Regional Underwriting Limited (100% owned) and Ibox Insurance Services Limited (30% owned). These businesses each produce less than 1.5% of the syndicate's gross premium income.

The syndicate also received business from Kiln Europe S.A. which is 100% owned by Kiln Group Limited.

Profit commission of £20,024,972 is payable by the syndicate to R J Kiln & Co Limited in respect of profits for the 2008 year.

Managing agency fees of £4,180,228 were paid by the syndicate to R J Kiln & Co Limited. In addition to this, expenses of £23,790,774 were paid to R J Kiln & Co Limited for expenses paid on behalf of the syndicate.

The note on related parties on page 13 provides further information regarding all syndicates and related parties.

18. Seven year summary – unaudited

	2002	2003	2004	2005	2006	2007	2008
Syndicate allocated capacity £m	388.09	483.13	506.79	545.20	624.19	733.72	587.52
Number of underwriting members	1,690	1,824	1,779	1,549	1,520	1,477	1,459
Aggregate net premiums £m	231.09	434.24	485.49	571.92	600.75	560.64	595.70
Result £m	68.54	120.25	52.49	1.40	159.98	96.96	98.66
Results for an illustrative share of £10,000							
Gross premiums written and earned	9,265	11,652	9,136	9,355	8,744	6,941	9,958
– as a percentage of allocated capacity	93%	117%	91%	94%	87%	69%	100%
Net premiums written and earned	5,954	6,918	7,084	7,653	6,857	5,574	7,346
– as a percentage of allocated capacity	60%	69%	71%	77%	69%	56%	73%
Reinsurance to close from an earlier year of account	3,456	2,775	3,396	3,063	3,484	4,025	5,017
Net claims incurred	(3,219)	(3,347)	(5,041)	(6,368)	(4,165)	(4,434)	(6,190)
Reinsurance to close the year of account	(3,454)	(3,562)	(3,296)	(3,988)	(4,731)	(4,017)	(5,483)
Underwriting result	2,737	2,784	2,143	360	1,445	1,148	690
Profit/(loss) on exchange	(8)	482	(613)	(268)	1,692	612	1,459
Syndicate operating expenses	(762)	(535)	(502)	(496)	(558)	(498)	(589)
Balance on the technical account	1,967	2,731	1,028	(404)	2,579	1,262	1,560
Investment return	234	293	406	608	574	473	531
Profit before personal expenses	2,201	3,024	1,434	204	3,153	1,735	2,091
Illustrative personal expenses	(435)	(535)	(398)	(179)	(591)	(414)	(412)
Result	1,766	2,489	1,036	25	2,562	1,321	1,679

Annual report and accounts 2010

For Syndicates 510, 557, 807 and 308 managed by R J Kiln & Co Limited
Underwriting year accounts for the closed year of account 2008

Syndicate 557

Kiln Catastrophe Syndicate
Non-marine



114	Profit and loss account
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Profit and loss account: technical account – general business

for the 36 months ended 31 December 2010

	Note	2008 £'000s
Syndicate allocated capacity		119,343
Earned premiums, net of reinsurance		
Gross premiums written	1	38,575
Outward reinsurance premiums		(3,711)
Earned premiums, net of reinsurance		34,864
Reinsurance to close premium received, net of reinsurance	2	8,933
Allocated investment return transferred from the non-technical account		3,601
Claims incurred, net of reinsurance		
Claims paid:		
Gross amount		(11,151)
Reinsurers' share		354
Reinsurance to close premium payable, net of reinsurance	3	(10,252)
Claims incurred, net of reinsurance		(21,049)
Members' standard personal expenses		(4,516)
Net operating expenses	4,5,6	(4,755)
Balance on the general business technical account	7	17,078

Profit and loss account: non-technical account

for the 36 months ended 31 December 2010

	Note	2008 £'000s
Balance on the general business technical account		17,078
Investment income	8	2,891
Net unrealised gains on investments	8	758
Investment expenses and charges	8	(48)
Allocated investment return transferred to general business technical account		(3,601)
Profit for the 2008 closed year of account		17,078

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

Balance sheet

for the 2008 closed year of account as at 31 December 2010

Assets	Note	2008 £'000s
Investments	9	29,416
Debtors	10	860
Reinsurance recoveries anticipated on gross reinsurance to close premium payable to close the account	3	288
Other assets		
Cash at bank and in hand		218
Other	11	203
Total assets		30,985
<hr/>		
Liabilities	Note	2008 £'000s
Amounts due to members	12	16,154
Reinsurance to close premium payable to close the account – gross amount	3	10,540
Creditors	13	4,290
Accruals and deferred income		1
Total liabilities		30,985

