TOKIO MARINE
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Tokio Millennium Group

ANNUAL REPORT 2014

Financial Statements

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Tokio Millennium Group

AG

TOKIO MILLENNIUM RE AG

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors — Tokio Millennium Re AG

We have audited the accompanying consolidated financial statements of Tokio Millennium Re AG (the "Company"), which comprise the consolidated balance sheet, consolidated statement of comprehensive income, consolidated statement of changes in shareholder's equity, consolidated statement of cash flows, and notes (pages 11 to 53), for the year ended 31 December 2014.

Board of Directors Responsibilities

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS). This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system.

An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at 31 December 2014, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG AG

Patrick Scholz

Licensed Audit Expert
Auditor in Charge

Bill Schiller

Licensed Audit Expert

3 March 2015

CONSOLIDATED BALANCE SHEET

31 December 2014 and 2013

	Note	31/12/2014 US$'000	31/12/2013 US$'000
Assets			
Cash and cash equivalents	5	$ 167,760	$ 127,225
Funds withheld	6	52,801	49,509
Short term investments	7, 8	537,526	286,830
Fixed interest securities, designated at fair value through profit and loss	7, 8	27,595	29,708
Fixed interest securities, available for sale	7, 8	1,362,809	1,251,795
Investments in catastrophe bonds, available for sale	7, 8	40,386	67,405
Accrued interest receivable	11	7,599	7,960
Premiums receivable	11	474,583	355,434
Deposit assets	11, 12	337,677	–
Prepaid reinsurance premiums		34,200	24,938
Fair value of derivative assets	8	1,806	14,039
Outstanding losses recoverable from reinsurers	11, 17	51,473	30,669
Deferred acquisition expenses	13	201,528	135,916
Unearned profit commission		1,790	4,757
Deferred tax asset	14	3,930	4,238
Property and equipment	15	13,769	12,707
Intangible assets	16	7,190	5,267
Other assets	11	26,034	5,411
Total assets		**$ 3,350,456**	**$ 2,413,808**
Liabilities			
Outstanding losses and loss expenses	17, 18	$ 699,305	$ 583,691
Liability for collateral held on behalf of counterparties	10, 18	315,250	22,878
Reinsurance balances payable	18	53,023	18,222
Deposit liabilities	12, 18	337,677	–
Unearned premiums	17	688,827	483,295
Fair value of derivative liabilities	8, 18	2,550	10,665
Deferred commission income	13	2,840	1,838
Accounts payable and accrued expenses	18	19,248	18,367
Retirement benefit obligation	20	2,874	814
Deferred fee income		3,599	979
Deferred tax liability	14	948	–
Note payable	18, 19	25,000	–
Total liabilities		**2,151,141**	**1,140,749**
Shareholder's equity			
Share capital	21	250,000	250,000
Contributed Surplus	21	400,000	400,000
Retained earnings		563,807	632,537
Accumulated other comprehensive income		(14,492)	(9,478)
Total shareholder's equity		**1,199,315**	**1,273,059**
Total liabilities and shareholder's equity		**$ 3,350,456**	**$ 2,413,808**

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Years ended 31 December 2014 and 2013

	Note	2014 US$'000	2013 US$'000
Revenue			
Reinsurance premiums assumed	4	$ 1,172,166	$ 897,169
Change in unearned premiums		(218,814)	(123,600)
Reinsurance premiums earned — assumed		953,352	773,569
Reinsurance premiums ceded	22	162,907	118,164
Change in prepaid reinsurance		(9,358)	(9,044)
Reinsurance premiums earned — ceded		153,549	109,120
Net premiums earned		799,803	664,449
Catastrophe bond income		1,873	3,489
Other underwriting income		3,181	814
Total operating income		804,857	668,752
Net investment income	7	36,420	34,272
Total revenue		**841,277**	**703,024**
Expenses			
Loss and loss expenses incurred		467,670	296,605
Losses recoverable from reinsurers		(4,239)	11,817
Net loss and loss expenses incurred	17	463,431	308,422
Acquisition expenses	23	220,927	146,244
Profit commission		4,637	10,210
Net derivative (income) expense	9	(18,703)	17,461
Other underwriting expenses		1,465	–
General and administrative expenses	24, 25	83,345	78,158
Foreign exchange losses (gains)	24	11,661	(111)
Total expenses		**766,763**	**560,384**
Profit before tax		74,514	142,640
Tax expense	14	(3,244)	(2,614)
Profit		**$ 71,270**	**$ 140,026**

