

## Annual report and accounts 2009

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

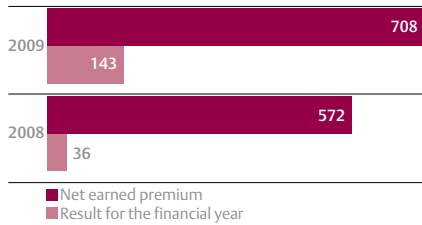


# Results summary

## Annual accounting results 2009

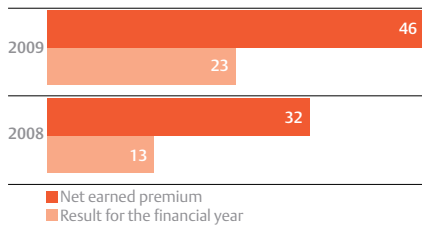
Annual accounting results  
£m

# 510



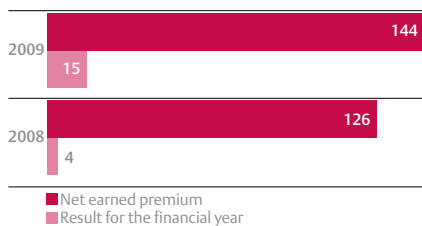
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# 557



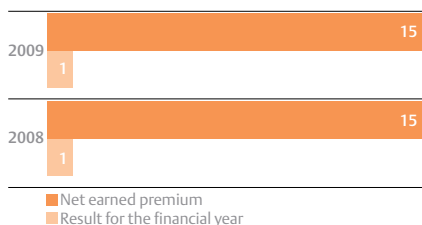
Annual accounting results  
£m

# 807



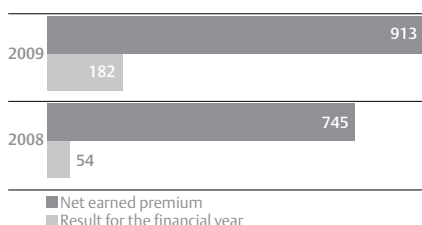
Annual accounting results  
£m

# 308



Annual accounting results  
£m

# Total

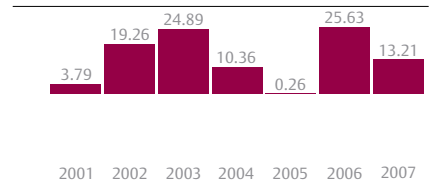


## Underwriting results

Over the seven year cycle from 2001 to 2007 the cumulative results, as a percentage of allocated capacity, of managed Syndicates 510, 557, 807 and 308 are:

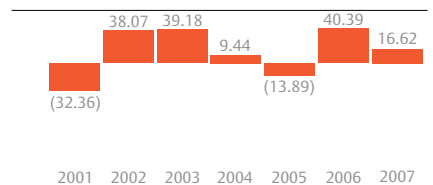
Year of account results  
%

# 510



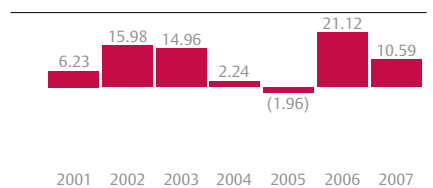
Year of account results  
%

# 557



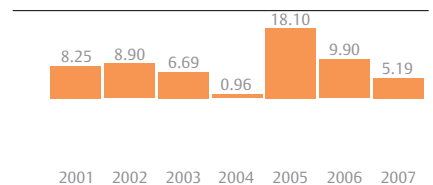
Year of account results  
%

# 807



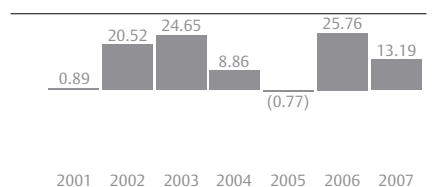
Year of account results  
%

# 308



Year of account results  
%

# Total



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**“In spite of the continuing turmoil in the financial markets and the world economy, 2009 was a favourable year for the insurance industry in general and for Kiln in particular.”**

Edward Creasy, Chairman

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### Syndicates

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# Report of the chairman

## Edward Creasy Chairman



In spite of the continuing turmoil in the financial markets and the world economy, 2009 was a favourable year for the insurance industry in general and for Kiln in particular. In comparison to claims activity during 2008, the year has been unusually quiet; in fact 2009 appears to have been one of the most benign in the last twenty years due to the virtual absence of hurricane activity in the US and the Gulf of Mexico. No year is without incident however and, unusually, Europe bore the brunt of natural catastrophes in 2009, with Windstorm Klaus affecting France and Spain in January and proving to be the year's most costly insured event.

### Business commentary

Despite the relative calm, rates in the first half of 2009 were robust as the industry reacted to the events of 2008. Early in 2009 Kiln took the decision to increase the capacity of its syndicates at Lloyd's as a result of a strengthening US dollar and the development of a number of underwriting initiatives. The third quarter saw some stagnation in price levels and this continued to the end of the year, leading to the rather more competitive market in which we now find ourselves. In the absence of a market-moving event, it seems likely that this state of affairs will continue through 2010. As a consequence, it is Kiln's intention to continue to focus on achieving underwriting profit, and to concentrate on maintenance of underwriting discipline during the course of the year.

### Tokio Marine Group

Kiln's relationship with its parent company has developed well during the course of 2009. Kiln is seen by the Tokio Marine Group as a valued and important part of the organisation, able to balance the Group's premier position in the Japanese domestic insurance market with our specialist international underwriting portfolio and expertise.

### Directors

As the size of our business has grown and regulatory demands have changed there is a need to increase our focus on underwriting, our principal business. A new underwriting board for R J Kiln & Co Limited has therefore been established that comprises senior underwriters and other underwriting related employees. Its focus and responsibility will be for all key underwriting activities on a day-to-day basis, including underwriting strategy, underwriting business plans and objectives, risk appetite and capital requirements, as well as dealing with reserving and the Reinsurance To Close (RITC) and it will report directly to R J Kiln & Co Limited. As a result the size of the R J Kiln & Co Limited board has been reduced. I believe that the new arrangement properly reflects Kiln's focus on its insurance activities.

### Future prospects

Despite the serious economic challenges in the wider world, 2009 has been a very successful underwriting year for Kiln. To achieve the same level of result in 2010 will be a challenge as we believe we have seen the peak of the market cycle. We will therefore need to continue to manage the expectations of all of our stakeholders, as well as continuing to develop our distribution strategy and recruiting the best people we can find.

I believe that the Kiln team, with its deserved reputation for quality and professionalism, is well positioned to meet this challenge and to make the most of the opportunities available. I would like to take the opportunity to congratulate Charles Franks and all of Kiln's employees worldwide for the excellent result achieved in 2009 and to thank them for the hard work and commitment that they have shown during the course of the year.

A handwritten signature in black ink, reading 'Edward Creasy'. The signature is fluid and cursive, with a long horizontal line extending to the right.

Edward Creasy  
17 March 2010

“The Kiln team, with its deserved reputation for quality and professionalism, is well positioned to meet the challenges ahead.”



# Report of the chief executive officer

## Charles Franks Chief executive officer



It is hard to believe that 12 months on from the chaos seen in last year's financial markets, we are now experiencing an insurance market challenged with cycle management in the downturn. A year with low catastrophe losses and recovering investment portfolios has significantly changed the business landscape, so that an industry previously worried about lack of capital is now concerned with managing the effects of significantly strengthened balance sheets.

2009 has been a successful year for Kiln and the business has spent the last year building upon its well established areas of strength. Our intention is to offer customers increased access to our underwriters and a greater choice of product. To that end, Kiln embarked on a number of new distribution initiatives during the course of the year. We opened a new office in Paris as part of Kiln Europe S.A., our established underwriting operation in Belgium. The Paris office will concentrate initially on aviation business, thereby consolidating our presence in continental Europe. We have also appointed a Kiln representative in Rio de Janeiro, which allows us to take advantage of the licensing of Lloyd's as a reinsurer in Brazil following the deregulation of the country's reinsurance market. In 2009 we also marked the tenth anniversary of Kiln in South Africa. Kiln now has 11 offices in seven countries around the world.

Kiln continued to expand its portfolio of products in 2009. During the year we recruited underwriters specialising in motor and space, and hired a specialist logistics insurance team in order to offer customers in the freight and transport industry international cover accessible in Europe, Asia and South Africa.

2009 also saw the launch of the new enterprise risk division within Syndicate 510, covering business reputational, cyber and intellectual property risk. While Kiln has underwritten intangible risks for a number of years, we believe the potential in this market now warrants a dedicated division.

### Annual accounting result under UK GAAP

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

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

	2009 annual accounting result £m	2008 annual accounting result £m
Syndicate		
510	143	36
557	23	13
807	15	4
308	1	1
Total	182	54

The three non-life syndicates have shown an improved profit compared to the 2008 calendar year. This improvement is driven primarily by one of the most benign hurricane seasons in the US and Gulf of Mexico seen in recent years. By comparison 2008 saw claims for Hurricanes Ike and Gustav (net £71m at the 2008 year end) and additionally suffered a higher than average number of non-catastrophe large losses. The drivers of the syndicate and divisional results are discussed in more detail in the underwriters' reports on pages 7 to 11.

### 2007 year of account

The 2007 year of account has closed with a good profit for Names across Syndicates 510, 557, 807 and 308.

The 2007 year of account results, as a percentage of allocated capacity for an unlimited Lloyd's Name on our syndicates, are compared with the forecast issued in the published 2008 report in Table 2.

“In 2009 we recruited underwriters specialising in motor and space, hired a specialist logistics insurance team... and launched a new enterprise risk division.”

**Table 2: 2007 year of account results compared with the forecasts published in the 2008 report**

Syndicate	Forecast range %	Actual %
510	6.8 to 11.8	13.2
557	13.9 to 18.9	16.6
807	7.2 to 12.2	10.6
308	7.5 to 12.5	5.2

The result for Syndicate 510 is 3.9% above the mid point of the forecast range presented at the end of the previous calendar year. This improvement follows relatively benign development of the 2006 RITC during 2009. Syndicates 557 and 807 are closing with results broadly in line with the previous forecast. The Syndicate 308 result was below the given forecast range due to adverse development on the Italian credit account. We now believe this to be reserved at the appropriate level.

#### 2008 year of account

The year is developing profitably despite the impact of Hurricanes Ike and Gustav, which have affected the reinsurance, property and offshore Gulf of Mexico accounts. Underlying pricing levels across the account were strong enough to sustain a good profit for the year despite loss activity being higher than normal.

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 3 March 2010 are shown in Table 3.

**Table 3: 2008 forecast year of account range results issued in Kiln's press release of 3 March 2010**

Syndicate	Capacity £m	2008 year of account forecast range %
510	587	5.1 to 10.1
557	119	9.5 to 14.5
807	120	3.0 to 8.0
308	15	8.5 to 13.5

#### 2009 year of account

The 2009 year of account benefited from an improved rating environment, particularly in catastrophe exposed classes. This is highlighted in Table 4, which shows the first published forecast ranges for Syndicates 510, 557, 807 and 308 issued in Kiln's press release of 3 March 2010.

**Table 4: 2009 forecast year of account range results issued in Kiln's press release of 3 March 2010**

Syndicate	Capacity £m	2009 year of account forecast range %
510	630	9.3 to 19.3
557	119	9.9 to 19.9
807	120	2.1 to 12.1
308	15	(4.0) to 6.0

The combination of improved ratings and an uneventful US windstorm season has led to the 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 a large proportion of unearned exposure and at this stage is reserved on a prudent basis.

#### 2010 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 that in most classes of business prices rose in 2009. The 2010 PRI data so far shows the syndicates have been able to achieve their budgets although underwriters have had to be more selective so as to avoid those placings with large reductions. This potentially will 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: Premium Rating Index (PRI) for Syndicates 510, 557, 807 and 308**

	2009 YOA as at 31 December 2009 %	2010 YOA as at 28 February 2010 %
Property & special lines	104.0	100.2
Marine & special risks	108.4	100.6
Reinsurance	108.3	99.8
Aviation	99.6	99.7
Accident & health	100.6	103.2
Enterprise risk	100.0	100.0
Syndicate 510	105.3	100.5
Syndicate 557	106.6	99.8
Syndicate 807	102.8	100.4
Syndicate 308	99.7	99.8

# Report of the chief executive officer

## The future

Planning for the business 12 months ahead in the current economic climate has proved challenging. Initially we planned for rate increases and growth during 2010. As 2009 progressed however, the lack of catastrophes, combined with increasing competition, has meant that our view of the market is now less optimistic than before.

During 2010 we will, as always, focus on the needs of our customers, working hard to develop new products and ensuring that our distribution network supports demand in all of our markets. 2009 was a year of good progress in this regard, and I expect more of the same in 2010.

On the underwriting front, discipline is the watchword. The industry has enjoyed a period of strong pricing and relatively low claims levels, but the pricing environment is now less favourable. Our underwriting teams are experienced in their approach to cycle management and will continue to focus their attention on the profitability of their accounts.

## Kiln and Tokio Marine Group

Now in its second year, the relationship between Kiln and the Tokio Marine Group continues to be a successful one. Kiln remains at the heart of the Group's international strategy, and the acquisition has already delivered some of the substantial mutual advantages we had anticipated. While Kiln has provided a respected brand, underwriting expertise and access to the Lloyd's market, Tokio Marine's financial strength and long term approach has ensured our continued stability and growth. For example, Syndicate 510 benefited from Kiln's ability to expand its reinsurance business and add a space line to the aviation division during 2009, both made possible by Tokio Marine support. On an internal level, we learn from each other and the cross-fertilisation of business practice and expertise continues to benefit both Kiln and other businesses in the Tokio Marine Group.

## Limited Liability Partnership

I am pleased to report that a Limited Liability Partnership (LLP) has been established, which enables Kiln's employees to participate in Syndicates 510 and 807. This is a voluntary scheme open to all staff. It supports our strategy of aligning the interests of our capital providers with those of the people whose efforts contribute to the company's success: Kiln's employees.

Finally, I would like to express my appreciation of the efforts made by all my colleagues around the world over the last 12 months. Without their hard work, energy and commitment Kiln would not be the company it is, and I thank them sincerely for their ongoing and invaluable contributions. As a result, and in spite of considerable turmoil elsewhere in the commercial world, 2009 has been a successful year for Kiln.



**Charles Franks**

17 March 2010

# Underwriters' reports

## Syndicate 510

### Overview

#### 2007 underwriting year of account

Syndicate 510 made a very good underwriting profit of £96,955,669 (13.21%) on allocated capacity of £733,717,873 after taking account of operating expenses, Lloyd's expenses and investment income for the 2007 underwriting year of account.

After the high of 2006 the market softened a little in some areas, most notably those portfolios of business that are exposed to US windstorms and which benefited from the greatest hardening in 2006. The year suffered from its share of the 2008 hurricane season losses that fell to policies underwritten in 2007 and was therefore less profitable than 2006.

#### Prior years' development

The 2007 year result improved by £26,105,081 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 £142,622,313 against gross premium written of £925,287,676 and net premium earned of £708,285,836 for the 2009 calendar year. The year had no major catastrophe activity and benefited from reductions in claims reserves on a number of property claims from previous years.

The combined ratio for the 2009 calendar year is 82.6%.

#### 2010 development

We are currently expecting pricing levels to remain flat or reduce slightly across the account for 2010. The benign hurricane season of 2009 will inevitably lead to pricing pressure, as will the more healthy looking balance sheets of carriers throughout the market.

There is still a healthy level of profit available. Pricing pressure and other manifestations of a softening market such as relaxation of certain terms and conditions do not affect the whole market at once; even within specific classes the effects are more pronounced on some accounts than others. Kiln's focused underwriting approach can therefore be used to good advantage, and on business that we accept we will endeavour to keep rate reductions to a minimum.

## Syndicate 510

### Property & special lines

#### 2007 underwriting year of account

The property division made an underwriting profit of £32,573,217 (8.78%) on allocated capacity of £370,917,972 after taking account of operating expenses, Lloyd's expenses and investment income for the 2007 underwriting year of account.

This is a satisfactory performance. Following the considerable rate increases post Katrina in 2006, the 2007 year was able to reap the benefits of a good rating environment.

#### Prior years' development

The underwriting year result benefited from an improvement of £14,827,190 in reserves from prior years. A significant part of this was due to reductions in a number of primary industry (mining and metals) losses.

#### One year accounting result

On a UK GAAP basis, the division produced a technical account profit of £54,886,782 against gross premium written of £413,672,369 and a net premium earned of £365,082,802 for the 2009 calendar year. This year benefited from a relatively benign catastrophe environment. The non-catastrophe exposed business also ran well and few large risk losses affected our portfolio.

The combined ratio for the 2009 calendar year is 88.2%.

#### 2010 development

After benefiting from improving rates in the early part of 2009, we have seen more difficult conditions going into 2010. We will not chase rates down, so we anticipate writing less income than originally planned. We will continue to focus on developing and sustaining the quality of our core business.

Early in 2009 we recruited a specialist motor underwriter in order to take advantage of opportunities we identified in the market. Going forward, we expect to continue to see growth and quality improvements in this book during 2010. One particular area of growth is Canada, where we have focused our attention in recent years. It is an area of business which is developing successfully.

# Underwriters' reports

## Syndicate 510

### Marine & special risks

#### 2007 underwriting year of account

The marine & special risks division made an underwriting profit of £10,260,414 (6.37%) on allocated capacity of £160,956,388 after taking account of operating expenses, Lloyd's expenses and investment income for the 2007 underwriting year of account.

This is a solid result in a year which saw a general market softening following the high pricing levels of 2006.

#### Prior years' development

The underwriting year result benefited from an improvement of £209,250 in reserves from prior years.

#### One year accounting result

On a UK GAAP basis, the division produced a technical account profit of £18,067,304 against gross premium written of £184,614,742 and net premium earned of £156,428,408 for the 2009 calendar year. The benign Gulf of Mexico hurricane experience has had a significant impact on this excellent result.

Prices on our renewal business rose by 8.5% in 2009. This reflected the harder market that developed in most of our areas of business following not only the active 2008 hurricane season but also the impact of the credit crisis.

The combined ratio for the 2009 calendar year is 90.7%.

#### 2010 development

The benign claims experience in 2009 has led to increasing competition in the energy classes, and we enter 2010 with the expectation of a softer market in this area. The active claims environment the market experienced within the credit and political risks classes however, has led to an improvement in pricing as capacity has been withdrawn from the market and we are well placed to exploit opportunities which will develop through the year. We expect our special risks business to comprise a greater share of our overall book as we move income away from more traditional marine classes (some of which are still adversely affected by the recession and the consequent drop in turnovers and values) and into these special risks classes where the best potential for profits lie.

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 Ipswich to write marine liability business for companies involved in the logistics industry for which we have a budgeted premium income of £8.9m for 2010.