The underwriting year accounts, which comprise pages 114 to 122 and the notes and principal accounting policies applicable to all syndicates on pages 99 to 102, were approved by the board of R J Kiln & Co Limited on 7 March 2011 and were signed on its behalf by

James Dover

Finance director
R J Kiln & Co Limited
16 March 2011

Cash flow statement

for the 36 months ended 31 December 2010

	Note	2008 £'000s
Net cash inflow from operating activities	14	9,144
Financing		
Members' agents' fees paid on behalf of members	12	(924)
Net cash flows		8,220
Cash flows were invested as follows:		
Increase in cash holdings	15	229
(Decrease) in deposits	15	(52)
Net portfolio investments	15,16	8,043
Net investment of cash flows		8,220

Notes to the accounts

for the 36 months ended 31 December 2010

1. Segmental analysis

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

	Gross premiums written (notes i & iv) £'000s	Gross claims incurred (note ii) £'000s	Gross operating expenses £'000s	Reinsurance balance (note iii) £'000s	Total £'000s
Direct insurance					
Accident and health	223	(79)	(54)	(16)	74
Fire and other damage to property	6,107	(2,163)	(1,467)	(161)	2,316
Miscellaneous	27	(10)	(7)	(2)	8
	6,357	(2,252)	(1,528)	(179)	2,398
Reinsurance acceptances	32,218	(11,415)	(7,743)	(3,143)	9,917
RITC received	9,311	(8,024)	–	(125)	1,162
	47,886	(21,691)	(9,271)	(3,447)	13,477

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

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

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

iv. All premiums are concluded in the UK.

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

	£'000s
UK	10,969
Other EU countries	1,241
US	28,743
Other	6,933
	47,886

2. Reinsurance to close premium receivable

	£'000s
Gross reinsurance to close premium receivable	9,311
Reinsurance recoveries anticipated	(378)
	8,933

3. Reinsurance to close premium payable

	£'000s
Gross notified outstanding claims	6,215
Reinsurance recoveries anticipated	(168)
Net notified outstanding claims	6,047
Provision for gross claims IBNR	4,325
Reinsurance recoveries anticipated on IBNR	(120)
Provision for net IBNR	4,205
	10,252

The reinsurance to close is effected to the 2009 year of account of Syndicate 557.

4. Net operating expenses

	£'000s
Acquisition costs	7,410
Administrative expenses	2,130
(Profit) on exchange	(4,785)
Gross and net operating expenses	4,755

Within administrative expenses were £33,500 of audit fees charged to the 2008 year of account; no non-audit services were provided by the auditors.

5. Staff numbers and costs

All staff are employed by Tokio Marine Kiln Insurance Services Limited. The following amounts were recharged to the 2008 year of account in respect of salary costs:

	£'000s
Wages, salaries and social security costs	848
Other pension costs	126
	974

The average number of full-time employees employed by Tokio Marine Kiln Insurance Services Limited but working on the 2008 year of account was as follows:

Administration and finance	10
Underwriting	3
Claims	1
	14

6. Emoluments of the directors and active underwriter

The active underwriter received £269,208 remuneration charged to the 2008 year of account. The Kiln group of companies operates a bonus pooling arrangement such that profit-related pay is generated from both profit commission and the group's share of the underwriting result through its corporate member Kiln Underwriting Limited. A considerable portion of the profit-related pay is therefore borne by other Kiln group entities.

The directors received £138,378 of emoluments charged to the 2008 year of account.

7. Analysis of technical result

	£'000s
Balance excluding investment return and operating expenses, other than acquisition costs:	
Amount attributable to business allocated to the 2008 year of account	14,176
Surplus on the RITC of the 2007 year of account	1,162
	15,338
Allocated investment return transferred from the non-technical account	3,601
Net operating expenses other than acquisition costs	(1,861)
	17,078

All acquisition costs are attributable to business allocated to the 2008 pure year of account.

Notes to the accounts

for the 36 months ended 31 December 2010

8. Investment income and expenses

	£'000s
Income from investments	2,149
Net gains on the realisation of investments	742
Net unrealised gains on investments	758
Investment management expenses, including interest	(48)
	3,601

9. Investments

	Fair value £'000s	Cost £'000s
Debt securities and other fixed income securities	21,536	21,541
Shares and other variable yield securities	7,860	7,860
Deposits with credit institutions	20	20
	29,416	29,421

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

10. Debtors

	£'000s
Arising out of direct insurance operations:	
Inter-year loans	580
Arising out of reinsurance operations	256
Other debtors	24
	860

All amounts are due within one year.

11. Other assets

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

12. Amounts due to members

	£'000s
Profit for the 2008 closed year of account	17,078
Members' agents' fee advances	(924)
Amounts due to members at 31 December 2010	16,154

13. Creditors

	£'000s
Arising out of direct insurance operations:	
Inter-year loans	1
Arising out of reinsurance operations	658
Other creditors	3,631
	4,290

All amounts are due within one year.