	2014 US$'000	2013 US$'000
Other comprehensive income (loss)		
Items that are or may be reclassified to profit or loss		
Net change in unrealised gains on available for sale fixed interest securities	$ 4,965	$ (27,858)
Net change in unrealised gains on investments in catastrophe bonds	(654)	(286)
Net change in tax reserve for unrealised gains on investments	(948)	–
Change in foreign currency translation adjustment	(6,302)	(13,766)
	(2,939)	(41,910)
Item that will not be reclassified to profit or loss		
Change in retirement benefit obligation	(2,075)	1,603
Other comprehensive loss, net of tax	(5,014)	(40,307)
Total comprehensive income	**$ 66,256**	**$ 99,719**

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended 31 December 2014 and 2013

	Share capital US$'000	Contributed surplus US$'000	Retained earnings US$'000	Unrealised gain (loss) on investments US$'000	Tax reserve on unrealised investment gains US$'000	Foreign currency translation reserve US$'000	Retirement benefit obligation US$'000	Accumulated other comprehensive income US$'000	Total US$'000
Balance 1 January 2013	**$ 250,000**	**$ 400,000**	**$ 492,511**	$ 31,660	$ –	$ 1,184	$ (2,015)	**$ 30,829**	**$ 1,173,340**
Profit	–	–	140,026	–	–	–	–	–	140,026
Other comprehensive income (loss)	–	–	–	(28,144)	–	(13,766)	1,603	(40,307)	(40,307)
Balance 31 December 2013	**$ 250,000**	**$ 400,000**	**$ 632,537**	$ 3,516	$ –	$ (12,582)	$ (412)	**$ (9,478)**	**$ 1,273,059**
Profit	–	–	71,270	–	–	–	–	–	71,270
Other comprehensive income (loss)	–	–	–	4,311	(948)	(6,302)	(2,075)	(5,014)	(5,014)
Dividends	–	–	(140,000)	–	–	–	–	–	(140,000)
Balance 31 December 2014	**$ 250,000**	**$ 400,000**	**$ 563,807**	$ 7,827	$ (948)	$ (18,884)	$ (2,487)	**$ (14,492)**	**$ 1,199,315**

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

Years ended 31 December 2014 and 2013

	Note	2014 US$'000	2013 US$'000
Cash flows from operating activities			
Profit before tax		$ 74,514	$ 142,640
Adjustments for:			
Depreciation of property and equipment	15	3,504	2,716
Amortisation of intangible assets	16	3,735	3,439
Amortisation of available for sale fixed interest securities	7	7,190	6,951
Interest income		(42,346)	(41,750)
Gain on sale of available for sale fixed interest securities	7	(3,309)	(2,413)
Foreign exchange (gains) losses on cash and cash equivalents		(2,622)	3,802
Foreign exchange losses (gains) on catastrophe bonds		834	(659)
Net unrealised losses on fixed interest securities designated at fair value through profit and loss ("FVTPL")		2,113	4,534
Retirement benefit cost		(15)	112
Change in:			
Funds withheld		(3,292)	4,676
Premiums receivable		(119,149)	(104,319)
Deposit assets	12	(337,677)	–
Prepaid reinsurance premiums		(9,262)	(7,702)
Fair value of derivative assets		12,233	(2,540)
Outstanding losses recoverable from reinsurers		(20,804)	63,414
Deferred acquisition expenses		(65,612)	(27,160)
Unearned profit commission		2,967	1,640
Other assets		(20,623)	150
Outstanding losses and loss expenses		115,614	46,310
Liability for collateral held on behalf of counterparties		292,372	1,106
Reinsurance balances payable		34,801	(53,069)
Deposit liabilities	12	337,677	–
Unearned premiums		205,532	117,566
Fair value of derivative liabilities		(8,115)	6,233
Deferred commission income		1,002	82
Accounts payable and accrued expenses		881	2,976
Deferred fee income		2,620	979
Cash provided by operating activities		464,763	169,714
Income taxes paid		(4,114)	(4,722)
Net cash provided by operating activities		**$ 460,649**	**$ 164,992**