## Syndicate 510

### Reinsurance

#### 2007 underwriting year of account

The reinsurance division made an underwriting profit of £33,279,958 (31.73%) on allocated capacity of £104,876,474 after taking account of operating expenses, Lloyd's expenses and investment income for the 2007 underwriting year of account.

The year benefited from both a lack of significant catastrophic events around the world and a very strong rating environment, particularly in the US.

#### Prior years' development

The 2007 underwriting year benefited from an improvement of £3,946,259 in the reserves from prior years.

#### One year accounting result

On a UK GAAP basis, the division produced a technical account profit of £44,605,368 against gross premium written of £194,217,642 and net premium earned of £67,865,337 for the 2009 calendar year.

The year saw a number of small losses around the world (for example, the earthquake in Italy, bushfires in Australia and Windstorm Klaus affecting southern France and northern Spain) but none of these events was large enough to do major damage to our portfolio. In the US there were no significant hurricanes or earthquakes, and the only catastrophes that affected us were some tornado and hail events in the first half of the year, but their impact on the account was not substantial. We have therefore seen very acceptable profits from the country that accounts for the largest portion of our income, and we were able to take advantage of a market where supply was sometimes significantly constrained.

The combined ratio for the 2009 calendar year is 36.4%.

#### 2010 development

With rates in some parts of the world at attractive levels and after four years of good results, it was inevitable that the improved investment market and strengthened balance sheets of a number of our competitors would begin to put pressure on pricing in 2010. Nevertheless the market has broadly maintained its discipline and rating levels and even the highest priced areas have only reduced by marginal amounts. We have used the opportunities presented in 2009 to strengthen the quality of our book of business, and believe that this will serve us well in the long term should the market soften. The current market conditions present excellent scope for profit and we are well placed to take advantage of opportunities that come our way, and will continue to work to identify areas for growth.

## Syndicate 510

### Aviation

#### 2007 underwriting year of account

The aviation division made an underwriting profit of £15,066,183 (30.61%) on allocated capacity of £49,214,665 after taking account of operating expenses, Lloyd's expenses and investment income for the 2007 underwriting year of account.

This is an excellent result for the division, particularly when set against the backdrop of tough underwriting conditions experienced by the aviation market in 2007 and is driven largely by our focus on core classes and increased selectivity within the airline account.

#### Prior years' development

The 2007 underwriting year result benefited from an improvement of £5,000,669 in the claims reserves from prior years.

#### One year accounting result

On a UK GAAP basis, the division produced a technical account profit of £20,887,841 against gross premium written of £53,492,057 and net premium earned of £49,654,928 for the 2009 calendar year.

The combined ratio for the 2009 calendar year is 61.0%.

#### 2010 development

2009 saw some signs of improving market conditions but, as predicted, this has been limited almost entirely to the airline class following the losses in the first half of the year. Despite the tougher stance being taken by airline underwriters, the appetite within the market for aviation business regrettably means that for the foreseeable future we will continue to experience challenging conditions, especially within the general aviation and aerospace segments where there is significant overcapacity.

Strategically, we have continued to expand our aviation presence in Europe with the recruitment of a specialist space risks underwriter to work alongside our regional aviation underwriter in Paris.

We expect the coming year to be a challenging one, but we have demonstrated that it is possible to make good returns at the bottom of the cycle and we remain confident that our focus on technical underwriting will stand us in good stead.

## Syndicate 510

### Accident & health

#### 2007 underwriting year of account

The accident & health division made an underwriting profit of £5,775,458 (12.09%) on allocated capacity of £47,752,374 after taking account of operating expenses, Lloyd's expenses and investment income for the 2007 underwriting year of account.

This was a good performance which was made possible by a benign pricing environment, a disciplined underwriting approach and the absence of major losses in the year.

#### Prior years' development

The 2007 underwriting year result benefited from an improvement of £2,121,713 in the claims reserves from prior years.

#### One year accounting result

On a UK GAAP basis, the division produced a technical account profit of £4,344,929 against gross premium written of £75,789,960 and net premium earned of £67,640,676 for the 2009 calendar year. The pricing of the book remained stable but was subject to a higher frequency of attritional claims in the 2009 year of account.

The combined ratio for the 2009 calendar year is 95.2%.

#### 2010 development

Our plan for 2010 is to maintain the balance of the account along similar lines as those established for 2009, with growth forecast across the division. Despite some softening of the overall pricing environment, there are still opportunities for profitable growth working with our core producers.

# Underwriters' reports

## Syndicate 510

### Enterprise risk

The enterprise risk division underwrites cyber, reputational risk, first party intellectual property and associated non-physical damage business interruption. These classes were previously underwritten within the risk solutions class of Syndicate 510's marine & special risks division.

#### 2007 underwriting year of account

The enterprise risk division became a separate profit centre for the 2009 year of account. The 2007 year of account results for the risk solutions class can be found within the marine & special risks division's 2007 year of account results.

#### 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 loss of £169,911 against gross premium written of £3,500,906 and a net premium earned of £1,613,685 for the 2009 calendar year. The loss was caused by expected high start up expenses as a proportion of written premiums. There was no known or reported claims activity.

The combined ratio for the 2009 calendar year is 110.6%.

#### 2010 development

The latter part of 2009 saw premium income growth as the division began underwriting cyber privacy business. Building on the experience gained over previous years of underwriting cyber business interruption, we expect this to continue into 2010. Moreover, the increasing interest in reputational risk will further aid divisional growth. As these classes are yet to be commoditised, rates are expected to remain stable for 2010.

## Syndicate 557

### Overview

#### 2007 underwriting year of account

Syndicate 557 made an underwriting profit of £19,883,605 (16.62%) on allocated capacity of £119,671,405 after taking account of operating expenses, Lloyd's expenses and investment income for the 2007 underwriting year of account.

The year benefited from both a lack of significant catastrophic events around the world and a very strong rating environment, particularly in the US.

#### Prior years' development

The 2007 underwriting year benefited from an improvement of £1,932,298 in the reserves from prior years.

#### One year accounting result

On a UK GAAP basis, the syndicate produced a technical account profit of £23,432,507 against gross premium written of £50,920,000 and net premium earned of £46,003,669 for the 2009 calendar year.

The year saw a number of small losses around the world (for example, the earthquake in Italy, bushfires in Australia and Windstorm Klaus affecting southern France and northern Spain) but none of these events was large enough to do major damage to our portfolio. In the US there were no significant hurricanes or earthquakes, and the only catastrophes that affected us were some tornado and hail events in the first half of the year, but their impact on the account was not substantial. We have therefore seen very acceptable profits from the country that accounts for the largest portion of our income, and we were able to take advantage of a market where supply was sometimes significantly constrained.

The combined ratio for the 2009 calendar year is 54.0%.

#### 2010 development

With rates in some parts of the world at attractive levels and after four years of good results, it was inevitable that the improved investment market and strengthened balance sheets of a number of our competitors would begin to put pressure on pricing in 2010. Nevertheless the market has broadly maintained its discipline and rating levels and even the highest priced areas have only reduced by marginal amounts. We have used the opportunities presented in 2009 to strengthen the quality of our book of business, and believe that this will serve us well in the long term should the market soften. The current market conditions present excellent scope for profit and we are well placed to take advantage of opportunities that come our way, and will continue to work to identify areas for growth.

## Syndicate 807

### Overview

#### 2007 underwriting year of account

Syndicate 807 made an underwriting profit of £12,731,564 (10.59%) on allocated capacity of £120,241,614 after taking account of operating expenses, Lloyd's expenses and investment income for the 2007 underwriting year of account.

The rating environment for this year was still strong although rates declined by 4% from the prior year. The account experienced modest losses from the 2008 hurricanes and a generally higher attritional loss environment as the world economy started to decline. The account also suffered from a lower premium volume than originally planned.

#### Prior years' development

The 2007 underwriting year benefited from an improvement of £3,130,289 in the reserves from prior years.

#### One year accounting result

On a UK GAAP basis, the syndicate produced a technical account profit of £14,606,229 against gross written premium of £153,523,728 and net premium earned of £143,573,726 for the 2009 calendar year.

The combined ratio for the 2009 calendar year is 91.0%.

#### 2010 development

As competition increased across most of our lines of business, rates were generally flat or slightly down and the anticipated increases in rates forecast in 2009 failed to materialise as we had hoped. The lack of significant catastrophic losses and a general improvement in the global economic situation has resulted in additional capacity within the market. January renewals were largely flat, although with the continued absence of major loss events there is a realistic prospect of further pressure on rates and signings in the year ahead. We will continue to focus upon price adequacy and bottom line profit and any further softening may manifest itself in reduced incomes rather than the acceptance of unrealistically priced business.

While recognising the challenges of the current market we will continue to look for additional areas to expand and diversify our portfolio when it is prudent to do so. However, with excess capacity in most classes, we anticipate 2010 to be focused largely on renewing and retaining our core accounts, with less than 10% of our forecast income expected to come from new business.

Unanticipated events can turn the market in a remarkably short space of time, and we will look to position ourselves to react swiftly to any sudden improvements in market conditions and a return to a more positive rating environment.

## Syndicate 308

### Overview

#### 2007 underwriting year of account

Syndicate 308 made an underwriting profit of £760,473 (5.19%) on allocated capacity of £14,663,133 after taking account of operating expenses, Lloyd's expenses and investment income for the 2007 underwriting year of account.

#### Prior years' development

The 2007 underwriting year result was affected by a deterioration of £416,616 in the reserves from prior years, which was due to an Italian credit binder not performing as well as expected.

#### One year accounting result

On a UK GAAP basis, the syndicate produced a technical account profit of £1,021,404 against gross written premium of £18,499,050 and net premium earned of £14,554,149 for the 2009 calendar year.

The combined ratio for the 2009 calendar year is 94.0%.

#### 2010 development

Despite three new life syndicates opening for business at Lloyd's in 2009, we have retained much of our existing business and we have been presented with several new opportunities. This may be attributed in part to the increased capacity and profile of the term life sector at Lloyd's, but also to our work with existing partners. We have achieved very satisfactory utilisation of capacity in 2009, and we expect to see significant growth in 2010. With this in mind, we have increased our stamp capacity to £20.0m for the 2010 year of account.

Based on an encouraging renewal season, we anticipate growth to emanate primarily from existing coverholders in the UK and Scandinavia, together with some open market placements. Rates overall are on a par with 2009, despite the increased market capacity. 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 will be subject to some pricing pressure, but the market is maintaining pricing discipline, and there is no reason to believe that this will change substantially.

# Directors, active underwriters and administration

## Managing agent

R J Kiln & Co Limited

## Directors

Edward Creasy (chairman)  
 Charles Franks (chief executive officer)  
 Shingo Batori  
 Roger Bickmore  
 Ian Brimcome (non-executive)  
 Paul Culham  
 James Dover  
 Robin Hargreaves  
 Paul Hewitt (non-executive)  
 Andrew Hitchcox  
 David Huckstepp  
 Paul Letherbarrow  
 Richard Lewis  
 Tim Prifti  
 Bruce Shepherd  
 Elizabeth Walsh  
 Paul Wilson (non-executive)

Resigned 31/12/2009\*

Resigned 31/12/2009\*

Resigned 31/12/2009\*

Resigned 31/12/2009\*

Resigned 31/12/2009\*

Resigned 31/12/2009\*

Resigned 31/12/2009\*

## 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

David Huckstepp  
 Lloyd Tunncliffe  
 Cathy Toomey

\* For further detail refer to the report of the directors of the managing agent (page 16).

## Company secretary

Keith Grant

## 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

## Investment managers

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

## 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 payable in instalments based on the interim annual accounting results of the syndicate year of account under UK GAAP. Final settlement is made when the year of account is closed after three years. The amount payable to the managing agency 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.

W. R. Berkley Corporation is a related party of R J Kiln & Co Limited and for the 2005 to 2007 years of account R J Kiln & Co Limited managed the underwriting of certain reinsurance business on behalf of W. R. Berkley Insurance (Europe), Limited. This business was underwritten under a consortium arrangement with Syndicate 510 and Syndicate 557. Business falling under this arrangement was shared between the consortium members in pre-agreed ratios. This consortium arrangement ceased on 31 December 2007. Berkley Life Limited has participation on Syndicate 308 (32% for 2007, 2008 and 2009).

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 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 dealt with 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	2007 %	2008 %	2009 %	2010 %
Kiln Underwriting Limited	510	53	53	53	53
	807	16	27	41	50
	308	19	19	19	27
Kiln Underwriting (807) Limited	807	11	11	10	-
Kiln Underwriting (308) Limited	308	31	31	31	23
Kiln Underwriting (807) No. 2 Limited	807	11	-	-	-

Kiln Underwriting (807) Limited, Kiln Underwriting (308) Limited and Kiln Underwriting (807) No. 2 Limited have quota share reinsurance arrangements such that the beneficial ownership of the underwriting result rests with third parties.

The following table shows allocated premium income of the directors past and present who were or are members of Lloyd's for the 2007 to 2010 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 Jedburgh	2007	202	28	54	-
Stephen Mathers	2007	116	20	770	251
	2008	93	20	770	251
Bruce Shepherd	2007	-	-	300	-
	2008	-	-	250	-
	2009	-	-	250	-
Paul Wilson	2010	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 (YOA) of Syndicates 510 and 807. The amounts stated represent the directors' effective share in the total capacity of the 2010 YOA through their involvement in the LLP.

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

# Syndicate forecast assumptions

Bases and assumptions upon which syndicate forecasts have been made:

1. Ultimate net claims settlements have been estimated on the basis of paid and known outstanding claims as at 31 December 2009, together with an assessment of future claim settlements derived from projections based on previous claims history.
2. Where liabilities of previous years have been assumed, no profit or loss will arise from their run-off.
3. The exchange rates for US dollars and Canadian dollars at 31 December 2010 and 2011 will be the same as at 31 December 2009.
4. There will be no significant deviation from projected cash flow patterns or in investment income forecasts.
5. 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 2009.
6. All potential reinsurance recoveries will be collected, except where specific provision has already been made.
7. There will be no significant changes in governmental or legislative controls or policies affecting the activities or claims experience of the syndicates.
8. 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 2009

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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- 37 ■ 557 Kiln Catastrophe Syndicate Non-marine
- 49 ■ 807 Kiln Mathers Syndicate Non-marine
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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 2009 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 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 3219 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Separate underwriting year accounts for the closed 2007 YOA are available to syndicate members (pages 75 to 119).

### 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. 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	2009 £'000s	2008 £'000s	Change %
510	Gross written premium	925,288	756,666	22.28
	Net earned premium	708,286	571,637	23.90
	Profit for the financial year	142,622	36,147	294.56
	Claims ratio	50%	63%	(20.63)
	Combined ratio	83%	103%	(19.42)
557	Gross written premium	50,920	38,437	32.48
	Net earned premium	46,004	31,808	44.63
	Profit for the financial year	23,433	13,386	75.06
	Claims ratio	13%	26%	(50.00)
	Combined ratio	54%	76%	(28.95)
807	Gross written premium	153,524	126,184	21.67
	Net earned premium	143,574	125,816	14.11
	Profit for the financial year	14,606	3,617	303.82
	Claims ratio	44%	59%	(25.42)
	Combined ratio	91%	103%	(11.65)
308	Gross written premium	18,499	14,723	25.65
	Net earned premium	14,554	14,686	(0.90)
	Profit for the financial year	1,021	967	5.67
	Claims ratio	54%	42%	28.57
	Combined ratio	94%	96%	(2.08)

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.

There have been increases in both gross written premium and net earned premium for the 2009 calendar year. This is due to the effects of the strengthening US dollar between the year ends, combined with increased rates on many books of business and higher premium volumes.

The claims ratios are significantly improved on the non-life syndicates due to the absence of large catastrophe losses. Syndicate 308 has strengthened its reserves on closed years due to adverse development on the Italian credit account.

### Results

The tables below analyse the annual accounting result across the open years of account for the 2009 and 2008 calendar years:

#### 2009 calendar year

Year of account	Syndicate annual accounting result				
	510 £'000s	557 £'000s	807 £'000s	308 £'000s	Total £'000s
2009	35,891	13,325	1,431	(2,514)	48,133
2008	76,364	7,418	8,118	3,716	95,616
2007 and prior	30,367	2,690	5,057	(181)	37,933
Annual accounting result	142,622	23,433	14,606	1,021	181,682

#### 2008 calendar year

Year of account	Syndicate annual accounting result				
	510 £'000s	557 £'000s	807 £'000s	308 £'000s	Total £'000s
2008	(34,206)	5,612	(3,398)	(2,638)	(34,630)
2007	46,591	4,142	1,217	2,740	54,690
2006 and prior	23,762	3,632	5,798	865	34,057
Annual accounting result	36,147	13,386	3,617	967	54,117

### 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. The agency 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 the agency 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 specialist insurance underwriting culture. A specific Solvency II programme was set up in 2008 to identify gaps and implement the changes required to achieve compliance.

Recent developments in Europe in respect of the proposed standard formula for solvency capital imply a significantly higher capital requirement than currently calculated and required. It is therefore vital to pass the internal model tests, which allow a firm 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 unpredictable and economically unsustainable financial losses being incurred as a result of the acceptance of Kiln's insurance portfolio of business.

The agency manages insurance risk by agreeing its appetite for these risks annually through the business plan, which sets out targets for volumes, pricing, line sizes and retention by class of business. The agency then monitors volume and price performance against the business plan 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 the light of changing events or understanding of the risks being taken. The agency 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, 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 claim 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. The agency's policy is to reserve on a consistent basis with a reasonable margin for prudence, such that there is a potential for run-off surpluses. The agency 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 by the agency. 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 (as defined within the credit risk section). Kiln syndicates have no exposure to equity related investments and regular reviews are carried out to match requirements against liabilities by currency and duration.

## Report of the directors of the managing agent

### Liquidity risk

The risk of the managing agency and/or the syndicate being unable to meet liabilities in a timely manner due to the lack of liquid resources.

To mitigate liquidity risk, the agency's investment and the executive finance committees review agency and syndicate cash flow projections quarterly, and also stress test them against RDSs. In the event of a catastrophe loss of a significant size, the syndicates have the ability to take advantage of Outstanding Claims Advances from the major non-marine reinsurers.

### Agency risk

The risk that a firm's managers do not act in the best interests of its 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 the managing agency and/or the syndicate.

The agency seeks to manage this risk 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 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.

The agency 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.