14. Reconciliation of profit for the year of account to net cash inflow from operating activities

	£'000s
Profit for the closed year of account on ordinary activities	17,078
Realised and unrealised investment (gain) including foreign exchange	(8,432)
Net RITC premium payable	10,252
Non-cash consideration for net RITC receivable	(8,933)
(Increase) in debtors	(719)
(Decrease) in creditors	(102)
Net cash inflow from operating activities	9,144

Consideration for net RITC receivable comprised:

	£'000s
Non-cash consideration:	
Portfolio investments	12,940
Deposits	245
Debtors	141
Creditors	(4,393)
	8,933
Cash	–
	8,933

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

	£'000s
Net cash inflow for the 36 months	229
Cash flow	
Deposits	(52)
Portfolio investments	8,043
Movement arising from cash flows	8,220
Received as consideration for net RITC receivable	13,185
Changes in market value and exchange rates	8,432
Total movement in portfolio investments	29,837
Portfolio at 1 January 2008	–
Portfolio at 31 December 2010	29,837

Movement in cash, portfolio investments and financing

	At 1 January 2008 £'000s	Cash flow £'000s	Received as consideration for RITC £'000s	Changes to market value and currencies £'000s	At 31 December 2010 £'000s
Cash at bank and in hand	–	229	–	(11)	218
Debt securities and other fixed income securities	–	197	12,940	8,399	21,536
Shares and other variable yield securities	–	7,830	–	30	7,860
Deposits with credit institutions	–	16	–	4	20
Total portfolio investments	–	8,043	12,940	8,433	29,416
Overseas deposits	–	(52)	245	10	203
Total cash, portfolio investments and financing	–	8,220	13,185	8,432	29,837

Notes to the accounts

for the 36 months ended 31 December 2010

16. Net cash inflow on portfolio investments

	£'000s
Purchase of debt securities and other fixed income securities	(221,377)
Sale of debt securities and other fixed income securities	221,574
Deposits with credit institutions	16
Shares and other variable yield securities	7,830
Net cash inflow on portfolio investments	8,043

17. Related parties

Syndicate 557 did not accept inwards reinsurance business from, or place outwards reinsurance business with, other Tokio Marine Group entities that are deemed to be related parties of R J Kiln & Co Limited by virtue of the shareholding in Kiln Group Limited by Tokio Marine Holdings, Inc.

Profit commission of £3,621,822 is payable by the syndicate to R J Kiln & Co Limited in respect of profits for the 2008 year.

Managing agency fees of £894,548 were paid by the syndicate to R J Kiln & Co Limited. In addition to this, expenses of £1,445,265 were paid to R J Kiln & Co Limited for expenses paid on behalf of the syndicate.

The note on related parties on page 13 provides further information regarding all syndicates and related parties.

18. Seven year summary – unaudited

	2002	2003	2004	2005	2006	2007	2008
Syndicate allocated capacity £m	46.83	54.95	55.02	47.67	54.68	119.67	119.34
Number of underwriting members	816	917	918	807	787	981	1,038
Aggregate net premiums £m	28.55	38.91	33.16	22.11	22.71	29.19	34.86
Result £m	18.92	21.53	5.19	(6.62)	22.09	19.88	17.08
Results for an illustrative share of £10,000							
Gross premiums written and earned	6,817	6,414	5,918	4,947	3,793	2,155	2,611
– as a percentage of allocated capacity	68%	64%	59%	49%	38%	22%	26%
Net premiums written and earned	6,096	5,817	4,976	3,787	3,196	1,904	2,300
– as a percentage of allocated capacity	61%	58%	50%	38%	32%	19%	23%
Reinsurance to close from an earlier year of account	2,849	1,994	1,830	2,166	2,046	1,042	749
Net claims incurred	(1,739)	(1,040)	(3,293)	(4,752)	(151)	(330)	(905)
Reinsurance to close the year of account	(2,340)	(1,833)	(1,877)	(2,347)	(2,280)	(746)	(859)
Underwriting result	4,866	4,938	1,636	(1,146)	2,811	1,870	1,285
Profit/(loss) on exchange	(34)	(84)	(306)	(44)	1,604	212	401
Syndicate operating expenses	(454)	(657)	(388)	(489)	(242)	(98)	(178)
Balance on the technical account	4,378	4,197	942	(1,679)	4,173	1,984	1,508
Investment return	236	377	452	470	724	255	302
Profit/(loss) before personal expenses	4,614	4,574	1,394	(1,209)	4,897	2,239	1,810
Illustrative personal expenses	(575)	(657)	(450)	(178)	(857)	(577)	(378)
Result	4,039	3,917	944	(1,387)	4,040	1,662	1,432