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Years ended 31 December 2014 and 2013

	2014 US$'000	2013 US$'000
Cash flows from investing activities		
Interest received	$ 42,707	$ 42,403
Purchase of short term investments	(396,249)	(230,127)
Proceeds on sales and maturities of short term investments	140,429	207,370
Purchase of fixed interest securities designated at FVTPL	–	(31,550)
Proceeds on maturity of fixed interest securities designated at FVTPL	–	73,752
Purchase of available for sale fixed interest securities	(497,168)	(459,261)
Proceeds on sales and maturities of available for sale fixed interest securities	387,238	256,171
Purchase of catastrophe bonds	–	(12,818)
Proceeds on sales and maturities of catastrophe bonds	25,531	25,250
Purchase of property and equipment	(4,566)	(4,186)
Purchase of intangible assets	(5,658)	(3,832)
Net cash used in investing activities	**(307,736)**	**(136,828)**
Cash flows from financing activities		
Dividends paid	(140,000)	–
Proceeds from issuance of note payable	25,000	–
Net cash used in financing activities	(115,000)	–
Net increase in cash and cash equivalents	37,913	28,164
Foreign exchange gains (losses) on cash and cash equivalents	2,622	(3,802)
Cash and cash equivalents at beginning of year	127,225	102,863
Cash and cash equivalents at end of year	**$ 167,760**	**$ 127,225**

See accompanying notes to consolidated financial statements

1. GENERAL

Tokio Millennium Re AG (the “Company” or “TMR AG”), formerly known as Tokio Millennium Re Ltd., is a Swiss-based reinsurance company and is licensed and regulated by the Swiss Financial Market Supervisory Authority (“FINMA”). Effective 1 February 2015, TMR AG’s registered office is located at Beethovenstrasse 33, 8002 Zurich, Switzerland. Prior to this date, the registered address was Claridenstrasse 22, 8002 Zurich, Switzerland. The Company is a wholly-owned subsidiary of Tokio Marine and Nichido Fire Insurance Co., Ltd. The ultimate parent company is Tokio Marine Holdings, Inc., a company incorporated in Japan.

The Company was formed in Bermuda on 15 March 2000 and redomesticated to Switzerland on 15 October 2013. TMR AG became subject to Swiss law without liquidation and re-establishment.

The Company participates in various excess of loss property catastrophe, workers’ compensation catastrophe, crop/hail and terrorism reinsurance contracts. Catastrophe reinsurance covers unpredictable events such as hurricanes, windstorms, hailstorms, earthquakes, fires, freezes, floods and other man-made or natural disasters. The Company also offers non-catastrophe property and casualty covers on both proportional and per risk excess of loss treaties, with an emphasis on the higher frequency/lower severity category of exposures. Casualty lines of business include general liability, excess casualty, auto liability, workers’ compensation, directors and officers, errors and omissions and medical malpractice.

The Company also provides non-traditional customised reinsurance and financial solutions for its clients’ world-wide property and casualty exposures on both a treaty and facultative basis.

A branch in the United Kingdom (“TMRUK branch”) was formed on 17 September 2014. As of 31 December 2014, the Company has applied to the Prudential Regulation Authority for the grant of TMRUK branch’s license to conduct reinsurance business. The TMRUK branch had no transactions in 2014.

The Company formed a branch in the United States (“TMRUS”) and was issued a license by the New York State Department of Financial Services on 2 June 2014. TMRUS was established to further expand TMR AG’s non-catastrophe portfolio and focuses on non-catastrophe product lines.