	2003 & prior £m	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m
<b>Syndicate 510</b>							
Year 1	1,419.2	337.2	479.3	330.0	345.9	422.1	355.9
Year 2	1,389.0	343.5	472.4	332.3	375.8	414.5	
Year 3	1,357.2	320.8	469.7	318.0	370.7		
Year 4	1,341.4	320.1	466.1	311.2			
Year 5	1,323.7	319.3	463.1				
Year 6	1,327.9	316.8					
Year 7	1,330.1						
Claims paid	1,289.3	296.0	406.3	252.2	260.3	209.2	31.4
Future claims	-	-	-	-	-	13.6	195.0
Outstanding claims reserve	40.8	20.8	56.8	59.0	110.4	191.7	129.5

	2003 & prior £m	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m
<b>Syndicate 557</b>							
Year 1	85.1	24.0	31.0	5.6	7.4	20.1	18.1
Year 2	72.9	23.4	29.7	3.4	4.3	14.2	
Year 3	71.7	23.2	29.4	2.3	3.4		
Year 4	70.7	22.5	28.1	2.3			
Year 5	68.4	19.9	27.7				
Year 6	68.1	19.8					
Year 7	67.0						
Claims paid	63.2	18.7	25.1	2.0	2.4	8.8	0.7
Future claims	-	-	-	-	-	0.2	7.6
Outstanding claims reserve	3.8	1.1	2.6	0.3	1.0	5.2	9.8

	2003 & prior £m	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m
<b>Syndicate 807</b>							
Year 1	264.8	66.7	90.7	58.4	67.3	72.9	65.3
Year 2	260.5	68.9	90.4	50.0	73.5	68.9	
Year 3	258.6	71.2	89.1	52.8	72.9		
Year 4	256.9	68.8	89.0	51.6			
Year 5	253.6	68.1	88.4				
Year 6	252.7	68.0					
Year 7	260.0						
Claims paid	257.7	64.4	84.9	47.5	58.3	37.7	5.4
Future claims	-	-	-	-	-	3.8	35.6
Outstanding claims reserve	2.3	3.6	3.5	4.1	14.6	27.4	24.3

	2003 & prior £m	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m
<b>Syndicate 308</b>							
Year 1	10.1	2.4	4.4	6.0	7.0	6.0	9.3
Year 2	9.9	2.6	2.4	4.4	5.4	6.0	
Year 3	9.9	2.4	2.0	5.3	5.4		
Year 4	9.7	2.3	1.9	5.6			
Year 5	9.4	2.3	1.9				
Year 6	9.4	2.3					
Year 7	9.5						
Claims paid	9.4	2.3	1.9	3.9	4.3	4.1	2.3
Future claims	–	–	–	–	–	0.4	5.2
Outstanding claims reserve	0.1	–	–	1.7	1.1	1.5	1.8

### 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 2007 closed year, and a discussion of future developments in 2010.

### Directors

The directors of the managing agent who served during the year ended 31 December 2009 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.

Following a review by all directors of the operation of the R J Kiln & Co Limited board during 2009 it was agreed that a new underwriting board would be established to focus on underwriting. As a result a number of directors resigned from the board with effect from 31 December 2009 and were appointed to the newly created underwriting board.

### 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, and of which the auditors are unaware. Having made enquiries of fellow directors of the agency 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 before 21 April 2010.

### Approved by the board of directors

### Keith Grant

Company secretary  
R J Kiln & Co Limited  
17 March 2010

## 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
- 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 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 2009 which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses and the related notes. These accounts have been prepared under the accounting policies set out therein.

### Respective responsibilities of managing agent and auditors

The managing agent's responsibilities for preparing the syndicate annual accounts in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of managing agent's responsibilities.

Our responsibility is to audit the syndicate annual accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the syndicates' members as a body and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the syndicate annual accounts give a true and fair view and are properly prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and United Kingdom Generally Accepted Accounting Practice. We also report to you whether, in our opinion, the information given in the report of the directors of the managing agent is consistent with the syndicate annual accounts.

In addition we report to you if, in our opinion, the managing agent has not kept adequate accounting records in respect of the syndicates, if the syndicate annual accounts are not in agreement with the accounting records, if we have not received all the information and explanations we require for our audit or if information specified by law regarding remuneration of the directors of the managing agent and the active underwriters and other transactions is not disclosed.

We read the other information attached to the syndicate annual accounts and consider whether it is consistent with the audited syndicate annual accounts. This other information comprises the report of the chairman, the report of the chief executive officer, the underwriters' reports, the syndicate forecast assumptions, the related parties information, directors, active underwriters and administration and the results summary. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the syndicate annual accounts. Our responsibilities do not extend to any other information.

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the syndicate annual accounts. It also includes an assessment of the significant estimates and judgements made by the directors of the managing agent in the preparation of the syndicate annual accounts, and of whether the accounting policies are appropriate to the syndicates' circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the syndicate annual accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the syndicate annual accounts.

### Opinion

In our opinion:

- the syndicate annual accounts give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the syndicates' affairs as at 31 December 2009 and of their profits and cash flows for the year then ended;
- the syndicate annual accounts have been properly prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008; and United Kingdom Generally Accepted Accounting Practice; and
- the information given in the report of the directors of the managing agent is consistent with the syndicate annual accounts.

### Andrew Hill

Senior statutory auditor

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

17 March 2010

## Notes and principal accounting policies applying to all syndicates

as at 31 December 2009

### 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. The general and life business results are determined on the annual basis of accounting.

### 2. Funds at Lloyd's

Every member is required to hold capital at Lloyd's which is held in trust and 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.

### 3. The 2008 hurricanes: Ike and Gustav

The losses fall principally on the property, marine and reinsurance portfolios of Syndicate 510, Syndicate 557 and Syndicate 807. The expected losses for these syndicates, in US dollars are as follows:

	As at 31 December 2009 Gross \$m	As at 31 December 2008 Gross \$m	As at 31 December 2009 Net \$m	As at 31 December 2008 Net \$m
Syndicate 510	153	174	95	105
Syndicate 557	10	14	9	12
Syndicate 807	9	15	9	15
<b>Total</b>	<b>172</b>	<b>203</b>	<b>113</b>	<b>132</b>

### 4. Accounting policies

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

Premiums written comprise premiums on contracts incepted 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 syndicate 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
- 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 based on historical claims data and actual claims handling expense.

#### 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.

#### Life business

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. 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

The functional currencies are pounds sterling, US dollars and Canadian dollars. Business written in US dollars and Canadian dollars is accounted for using the net investment method under Statement of Standard Accounting Practice 20 (SSAP20). Exchange differences arising from the retranslation of opening foreign currency denominated net assets are taken to the Statement of Total Recognised Gains and Losses (STRGL). The gain or loss arising from the revaluation of the results from foreign operations at average rates to closing rates, in the balance sheet, is recognised in the STRGL. Exchange gains or losses arising from the transfer of assets and liabilities between these currencies are recognised in the technical account.

For business written in other currencies, monetary assets and liabilities are translated into sterling at the rates of exchange at the balance sheet dates unless contracts to sell currency have been entered into prior to the year end, in which case the contracted rates have been used. Differences arising on translation of foreign currency amounts in syndicates are included in the technical account. Income and expenses transactions are translated using the rates prevailing at the date of transaction or appropriate average rates. Gains or losses arising on translation are included in the technical account. Exchange rates used are as follows:

	Average rate – all syndicates		Year end rate – all syndicates	
	2009	2008	2009	2008
US dollar	1.57	1.85	1.61	1.44
Canadian dollar	1.78	1.96	1.69	1.77

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, and therefore the distribution of gains and losses between the technical account and the STRGL 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.

## Notes and principal accounting policies applying to all syndicates

as at 31 December 2009

### h) Investments

Investments are stated at current value at the balance sheet date. For this purpose listed investments are stated at bid value and deposits with credit institutions and overseas deposits are stated at cost. The syndicates do not hold unlisted investments.

### i) Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest.

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their valuation at the previous balance sheet date, or purchase price, if acquired during the year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

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

### j) Investment yield

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

### k) Taxation

Under Schedule 19 of the Finance Act 1993 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.

### l) 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 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. As from 1 January 2005, pension scheme deficits are required to be placed on balance sheets under Financial Reporting Standard 17 (FRS17). Accordingly, on that date the managing agency 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 agency 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 agency.

### m) 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. From 27 June 2007, profit commission became payable in instalments based on the interim annual accounting results of the year of account under UK GAAP and 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.

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.

### n) 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.

Annual report and accounts 2009

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 2009

	Note	2009 £'000s	2008 £'000s
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	1	925,288	756,666
Outward reinsurance premiums		(225,685)	(181,018)
Net premiums written		699,603	575,648
Change in the provision for unearned premiums:			
Gross amount		6,967	(18,263)
Reinsurers' share		1,716	14,252
Change in the net provision for unearned premiums		8,683	(4,011)
<b>Earned premiums, net of reinsurance</b>		708,286	571,637
<b>Allocated investment return transferred from the non-technical account</b>		19,493	53,787
<b>Claims incurred, net of reinsurance</b>			
Claims paid:			
Gross amount		(445,323)	(365,011)
Reinsurers' share		73,894	63,494
Net claims paid		(371,429)	(301,517)
Change in the provision for claims:			
Gross amount		52,445	(70,086)
Reinsurers' share		(33,390)	11,273
Change in the net provision for claims		19,055	(58,813)
<b>Claims incurred, net of reinsurance</b>		(352,374)	(360,330)
<b>Members' standard personal expenses</b>		(27,460)	(27,798)
<b>Net operating expenses</b>	3,4,5	(205,323)	(201,149)
<b>Balance on the general business technical account</b>		142,622	36,147

All operations are continuing.

## Profit and loss account: non-technical account

for the year ended 31 December 2009

	Note	2009 £'000s	2008 £'000s
<b>Balance on the general business technical account</b>		142,622	36,147
Investment income	6	19,020	45,054
Net unrealised gains on investments	6	898	9,040
Investment expenses and charges	6	(425)	(307)
Allocated investment return transferred to general business technical account	6,7	(19,493)	(53,787)
<b>Profit for the financial year</b>		<b>142,622</b>	<b>36,147</b>

## Statement of total recognised gains and losses

for the year ended 31 December 2009

	2009 £'000s	2008 £'000s
Profit for the financial year	142,622	36,147
Currency translation differences	(5,639)	73,279
<b>Total recognised gains since last annual report</b>	<b>136,983</b>	<b>109,426</b>

**Balance sheet: assets**

as at 31 December 2009

	Note	2009 £'000s	2008 £'000s
<b>Investments</b>			
Other financial investments	8	655,560	682,434
<b>Deposits with ceding undertakings</b>		723	899
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums		59,917	63,477
Claims outstanding	2	146,545	196,073
		206,462	259,550
<b>Debtors</b>			
Debtors arising out of direct insurance operations	9	217,440	245,459
Debtors arising out of reinsurance operations		168,868	156,046
Other debtors	10	13,535	2,893
		399,843	404,398
<b>Other assets</b>			
Cash at bank and in hand		10,165	31,489
Other	11	68,930	55,586
		79,095	87,075
<b>Prepayments and accrued income</b>			
Deferred acquisition costs		92,142	95,887
Other prepayments and accrued income		4,311	3,035
		96,453	98,922
<b>Total assets</b>		<b>1,438,136</b>	<b>1,533,278</b>

## Balance sheet: liabilities

as at 31 December 2009

	Note	2009 £'000s	2008 £'000s
<b>Capital and reserves</b>			
Members' balances	12	135,127	77,084
<b>Technical provisions</b>			
Provision for unearned premiums		341,731	374,555
Claims outstanding	2	759,605	875,315
		1,101,336	1,249,870
<b>Deposits received from reinsurers</b>		2,810	6,609
<b>Creditors</b>			
Creditors arising out of direct insurance operations	13	53,441	69,029
Creditors arising out of reinsurance operations		86,133	80,170
Other creditors	14	43,512	33,519
		183,086	182,718
<b>Accruals and deferred income</b>			
Reinsurers' share of deferred acquisition costs		15,777	16,140
Other accruals and deferred income		–	857
		15,777	16,997
<b>Total liabilities</b>		<b>1,438,136</b>	<b>1,533,278</b>

The annual accounts, which comprise pages 26 to 36 and the notes and principal accounting policies applicable to all syndicates on pages 22 to 24, were approved by the board of R J Kiln & Co Limited on 9 March 2010 and were signed on its behalf by

### James Dover

Finance director  
R J Kiln & Co Limited  
17 March 2010

## Cash flow statement

for the year ended 31 December 2009

	Note	2009 £'000s	2008 £'000s
Net cash inflow from operating activities	15	155,941	91,906
Transfer to members in respect of underwriting		(76,712)	(72,734)
<b>Financing</b>			
Distribution loss collected		3	546
Members' agents' fees paid on behalf of members		(2,232)	(2,091)
<b>Net cash flows</b>		<b>77,000</b>	<b>17,627</b>
<b>Cash flows were invested as follows:</b>			
(Decrease)/increase in cash holdings	16	(21,292)	6,211
Increase in deposits	16	17,421	9,898
Net portfolio investments	16,17	80,871	1,518
<b>Net investment of cash flows</b>		<b>77,000</b>	<b>17,627</b>

## Notes to the accounts

as at 31 December 2009

### 1. Segmental analysis

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

Year ended 31 December 2009	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)	(148,643)	(27,792)	43,526	428,437
Marine & special risks	184,615	181,219	(101,480)	(51,155)	(14,086)	14,498	207,250
Reinsurance	194,218	191,860	(31,028)	(37,335)	(80,576)	42,921	106,833
Aviation	53,492	54,498	(12,357)	(17,094)	(5,921)	19,126	98,634
Accident & health	75,790	71,811	(36,474)	(28,622)	(3,487)	3,228	52,027
Enterprise risk	3,501	2,058	(691)	(1,306)	(231)	(170)	1,693
<b>Total</b>	<b>925,288</b>	<b>932,255</b>	<b>(392,878)</b>	<b>(284,155)</b>	<b>(132,093)</b>	<b>123,129</b>	<b>894,874</b>

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

Year ended 31 December 2008	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	385,480	380,156	(247,255)	(144,299)	(7,754)	(19,152)	503,224
Marine & special risks	136,107	136,165	(107,091)	(42,547)	(575)	(14,048)	214,326
Reinsurance	131,394	121,927	(40,192)	(33,729)	(36,535)	11,471	115,387
Aviation	48,487	45,289	(14,967)	(20,020)	(6,024)	4,278	109,189
Accident & health	55,198	54,866	(25,592)	(28,091)	(1,372)	(189)	48,194
<b>Total</b>	<b>756,666</b>	<b>738,403</b>	<b>(435,097)</b>	<b>(268,686)</b>	<b>(52,260)</b>	<b>(17,640)</b>	<b>990,320</b>

Of the above divisions the following have underwritten reinsurance business: reinsurance (100%); aviation (38.8%); accident & health (21.1%); marine & special risks (19.3%) and property & special lines (17.1%).

The comparative segmentals have been revised to reflect Syndicate 510's business divisions rather than analysis by risk code.

All premiums were concluded in the UK.

The total commission payable on direct business was £201,594,496 (2008: £162,973,938).

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

	2009 £'000s	2008 £'000s
UK	71,339	59,200
Other EU countries	87,600	75,200
US	400,436	312,482
Other	365,913	309,784
<b>Total</b>	<b>925,288</b>	<b>756,666</b>

The method of analysis has been revised. The comparative has been recalculated on the same basis.

### 2. Claims outstanding

The reassessment of gross claims outstanding held at the end of the previous year has resulted in a release of £7.9m, primarily in the property & special lines division and those divisions underwriting reinsurance business.

## Notes to the accounts

as at 31 December 2009

### 3. Net operating expenses

	2009 £'000s	2008 £'000s
Acquisition costs	245,452	179,483
Change in deferred acquisition costs	(2,544)	1,948
Administrative expenses	27,216	48,994
(Profit)/loss on exchange	(13,429)	10,463
Gross operating expenses	256,695	240,888
Reinsurance commissions and profit participations	(51,372)	(39,739)
Net operating expenses	205,323	201,149

Administrative expenses include:

	2009 £'000s	2008 £'000s
Auditors' remuneration:		
Audit services	211	222

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

	2009 £'000s	2008 £'000s
Wages and salaries	13,512	12,378
Social security costs	1,356	1,371
Other pension costs	947	2,198
	15,815	15,947

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

	2009 £'000s	2008 £'000s
Initial charge of defined benefit scheme (surplus)/deficit to the syndicate on 1 January	(741)	1,690
Net debit/(credit) from managing agency during year	1,687	(233)
Balance to be paid to future accounting periods	-	741
Amount funded in year	946	2,198

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

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

	2009	2008
Administration and finance	75	80
Underwriting	62	53
Claims	8	9
	145	142

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 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 2006 year of account, as the allocation to underwriters is only determined following its closure.

	2009 £'000s	2008 £'000s
Emoluments	5,248	3,428

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

	2009 £'000s	2008 £'000s
Emoluments	3,743	2,434

### 6. Investment income and expenses

	2009 £'000s	2008 £'000s
Investment income:		
Income from investments	21,095	27,883
Net gains on the realisation of investments	–	17,171
Net unrealised gains on investments	898	9,040
	<u>21,993</u>	<u>54,094</u>
Investment expenses:		
Investment management expenses, including interest	(425)	(307)
Net losses on the realisation of investments	(2,075)	–
Total investment return	<u>19,493</u>	<u>53,787</u>

### 7. Calendar year investment yield

	2009 £'000s	2008 £'000s
Average amount of syndicate funds during the year	938,922	702,496
Aggregate gross investment return:		
Before investment expenses	19,918	54,094
After investment expenses	19,493	53,787
Calendar year investment yield:	%	%
Before investment expenses	2.1	7.7
After investment expenses	2.1	7.7
Analysis of calendar year investment yield by fund:	%	%
Sterling fund	3.8	8.0
US dollar fund	1.9	7.8
Canadian dollar fund	1.2	7.0
Euro fund	0.4	–

## Notes to the accounts

as at 31 December 2009

### 8. Other financial investments

	2009 Market value £'000s	Cost £'000s	2008 Market value £'000s	Cost £'000s
Debt securities and other fixed income securities	594,013	588,805	659,724	643,329
Shares and other variable yield securities	61,547	61,547	–	–
Deposits with credit institutions	–	–	22,710	22,710
	<b>655,560</b>	<b>650,352</b>	<b>682,434</b>	<b>666,039</b>

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

	2009 £'000s	2008 £'000s
Due from intermediaries	217,440	245,459

### 10. Other debtors

Included within other debtors are balances recoverable in future years in relation to the defined benefit pension scheme:

	2009 £'000s	2008 £'000s
Balance due in more than one year from the managing agency	–	741

### 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

	2009 £'000s	2008 £'000s
Members' balances at 1 January	77,084	54,484
Profit for the financial year	142,622	36,147
Payments of profit to members' personal reserve funds	(76,709)	(72,188)
Members' agents' fee advances	(2,232)	(2,091)
Exchange differences arising on members' balances	1	(12,547)
Currency translation differences	(5,639)	73,279
Members' balances carried forward at 31 December	<b>135,127</b>	<b>77,084</b>

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

	2009 £'000s	2008 £'000s
Due to intermediaries	53,441	69,029

**14. Other creditors**

Included within other creditors are balances relating to the defined benefit pension scheme and contingent considerations associated with the 2008 Ibex Insurance Services Ltd acquisition made by the managing agency on behalf of the members of Syndicate 510:

	2009 £'000s	2008 £'000s
Balance due in more than one year for contingent considerations	1,025	1,025
Balance due in more than one year payable to the members	–	741
	1,025	1,766

**15. Reconciliation of operating profit to net cash inflow from operating activities**

	2009 £'000s	2008 £'000s
Operating profit on ordinary activities	142,622	36,147
Realised and unrealised investment loss/(gain) including foreign exchange	108,231	(193,421)
Decrease/(increase) in debtors	7,024	(66,196)
(Decrease)/increase in net technical provisions	(95,446)	255,546
(Decrease) in creditors	(852)	(902)
Exchange losses/(gains) arising on members' balances	1	(12,547)
Currency translation differences	(5,639)	73,279
Net cash inflow from operating activities	155,941	91,906

**16. Movement in opening and closing portfolio investments net of financing**

	2009 £'000s	2008 £'000s
Net cash (outflow)/inflow for the year	(21,292)	6,211
Cash flow		
Deposits	17,421	9,898
Portfolio investments	80,871	1,518
Movement arising from cash flows	77,000	17,627
Changes in market value and exchange rates	(108,231)	193,421
Total movement in portfolio investments	(31,231)	211,048
Portfolio at 1 January	763,799	552,751
Portfolio at 31 December	732,568	763,799

**Movement in cash, portfolio investments and financing**

	At 1 January 2009 £'000s	Cash flow £'000s	Changes to market value and currencies £'000s	At 31 December 2009 £'000s
Cash at bank and in hand	31,489	(21,292)	(32)	10,165
Debt securities and other fixed income securities	659,724	39,372	(105,083)	594,013
Shares and other variable yield securities	–	64,209	(2,662)	61,547
Deposits with credit institutions	22,710	(22,710)	–	–
Total portfolio investments	682,434	80,871	(107,745)	655,560
Deposits received from reinsurers	(6,609)	3,102	697	(2,810)
Overseas deposits	55,586	14,414	(1,070)	68,930
Deposits with ceding undertakings	899	(95)	(81)	723
Total cash, portfolio investments and financing	763,799	77,000	(108,231)	732,568

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 2009 was £321,103,327 (2008: £348,256,513).