Annual report and accounts 2010

For Syndicates 510, 557, 807 and 308 managed by R J Kiln & Co Limited
Underwriting year accounts for the closed year of account 2008

Syndicate 807

Kiln Mathers Syndicate
Non-marine

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Profit and loss account: technical account – general business

for the 36 months ended 31 December 2010

	Note	2008 £'000s
Syndicate allocated capacity		120,329
Earned premiums, net of reinsurance		
Gross premiums written	1	145,600
Outward reinsurance premiums		(9,573)
Earned premiums, net of reinsurance		136,027
Reinsurance to close premium received, net of reinsurance	2	29,736
Allocated investment return transferred from the non-technical account		2,036
Claims incurred, net of reinsurance		
Claims paid:		
Gross amount		(68,553)
Reinsurers' share		1,166
Reinsurance to close premium payable, net of reinsurance	3	(29,751)
Claims incurred, net of reinsurance		(97,138)
Members' standard personal expenses		(4,130)
Net operating expenses	4,5,6	(55,016)
Balance on the general business technical account	7	11,515

Profit and loss account: non-technical account

for the 36 months ended 31 December 2010

	Note	2008 £'000s
Balance on the general business technical account		11,515
Investment income	8	1,936
Net unrealised gains on investments	8	222
Investment expenses and charges	8	(122)
Allocated investment return transferred to general business technical account		(2,036)
Profit for the 2008 closed year of account		11,515

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

Balance sheet

for the 2008 closed year of account as at 31 December 2010

Assets	Note	2008 £'000s
Investments	9	19,093
Deposits with ceding undertakings		10
Debtors	10	12,414
Reinsurance recoveries anticipated on gross reinsurance to close premium payable to close the account	3	522
Other assets		
Cash		1
Other	11	26,777
Total assets		58,817

Liabilities	Note	2008 £'000s
Amounts due to members	12	11,161
Reinsurance to close premium payable to close the account – gross amount	3	30,273
Creditors	13	17,367
Accruals and deferred income		16
Total liabilities		58,817

The underwriting year accounts, which comprise pages 124 to 132 and the notes and principal accounting policies applicable to all syndicates on pages 99 to 102, were approved by the board of R J Kiln & Co Limited on 7 March 2011 and were signed on its behalf by

James Dover

Finance director
R J Kiln & Co Limited
16 March 2011

Cash flow statement

for the 36 months ended 31 December 2010

	Note	2008 £'000s
Net cash inflow from operating activities	14	21,367
Financing		
Members' agents' fees paid on behalf of members	12	(354)
Net cash inflows		21,013
Cash flows were invested as follows:		
Increase in cash holdings	15	1
Increase in deposits	15	21,573
Net portfolio investments	15,16	(561)
Net investment of cash flows		21,013

Notes to the accounts

for the 36 months ended 31 December 2010

1. Segmental analysis

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

	Gross premiums written (notes i & iv) £'000s	Gross claims incurred (note ii) £'000s	Gross operating expenses £'000s	Re-insurance balance (note iii) £'000s	Total £'000s
Direct insurance					
Accident and health	13,074	(8,952)	(5,020)	–	(898)
Fire and other damage to property	71,029	(43,214)	(27,129)	(3,847)	(3,161)
Miscellaneous	8,802	(5,195)	(3,609)	(3)	(5)
	92,905	(57,361)	(35,758)	(3,850)	(4,064)
Reinsurance acceptances	52,695	(14,762)	(23,388)	(4,070)	10,475
RITC received	30,289	(26,703)	–	(518)	3,068
	175,889	(98,826)	(59,146)	(8,438)	9,479

- Gross premiums earned are identical to gross premiums written.
- Gross claims incurred comprise gross claims paid and gross RITC premium payable.
- 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.
- All premiums are concluded in the UK.

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

	£'000s
UK	49,197
Other EU countries	5,465
US	59,749
Other	61,478
	175,889

2. Reinsurance to close premium receivable

	£'000s
Gross reinsurance to close premium receivable	30,289
Reinsurance recoveries anticipated	(553)
	29,736

3. Reinsurance to close premium payable

	£'000s
Gross notified outstanding claims	22,004
Reinsurance recoveries anticipated	(403)
Net notified outstanding claims	21,601
Provision for gross claims IBNR	8,269
Reinsurance recoveries anticipated on IBNR	(119)
Provision for net IBNR	8,150
	29,751

The reinsurance to close is effected to the 2009 year of account of Syndicate 807.