TMR Management, Inc. (“TMI”), a wholly-owned subsidiary of the Company, was incorporated in the State of Connecticut, United States of America on 18 December 2013, with an initial share capital of $1,000 (authorised and issued shares of 1,000 at $1 per share). TMI, pursuant to a management agreement with TMR AG, acts as a manager for TMRUS.

On 15 October 2013, the Company formed a branch in Bermuda and is licensed as a Class 3B reinsurer under the Insurance Act, 1978 of Bermuda and related regulations to write all classes of property and casualty business. The Company’s branch in Switzerland, originally formed on 31 August 2010, was discontinued as part of the redomestication of the Company effective 15 October 2013.

Tokio Millennium Agency Ltd. (“TMA”), a wholly-owned subsidiary of the Company, was incorporated in Bermuda on 6 June 2003, with an initial share capital of $12,000. Its primary activity was to facilitate risk swap agreements between Tokio Marine and Nichido Fire Insurance Co., Ltd. and other insurance companies for which it received agency fees. In 2012, TMA was renamed to Tokio Solution Management Ltd. (“TSM”). The Bermuda Monetary Authority (“BMA”) issued a license to TSM to conduct business as an insurance management company on 24 August 2012.

TSM manages and facilitates transactions through Shima Reinsurance Ltd. (“Shima Re”) or other third party vehicles. In addition, TSM facilitates clients’ fronting and leveraging agreements.

The Company’s wholly owned subsidiary, Shima Re, a Class 3 segregated accounts company, was incorporated under the laws of Bermuda on 30 July 2012 and registered under the Segregated Companies Act of 2000. With TSM as its manager, Shima Re provides its clients with a platform to transform either fronted or direct reinsurance transactions.

The Company formed a branch in Australia on 22 October 2010. The Australian Prudential Regulation Authority (“APRA”) issued a license to the Company’s Australian branch to conduct business as a general insurer on 1 March 2011.

2. BASIS OF PREPARATION AND ADOPTION OF IFRS

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

When IFRS is silent, as it is in respect of the measurement of certain insurance products, the IFRS framework (IFRS 4, *Insurance Contracts*) allows reference to another comprehensive body of accounting principles. Accordingly, to the extent that IFRS 4 does not specify the recognition or measurement of insurance contracts, transactions reported in these consolidated financial statements have been prepared in accordance with another comprehensive body of accounting principles for insurance contracts, namely United States Generally Accepted Accounting Principles ("US GAAP").

(b) Basis of measurement

The consolidated financial statements are presented in United States dollars, which is the Company's reporting currency. They are compiled on a going concern basis. The consolidated financial statements have been prepared on the historical cost basis. See Note 3 for exceptions to this.

(c) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The most significant estimate made by management is in relation to outstanding losses and loss expenses. Estimates in relation to losses and loss expenses are discussed in Note 3(b) — Insurance Contracts. Also refer to Note 17 — Insurance Liabilities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The financial statements consolidate the accounts of the Company, its branches and its wholly owned subsidiaries. A subsidiary is an entity that is controlled by TMR AG. TMR AG controls an entity when it is exposed to or has the rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. All significant intercompany transactions and balances are eliminated on consolidation.

(b) Insurance contracts

Classification
Contracts that transfer significant insurance risk are considered insurance contracts, while contracts without significant insurance risk are classified as investment contracts.

Reinsurance premiums assumed and acquisition costs
Reinsurance premiums assumed are recorded on the accruals basis and are included in income over the period of exposure to risk with the unearned portion deferred in the consolidated balance sheet. Premiums assumed are stated before the deductions of brokerage, commissions and taxes.

For excess of loss contracts, the ultimate premium is estimated at contract inception. Subsequent premium adjustments, if any, are recorded in the period in which they are determined. For proportional treaties, the amount of premium is normally estimated at inception by management based on information provided by the ceding company. The Company accounts for such premium using initial estimates, which are reviewed regularly with respect to the actual premium reported by the ceding company. Changes in estimates are recognised in the period in which they are determined.