## Notes to the accounts

as at 31 December 2009

### 17. Net cash (outflow) on portfolio investments

	2009 £'000s	2008 £'000s
Purchase of debt securities and other fixed income securities	(2,361,726)	(1,824,294)
Sale of debt securities and other fixed income securities	2,258,145	1,841,837
Deposits with credit institutions	22,710	(19,061)
Net cash (outflow) on portfolio investments	<b>(80,871)</b>	<b>(1,518)</b>

### 18. 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 2009 calendar year of £3,336,412 (2008: £992,981). The unpaid premiums due from related parties at the period end were £830,449 (2008: £106,963). The outstanding claims, including an element of IBNR, were £499,682 (2008: £15,508).

Written premiums ceded by Syndicate 510 to related parties for the 2009 calendar year were £77,577,019 (2008: £26,645,862). Paid recoveries from related parties during 2009 were £9,225,383 (2008: £4,369,704). Unpaid recoveries at the year end amounted to £172,932 (2008: £2,083,846) and future recoveries on outstanding claims, including an element of IBNR, were £20,911,282 (2008: £12,728,268).

The syndicate receives business from the following service and related companies whose investments are held ultimately by the managing agency: Kiln Asia Limited (100% owned), Kiln South Africa (Proprietary) Limited (100% owned), International Marine Insurance Managers (South Africa) (100% owned), and Kiln Regional Underwriting Limited (100% owned). These businesses each produce less than 1.5% 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 £23,469,555 is payable by the syndicate to R J Kiln & Co Limited in respect of profits for the 2009 calendar year (2008: £15,657,268). Profit commission is payable in instalments based on the interim results of each year of account; final settlement is paid when the year of account is closed after three years.

Managing agency fees of £4,796,277 (2008: £3,880,732) were paid by the syndicate to R J Kiln & Co Limited. In addition to this, expenses of £24,259,950 (2008: £23,479,049) 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.

## Annual report and accounts 2009

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 2009

	Note	2009 £'000s	2008 £'000s
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	1	50,920	38,437
Outward reinsurance premiums		(5,095)	(3,591)
Net premiums written		45,825	34,846
Change in the provision for unearned premiums:			
Gross amount		37	(2,781)
Reinsurers' share		142	(257)
Change in the net provision for unearned premiums		179	(3,038)
<b>Earned premiums, net of reinsurance</b>		46,004	31,808
<b>Allocated investment return transferred from the non-technical account</b>		2,296	5,627
<b>Claims incurred, net of reinsurance</b>			
Claims paid:			
Gross amount		(9,202)	(5,270)
Reinsurers' share		476	1,888
Net claims paid		(8,726)	(3,382)
Change in the provision for claims:			
Gross amount		3,170	(3,142)
Reinsurers' share		(209)	(1,838)
Change in the net provision for claims		2,961	(4,980)
<b>Claims incurred, net of reinsurance</b>		(5,765)	(8,362)
<b>Members' standard personal expenses</b>		(6,662)	(5,100)
<b>Net operating expenses</b>	3,4,5	(12,440)	(10,587)
<b>Balance on the general business technical account</b>		23,433	13,386

All operations are continuing.

## Profit and loss account: non-technical account

for the year ended 31 December 2009

	Note	2009 £'000s	2008 £'000s
<b>Balance on the general business technical account</b>		23,433	13,386
Investment income	6	2,057	4,498
Net unrealised gains on investments	6	296	1,157
Investment expenses and charges	6	(57)	(28)
Allocated investment return transferred to general business technical account	6,7	(2,296)	(5,627)
<b>Profit for the financial year</b>		<b>23,433</b>	<b>13,386</b>

## Statement of total recognised gains and losses

for the year ended 31 December 2009

	2009 £'000s	2008 £'000s
Profit for the financial year	23,433	13,386
Currency translation differences	(3,099)	12,662
<b>Total recognised gains since last annual report</b>	<b>20,334</b>	<b>26,048</b>

**Balance sheet: assets**

as at 31 December 2009

	Note	2009 £'000s	2008 £'000s
<b>Investments</b>			
Other financial investments	8	83,496	83,287
<b>Deposits with ceding undertakings</b>			
		–	(97)
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums		788	726
Claims outstanding	2	379	642
		1,167	1,368
<b>Debtors</b>			
Debtors arising out of direct insurance operations	9	–	316
Debtors arising out of reinsurance operations		2,326	2,584
Other debtors	10	299	84
		2,625	2,984
<b>Other assets</b>			
Cash at bank and in hand		695	5,297
Other	11	244	579
		939	5,876
<b>Prepayments and accrued income</b>			
Deferred acquisition costs		2,748	2,936
Other prepayments and accrued income		–	4
		2,748	2,940
<b>Total assets</b>		<b>90,975</b>	<b>96,358</b>

## Balance sheet: liabilities

as at 31 December 2009

	Note	2009 £'000s	2008 £'000s
<b>Capital and reserves</b>			
Members' balances	12	43,899	46,250
<b>Technical provisions</b>			
Provision for unearned premiums		11,460	12,605
Claims outstanding	2	22,729	28,318
		34,189	40,923
<b>Deposits received from reinsurers</b>		–	636
<b>Creditors</b>			
Creditors arising out of direct insurance operations	13	76	48
Creditors arising out of reinsurance operations		2,896	538
Other creditors	14	9,915	7,650
		12,887	8,236
<b>Accruals and deferred income</b>			
Other accruals and deferred income		–	313
<b>Total liabilities</b>		<b>90,975</b>	<b>96,358</b>

The annual accounts, which comprise pages 38 to 48 and the notes and principal accounting policies applicable to all syndicates on pages 22 to 24, were approved by the board of R J Kiln & Co Limited on 9 March 2010 and were signed on its behalf by

**James Dover**

Finance director  
R J Kiln & Co Limited  
17 March 2010

## Cash flow statement

for the year ended 31 December 2009

	Note	2009 £'000s	2008 £'000s
Net cash inflow from operating activities	15	26,270	31,035
Transfer to members in respect of underwriting participations		–	(8,157)
<b>Financing</b>			
Distribution (profit paid)/loss collected		(21,763)	30
Members' agents' fees paid on behalf of members		(922)	(930)
<b>Net cash flows</b>		<b>3,585</b>	<b>21,978</b>
<b>Cash flows were invested as follows:</b>			
(Decrease) in cash holdings	16	(4,589)	(4,343)
Increase in deposits	16	363	2,251
Net portfolio investments	16,17	7,811	24,070
<b>Net investment of cash flows</b>		<b>3,585</b>	<b>21,978</b>

## Notes to the accounts

as at 31 December 2009

### 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
<b>Year ended 31 December 2009</b>							
Direct insurance							
Accident and health	6	8	31	(28)	–	11	(48)
Fire and other damage to property	(23)	145	516	(784)	81	(42)	4,464
Miscellaneous	4	6	(2)	(4)	–	–	322
	(13)	159	545	(816)	81	(31)	4,738
Reinsurance acceptances	50,933	50,798	(6,577)	(18,286)	(4,767)	21,168	28,284
<b>Total</b>	<b>50,920</b>	<b>50,957</b>	<b>(6,032)</b>	<b>(19,102)</b>	<b>(4,686)</b>	<b>21,137</b>	<b>33,022</b>

	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
<b>Year ended 31 December 2008</b>							
Direct insurance							
Accident and health	13	79	(27)	(42)	(4)	6	123
Fire and other damage to property	341	2,551	90	(2,119)	(49)	473	5,973
Miscellaneous	14	19	121	(10)	–	130	371
	368	2,649	184	(2,171)	(53)	609	6,467
Reinsurance acceptances	38,069	33,007	(8,596)	(13,516)	(3,745)	7,150	33,088
<b>Total</b>	<b>38,437</b>	<b>35,656</b>	<b>(8,412)</b>	<b>(15,687)</b>	<b>(3,798)</b>	<b>7,759</b>	<b>39,555</b>

All premiums were concluded in the UK.

The total commission payable on direct business was £323,688 (2008: £2,948,049).

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

	2009 £'000s	2008 £'000s
UK	50,920	37,772
Other EU countries	–	392
Other	–	273
	<b>50,920</b>	<b>38,437</b>

### 2. Claims outstanding

The reassessment of gross claims outstanding held at the end of the previous year has resulted in a release of £1.8m, primarily on the reinsurance acceptances class of business.

## Notes to the accounts

as at 31 December 2009

### 3. Net operating expenses

	2009 £'000s	2008 £'000s
Acquisition costs	10,256	7,569
Change in deferred acquisition costs	(92)	(667)
Administrative expenses	2,135	2,637
Loss on exchange	141	1,048
Gross and net operating expenses	12,440	10,587

Administrative expenses include:

	2009 £'000s	2008 £'000s
Auditors' remuneration:		
Audit services	41	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 Kiln Insurance Services Limited. The following amounts were recharged to the syndicate in respect of salary costs and are included within administrative expenses:

	2009 £'000s	2008 £'000s
Wages and salaries	1,163	766
Social security costs	122	85
Other pension costs	87	202
	1,372	1,053

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

	2009 £'000s	2008 £'000s
Initial charge of defined benefit scheme (surplus)/deficit to the syndicate on 1 January	(68)	156
Net debit/(credit) from managing agency during year	155	(22)
Balance to be paid to future accounting periods	–	68
Amount funded in year	87	202

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

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

	2009	2008
Administration and finance	9	12
Underwriting	2	4
Claims	–	1
	11	17

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

### 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 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 2006 year of account, as the allocation to underwriters is only determined following its closure.

	2009 £'000s	2008 £'000s
Emoluments	313	288

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

	2009 £'000s	2008 £'000s
Emoluments	177	96

### 6. Investment income and expenses

	2009 £'000s	2008 £'000s
Investment income:		
Income from investments	2,220	2,363
Net gains on the realisation of investments	–	2,135
Net unrealised gains on investments	296	1,157
	<u>2,516</u>	<u>5,655</u>
Investment expenses:		
Investment management expenses, including interest	(57)	(28)
Net losses on the realisation of investments	(163)	–
Total investment return	<u>2,296</u>	<u>5,627</u>

### 7. Calendar year investment yield

	2009 £'000s	2008 £'000s
Average amount of syndicate funds during the year	89,437	63,908
Aggregate gross investment return:		
Before investment expenses	2,353	5,655
After investment expenses	2,296	5,627
Calendar year investment yield:	%	%
Before investment expenses	2.6	8.8
After investment expenses	2.6	8.8
Analysis of calendar year investment yield by fund:	%	%
Sterling fund	3.2	9.0
US dollar fund	2.6	9.0
Canadian dollar fund	0.5	3.0
Euro fund	5.2	–

## Notes to the accounts

as at 31 December 2009

### 8. Other financial investments

	2009 Market value £'000s	Cost £'000s	2008 Market value £'000s	Cost £'000s
Debt securities and other fixed income securities	78,561	77,666	81,746	79,659
Shares and other variable yield securities	4,935	4,935	–	–
Deposits with credit institutions	–	–	1,541	1,541
	<b>83,496</b>	<b>82,601</b>	<b>83,287</b>	<b>81,200</b>

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

	2009 £'000s	2008 £'000s
Due from intermediaries	–	316

### 10. Other debtors

Included within other debtors are balances recoverable from future years in relation to the defined benefit pension scheme:

	2009 £'000s	2008 £'000s
Balance due in more than one year from the managing agency	–	68

### 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

	2009 £'000s	2008 £'000s
Members' balances at 1 January	46,250	29,268
Profit for the financial year	23,433	13,386
Payments of profit to members' personal reserve funds	(21,763)	(8,127)
Members' agents' fee advances	(922)	(930)
Exchange difference arising on members' balances	–	(9)
Currency translation differences	(3,099)	12,662
Members' balances carried forward at 31 December	<b>43,899</b>	<b>46,250</b>

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

	2009 £'000s	2008 £'000s
Due to intermediaries	31	48

**14. Other creditors**

Included within other creditors are balances payable in future years in relation to the defined benefit pension scheme:

	2009 £'000s	2008 £'000s
Balance due in more than one year payable to the members	–	68

**15. Reconciliation of operating profit to net cash inflow from operating activities**

	2009 £'000s	2008 £'000s
Operating profit on ordinary activities	23,433	13,386
Realised and unrealised investment loss/(gain) including foreign exchange	7,580	(19,179)
Decrease in debtors	551	3,751
(Decrease)/increase in net technical provisions	(6,533)	16,951
Increase in creditors	4,338	3,473
Exchange losses/(gains) arising on members' balances	–	(9)
Currency translation differences	(3,099)	12,662
Net cash inflow from operating activities	26,270	31,035

**16. Movement in opening and closing portfolio investments net of financing**

	2009 £'000s	2008 £'000s
Net cash (outflow) for the year	(4,589)	(4,343)
Cash flow		
Deposits	363	2,251
Portfolio investments	7,811	24,070
Movement arising from cash flows	3,585	21,978
Changes in market value and exchange rates	(7,580)	19,179
Total movement in portfolio investments	(3,995)	41,157
Portfolio at 1 January	88,430	47,273
Portfolio at 31 December	84,435	88,430

**Movement in cash, portfolio investments and financing**

	At 1 January 2009 £'000s	Cash flow £'000s	Changes to market value and currencies £'000s	At 31 December 2009 £'000s
Cash at bank and in hand	5,297	(4,589)	(13)	695
Debt securities and other fixed income securities	81,746	4,222	(7,406)	78,562
Shares and other variable yield securities	–	5,130	(196)	4,934
Deposits with credit institutions	1,541	(1,541)	–	–
Total portfolio investments	83,287	7,811	(7,602)	83,496
Deposits received from reinsurers	(636)	569	67	–
Overseas deposits	579	(305)	(30)	244
Deposits with ceding undertakings	(97)	99	(2)	–
Total cash, portfolio investments and financing	88,430	3,585	(7,580)	84,435

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 2009 was £7,392,289 (2008: £15,750,308).

## Notes to the accounts

as at 31 December 2009

### 17. Net cash (outflow) on portfolio investments

	2009 £'000s	2008 £'000s
Purchase of debt securities and other fixed income securities	(320,617)	(236,194)
Sale of debt securities and other fixed income securities	311,265	212,627
Deposits with credit institutions	1,541	(503)
Net cash (outflow) on portfolio investments	(7,811)	(24,070)

### 18. Related parties

Syndicate 557 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 557 accepted premium from related parties in the 2009 calendar year of £111,336 (2008: £81,071). The unpaid premiums due from related parties at the period end were £8,822 (2008: £9,992). The outstanding claims, including an element of IBNR, were £2,565 (2008: £791).

Profit commission of £5,766,979 is payable by the syndicate to R J Kiln & Co Limited in respect of profits for the 2009 calendar year (2008: £5,379,986). Profit commission is payable in instalments based on the interim results of each year of account, final settlement is paid when the year of account is closed after three years.

Managing agency fees of £895,286 (2008: £894,923) were paid by the syndicate to R J Kiln & Co Limited. In addition to this, expenses of £2,044,680 (2008: £1,524,711) 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.

## Annual report and accounts 2009

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

# Syndicate 807

Kiln Mathers Syndicate  
Non-marine

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

for the year ended 31 December 2009

	Note	2009 £'000s	2008 £'000s
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	1	153,524	126,184
Outward reinsurance premiums		(17,610)	(9,772)
Net premiums written		135,914	116,412
Change in the provision for unearned premiums:			
Gross amount		5,697	9,301
Reinsurers' share		1,963	103
Change in the net provision for unearned premiums		7,660	9,404
<b>Earned premiums, net of reinsurance</b>		143,574	125,816
<b>Allocated investment return transferred from the non-technical account</b>		1,860	7,151
<b>Claims incurred, net of reinsurance</b>			
Claims paid:			
Gross amount		(64,382)	(63,177)
Reinsurers' share		1,817	1,072
Net claims paid		(62,565)	(62,105)
Change in the provision for claims:			
Gross amount		(2,246)	(12,291)
Reinsurers' share		1,597	(45)
Change in the net provision for claims		(649)	(12,336)
<b>Claims incurred, net of reinsurance</b>		(63,214)	(74,441)
<b>Members' standard personal expenses</b>		(4,348)	(2,747)
<b>Net operating expenses</b>	3,4,5	(63,266)	(52,162)
<b>Balance on the general business technical account</b>		14,606	3,617

All operations are continuing.