4. Net operating expenses

	£'000s
Acquisition costs	60,843
Administrative expenses	5,036
(Profit) on exchange	(10,863)
Gross and net operating expenses	55,016

Within administrative expenses were £67,000 of audit fees charged to the 2008 year of account; no non-audit services were provided by the auditors.

5. Staff numbers and costs

All staff are employed by Tokio Marine Kiln Insurance Services Limited. The following amounts were recharged to the 2008 year of account in respect of salary costs:

	£'000s
Wages, salaries and social security costs	2,718
Other pension costs	276
	2,994

The average number of full-time employees employed by Tokio Marine Kiln Insurance Services Limited but working on the 2008 year of account was as follows:

Administration and finance	14
Underwriting	9
Claims	2
	25

6. Emoluments of the directors and active underwriter

The active underwriter received £607,729 remuneration charged to the 2008 year of account. The Kiln group of companies operates a bonus pooling arrangement such that profit-related pay is generated from both profit commission and the group's share of the underwriting result through its corporate member Kiln Underwriting Limited. A considerable portion of the profit-related pay is therefore borne by other Kiln group entities.

The directors received £138,378 of emoluments charged to the 2008 year of account.

7. Analysis of technical result

	£'000s
Balance excluding investment return and operating expenses, other than acquisition costs:	
Amount attributable to business allocated to the 2008 year of account	4,714
Surplus on the RITC of the 2007 year of account	3,068
	7,782
Allocated investment return transferred from the non-technical account	2,036
Net operating expenses other than acquisition costs	1,697
	11,515

All acquisition costs are attributable to business allocated to the 2008 pure year of account.

Notes to the accounts

for the 36 months ended 31 December 2010

8. Investment income and expenses

	£'000s
Income from investments	1,936
Net unrealised gains on investments	222
Net losses on the realisation of investments	(84)
Investment management expenses, including interest	(38)
	2,036

9. Investments

	Fair value £'000s	Cost £'000s
Debt securities and other fixed income securities	11,952	12,009
Shares and other variable yield securities	7,138	7,138
Deposits with credit institutions	3	3
	19,093	19,150

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

10. Debtors

	£'000s
Due within one year:	
Arising out of direct insurance operations:	
Due from intermediaries	588
Inter-year loans	481
Arising out of reinsurance operations	10,884
Other debtors	173
	12,126
Due after one year:	
Other debtors	288
	12,414

11. Other assets

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

12. Amounts due to members

	£'000s
Profit for the 2008 closed year of account	11,515
Members' agents' fee advances	(354)
Amounts due to members at 31 December 2010	11,161

13. Creditors

	£'000s
Due within one year:	
Arising out of direct insurance operations:	
Due to intermediaries	1,567
Inter-year loans	701
Arising out of reinsurance operations	12,205
Other creditors	2,879
	17,352
Due after one year:	
Other creditors	15
	17,367

14. Reconciliation of profit for the year of account to net cash inflow from operating activities

	£'000s
Profit for the closed year of account on ordinary activities	11,515
Realised and unrealised investment loss including foreign exchange	4,564
Net RITC premium payable	29,751
Non-cash consideration for net RITC receivable	(29,736)
Decrease in debtors	4,164
Increase in creditors	1,109
Net cash inflow from operating activities	21,367

Consideration for net RITC receivable comprised:

	£'000s
Non-cash consideration:	
Portfolio investments	29,413
Deposits	19
Debtors	16,578
Creditors	(16,274)
	29,736
Cash	–
	29,736

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

	£'000s
Net cash inflow for the 36 months	1
Cash flow	
Deposits	21,573
Portfolio investments	(561)
Movement arising from cash flows	21,013
Received as consideration for net RITC receivable	29,432
Changes in market value and exchange rates	(4,564)
Total movement in portfolio investments	45,881
Portfolio at 1 January 2008	–
Portfolio at 31 December 2010	45,881

Movement in cash, portfolio investments and financing

	At 1 January 2008 £'000s	Cash flow £'000s	Received as consideration for RITC £'000s	Changes to market value and currencies £'000s	At 31 December 2010 £'000s
Cash at bank and in hand	–	1	–	–	1
Debt securities and other fixed income securities	–	(7,768)	29,413	(9,693)	11,952
Shares and other variable yield securities	–	7,206	–	(68)	7,138
Deposits with credit institutions	–	1	–	2	3
Total portfolio investments	–	(561)	29,413	(9,759)	19,093
Deposits with ceding undertakings	–	(9)	19	–	10
Overseas deposits	–	21,582	–	5,195	26,777
Total cash, portfolio investments and financing	–	21,013	29,432	(4,564)	45,881

Notes to the accounts

for the 36 months ended 31 December 2010

16. Net cash (outflow) on portfolio investments

	£'000s
Purchase of debt securities and other fixed income securities	(227,445)
Sale of debt securities and other fixed income securities	219,677
Deposits with credit institutions	1
Shares and other variable yield securities	7,206
Net cash (outflow) on portfolio investments	(561)

17. Related parties

Syndicate 807 accepted inwards reinsurance business from, and placed outwards reinsurance business with, other Tokio Marine Group entities that are deemed to be related parties of R J Kiln & Co Limited by virtue of the shareholding in Kiln Group Limited by Tokio Marine Holdings, Inc. All transactions with these entities were conducted at arm's length and at normal commercial terms. None of these transactions are material to either party.