For certain property catastrophe contracts, the Company earns reinstatement premiums upon the occurrence of a loss under the reinsurance contract. Reinstatement premiums are calculated in accordance with the contract terms based upon the ultimate loss estimate associated with each contract.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Insurance contracts (continued)

Premiums receivable from brokers, insureds and cedants are recognised when due and recorded net of commissions, brokerage, premium taxes and other levies on premiums, unless the contract specifies otherwise. These balances are reviewed for impairment, with any impairment loss recognised as an expense in the period in which it is determined.

Acquisition expenses, mainly commissions and brokerage, related to unearned premiums are deferred and amortised to income over the periods in which the premiums are earned. The method followed in determining the deferred acquisition expenses limits the amount of the deferral to its realisable value, by giving consideration to losses and expenses expected to be incurred as premiums are earned.

Where applicable, no claims bonuses and profit commissions are accrued based on claims experience.

Reinsurance premiums ceded
Reinsurance premiums ceded comprise the cost of reinsurance contracts entered into. Premiums ceded are accounted for in the period in which the contract is bound and are similarly earned over the period of exposure to risk, with the unearned portion being deferred in the consolidated balance sheet as prepaid reinsurance premiums.

Premiums payable to agents and brokers are recognised when due.

Outstanding losses and loss expenses
Losses and loss expenses paid are recorded when advised by the ceding insurance companies. Outstanding losses comprise estimates of the amount of reported losses and loss expenses received from the ceding insurance companies plus a provision for losses incurred but not reported ("IBNR"). The IBNR provision is estimated by management based on reports from industry sources, including initial estimates of aggregate industry losses, individual loss estimates received from ceding companies and brokers, output from commercially available catastrophe loss models and actuarial analysis using historical data available to the Company on the business assumed together with industry data.

Given the inherent nature of major catastrophic events, considerable uncertainty underlies the assumptions and associated estimated reserve for losses and loss expenses. These estimates are reviewed regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary. Such adjustments, if any, are reflected in income in the period in which they are determined.

Due to the inherent uncertainty in estimating the liability for losses and loss expenses, there can be no assurance that the ultimate liability will not be settled for a significantly greater or lesser amount than that recorded.

Based on the current assumptions used, management believes that the Company's recorded amount is a reasonable estimate of the ultimate cost of losses incurred to the consolidated balance sheet date. Reserves for non-catastrophe property and casualty covers are based on individual claims, case reserve and other reserve estimates reported by insureds and ceding companies as well as the Company's actuarial estimates of ultimate losses. Inherent in the estimates of ultimate losses are expected trends in claim severity and frequency and other factors which could vary significantly as claims are settled. The Company does not have the benefit of a significant amount of its own historical experience with non-catastrophe lines of business. Accordingly, the setting and reserving for incurred losses in these lines of business could be subject to greater variability.

Ultimate losses may vary materially from the amounts provided in the consolidated financial statements. These estimates are reviewed regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary. Such adjustments, if any, are reflected in the consolidated statement of comprehensive income in the period in which they become known and are accounted for as changes in estimates.

Amounts recoverable from reinsurers are estimated in a manner consistent with the underlying liabilities. Reinsurance recoverable on dual trigger reinsurance contracts require the Company to estimate its ultimate losses applicable to these contracts as well as estimate the ultimate amount of industry losses that will be reported by the applicable statistical reporting agency, as per contract terms.

Liability adequacy tests
At each balance sheet date, the Company performs a liability adequacy test using current best estimates of future cash outflows generated by its reinsurance contracts, plus any investment income thereon. If, as a result of these tests, the carrying amount of the Company's reinsurance liabilities is found to be inadequate, the deficiency is charged to income for the period, initially by writing off deferred acquisition costs and subsequently by establishing a provision.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments

Cash and cash equivalents

The Company considers all cash at bank and on hand, short term deposits and other short term highly liquid investments that are subject to insignificant risk of changes in fair value as cash and cash equivalents. Cash equivalents are financial investments with less than three months to maturity at the date of acquisition.

Cash and cash equivalents are carried in the consolidated balance sheet at amortised cost. Carrying amounts approximate fair value due to the short term nature and high liquidity of the instruments.