## Profit and loss account: non-technical account

for the year ended 31 December 2009

	Note	2009 £'000s	2008 £'000s
<b>Balance on the general business technical account</b>		14,606	3,617
Investment income	6	1,837	6,119
Net unrealised gains on investments	6	62	1,085
Investment expenses and charges	6	(39)	(53)
Allocated investment return transferred to general business technical account	6,7	(1,860)	(7,151)
<b>Profit for the financial year</b>		<b>14,606</b>	<b>3,617</b>

## Statement of total recognised gains and losses

for the year ended 31 December 2009

	2009 £'000s	2008 £'000s
Profit for the financial year	14,606	3,617
Currency translation differences	(1,606)	11,007
<b>Total recognised gains since last annual report</b>	<b>13,000</b>	<b>14,624</b>

**Balance sheet: assets**

as at 31 December 2009

	Note	2009 £'000s	2008 £'000s
<b>Investments</b>			
Other financial investments	8	70,448	80,583
<b>Deposits with ceding undertakings</b>		79	42
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums		2,904	1,054
Claims outstanding	2	2,229	723
		5,133	1,777
<b>Debtors</b>			
Debtors arising out of direct insurance operations	9	18,316	24,533
Debtors arising out of reinsurance operations		42,417	25,262
Other debtors	10	1,662	372
		62,395	50,167
<b>Other assets</b>			
Cash at bank and in hand		2,465	7,000
Other	11	28,852	17,856
		31,317	24,856
<b>Prepayments and accrued income</b>			
Deferred acquisition costs		28,103	31,389
Other prepayments and accrued income		–	11
		28,103	31,400
<b>Total assets</b>		<b>197,475</b>	<b>188,825</b>

## Balance sheet: liabilities

as at 31 December 2009

	Note	2009 £'000s	2008 £'000s
<b>Capital and reserves</b>			
Members' balances	12	17,705	13,548
<b>Technical provisions</b>			
Provision for unearned premiums		68,054	77,306
Claims outstanding	2	83,778	86,650
		151,832	163,956
<b>Deposits received from reinsurers</b>		–	53
<b>Creditors</b>			
Creditors arising out of direct insurance operations	13	6,341	4,037
Creditors arising out of reinsurance operations		17,382	3,549
Other creditors	14	4,215	3,682
		27,938	11,268
<b>Total liabilities</b>		<b>197,475</b>	<b>188,825</b>

The annual accounts, which comprise pages 50 to 60 and the notes and principal accounting policies applicable to all syndicates on pages 22 to 24, were approved by the board of R J Kiln & Co Limited on 9 March 2010 and were signed on its behalf by

**James Dover**

Finance director  
R J Kiln & Co Limited  
17 March 2010

## Cash flow statement

for the year ended 31 December 2009

	Note	2009 £'000s	2008 £'000s
Net cash inflow from operating activities	15	15,599	13,135
Transfer to members in respect of underwriting participations		(8,501)	(14,440)
<b>Financing</b>			
Distribution loss collected		2	2,304
Members' agents' fees paid on behalf of members		(345)	(361)
<b>Net cash flows</b>		<b>6,755</b>	<b>638</b>
<b>Cash flows were invested as follows:</b>			
(Decrease) in cash holdings	16	(4,519)	(4,047)
Increase in deposits	16	12,707	8,998
Net portfolio investments	16,17	(1,433)	(4,313)
<b>Net investment of cash flows</b>		<b>6,755</b>	<b>638</b>

## Notes to the accounts

as at 31 December 2009

### 1. Segmental analysis

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

Year ended 31 December 2009	Gross premium written £'000s	Gross premium earned £'000s	Gross incurred claims £'000s	Gross operating expenses £'000s	Reinsurance balance £'000s	Total £'000s	Net technical provisions £'000
Direct insurance							
Accident and health	14,399	17,059	(9,871)	(7,409)	620	399	14,335
Fire and other damage to property	74,464	74,178	(40,496)	(30,820)	(4,327)	(1,465)	75,535
Motor combined	3,570	3,101	(1,659)	(1,055)	(25)	362	4,003
Miscellaneous	2,961	3,442	(2,559)	(1,922)	(1)	(1,040)	5,874
	95,394	97,780	(54,585)	(41,206)	(3,733)	(1,744)	99,747
Reinsurance acceptances	58,130	61,441	(12,043)	(26,408)	(8,500)	14,490	46,952
<b>Total</b>	<b>153,524</b>	<b>159,221</b>	<b>(66,628)</b>	<b>(67,614)</b>	<b>(12,233)</b>	<b>12,746</b>	<b>146,699</b>

Year ended 31 December 2008	Gross premium written £'000s	Gross premium earned £'000s	Gross incurred claims £'000s	Gross operating expenses £'000s	Re insurance balance £'000s	Total £'000s	Net technical provisions £'000
Direct insurance							
Accident and health	19,126	29,576	(14,985)	(14,953)	(97)	(459)	18,806
Fire and other damage to property	63,977	61,574	(41,618)	(23,721)	(2,562)	(6,327)	90,339
Motor combined	2,188	1,665	(1,137)	(593)	(17)	(82)	3,257
Miscellaneous	4,854	4,442	(2,026)	(1,762)	–	654	8,282
	90,145	97,257	(59,766)	(41,029)	(2,676)	(6,214)	120,684
Reinsurance acceptances	36,039	38,228	(15,702)	(13,880)	(5,966)	2,680	41,495
<b>Total</b>	<b>126,184</b>	<b>135,485</b>	<b>(75,468)</b>	<b>(54,909)</b>	<b>(8,642)</b>	<b>(3,534)</b>	<b>162,179</b>

All premiums were concluded in the UK.

The total commission payable on direct business was £34,226,771 (2008: £45,597,380).

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

	2009 £'000s	2008 £'000s
UK	21,447	11,789
Other EU countries	6,497	12,056
US	72,982	65,529
Other	52,598	36,810
	<b>153,524</b>	<b>126,184</b>

### 2. Claims outstanding

The reassessment of gross claims outstanding held at the end of the previous year has resulted in a strengthening of the reserves of £11,816, mainly driven by classes of business accepting inwards reinsurances offset by reserve releases in the accident and health and fire and other damage classes of business.

## Notes to the accounts

as at 31 December 2009

### 3. Net operating expenses

	2009 £'000s	2008 £'000s
Acquisition costs	58,148	40,852
Change in deferred acquisition costs	2,205	7,773
Administrative expenses	4,087	6,746
(Profit) on exchange	(1,174)	(3,209)
Gross and net operating expenses	63,266	52,162

Administrative expenses include:

	2009 £'000s	2008 £'000s
Auditors' remuneration:		
Audit services	67	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 Kiln Insurance Services Limited. The following amounts were recharged to the syndicate in respect of salary costs and are included within administrative expenses:

	2009 £'000s	2008 £'000s
Wages and salaries	2,361	2,442
Social security costs	243	281
Other pension costs	192	445
	2,796	3,168

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

	2009 £'000s	2008 £'000s
Initial charge of defined benefit scheme (surplus)/deficit to the syndicate on 1 January	(150)	342
Net debit/(credit) from managing agency during year	341	(47)
Balance to be paid to future accounting periods	–	150
Amount funded in year	191	445

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

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

	2009	2008
Administration and finance	13	16
Underwriting	9	9
Claims	2	2
	24	27

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 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 2006 year of account, as the allocation to underwriters is only determined following its closure.

	2009 £'000s	2008 £'000s
Emoluments	759	946

Comparative emoluments charged to the syndicate have been revised to include only directors (previous disclosure was £1,042,000).

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

	2009 £'000s	2008 £'000s
Emoluments	309	470

### 6. Investment income and expenses

	2009 £'000s	2008 £'000s
Investment income:		
Income from investments	2,070	3,882
Net gains on the realisation of investments	–	2,237
Net unrealised gains on investments	62	1,085
	2,132	7,204
Investment expenses:		
Investment management expenses, including interest	(39)	(53)
Net losses on the realisation of investments	(233)	–
Total investment return	1,860	7,151

### 7. Calendar year investment yield

	2009 £'000s	2008 £'000s
Average amount of syndicate funds during the year	107,990	89,695
Aggregate gross investment return:		
Before investment expenses	1,899	7,204
After investment expenses	1,860	7,151
Calendar year investment yield:	%	%
Before investment expenses	1.8	8.0
After investment expenses	1.7	8.0
Analysis of calendar year investment yield by fund:	%	%
Sterling fund	2.3	5.5
US dollar fund	1.6	8.4
Canadian dollar fund	1.2	8.8
Euro fund	15.7	–

## Notes to the accounts

as at 31 December 2009

### 8. Other financial investments

	2009 Market value £'000s	Cost £'000s	2008 Market value £'000s	Cost £'000s
Debt securities and other fixed income securities	62,628	62,165	75,740	73,714
Shares and other variable yield securities	7,820	7,820	–	–
Deposits with credit institutions	–	–	4,843	4,843
	<b>70,448</b>	<b>69,985</b>	<b>80,583</b>	<b>78,557</b>

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

	2009 £'000s	2008 £'000s
Due from intermediaries	18,316	24,533

### 10. Other debtors

Included within other debtors are balances recoverable in future years in relation to the defined benefit pension scheme:

	2009 £'000s	2008 £'000s
Balance due in more than one year from the managing agency	–	150

### 11. Other assets

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

Included within other assets is an amount of £9,668,951 relating to a forward currency contract to sell Japanese yen and to buy US dollars on 26 March 2010 for the purpose of solvency funding in Lloyd's Japan. The asset has been valued at the forward contract rate; consequently the contract has been recorded in the balance sheet at nil. The fair value of this derivative at the balance sheet date was a loss of £480,728.

### 12. Reconciliation of members' balances

	2009 £'000s	2008 £'000s
Members' balances at 1 January	13,548	11,421
Profit for the financial year	14,606	3,617
Payments of profit to members' personal reserve funds	(8,499)	(12,136)
Members' agents' fee advances	(345)	(361)
Exchange differences arising on members' balances	1	–
Currency translation differences	(1,606)	11,007
Members' balances carried forward at 31 December	<b>17,705</b>	<b>13,548</b>

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

	2009 £'000s	2008 £'000s
Due to intermediaries	6,341	4,037

**14. Other creditors**

Included within other creditors are balances payable in future years in relation to the defined benefit pension scheme and the 2008 Ibex Insurance Services Ltd acquisition made by the managing agency on behalf of the members of Syndicate 807:

	2009 £'000s	2008 £'000s
Balance due in more than one year for contingent considerations	140	–
Balance due in more than one year payable to the members	–	150
	140	150

**15. Reconciliation of operating profit to net cash inflow from operating activities**

	2009 £'000s	2008 £'000s
Operating profit on ordinary activities	14,606	3,617
Realised and unrealised investment loss/(gain) including foreign exchange	10,339	(28,126)
(Increase) in debtors	(8,931)	(764)
(Decrease)/increase in net technical provisions	(15,480)	27,330
Increase in creditors	16,670	71
Exchange losses arising on members' balances	1	–
Currency translation differences	(1,606)	11,007
Net cash inflow from operating activities	15,599	13,135

**16. Movement in opening and closing portfolio investments net of financing**

	2009 £'000s	2008 £'000s
Net cash (outflow) for the year	(4,519)	(4,047)
Cash flow		
Deposits	12,707	8,998
Portfolio investments	(1,433)	(4,313)
Movement arising from cash flows	6,755	638
Changes in market value and exchange rates	(10,339)	28,126
Total movement in portfolio investments	(3,584)	28,764
Portfolio at 1 January	105,428	76,664
Portfolio at 31 December	101,844	105,428

**Movement in cash, portfolio investments and financing**

	At 1 January 2009 £'000s	Cash flow £'000s	Changes to market value and currencies £'000s	At 31 December 2009 £'000s
Cash at bank and in hand	7,000	(4,519)	(16)	2,465
Debt securities and other fixed income securities	75,740	(4,883)	(8,229)	62,628
Shares and other variable yield securities	–	8,293	(473)	7,820
Deposits with credit institutions	4,843	(4,843)	–	–
Total portfolio investments	80,583	(1,433)	(8,702)	70,448
Deposits received from reinsurers	(53)	48	5	–
Overseas deposits	17,856	12,622	(1,626)	28,852
Deposit with ceding undertakings	42	37	–	79
Total cash, portfolio investments and financing	105,428	6,755	(10,339)	101,844

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 2009 was £61,413,113 (2008: £43,005,372).

## Notes to the accounts

as at 31 December 2009

### 17. Net cash inflow on portfolio investments

	2009 £'000s	2008 £'000s
Purchase of debt securities and other fixed income securities	(272,631)	(229,569)
Sale of debt securities and other fixed income securities	269,221	237,400
Deposits with credit institutions	4,843	(3,518)
Net cash inflow on portfolio investments	1,433	4,313

### 18. 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 2009 calendar year of £457,169 (2008: £280,198). There were no unpaid premiums due or outstanding claims for the 2009 and 2008 calendar years. No business was ceded to related parties during the period.

Profit commission of £2,937,214 is payable by the syndicate to R J Kiln & Co Limited in respect of profits for the 2009 calendar year (2008: £3,186,317). Profit commission is payable in instalments based on the interim results of each year of account, final settlement is paid when the year of account is closed after three years.

Managing agency fees of £833,127 (2008: £833,062) were paid by the syndicate to R J Kiln & Co Limited. In addition to this, expenses of £4,105,443 (2008: £4,700,552) 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.

**Annual report and accounts 2009**

For Syndicates 510, 557, 807 and 308 managed by R J Kiln & Co Limited  
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 2009

	Note	2009 £'000s	2008 £'000s
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	1	18,499	14,723
Outward reinsurance premiums		(2,626)	(1,641)
Change in the provision for unearned premiums, net of reinsurance		(1,319)	1,604
<b>Earned premiums, net of reinsurance</b>		<b>14,554</b>	<b>14,686</b>
<b>Investment income</b>	7,8	<b>119</b>	<b>423</b>
<b>Claims incurred, net of reinsurance</b>			
Claims paid:			
Gross amount		(7,954)	(3,795)
Reinsurers' share		18	523
<b>Net claims paid</b>		<b>(7,936)</b>	<b>(3,272)</b>
<b>Change in the long-term business provision, net of reinsurance:</b>			
Gross amount		308	(3,103)
Reinsurers' share		(260)	216
<b>Change in the net long-term business provision</b>	3	<b>48</b>	<b>(2,887)</b>
<b>Claims incurred, net of reinsurance</b>		<b>(7,888)</b>	<b>(6,159)</b>
<b>Members' standard personal expenses</b>		<b>(385)</b>	<b>(669)</b>
<b>Net operating expenses</b>	4,5,6	<b>(5,377)</b>	<b>(7,311)</b>
<b>Investment expenses and charges</b>	7,8	<b>(2)</b>	<b>(3)</b>
<b>Balance on the technical account for long-term business and profit for the year</b>		<b>1,021</b>	<b>967</b>

There are no non-technical items.

All operations are continuing.

## Statement of total recognised gains and losses

for the year ended 31 December 2009

	2009 £'000s	2008 £'000s
Profit for the financial year	1,021	967
Currency translation differences	(15)	341
<b>Total recognised gains since last annual report</b>	<b>1,006</b>	<b>1,308</b>

**Balance sheet: assets**

as at 31 December 2009

	Note	2009 £'000s	2008 £'000s
<b>Investments</b>			
Other financial investments	9	2,505	–
<b>Deposits with ceding undertakings</b>			
		2	89
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums		–	402
Long-term business provision	3	289	557
		289	959
<b>Debtors</b>			
Debtors arising out of direct insurance operations	10	7,732	4,424
Debtors arising out of reinsurance operations		1,731	1,154
Other debtors	11	5,258	36
		14,721	5,614
<b>Other assets</b>			
Cash at bank and in hand		744	9,484
Other	12	329	140
		1,073	9,624
<b>Prepayments and accrued income</b>			
Deferred acquisition costs		1,713	1,719
Other prepayments and accrued income		–	9
		1,713	1,728
<b>Total assets</b>		<b>20,303</b>	<b>18,014</b>

## Balance sheet: liabilities

as at 31 December 2009

	Note	2009 £'000s	2008 £'000s
<b>Capital and reserves</b>			
Members' balances	13	(839)	(543)
<b>Technical provisions</b>			
Provision for unearned premiums		6,566	5,877
Long-term business provision	3	8,055	8,483
		14,621	14,360
<b>Deposits received from reinsurers</b>		–	1,007
<b>Creditors</b>			
Creditors arising out of direct insurance operations	14	4,378	2,242
Creditors arising out of reinsurance operations		1,689	(121)
Other creditors	15	454	669
		6,521	2,790
<b>Accruals and deferred income</b>			
Reinsurers' share of deferred acquisition costs		–	400
<b>Total liabilities</b>		<b>20,303</b>	<b>18,014</b>

The annual accounts, which comprise pages 62 to 74 and the notes and principal accounting policies applicable to all syndicates on pages 22 to 24, were approved by the board of R J Kiln & Co Limited on 9 March 2010 and were signed on its behalf by

**James Dover**

Finance director  
R J Kiln & Co Limited  
17 March 2010

## Cash flow statement

for the year ended 31 December 2009

	Note	2009 £'000s	2008 £'000s
Net cash (outflow)/inflow from operating activities	16	(3,480)	2,096
Transfer to members in respect of underwriting participations		–	(1,717)
<b>Financing</b>			
Distribution profit paid		(1,272)	–
Members' agents' fees paid on behalf of members		(30)	(32)
<b>Net cash flows</b>		<b>(4,782)</b>	<b>347</b>
<b>Cash flows were invested as follows:</b>			
(Decrease)/increase in cash holdings	17	(8,409)	240
Increase in deposits	17	1,122	107
Net portfolio investments	17,18	2,505	–
<b>Net investment of cash flows</b>		<b>(4,782)</b>	<b>347</b>

## Notes to the accounts

as at 31 December 2009

### 1. Segmental analysis

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

	Year ended 31 December 2009		Year ended 31 December 2008	
	Gross premiums written £'000s	Reinsurance balance £'000s	Gross premiums written £'000s	Reinsurance balance £'000s
Direct insurance	14,840	(3,049)	11,651	(2,176)
Reinsurance acceptances	3,659	(543)	3,072	(368)
	18,499	(3,592)	14,723	(2,544)

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

	2009 £'000s	2008 £'000s
Individual premiums	2,627	2,097
Premiums under group contracts	12,213	9,554
	14,840	11,651
Periodic premiums	11,649	9,321
Single premiums	3,191	2,330
	14,840	11,651

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

	Year ended 31 December 2009		Year ended 31 December 2008	
	Gross premiums written £'000s	Reinsurance balance £'000s	Gross premiums written £'000s	Reinsurance balance £'000s
Direct insurance	3,064	(630)	3,577	(668)
Reinsurance acceptances	92	(13)	943	(113)
	3,156	(643)	4,520	(781)

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

	2009 £'000s	2008 £'000s
Individual premiums	270	490
Premiums under group contracts	2,794	3,087
	3,064	3,577
Periodic premiums	2,013	2,636
Single premiums	1,051	941
	3,064	3,577

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

	2009 £'000s	2008 £'000s
UK	8,925	7,903
Other EU countries	3,531	2,384
US	1,623	2,525
Other	4,420	1,911
	18,499	14,723

## Notes to the accounts

as at 31 December 2009

### 2. Significant loss events

There are no significant loss events outside normal claims experience to report for 2009 on the open years. There has been a £416,616 increase in the reserves on the back years due to an Italian credit binder not performing as well as expected.