Syndicate 807 accepted written premium from related parties for the 2008 year of account of £254,745. There were no unpaid premiums due or outstanding claims for the 2008 year of account.

The syndicate also received business from Kiln Asia Limited, which is 100% owned by R J Kiln Co Limited and Ibex Insurance Services Limited, which is 30% owned by R J Kiln & Co Limited.

Profit commission of £2,416,215 is payable by the syndicate to R J Kiln & Co Limited in respect of profits for the 2008 year.

Managing agency fees of £835,162 were paid by the syndicate to R J Kiln & Co Limited. In addition to this, expenses of £4,691,895 were paid to R J Kiln & Co Limited for expenses paid on behalf of the syndicate.

The note on related parties on page 13 provides further information regarding all syndicates and related parties.

18. Seven year summary – unaudited

	2002	2003	2004	2005	2006	2007	2008
Syndicate allocated capacity £m	63.21	86.99	113.23	99.95	109.97	120.24	120.33
Number of underwriting members	428	438	551	530	501	471	463
Aggregate net premiums £m	36.93	85.97	108.63	117.65	102.85	130.70	136.03
Result £m	9.46	13.02	2.54	(1.96)	23.22	12.73	11.52
Results for an illustrative share of £10,000							
Gross premiums written and earned	7,755	8,698	7,527	8,867	7,394	6,938	7,044
– as a percentage of allocated capacity	78%	87%	75%	89%	74%	69%	70%
Net premiums written and earned	5,842	6,628	6,324	7,757	5,990	6,163	6,248
– as a percentage of allocated capacity	58%	66%	63%	78%	60%	62%	62%
Reinsurance to close from an earlier year of account	1,926	1,406	1,440	2,282	2,184	2,379	2,471
Net claims incurred	(3,515)	(3,899)	(4,898)	(7,241)	(4,401)	(5,304)	(5,600)
Reinsurance to close the year of account	(1,936)	(1,874)	(2,014)	(2,403)	(2,601)	(2,473)	(2,472)
Underwriting result	2,317	2,261	852	395	1,172	765	647
Profit/(loss) on exchange	1	(112)	(269)	(320)	1,542	759	903
Syndicate operating expenses	(623)	(410)	(325)	(457)	(433)	(425)	(419)
Balance on the technical account	1,695	1,739	258	(382)	2,281	1,099	1,131
Investment return	242	166	258	356	487	401	169
Profit/(loss) before personal expenses	1,937	1,905	516	(26)	2,768	1,500	1,300
Illustrative personal expenses	(441)	(410)	(291)	(169)	(656)	(441)	(343)
Result	1,496	1,495	225	(195)	2,112	1,059	957

Annual report and accounts 2010

For Syndicates 510, 557, 807 and 308 managed by R J Kiln & Co Limited
Underwriting year accounts for the closed year of account 2008

Syndicate 308

Kiln Life Syndicate
Life



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

for the 36 months ended 31 December 2010

	Note	2008
Syndicate allocated capacity		14,663
Earned premiums, net of reinsurance		
Gross premiums written	1	16,168
Outward reinsurance premiums		(1,482)
Earned premiums, net of reinsurance		14,686
Reinsurance to close premium received, net of reinsurance	2	3,740
Investment income	8	188
Claims incurred, net of reinsurance		
Claims paid:		
Gross amount		(6,715)
Reinsurers' share		27
Reinsurance to close premium payable, net of reinsurance	3	(3,130)
Claims incurred, net of reinsurance		(9,818)
Members' standard personal expenses		(755)
Net operating expenses	4,5,6	(5,473)
Investment expenses and charges	8	(3)
Balance on the technical account for long-term business and profit for the 2008 closed year of account	7	2,565

There are no non-technical items.