### 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 UPR and IBNR reserve. An URR is also included where deemed necessary.

The principal assumptions are:

- valuation interest rate of 1% (2008: 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

	2009 £'000s	2008 £'000s
Acquisition costs	4,618	4,760
Change in deferred acquisition costs	10	1,322
Administrative expenses	1,051	2,123
Loss/(profit) on exchange	35	(41)
Gross operating expenses	5,714	8,164
Reinsurance commissions and profit participations	(337)	(853)
Net operating expenses	5,377	7,311

Administrative expenses include:

	2009 £'000s	2008 £'000s
Auditors' remuneration:		
Audit services	52	54

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

	2009 £'000s	2008 £'000s
Wages and salaries	903	1,005
Social security costs	91	109
Other pension costs	41	93
	1,035	1,207

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

	2009 £'000s	2008 £'000s
Initial charge of defined benefit scheme (surplus)/deficit to the syndicate on 1 January	(31)	72
Net debit/(credit) from managing agency during year	72	(10)
Balance to be paid to future accounting periods	–	31
Amount funded in year	41	93

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

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

	2009	2008
Administration and finance	5	7
Underwriting	5	6
	10	13

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 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 2006 year of account, as the allocation to underwriters is only determined following its closure.

	2009 £'000s	2008 £'000s
Emoluments	90	57

Comparative emoluments charged to the syndicate have been revised to include only directors (previous disclosure was £322,000).

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

	2009 £'000s	2008 £'000s
Emoluments	253	265

## Notes to the accounts

as at 31 December 2009

### 7. Investment income and expenses

	2009 £'000s	2008 £'000s
Investment income:		
Income from investments	119	–
	119	–
Investment expenses:		
Investment management expenses, including interest	(2)	–
Total investment return	117	–

### 8. Calendar year investment yield

	2009 £'000s	2008 £'000s
Average amount of syndicate funds during the year	8,367	9,162
Aggregate gross investment return:		
Before investment expenses	119	423
After investment expenses	117	420
Calendar year investment yield:	%	%
Before investment expenses	1.4	4.6
After investment expenses	1.4	4.6
Analysis of calendar year investment yield by fund:	%	%
Sterling fund	1.3	5.2
US dollar fund	0.7	3.0

### 9. Other financial investments

	2009 Market value £'000s	Cost £'000s	2008 Market value £'000s	Cost £'000s
Shares and other variable yield securities	2,505	2,505	–	–

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

	2009 £'000s	2008 £'000s
Due from intermediaries	7,732	4,424

### 11. Other debtors

Included within other debtors are balances recoverable in future years in relation to the defined benefit pension scheme:

	2009 £'000s	2008 £'000s
Balance due in more than one year from the managing agency	–	31

Also included in other debtors is a balance of £5,241,078 which is an inter-syndicate loan to Syndicate 510. The purpose of the loan is to enable Syndicate 308 to participate in the investment return earned on the Syndicate 510 fixed income portfolio. Syndicate 308 does not have sufficient scale for a standalone segregated investment portfolio and has therefore pooled its funds with those of Syndicate 510 to enhance its expected return.

**12. Other assets**

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

**13. Reconciliation of members' balances**

	2009 £'000s	2008 £'000s
Members' balances at 1 January	(543)	(102)
Profit for the financial year	1,021	967
Payments of profit to members' personal reserve funds	(1,272)	(1,717)
Members' agents' fee advances	(30)	(32)
Currency translation differences	(15)	341
Members' balances carried forward at 31 December	(839)	(543)

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.

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

	2009 £'000s	2008 £'000s
Due to intermediaries	4,378	2,242

**15. Other creditors**

Included within other creditors are balances payable in future years to the defined benefit pension scheme:

	2009 £'000s	2008 £'000s
Balance due in more than one year payable to the members	–	217

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

	2009 £'000s	2008 £'000s
Operating profit on ordinary activities	1,021	967
Realised and unrealised investment loss/(gain) including foreign exchange	344	(740)
(Increase)/decrease in debtors	(9,092)	1,703
Increase in net technical provisions	931	2,086
Increase/(decrease) in creditors	3,331	(2,261)
Currency translation differences	(15)	341
Net cash (outflow)/inflow from operating activities	(3,480)	2,096

## Notes to the accounts

as at 31 December 2009

### 17. Movement in opening and closing portfolio investments net of financing

	2009 £'000s	2008 £'000s
Net cash (outflow)/inflow for the year	(8,409)	240
Cash flow		
Deposits	1,122	107
Portfolio investments	2,505	–
Movement arising from cash flows	(4,782)	347
Changes in market value and exchange rates	(344)	740
Total movement in portfolio investments	(5,126)	1,087
Portfolio at 1 January	8,706	7,619
Portfolio at 31 December	3,580	8,706

### Movement in cash, portfolio investments and financing

	At 1 January 2009 £'000s	Cash flow £'000s	Changes to market value and currencies £'000s	At 31 December 2009 £'000s
Cash at bank and in hand	9,484	(8,409)	(331)	744
Shares and other variable yield securities	–	2,505	–	2,505
Deposits received from reinsurers	(1,007)	1,007	–	–
Overseas deposits	140	202	(13)	329
Deposit with ceding undertakings	89	(87)	–	2
Total cash, portfolio investments and financing	8,706	(4,782)	(344)	3,580

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 2009 was £344,808.

### 18. Net cash (outflow) on portfolio investments

	2009 £'000s	2008 £'000s
Purchase of debt securities and other fixed income securities	(2,505)	–
Net cash (outflow) on portfolio investments	(2,505)	–

## 19. Management of insurance risk

### 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
- to manage exposure to movements in exchange rates.

### 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. The syndicate's capital requirement is £8.5m as at 31 December 2009.

### Restrictions on available capital reserves

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

### Other UK life business

	2009 £'000s	2008 £'000s
Members' balances	839	543
Adjustments on regulatory basis:		
Other disallowance under GENPRU – decrease in overdue premium and sundry debtors	52	39
Other solvency adjustments – expense run off reserve	850	750
Other solvency adjustments – currency mismatch reserve	391	551
Deferred acquisition costs (including reinsurance commissions)	2,089	1,861
<b>Total available capital resource</b>	<b>4,221</b>	<b>3,744</b>
Provision for unearned premiums	(6,566)	(5,877)
Long-term business provision	(8,055)	(8,433)
<b>Technical provisions in the balance sheet</b>	<b>(14,621)</b>	<b>(14,310)</b>

### Movements in capital resource

	2009 £'000s	2008 £'000s
Balance at 1 January	3,744	4,410
Other disallowance under GENPRU – decrease in overdue premium and sundry debtors	13	39
Other solvency adjustments – expense run off reserve	100	(62)
Other solvency adjustments – currency mismatch reserve	(160)	474
Deferred acquisition costs (including reinsurance commissions)	228	(1,623)
Movement in members' balances	296	506
<b>Balance as at 31 December</b>	<b>4,221</b>	<b>3,744</b>

### 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
- 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.

## Notes to the accounts

as at 31 December 2009

### 20. 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 £200,335 is payable by the syndicate to R J Kiln & Co Limited in respect of profits for the 2009 calendar year (2008: £439,172). Profit commission is payable in instalments based on the interim results of each year of account, final settlement is paid when the year of account is closed after three years.

Managing agency fees of £108,090 (2008: £108,090) were paid by the syndicate to R J Kiln & Co Limited. In addition to this, expenses of £1,683,939 (2008: £1,991,376) 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.

## Annual report and accounts 2009

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

# Underwriting year accounts for the closed year of account 2007

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#### Syndicates

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- 91 ■ 557 Kiln Catastrophe Syndicate Non-marine
- 101 ■ 807 Kiln Mathers Syndicate Non-marine
- 111 ■ 308 Kiln Life Syndicate Life

## Report of the directors of the managing agent

The managing agent presents its report at 31 December 2009 for the 2007 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 3219 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

### Review of the 2007 closed year of account

The 2007 year of account closed for Kiln syndicates with the following results:

510	£000's	% of capacity
Profit after standard personal expenses	96,956	13.21

The underwriting surplus (excluding investment return and operating expenses, other than acquisition costs) attributable to the reinsurance to close (RITC) of the 2006 year of account was £26,105,081.

557	£000's	% of capacity
Profit after standard personal expenses	19,884	16.62

The underwriting surplus (excluding investment return and operating expenses, other than acquisition costs) attributable to the RITC of the 2006 year of account was £1,932,248.

807	£000's	% of capacity
Profit after standard personal expenses	12,732	10.59

The underwriting surplus (excluding investment return and operating expenses, other than acquisition costs) attributable to the RITC of the 2006 year of account was £3,130,289.

308	£000's	% of capacity
Profit after standard personal expenses	760	5.19

The underwriting deficit (excluding investment return and operating expenses, other than acquisition costs) attributable to the RITC of the 2006 year of account was £416,616.

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.

Approved by the board of directors

### Keith Grant

Company secretary  
R J Kiln & Co Limited  
17 March 2010

## 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 reinsurance to close 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
- 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 2007 closed underwriting year of account

We have audited the syndicate underwriting year accounts of each of Syndicates 510, 557, 807 and 308 for the 2007 closed underwriting year of account which comprise the profit and loss accounts, the balance sheets, the cash flow statements and the related notes. These accounts have been prepared under the accounting policies set out therein.

### Respective responsibilities of the managing agent and auditors

The managing agent's responsibilities for preparing the syndicate underwriting year accounts 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 United Kingdom Generally Accepted Accounting Practice are set out in the statement of managing agent's responsibilities.

Our responsibility is to audit the syndicate underwriting year accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for, and only for, the syndicates' members as a body and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the syndicate underwriting year accounts give a true and fair view of the closed year of account result in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. We also report to you whether in our opinion the information given in the report of the directors of the managing agent is not consistent with the syndicate underwriting year accounts.

In addition, we report to you if, in our opinion, the managing agent has not kept proper accounting records in respect of the syndicates, if the syndicate underwriting year accounts are not in agreement with the accounting records, or if we have not received all the information and explanations we require for our audit.

We read the report of the chairman, the report of the chief executive officer, the underwriters' reports, syndicate forecast assumptions, the related parties information, directors, active underwriters and administration and the results summary and consider the implications for our report if we become aware of any apparent misstatements within them.

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the syndicate underwriting year accounts. It also includes an assessment of the significant estimates and judgements made by the directors of the managing agent in the preparation of the syndicate underwriting year accounts, and of whether the accounting policies are appropriate to the syndicates' circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the syndicate underwriting year accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the syndicate underwriting year accounts.

### Opinion

In our opinion the syndicate underwriting year accounts give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice of the profits of the 2007 closed years of account.

### Andrew Hill

Senior statutory auditor  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
17 March 2010

## Notes and principal accounting policies applying to all syndicates

### 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.

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 2007 year of account which has been closed by RITC as at 31 December 2009. Consequently the balance sheet represents the assets and liabilities of the 2007 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 2007 year of account to the date of closure. Accordingly, this is the only reporting period and so comparative amounts are not shown.

### 2. Accounting policies

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

#### a) 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.

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

Transactions other than RITC in US dollars and Canadian dollars are translated at the rates prevailing at the transaction date or the closing rates of exchange for the period. RITC premiums receivable and payable, and underwriting transactions denominated in other foreign currencies, are included at the rate of exchange ruling at the transaction date.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date or if appropriate at the forward contract rate.

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.

## Notes and principal accounting policies applying to all syndicates

For business written in other currencies, monetary assets and liabilities, are translated into sterling at the rates of exchange at the balance sheet dates unless contracts to sell currency for US dollars have been entered into prior to the year end, in which case the contracted rates have been used. Differences arising on translation of foreign currency amounts in syndicates are included in the technical account. Income and expenses transactions are translated using the rates prevailing at the date of transaction or appropriate average rates. Gains or losses arising on translation are included in the technical account.

### f) Investments

Investments are stated at current value at the balance sheet date. For this purpose listed investments are stated at bid value and deposits with credit institutions and overseas deposits are stated at cost. There are no unlisted investments.

### g) Investment return

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

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their valuation at the previous balance sheet date, or purchase price, if acquired during the period, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Investment return for 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 for long-term business is recorded in the technical account.

### h) 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 Group company and managed syndicates are apportioned between the Group company 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.

### i) 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.

### j) 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 Pension and Assurance Scheme (closed to future benefit accrued from 1 May 2003). The level of funding is agreed between the Group 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 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.

### k) 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. Profit commission is payable in instalments based on the interim annual accounting results of the year of account under UK GAAP and final settlement is made when the year of account closes; normally at 36 months. Divisional profit share does not become payable until after the appropriate year of account closes; normally at 36 months.

### l) Seven year summary – unaudited

The seven year summary has been prepared from the audited accounts of the syndicates. 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 2009**

For Syndicates 510, 557, 807 and 308 managed by R J Kiln & Co Limited  
Underwriting year accounts for the closed year of account 2007

# 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 2009

	Note	2007 £'000s
<b>Syndicate allocated capacity</b>		733,718
<b>Earned premiums, net of reinsurance</b>		
Gross premiums written	1	692,028
Outward reinsurance premiums		(131,390)
<b>Earned premiums, net of reinsurance</b>		560,638
<b>Reinsurance to close premium received, net of reinsurance</b>	2	295,301
<b>Allocated investment return transferred from the non-technical account</b>		34,711
<b>Claims incurred, net of reinsurance</b>		
Claims paid:		
Gross amount		(373,876)
Reinsurers' share		48,533
Reinsurance to close premium payable, net of reinsurance	3	(294,757)
<b>Claims incurred, net of reinsurance</b>		(620,100)
<b>Members' standard personal expenses</b>		(30,356)
<b>Net operating expenses</b>	4,5,6	(143,238)
<b>Balance on the general business technical account</b>	7	96,956

## Profit and loss account: non-technical account

for the 36 months ended 31 December 2009

	Note	2007 £'000s
<b>Balance on the general business technical account</b>		96,956
Investment income	8	28,854
Net unrealised gains on investments	8	6,091
Investment expenses and charges	8	(234)
Allocated investment return transferred to general business technical account		(34,711)
<b>Profit for the 2007 closed year of account</b>		<b>96,956</b>

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 2007 closed year of account as at 31 December 2009

	Note	2007 £'000s
Investments	9	299,148
Deposits with ceding undertakings		285
Debtors	10	90,506
Reinsurance recoveries anticipated on gross RITC premium payable to close the account	3	69,253
Other assets		
Cash at bank and in hand		2,073
Other	11	36,684
Prepayments and accrued income		3,992
<b>Total assets</b>		<b>501,941</b>
	Note	2007 £'000s
Amounts due to members	12	58,141
RITC premium payable to close the account – gross amount	3	364,010
Deposits received from reinsurers		2,810
Creditors	13	76,304
Accruals and deferred income		676
<b>Total liabilities</b>		<b>501,941</b>

The underwriting year accounts, which comprise pages 82 to 90 and the notes and principal accounting policies applicable to all syndicates on pages 79 to 80, were approved by the board of R J Kiln & Co Limited on 9 March 2010 and were signed on its behalf by

**James Dover**

Finance director  
R J Kiln & Co Limited  
17 March 2010

## Cash flow statement

for the 36 months ended 31 December 2009

	Note	2007 £'000s
Net cash inflow from operating activities	14	75,351
Transfers to members in respect of underwriting participations	12	(36,711)
<b>Financing</b>		
Members' agents' fees paid on behalf of members	12	(2,104)
<b>Net cash flows</b>		<b>36,536</b>
<b>Cash flows were invested as follows:</b>		
Increase in cash holdings	15	1,748
Increase in deposits	15	6,056
Net portfolio investments	15,16	28,732
<b>Net investment of cash flows</b>		<b>36,536</b>

## Notes to the accounts

for the 36 months ended 31 December 2009

### 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	349,840	(278,548)	(100,637)	29,675	330
Marine & special risks	151,815	(113,544)	(44,078)	8,122	2,315
Reinsurance	98,917	(21,880)	(28,698)	(24,004)	24,335
Aviation	46,418	(21,310)	(16,247)	(1,138)	7,723
Accident & health	45,038	(35,480)	(15,031)	6,910	1,437
	692,028	(470,762)	(204,691)	19,565	36,140
RITC received	405,055	(267,124)	–	(111,826)	26,105
<b>Total</b>	<b>1,097,083</b>	<b>(737,886)</b>	<b>(204,691)</b>	<b>(92,261)</b>	<b>62,245</b>

Of the above divisions the following have underwritten reinsurance business: reinsurance (100%); aviation (45.3%); accident & health (21.1%); marine & special risks (21.1%) and property & special lines (13.3%).

- 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	461,217
Other EU countries	69,063
US	286,152
Other	280,651
<b>Total</b>	<b>1,097,083</b>

### 2. Reinsurance to close premium receivable

	£'000s
Gross RITC premium receivable	405,055
Reinsurance recoveries anticipated	(109,754)
<b>RITC premium receivable, net of reinsurance</b>	<b>295,301</b>

### 3. Reinsurance to close premium payable

	£'000s
Gross notified outstanding claims	265,861
Reinsurance recoveries anticipated	(55,199)
<b>Net notified outstanding claims</b>	<b>210,662</b>
Provision for gross claims IBNR	98,149
Reinsurance recoveries anticipated on IBNR	(14,054)
<b>Provision for net IBNR</b>	<b>84,095</b>
<b>RITC premium payable, net of reinsurance</b>	<b>294,757</b>

The RITC is effected to the 2008 year of account of Syndicate 510.

#### 4. Net operating expenses

	£'000s
Acquisition costs	182,735
Administrative expenses	36,505
(Profit) on exchange	(44,905)
Gross operating expenses	174,335
Reinsurance commissions and profit participations	(31,097)
Net operating expenses	143,238

Within administrative expenses were £234,150 of audit fees charged to the 2007 year of account; no non-audit services were provided by the auditors.

#### 5. Staff numbers and costs

All staff are employed by Kiln Insurance Services Limited. The following amounts were recharged to the 2007 year of account in respect of salary costs:

	£'000s
Wages, salaries and social security costs	12,304
Other pension costs	1,364
	13,668

The average number of full-time employees employed by Kiln Insurance Services Limited but working on the 2007 year of account was as follows:

Administration and finance	77
Underwriting	54
Claims	9
	140

#### 6. Emoluments of the directors and active underwriters

The active underwriters received cumulative remuneration of £3,538,944 charged to the 2007 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 corporate bonus pool. Each active underwriter will consequently receive further profit-related pay during 2010, as an allocation from the provision which has already been charged to the 2007 year of account. The Kiln Group 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 £4,368,846 of emoluments charged to the 2007 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 2007 year of account	58,096
Surplus on the RITC of the 2006 year of account	26,105
	84,201
Allocated investment return transferred from the non-technical account	34,711
Net operating expenses other than acquisition costs	(21,956)
Balance on the technical account	96,956

All acquisition costs are attributable to business allocated to the 2007 pure year of account.

## Notes to the accounts

for the 36 months ended 31 December 2009

### 8. Investment income and expenses

	£'000s
Investment income:	
Income from investments	23,150
Net gains on the realisation of investments	5,704
Net unrealised gains on investments	6,091
	34,945
Investment expenses:	
Investment management expenses, including interest	(234)
Total investment return	34,711

### 9. Investments

	£'000s
Debt securities and other fixed income securities	271,316
Shares and other variable yield securities	27,832
	299,148

### 10. Debtors

	£'000s
Arising out of direct insurance operations:	
Due from intermediaries	51,822
Arising out of reinsurance operations	34,242
Other debtors	4,442
	90,506

### 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 2007 closed year of account	96,956
Early profit release to members	(36,711)
Members' agents' fee advances	(2,104)
Amounts due to members at 31 December 2009	58,141

### 13. Creditors

	£'000s
Arising out of direct insurance operations:	
Due to intermediaries	27,779
Arising out of reinsurance operations	28,581
Other creditors	19,944
	76,304

**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	96,956
Realised and unrealised investment (gain) including foreign exchange	(1,607)
Net RITC premium payable	294,757
Non-cash consideration for net RITC receivable	(295,301)
Decrease in debtors	2,287
(Decrease) in creditors	(21,741)
<b>Net cash inflow from operating activities</b>	<b>75,351</b>

Consideration for net RITC receivable comprised:

	£'000s
Non-cash consideration:	
Portfolio investments	270,157
Deposits	27,080
Debtors	96,784
Creditors	(98,720)
	295,301
Cash	–
	<b>295,301</b>

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

	£'000s
Net cash inflow for the 36 months	1,748
Cash flow	
Deposits	6,056
Portfolio investments	28,732
Movement arising from cash flows	36,536
Received as consideration for net RITC receivable	297,237
Changes in market value and exchange rates	1,607
Total movement in portfolio investments	335,380
Portfolio at 1 January 2007	–
<b>Portfolio at 31 December 2009</b>	<b>335,380</b>

**Movement in cash, portfolio investments and financing**

	At 1 January 2007 £'000s	Cash flow £'000s	Received as consideration for RITC £'000s	Changes to market value and currencies £'000s	At 31 December 2009 £'000s
Cash at bank and in hand	–	1,748	–	325	2,073
Debt securities and other fixed income securities	–	(304)	270,157	1,463	271,316
Shares and other variable yield securities	–	29,036	–	(1,204)	27,832
Total portfolio investments	–	28,732	270,157	259	299,148
Deposits with ceding undertakings	–	(66)	405	(54)	285
Overseas deposits	–	3,020	33,284	380	36,684
Deposits received from reinsurers	–	3,102	(6,609)	697	(2,810)
<b>Total cash, portfolio investments and financing</b>	<b>–</b>	<b>36,536</b>	<b>297,237</b>	<b>1,607</b>	<b>335,380</b>

## Notes to the accounts

for the 36 months ended 31 December 2009

### 16. Net cash (outflow) on portfolio investments

	£'000s
Purchase of debt securities and other fixed income securities	(1,620,322)
Sale of debt securities and other fixed income securities	1,620,626
Other shares and variable yield securities	(29,036)
Net cash (outflow) on portfolio investments	(28,732)

### 17. Related parties

Syndicate 510 accepted inwards reinsurance business from, and placed outwards reinsurance business with, other Tokio Marine Group companies 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 2007 year of account of £1,831,478. The unpaid premiums due from related parties at the period end were £19,170. The outstanding claims, including an element of IBNR, were £600,181.

Written premiums ceded by Syndicate 510 to related parties for the 2007 year of account were £19,894,771. Paid recoveries from related parties during the period were £4,517,395. Unpaid recoveries at the period end amounted to £50,892 and future recoveries on outstanding claims, including an element of IBNR, were £2,990,970.

The syndicate received business from the following service and related companies whose investments are held ultimately by the managing agency: Kiln South Africa (Proprietary) Limited (100% owned) and International Marine Insurance Managers (South Africa) (25% owned). These businesses each produce less than 1% 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 £19,679,966 is payable by the syndicate to R J Kiln & Co Limited in respect of profits for the 2007 year.

Managing agency fees of £5,502,015 were paid by the syndicate to R J Kiln & Co Limited. In addition to this, expenses of £22,822,001 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

	2001	2002	2003	2004	2005	2006	2007
Syndicate allocated capacity £m	266.09	388.09	483.13	506.79	545.20	624.19	733.72
Number of underwriting members	1,591	1,690	1,824	1,779	1,549	1,520	1,477
Aggregate net premiums £m	159.28	231.09	434.24	485.49	571.92	600.75	560.64
Result £m	10.08	74.75	120.25	52.49	1.40	159.98	96.96
<b>Results for an illustrative share of £10,000</b>							
Gross premiums written and earned	10,759	9,265	11,652	9,136	9,355	8,744	6,941
– as a percentage of allocated capacity	108%	93%	137%	124%	126%	118%	94%
Net premiums written and earned	5,986	5,954	6,918	7,084	7,653	6,857	5,574
– as a percentage of allocated capacity	60%	60%	90%	96%	105%	96%	76%
RITC from an earlier year of account	4,189	3,456	2,775	3,396	3,063	3,484	4,025
Net claims incurred	(4,191)	(3,219)	(3,347)	(5,041)	(6,368)	(4,165)	(4,434)
RITC the year of account	(5,233)	(3,454)	(3,562)	(3,296)	(3,988)	(4,731)	(4,017)
<b>Underwriting result</b>	751	2,737	4,854	4,639	3,197	4,213	3,214
Profit/(loss) on exchange	3	(8)	482	(613)	(268)	1,692	612
Syndicate operating expenses	(661)	(762)	(1,070)	(900)	(674)	(1,149)	(74)
<b>Balance on the technical account</b>	93	1,967	2,196	630	(582)	1,988	1,262
Investment return	340	234	293	406	608	574	473
<b>Profit before personal expenses</b>	433	2,201	2,489	1,036	26	2,563	1,735
Illustrative personal expenses	(175)	(435)	(325)	(175)	(175)	(225)	(225)
<b>Result</b>	258	1,766	2,164	861	(149)	2,338	1,510

## Annual report and accounts 2009

For Syndicates 510, 557, 807 and 308 managed by R J Kiln & Co Limited  
Underwriting year accounts for the closed year of account 2007

# Syndicate 557

Kiln Catastrophe Syndicate  
Non-marine

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

for the 36 months ended 31 December 2009

	Note	2007 £'000s
<b>Syndicate allocated capacity</b>		119,671
<b>Earned premiums, net of reinsurance</b>		
Gross premiums written	1	32,198
Outward reinsurance premiums		(3,004)
<b>Earned premiums, net of reinsurance</b>		29,194
RITC premium received, net of reinsurance	2	12,469
Allocated investment return transferred from the non-technical account		3,052
<b>Claims incurred, net of reinsurance</b>		
Claims paid:		
Gross amount		(4,425)
Reinsurers' share		476
RITC premium payable, net of reinsurance	3	(8,933)
<b>Claims incurred, net of reinsurance</b>		(12,882)
Members' standard personal expenses		(6,909)
Net operating expenses	4,5,6	(5,040)
<b>Balance on the general business technical account</b>	7	19,884

## Profit and loss account: non-technical account

for the 36 months ended 31 December 2009

	Note	2007 £'000s
<b>Balance on the general business technical account</b>		19,884
Investment income	8	2,813
Net unrealised gains on investments	8	276
Investment expenses and charges	8	(37)
Allocated investment return transferred to general business technical account		(3,052)
<b>Profit for the 2007 closed year of account</b>		<b>19,884</b>

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 2007 closed year of account as at 31 December 2009

	Note	2007 £'000s
Investments	9	31,959
Debtors	10	141
Reinsurance recoveries anticipated on gross RITC premium payable to close the account	3	378
Other assets		
Cash at bank and in hand		178
Other	11	245
<b>Total assets</b>		<b>32,901</b>

	Note	2007 £'000s
Amounts due to members	12	19,197
RITC premium payable to close the account – gross amount	3	9,311
Creditors	13	4,393
<b>Total liabilities</b>		<b>32,901</b>

The underwriting year accounts, which comprise pages 92 to 100 and the notes and principal accounting policies applicable to all syndicates on pages 79 to 80, were approved by the board of R J Kiln & Co Limited on 9 March 2010 and were signed on its behalf by

### James Dover

Finance director  
R J Kiln & Co Limited  
17 March 2010

## Cash flow statement

for the 36 months ended 31 December 2009

	Note	2007 £'000s
Net cash outflow from operating activities	14	(3,450)
<b>Financing</b>		
Members' agents' fees paid on behalf of members	12	(687)
<b>Net cash flows</b>		<b>(4,137)</b>
<b>Cash flows were invested as follows:</b>		
Increase in cash holdings	15	180
Increase in deposits	15	543
Net portfolio investments	15,16	(4,860)
<b>Net investment of cash flows</b>		<b>(4,137)</b>

## Notes to the accounts

for the 36 months ended 31 December 2009

### 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	185	–	(62)	(12)	111
Fire and other damage to property	5,461	(353)	(4,374)	(116)	618
Miscellaneous	50	(1)	(20)	(1)	28
	5,696	(354)	(4,456)	(129)	757
Reinsurance acceptances	26,502	(2,583)	(7,493)	(2,283)	14,143
RITC received	13,036	(10,799)	–	(305)	1,932
<b>Total</b>	<b>45,234</b>	<b>(13,736)</b>	<b>(11,949)</b>	<b>(2,717)</b>	<b>16,832</b>

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	14,821
Other EU countries	1,126
US	22,351
Other	6,936
<b>Total</b>	<b>45,234</b>

### 2. Reinsurance to close premium receivable

	£'000s
Gross RITC premium receivable	13,036
Reinsurance recoveries anticipated	(567)
RITC premium receivable, net of reinsurance	12,469

### 3. Reinsurance to close premium payable

	£'000s
Gross notified outstanding claims	5,449
Reinsurance recoveries anticipated	(378)
Net notified outstanding claims	5,071
Provision for gross claims IBNR	3,862
RITC premium payable, net of reinsurance	8,933

The RITC is effected to the 2008 year of account of Syndicate 557.

#### 4. Net operating expenses

	£'000s
Acquisition costs	6,405
Administrative expenses	1,174
(Profit) on exchange	(2,539)
Gross and net operating expenses	5,040

Within administrative expenses were £45,870 of audit fees charged to the 2007 year of account; no non-audit services were provided by the auditors.

#### 5. Staff numbers and costs

All staff are employed by Kiln Insurance Services Limited. The following amounts were recharged to the 2007 year of account in respect of salary costs:

	£'000s
Wages, salaries and social security costs	498
Other pension costs	126
	624

The average number of full-time employees employed by Kiln Insurance Services Limited but working on the 2007 year of account was as follows:

Administration and finance	11
Underwriting	4
Claims	1
	16

#### 6. Emoluments of the directors and active underwriter

The active underwriter received £370,115 remuneration charged to the 2007 year of account. The Kiln Group 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 £335,126 of emoluments charged to the 2007 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 2007 year of account	20,444
Surplus on the RITC of the 2006 year of account	1,932
	22,376
Allocated investment return transferred from the non-technical account	3,052
Net operating expenses other than acquisition costs	(5,544)
Balance on the technical account	19,884

All acquisition costs are attributable to business allocated to the 2007 pure year of account.

## Notes to the accounts

for the 36 months ended 31 December 2009

### 8. Investment income and expenses

	£'000s
Investment income:	
Income from investments	2,288
Net gains on the realisation of investments	525
Net unrealised gains on investments	276
	3,089
Investment expenses:	
Investment management expenses, including interest	(37)
Total investment return	3,052

### 9. Investments

	£'000s
Debt securities and other fixed income securities	29,954
Shares and other variable yield securities	2,005
	31,959

### 10. Debtors

	£'000s
Arising out of reinsurance operations	125
Other debtors	16
	141

### 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 2007 closed year of account	19,884
Members' agents' fee advances	(687)
Amounts due to members at 31 December 2009	19,197

### 13. Creditors

	£'000s
Arising out of direct insurance operations:	
Due to intermediaries	16
Arising out of reinsurance operations	133
Other creditors	4,244
	4,393

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

	£'000s
Profit for the closed year of account on ordinary activities	19,884
Realised and unrealised investment (gain) including foreign exchange	(20,967)
Net RITC premium payable	8,933
Non-cash consideration for net RITC receivable	(12,469)
Decrease in debtors	761
Increase in creditors	408
<b>Net cash outflow from operating activities</b>	<b>(3,450)</b>

Consideration for net RITC receivable comprised:

	£'000s
Non-cash consideration:	
Portfolio investments	15,875
Deposits	(323)
Debtors	902
Creditors	(3,985)
	12,469
Cash	–
	12,469

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

	£'000s
Net cash inflow for the 36 months	180
Cash flow	
Deposits	543
Portfolio investments	(4,860)
Movement arising from cash flows	(4,137)
Received as consideration for net RITC receivable	15,552
Changes in market value and exchange rates	20,967
Total movement in portfolio investments	32,382
Portfolio at 1 January 2007	–
Portfolio at 31 December 2009	32,382

**Movement in cash, portfolio investments and financing**

	At 1 January 2007 £'000s	Cash flow £'000s	Received as consideration for RITC £'000s	Changes to market value and currencies £'000s	At 31 December 2009 £'000s
Cash at bank and in hand	–	180	–	(2)	178
Debt securities and other fixed income securities	–	(6,945)	15,875	21,024	29,954
Shares and other variable yield securities	–	2,085	–	(80)	2,005
Total portfolio investments	–	(4,860)	15,875	20,944	31,959
Deposits with ceding undertakings	–	(4)	4	–	–
Overseas deposits	–	(89)	309	25	245
Deposits received from reinsurers	–	636	(636)	–	–
<b>Total cash, portfolio investments and financing</b>	<b>–</b>	<b>(4,137)</b>	<b>15,552</b>	<b>20,967</b>	<b>32,382</b>

## Notes to the accounts

for the 36 months ended 31 December 2009

### 16. Net cash inflow on portfolio investments

	£'000s
Purchase of debt securities and other fixed income securities	(205,322)
Sale of debt securities and other fixed income securities	212,267
Other shares and variable yield securities	(2,085)
<b>Net cash inflow on portfolio investments</b>	<b>4,860</b>

### 17. Related parties

Syndicate 557 accepted inwards reinsurance business from, and placed outwards reinsurance business with, other Tokio Marine Group companies 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 557 accepted written premium from related parties for the 2007 year of account of £195,617. There were no unpaid premiums due or outstanding claims for the 2007 year of account.

Profit commission of £4,216,848 is payable by the syndicate to R J Kiln & Co Limited in respect of profits for the 2007 year.

Managing agency fees of £897,385 were paid by the syndicate to R J Kiln & Co Limited. In addition to this, expenses of £986,234 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

	2001	2002	2003	2004	2005	2006	2007
Syndicate allocated capacity £m	31.25	46.83	54.95	55.02	47.67	54.68	119.67
Number of underwriting members	770	816	917	918	807	787	981
Aggregate net premiums £m	17.34	28.55	38.91	33.16	22.11	22.71	29.19
Result £m	(10.09)	17.83	21.53	5.19	(6.62)	22.09	19.88

#### Results for an illustrative share of £10,000

Gross premiums written and earned	6,878	6,817	6,414	5,918	6,650	3,793	2,155
– as a percentage of allocated capacity	69%	68%	77%	70%	58%	48%	27%
Net premiums written and earned	5,558	6,096	5,817	4,976	5,490	3,196	1,904
– as a percentage of allocated capacity	56%	61%	71%	60%	46%	42%	24%
RITC from an earlier year of account	990	2,849	1,994	1,830	2,166	2,046	1,042
Net claims incurred	(4,865)	(1,739)	(1,040)	(3,293)	(4,752)	(151)	(330)
RITC the year of account	(4,567)	(2,340)	(1,833)	(1,877)	(2,347)	(2,280)	(746)
<b>Underwriting result</b>	<b>(2,884)</b>	<b>4,866</b>	<b>6,202</b>	<b>2,687</b>	<b>(296)</b>	<b>3,768</b>	<b>2,405</b>
Profit/(loss) on exchange	(152)	(34)	(84)	(306)	(44)	1,604	212
Syndicate operating expenses	(629)	(454)	(1,314)	(838)	(667)	(1,099)	(98)
<b>Balance on the technical account</b>	<b>(3,665)</b>	<b>4,378</b>	<b>3,541</b>	<b>492</b>	<b>(1,858)</b>	<b>3,315</b>	<b>1,984</b>
Investment return	428	236	377	452	470	724	255
<b>Profit/(loss) before personal expenses</b>	<b>(3,237)</b>	<b>4,614</b>	<b>3,918</b>	<b>944</b>	<b>(1,389)</b>	<b>4,039</b>	<b>2,239</b>
Illustrative personal expenses	(175)	(575)	(325)	(175)	(175)	(225)	(225)
<b>Result</b>	<b>(3,412)</b>	<b>4,039</b>	<b>3,593</b>	<b>769</b>	<b>(1,564)</b>	<b>3,814</b>	<b>2,014</b>

**Annual report and accounts 2009**

For Syndicates 510, 557, 807 and 308 managed by R J Kiln & Co Limited  
Underwriting year accounts for the closed year of account 2007

# 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 2009

	Note	2007 £'000s
<b>Syndicate allocated capacity</b>		120,242
<b>Earned premiums, net of reinsurance</b>		
Gross premiums written	1	140,013
Outward reinsurance premiums		(9,318)
<b>Earned premiums, net of reinsurance</b>		130,695
RITC premium received, net of reinsurance	2	28,605
Allocated investment return transferred from the non-technical account		4,820
<b>Claims incurred, net of reinsurance</b>		
Claims paid:		
Gross amount		(64,471)
Reinsurers' share		699
RITC premium payable, net of reinsurance	3	(29,736)
<b>Claims incurred, net of reinsurance</b>		(93,508)
Members' standard personal expenses		(5,308)
Net operating expenses	4,5,6	(52,572)
<b>Balance on the general business technical account</b>	7	12,732

## Profit and loss account: non-technical account

for the 36 months ended 31 December 2009

	Note	2007 £'000s
<b>Balance on the general business technical account</b>		12,732
Investment income	8	4,224
Net unrealised gains on investments	8	661
Investment expenses and charges	8	(65)
Allocated investment return transferred to general business technical account		(4,820)
<b>Profit for the 2007 closed year of account</b>		<b>12,732</b>

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 2007 closed year of account as at 31 December 2009

	Note	2007 £'000s
Investments	9	36,813
Deposits with ceding undertakings		19
Debtors	10	16,578
Reinsurance recoveries anticipated on gross RITC premium payable to close the account	3	553
Other assets		
Other	11	5,101
<b>Total assets</b>		<b>59,064</b>

	Note	2007 £'000s
Amounts due to members	12	12,501
RITC premium payable to close the account – gross amount	3	30,289
Creditors	13	16,274
<b>Total liabilities</b>		<b>59,064</b>

The underwriting year accounts, which comprise pages 102 to 110 and the notes and principal accounting policies applicable to all syndicates on pages 79 to 80, were approved by the board of R J Kiln & Co Limited on 9 March 2010 and were signed on its behalf by

### James Dover

Finance director  
R J Kiln & Co Limited  
17 March 2010

## Cash flow statement

for the 36 months ended 31 December 2009

	Note	2009 £'000s
Net cash inflow from operating activities	14	8,750
<b>Financing</b>		
Members' agents' fees paid on behalf of members	12	(231)
<b>Net cash flows</b>		<b>8,519</b>
<b>Cash flows were invested as follows:</b>		
Increase in deposits	15	4,558
Net portfolio investments	15,16	3,961
<b>Net investment of cash flows</b>		<b>8,519</b>

## Notes to the accounts

for the 36 months ended 31 December 2009

### 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	38,919	(17,712)	(24,080)	(172)	(3,045)
Fire and other damage to property	57,441	(34,095)	(21,702)	(2,789)	(1,145)
Miscellaneous	5,343	(2,711)	(2,112)	(2)	518
	101,703	(54,518)	(47,894)	(2,963)	(3,672)
Reinsurance acceptances	38,310	(14,210)	(9,986)	(5,660)	8,454
RITC received	29,295	(26,032)	–	(133)	3,130
<b>Total</b>	<b>169,308</b>	<b>(94,760)</b>	<b>(57,880)</b>	<b>(8,756)</b>	<b>7,912</b>

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	41,448
Other EU countries	4,456
US	56,455
Other	66,949
<b>Total</b>	<b>169,308</b>

### 2. Reinsurance to close premium receivable

	£'000s
Gross RITC premium receivable	29,295
Reinsurance recoveries anticipated	(690)
<b>RITC premium receivable, net of reinsurance</b>	<b>28,605</b>

### 3. Reinsurance to close premium payable

	£'000s
Gross notified outstanding claims	21,911
Reinsurance recoveries anticipated	(564)
Net notified outstanding claims	21,347
Provision for gross claims IBNR	8,378
Reinsurance recoveries anticipated on IBNR	11
Provision for net IBNR	8,389
<b>RITC premium payable, net of reinsurance</b>	<b>29,736</b>

The RITC is effected to the 2008 year of account of Syndicate 807.