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

Balance sheet

for the 2008 closed year of account as at 31 December 2010

Assets	Note	2008 £'000s
Investments	9	3,289
Debtors	10	2,037
Reinsurance recoveries anticipated on gross reinsurance to close premium payable to close the account	3	138
Other assets		
Cash at bank and in hand		3,414
Other	11	181
Total assets		9,059
<hr/>		
Liabilities	Note	2008 £'000s
Amounts due to members	12	2,533
Reinsurance to close premium payable to close the account – gross amount	3	3,268
Creditors	13	3,258
Total liabilities		9,059

The underwriting year accounts, which comprise pages 134 to 142 and the notes and principal accounting policies applicable to all syndicates on pages 99 to 102, were approved by the board of R J Kiln & Co Limited on 7 March 2011 and were signed on its behalf by

James Dover

Finance director
R J Kiln & Co Limited
16 March 2011

Cash flow statement

for the 36 months ended 31 December 2010

	Note	2008 £'000s
Net cash inflow from operating activities	14	5,870
Financing		
Members' agents' fees paid on behalf of members	12	(32)
Net cash flows		5,838
Cash flows were invested as follows:		
Increase in cash holdings	15	3,414
Increase in deposits	15	179
Net portfolio investments	15,16	2,245
Net investment of cash flows		5,838

Notes to the accounts

for the 36 months ended 31 December 2010

1. Segmental analysis

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

	Gross premiums written (note i) £'000s	Reinsurance balance (note ii) £'000s
Direct insurance	12,074	(1,201)
Reinsurance acceptances	4,094	(203)
RITC received	3,480	260
	19,648	(1,144)

- i. Gross premiums written comprise gross premium written and the gross RITC premium receivable.
 ii. The reinsurance balance comprises reinsurance recoveries on claims paid, reinsurance recoveries anticipated on RITC payable, reinsurance commissions receivable less reinsurance premiums ceded and reinsurance recoveries anticipated on RITC receivable.

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

	£'000s
Individual premiums	1,787
Premiums under group contracts	10,287
	12,074
Periodic premiums	12,022
Single premiums	52
	12,074

All premiums were concluded in the UK.

In the opinion of the directors Syndicate 308 operates in a single business segment, being that of long-term insurance business.

An analysis of the gross new business premium and related reinsurance balances is set out below:

	Gross premiums written £'000s	Reinsurance balance £'000s
Direct insurance	4,470	(315)
Reinsurance acceptances	203	(9)
	4,673	(324)

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

	£'000s
Individual premiums	908
Premiums under group contracts	3,562
	4,470
Periodic premiums	4,423
Single premiums	47
	4,470

All premiums were concluded in the UK.

Notes to the accounts

for the 36 months ended 31 December 2010

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

	£'000s
UK	9,622
Other EU countries	3,933
US	1,020
Other	5,073
	19,648

2. Reinsurance to close premium receivable

	£'000s
Gross reinsurance to close premium receivable	3,480
Reinsurance recoveries anticipated	260
	3,740

3. Reinsurance to close premium payable

	£'000s
Gross notified outstanding claims	841
Reinsurance recoveries anticipated	(15)
Net notified outstanding claims	826
Provision for gross claims IBNR	2,427
Reinsurance recoveries anticipated on IBNR	(123)
Provision for net IBNR	2,304
	3,130

The reinsurance to close is effected to the 2009 year of account of Syndicate 308. The reinsurance to close is calculated by an external actuary.

4. Net operating expenses

	£'000s
Acquisition costs	5,223
Administrative expenses	1,755
(Profit) on exchange	(1,316)
Gross operating expenses	5,662
Reinsurance commissions and profit participations	(189)
	5,473

Within administrative expenses were £54,165 of audit fees charged to the 2008 year of account; no non-audit services were provided by the auditors.

5. Staff numbers and costs

All staff are employed by Tokio Marine Kiln Insurance Services Limited. The following amounts were recharged to the 2008 year of account in respect of salary costs:

	£'000s
Wages, salaries and social security costs	1,110
Other pension costs	58
	1,168

The average number of full-time employees employed by Tokio Marine Kiln Insurance Services Limited but working on the 2008 year of account was as follows:

Administration and finance	6
Underwriting	6
	12

6. Emoluments of the directors and active underwriter

The active underwriter received £261,376 of emoluments charged to the 2008 year of account. The Kiln group of companies operates a bonus pooling arrangement such that profit-related pay is generated from both profit commission and the group's share of the underwriting result through its corporate member Kiln Underwriting Limited. A considerable portion of the profit-related pay is therefore borne by other Kiln group entities.

The directors received £50,743 remuneration charged to the 2008 year of account.

7. Analysis of technical result

	£'000s
Balance excluding investment return and operating expenses, other than acquisition costs:	
Amount attributable to business allocated to the 2008 year of account	2,888
Surplus on the RITC of the 2007 year of account	686
	3,574
Investment return	185
Net operating expenses other than acquisition costs	(1,194)
	2,565

All acquisition costs are attributable to business allocated to the 2008 pure year of account.