#### 4. Net operating expenses

	£'000s
Acquisition costs	56,586
Administrative expenses	5,107
(Profit) on exchange	(9,121)
Gross and net operating expenses	52,572

Within administrative expenses were £63,330 of audit fees charged to the 2007 year of account; no non-audit services were provided by the auditors.

#### 5. Staff numbers and costs

All staff are employed by Kiln Insurance Services Limited. The following amounts were recharged to the 2007 year of account in respect of salary costs:

	£'000s
Wages, salaries and social security costs	2,279
Other pension costs	276
	2,555

The average number of full-time employees employed by Kiln Insurance Services Limited but working on the 2007 year of account was as follows:

Administration and finance	15
Underwriting	8
Claims	2
	25

#### 6. Emoluments of the directors and active underwriter

The active underwriter received £700,698 remuneration charged to the 2007 year of account. The Kiln Group 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 £1,142,592 of emoluments charged to the 2007 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 2007 year of account	6,076
Surplus on the RITC of the 2006 year of account	3,130
	9,206
Allocated investment return transferred from the non-technical account	4,820
Net operating expenses other than acquisition costs	(1,294)
Balance on the technical account	12,732

All acquisition costs are attributable to business allocated to the 2007 pure year of account.

## Notes to the accounts

for the 36 months ended 31 December 2009

### 8. Investment income and expenses

	£'000s
Investment income:	
Income from investments	3,338
Net gains on the realisation of investments	886
Net unrealised gains on investments	661
	4,885
Investment expenses:	
Investment management expenses, including interest	(65)
Total investment return	4,820

### 9. Investments

	£'000s
Debt securities and other fixed income securities	32,784
Shares and other variable yield securities	4,029
	36,813

### 10. Debtors

	£'000s
Arising out of direct insurance operations:	
Due from intermediaries	3,690
Arising out of reinsurance operations	12,456
Other debtors	432
	16,578

### 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 2007 closed year of account	12,732
Members' agents' fee advances	(231)
Amounts due to members at 31 December 2009	12,501

### 13. Creditors

	£'000s
Arising out of direct insurance operations:	
Due to intermediaries	4,631
Inter-year loans	2,009
Arising out of reinsurance operations	6,938
Other creditors	2,696
	16,274

**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	12,732
Realised and unrealised investment loss including foreign exchange	1,495
Net RITC premium payable	29,736
Non-cash consideration for net RITC receivable	(28,605)
(Increase) in debtors	(9,443)
Increase in creditors	2,835
<b>Net cash inflow from operating activities</b>	<b>8,750</b>

Consideration for net RITC receivable comprised:

	£'000s
Non-cash consideration:	
Portfolio investments	34,944
Deposits	(35)
Debtors	7,135
Creditors	(13,439)
	28,605
Cash	–
	28,605

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

	£'000s
Cash flow	
Deposits	4,558
Portfolio investments	3,961
Movement arising from cash flows	8,519
Received as consideration for net RITC receivable	34,909
Changes in market value and exchange rates	(1,495)
Total movement in portfolio investments	41,933
Portfolio at 1 January 2007	–
<b>Portfolio at 31 December 2009</b>	<b>41,933</b>

**Movement in cash, portfolio investments and financing**

	At 1 January 2007 £'000s	Cash flow £'000s	Received as consideration for RITC £'000s	Changes to market value and currencies £'000s	At 31 December 2009 £'000s
Debt securities and other fixed income securities	–	(312)	34,944	(1,848)	32,784
Shares and other variable yield securities	–	4,273	–	(244)	4,029
<b>Total portfolio investments</b>	<b>–</b>	<b>3,961</b>	<b>34,944</b>	<b>(2,092)</b>	<b>36,813</b>
Deposits with ceding undertakings	–	1	18	–	19
Overseas deposits	–	4,511	–	590	5,101
Deposits received from reinsurers	–	46	(53)	7	–
<b>Total cash, portfolio investments and financing</b>	<b>–</b>	<b>8,519</b>	<b>34,909</b>	<b>(1,495)</b>	<b>41,933</b>

## Notes to the accounts

for the 36 months ended 31 December 2009

### 16. Net cash (outflow) on portfolio investments

	£'000s
Purchase of debt securities and other fixed income securities	(195,867)
Sale of debt securities and other fixed income securities	196,179
Other shares and variable yield securities	(4,273)
Net cash (outflow) on portfolio investments	(3,961)

### 17. Related parties

Syndicate 807 accepted inwards reinsurance business from, and placed outwards reinsurance business with, other Tokio Marine Group companies 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 2007 year of account of £299,079. There were no unpaid premiums due or outstanding claims for the 2007 year of account.

Profit commission of £2,669,980 is payable by the syndicate to R J Kiln & Co Limited in respect of profits for the 2007 year.

Managing agency fees of £834,201 were paid by the syndicate to R J Kiln & Co Limited. In addition to this, expenses of £4,373,109 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

	2001	2002	2003	2004	2005	2006	2007
Syndicate allocated capacity £m	45.12	63.21	86.99	113.23	99.95	109.97	120.24
Number of underwriting members	475	428	438	551	530	501	471
Aggregate net premiums £m	26.11	36.93	85.97	108.63	117.65	102.85	130.70
Result £m	2.81	10.10	13.02	2.54	(1.96)	23.22	12.73

#### Results for an illustrative share of £10,000

Gross premiums written and earned	8,169	7,755	8,698	7,527	8,867	7,394	6,938
– as a percentage of allocated capacity	82%	78%	120%	108%	129%	108%	116%
Net premiums written and earned	5,787	5,842	6,628	6,324	7,757	5,990	6,163
– as a percentage of allocated capacity	58%	58%	99%	96%	118%	94%	109%
RITC from an earlier year of account	2,779	1,926	1,406	1,440	2,282	2,184	2,379
Net claims incurred	(4,540)	(3,515)	(3,899)	(4,898)	(7,241)	(4,401)	(5,304)
RITC the year of account	(2,836)	(1,936)	(1,874)	(2,014)	(2,403)	(2,601)	(2,473)
<b>Underwriting result</b>	<b>1,190</b>	<b>2,317</b>	<b>5,515</b>	<b>4,122</b>	<b>4,408</b>	<b>4,534</b>	<b>5,472</b>
Profit/(loss) on exchange	53	1	(112)	(269)	(320)	1,542	759
Syndicate operating expenses	(740)	(623)	(820)	(617)	(626)	(1,089)	(425)
<b>Balance on the technical account</b>	<b>503</b>	<b>1,695</b>	<b>1,330</b>	<b>(34)</b>	<b>(552)</b>	<b>1,625</b>	<b>1,099</b>
Investment return	252	242	166	258	356	487	401
<b>Profit/(loss) before personal expenses</b>	<b>755</b>	<b>1,937</b>	<b>1,496</b>	<b>224</b>	<b>(196)</b>	<b>2,112</b>	<b>1,500</b>
Illustrative personal expenses	(175)	(441)	(325)	(175)	(170)	(220)	(220)
<b>Result</b>	<b>580</b>	<b>1,496</b>	<b>1,171</b>	<b>49</b>	<b>(366)</b>	<b>1,892</b>	<b>1,280</b>

## Annual report and accounts 2009

For Syndicates 510, 557, 807 and 308 managed by R J Kiln & Co Limited  
Underwriting year accounts for the closed year of account 2007

# 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 2009

	Note	2007 £'000s
<b>Syndicate allocated capacity</b>		14,663
<b>Earned premiums, net of reinsurance</b>		
Gross premiums written	1	14,679
Outward reinsurance premiums		(3,509)
<b>Earned premiums, net of reinsurance</b>		11,170
<b>RITC premium received, net of reinsurance</b>	2	2,230
<b>Investment income</b>		
Income from other investments	8	307
Gains on the realisation of investments	8	1
<b>Investment income</b>		308
<b>Claims incurred, net of reinsurance</b>		
Claims paid:		
Gross amount		(5,228)
Reinsurers' share		594
RITC premium payable, net of reinsurance	3	(3,740)
<b>Claims incurred, net of reinsurance</b>		(8,374)
<b>Members' standard personal expenses</b>		(486)
<b>Net operating expenses</b>	4,5,6	(4,085)
<b>Investment expenses and charges</b>	8	(3)
<b>Balance on the technical account for long-term business and profit for the 2007 closed year of account</b>	7	760

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 2007 closed year of account as at 31 December 2009

	Note	2007 £'000s
Investments	9	1,468
Deposits with ceding undertakings		2
Debtors	10	4,664
Reinsurance payables anticipated on gross RITC premium payable to close the account	3	(260)
Other assets		
Cash at bank and in hand		316
<b>Total assets</b>		<b>6,190</b>

	Note	2007 £'000s
Amounts due to members	11	740
RITC premium payable to close the account – gross amount	3	3,480
Creditors	12	1,970
<b>Total liabilities</b>		<b>6,190</b>

The underwriting year accounts, which comprise pages 112 to 119 and the notes and principal accounting policies applicable to all syndicates on pages 79 to 80, were approved by the board of R J Kiln & Co Limited on 9 March 2010 and were signed on its behalf by

**James Dover**

Finance director  
R J Kiln & Co Limited  
17 March 2010

## Cash flow statement

for the 36 months ended 31 December 2009

	Note	2007 £'000s
Net cash inflow from operating activities	13	1,806
<b>Financing</b>		
Members' agents' fees paid on behalf of members	11	(20)
<b>Net cash flows</b>		<b>1,786</b>
<b>Cash flows were invested as follows:</b>		
(Decrease) in cash holdings	14	(2,042)
Increase in deposits	14	2
Net portfolio investment	14	1,468
Cash consideration for net RITC receivable	13	2,358
<b>Net investment of cash flows</b>		<b>1,786</b>

## Notes to the accounts

for the 36 months ended 31 December 2009

### 1. Segmental analysis

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

	Gross premiums written (note i) £'000s	Reinsurance balance (note ii) £'000s
Direct insurance	11,891	(968)
Reinsurance acceptances	2,788	(462)
RITC received	2,400	(170)
	17,079	(1,600)

- 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	3,888
Premiums under group contracts	8,003
	11,891
Periodic premiums	7,979
Single premiums	3,912
	11,891

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	4,887	(398)
Reinsurance acceptances	1,146	(190)
	6,033	(588)

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

	£'000s
Individual premiums	709
Premiums under group contracts	4,178
	4,887
Periodic premiums	1,945
Single premiums	2,942
	4,887

All premiums were concluded in the UK.

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

	£'000s
UK	7,374
Other EU countries	2,656
US	1,513
Other	5,536
Total	17,079

## Notes to the accounts

for the 36 months ended 31 December 2009

### 2. Reinsurance to close premium receivable

	£'000s
Gross RITC premium receivable	2,400
Reinsurance recoveries anticipated	(170)
RITC premium receivable, net of reinsurance	2,230

### 3. Reinsurance to close premium payable

	£'000s
Gross notified outstanding claims	302
Reinsurance recoveries anticipated	(30)
Net notified outstanding claims	272
Provision for gross claims IBNR	3,178
Reinsurance recoveries anticipated on IBNR	290
Provision for net IBNR	3,468
RITC premium payable, net of reinsurance	3,740

The RITC is effected to the 2008 year of account of Syndicate 308. The RITC is calculated by an external actuary.

### 4. Net operating expenses

	£'000s
Acquisition costs	5,794
Administrative expenses	1,436
(Profit) on exchange	(1,920)
Gross operating expenses	5,310
Reinsurance commissions and profit participations	(1,225)
Net operating expenses	4,085

Within administrative expenses were £51,519 of audit fees charged to the 2007 year of account; no non-audit services were provided by the auditors.

### 5. Staff numbers and costs

All staff are employed by Kiln Insurance Services Limited. The following amounts were recharged to the 2007 year of account in respect of salary costs:

	£'000s
Wages, salaries and social security costs	882
Other pension costs	58
	940

The average number of full-time employees employed by Kiln Insurance Services Limited but working on the 2007 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 £231,072 of emoluments charged to the 2007 year of account. The Kiln Group 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 £59,668 remuneration charged to the 2007 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 2007 year of account	874
Deficit on the RITC of the 2006 year of account	(417)
	457
Investment return	305
Net operating expenses other than acquisition costs	(2)
Balance on the technical account	760

All acquisition costs are attributable to business allocated to the 2007 pure year of account.

**8. Investment income and expenses**

	£'000s
Investment income:	
Income from investments	307
Net gains on the realisation of investments	1
	308
Investment expenses:	
Investment management expenses, including interest	(3)
Total investment return	305

**9. Investments**

	£'000s
Shares and other variable yield securities	1,468

**10. Debtors**

	£'000s
Arising out of direct insurance operations:	
Due from intermediaries	1,853
Inter-year loans	2,728
Arising out of reinsurance operations	70
Other debtors	13
	4,664

**11. Amounts due to members**

	£'000s
Profit for the 2007 closed year of account	760
Members' agents' fee advances	(20)
Amounts due to members at 31 December 2009	740

**12. Creditors**

	£'000s
Arising out of direct insurance operations:	
Due to intermediaries	1,479
Arising out of reinsurance operations	330
Other creditors	161
	1,970

## Notes to the accounts

for the 36 months ended 31 December 2009

### 13. 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	760
Net RITC premium payable	3,740
Non-cash consideration for net RITC receivable	128
(Increase) in debtors	(4,233)
Increase in creditors	1,411
Net cash inflow from operating activities	1,806

Consideration for net RITC receivable comprised:

	£'000s
Non-cash consideration:	
Debtors	431
Creditors	(559)
	(128)
Cash	2,358
	2,230

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

	£'000s
Net cash (outflow) for the 36 months	(2,042)
Cash flow	
Deposits	2
Portfolio investments	1,468
Movement arising from cash flows	(572)
Received as consideration for net RITC receivable	2,358
Total movement in portfolio investments	1,786
Portfolio at 1 January 2007	–
Portfolio at 31 December 2009	1,786

### Movement in cash, portfolio investments and financing

	At 1 January 2007 £'000s	Cash flow £'000s	Received as consideration for RITC £'000s	At 31 December 2009 £'000s
Cash at bank and in hand	–	(2,042)	2,358	316
Shares and other variable yield securities	–	1,468	–	1,468
Deposits with ceding undertakings	–	2	–	2
Total cash, portfolio investments and financing	–	(572)	2,358	1,786

### 15. Related parties

Syndicate 308 did not accept inwards reinsurance business from, or place outwards reinsurance business with, other Tokio Marine Group companies 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 £233,568 is payable by the syndicate to R J Kiln & Co Limited in respect of profits for the 2007 year.

Managing agency fees of £108,090 were paid by the syndicate to R J Kiln & Co Limited. In addition to this, expenses of £1,675,116 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.

**16. Seven year summary – unaudited**

	2001	2002	2003	2004	2005	2006	2007
Syndicate allocated capacity £m	3.36	4.00	4.00	5.00	9.65	13.00	14.66
Number of underwriting members	49	32	15	13	12	16	25
Aggregate net premiums £m	1.49	1.52	3.67	4.66	7.15	11.18	11.17
Result £m	0.28	0.36	0.27	0.05	1.75	1.29	0.76
<b>Results for an illustrative share of £10,000</b>							
Gross premiums written and earned	6,136	5,887	8,784	7,045	5,818	6,409	6,059
– as a percentage of allocated capacity	61%	59%	120%	112%	87%	93%	100%
Net premiums written and earned	4,432	3,809	6,001	5,806	5,058	6,067	4,502
– as a percentage of allocated capacity	44%	38%	92%	93%	74%	86%	76%
RITC from an earlier year of account	1,279	1,210	1,076	999	502	398	1,521
Net claims incurred	(2,264)	(1,754)	(3,961)	(4,637)	(1,930)	(2,611)	(3,160)
RITC the year of account	(1,493)	(1,075)	(1,249)	(969)	(537)	(1,715)	(2,551)
<b>Underwriting result</b>	1,954	2,190	5,040	4,729	5,441	4,671	3,428
Profit on exchange	–	–	18	182	106	25	1,309
Syndicate operating expenses	(1,008)	(1,163)	(1,459)	(1,401)	(1,736)	(1,448)	(979)
Balance on the technical account	946	1,027	425	(20)	1,462	717	642
Investment return	54	54	243	176	348	273	208
<b>Profit before personal expenses</b>	1,000	1,081	668	156	1,810	990	850
Illustrative personal expenses	(175)	(303)	(325)	(175)	(175)	(225)	(225)
<b>Result</b>	825	778	343	(19)	1,635	765	625



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