8. Investment income and expenses

	£'000s
Income from investments	188
Investment management expenses, including interest	(3)
	185

9. Investments

	£'000s
Shares and other variable yield securities	3,289

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

10. Debtors

	£'000s
Arising out of direct insurance operations	999
Arising out of reinsurance operations	1,035
Other debtors	3
	2,037

All amounts are due within one year.

11. Other assets

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

Notes to the accounts

for the 36 months ended 31 December 2010

12. Amounts due to members

	£'000s
Profit for the 2008 closed year of account	2,565
Members' agents' fee advances	(32)
Amounts due to members at 31 December 2010	2,533

13. Creditors

	£'000s
Arising out of direct insurance operations:	
Due to intermediaries	1,777
Inter-year loan	35
Arising out of reinsurance operations	911
Other creditors	535
	3,258

All amounts are due within one year.

14. Reconciliation of profit for the year of account to net cash inflow from operating activities

	£'000s
Profit for the closed year of account on ordinary activities	2,565
Net RITC premium payable	3,130
Non-cash consideration for net RITC receivable	(3,740)
Decrease in debtors	2,627
Increase in creditors	1,288
Net cash inflow from operating activities	5,870

Consideration for net RITC receivable comprised:

	£'000s
Non-cash consideration:	
Portfolio investments	1,044
Deposits	2
Debtors	4,664
Creditors	(1,970)
	3,740
Cash	-
	3,740

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

	£'000s
Net cash inflow for the 36 months	3,414
Cash flow	
Deposits	179
Portfolio investments	2,245
Movement arising from cash flows	5,838
Received as consideration for net RITC receivable	1,046
Total movement in portfolio investments	6,884
Portfolio at 1 January 2008	–
Portfolio at 31 December 2010	6,884

Movement in cash, portfolio investments and financing

	At 1 January 2008 £'000s	Cash flow £'000s	Received as consideration for RITC £'000s	At 31 December 2010 £'000s
Cash at bank and in hand	–	3,414	–	3,414
Shares and other variable yield securities	–	2,245	1,044	3,289
Deposits with ceding undertakings	–	(2)	2	–
Overseas deposits	–	181	–	181
Total cash, portfolio investments and financing	–	5,838	1,046	6,884

16. Net cash (outflow) on portfolio investments

	£'000s
Shares and other variable yield securities	(2,245)
Net cash (outflow) on portfolio investments	(2,245)

17. Related parties

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

Profit commission of £532,379 is payable by the syndicate to R J Kiln & Co Limited in respect of profits for the 2008 year.

Managing agency fees of £108,090 were paid by the syndicate to R J Kiln & Co Limited. In addition to this, expenses of £1,994,863 were paid to R J Kiln & Co Limited for expenses paid on behalf of the syndicate.

The note on related parties on page 13 provides further information regarding all syndicates and related parties.

Notes to the accounts

for the 36 months ended 31 December 2010

18. Seven year summary – unaudited

	2002	2003	2004	2005	2006	2007	2008
Syndicate allocated capacity £m	4.00	4.00	5.00	9.65	13.00	14.66	14.66
Number of underwriting members	32	15	13	12	16	25	30
Aggregate net premiums £m	1.52	3.67	4.66	7.15	11.18	11.17	14.69
Result £m	0.31	0.27	0.05	1.75	1.29	0.76	2.57
Results for an illustrative share of £10,000							
Gross premiums written and earned	5,887	8,784	7,045	5,818	6,409	6,059	7,464
– as a percentage of allocated capacity	59%	88%	70%	58%	64%	61%	75%
Net premiums written and earned	3,809	6,001	5,746	5,058	6,067	4,502	6,582
– as a percentage of allocated capacity	38%	60%	57%	51%	61%	45%	66%
Reinsurance to close from an earlier year of account	1,210	1,076	999	502	398	1,521	2,551
Net claims incurred	(1,754)	(3,961)	(4,637)	(1,930)	(2,611)	(3,160)	(4,561)
Reinsurance to close the year of account	(1,075)	(1,249)	(969)	(537)	(1,715)	(2,551)	(2,135)
Underwriting result	2,190	1,867	1,139	3,093	2,139	312	2,437
Profit on exchange	–	18	182	106	25	1,309	897
Syndicate operating expenses	(1,163)	(729)	(1,135)	(1,189)	(1,020)	(979)	(1,197)
Balance on the technical account	1,027	1,156	186	2,010	1,144	642	2,137
Investment return	54	245	178	348	276	210	128
Profit before personal expenses	1,081	1,401	364	2,358	1,420	852	2,265
Illustrative personal expenses	(303)	(729)	(266)	(547)	(428)	(331)	(515)
Result	778	672	98	1,811	992	521	1,750



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