Funds withheld

Funds withheld are contractual receivables due to reinsurers from their clients; they are valued at original cost (nominal amount) at the date of acquisition. In addition, there are amounts arising from the application of the deposit method of accounting included. Appropriate allowance is made for credit risks.

Investments

The Company's investments comprise of short term investments and investments in fixed interest securities and catastrophe bonds. The classification is determined at the time of initial purchase and depends on the category of investment. Purchases and sales of investments are recognised at estimated fair value, including transaction costs, on the trade date and are subsequently carried at estimated fair value.

Short term investments and investments in catastrophe bonds are classified as available for sale and are carried at fair value, with any unrealised gains and losses included in accumulated other comprehensive income as a separate component of equity. Short term investments represent bank deposits and investments in money market funds with an original term of greater than 90 days but less than one year. The carrying value reported in the consolidated balance sheet for these short term investments approximates their fair value due to the short term nature of the investments.

The Company's fixed interest securities comprise United States dollar ("USD") and New Zealand dollar ("NZD") portfolios. The USD investment portfolio is classified as available for sale and the NZD investment portfolio is designated at fair value through profit and loss, on the consolidated balance sheet. The USD investment portfolio is carried at fair value, with any unrealised gains and losses included in accumulated other comprehensive income as a separate component of equity. The NZD investment portfolio was established in 2012 to hedge the Company's foreign exchange exposure to the NZD, in relation to its NZD outstanding losses and loss expenses arising from the 2010 and 2011 New Zealand earthquakes. The Company designated its NZD investment portfolio at fair value through profit and loss upon adoption of IFRS and as such, it is carried at fair value with any unrealised gains and losses included in profit or loss.

The fair value of fixed interest securities is based on prices provided by internationally recognised independent pricing services. The independent pricing sources obtain actual transaction prices for securities that have quoted prices in active markets. For securities that are not actively traded, the pricing services typically uses "matrix pricing" which uses observable inputs including reported trades, benchmark yields, broker/dealer quotes, interest rate spreads, prepayment spreads and other such inputs from market sources to determine a reasonable fair value. Fair value for catastrophe bonds is based on independent broker quotes.

The cost of investments is adjusted for amortisation of premiums and discounts. Realised gains and losses on investments are recognised in net investment income using the specific identification method. Interest income on short term investments, fixed interest securities and catastrophe bonds is accrued to the consolidated balance sheet date.

Investments are derecognised when the Company has transferred substantially all of the risks and rewards of ownership. On derecognition of an available for sale investment, previously recorded unrealised gains and losses are removed from accumulated comprehensive income in shareholder's equity and included in current period income.

The Company reviews investments on an individual security basis at each period end for evidence of impairment. Impairment losses are recognised when there is objective evidence that the Company will be unable to collect all amounts due according to contractual terms of the individual security. In the case of fixed-interest securities, the main basis for establishing impairment is an indication of substantial financial difficulty on the part of the issuer, the current market situation or media reports on the issuer. Impairment losses on available for sale financial assets are recognised by reclassifying the losses from accumulated other comprehensive income to the consolidated statement of comprehensive income. The amount reclassified is the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss. If the fair value of an impaired available for sale debt security subsequently increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit or loss; otherwise it is reversed through other comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments (continued)

Investments (continued)

The Company's investments are managed following prudent standards of diversification. Specific provisions limit the allowable holdings of a single issue and issuers.

Derivative financial instruments

From time to time, the Company enters into catastrophe swap derivatives, under which certain catastrophe reinsurance exposures are ceded to or assumed from the swap counterparty. The Company does this to facilitate institutional investors who seek to diversify their portfolios by adding non-correlated reinsurance risks to their portfolio. The Company transforms such risks by selling reinsurance and buying derivatives from the institutional investors, or vice versa. The Company earns a fee for its role in facilitating such transactions. Since there is no right of offset, all transactions are presented on a gross basis in the consolidated financial statements. Although the derivatives provide an economic hedge against the assumed or ceded reinsurance contract, the Company designates its derivatives as non-hedging derivative instruments based upon criteria established by IAS 39, *Financial Instruments: Recognition and Measurement*. Catastrophe swaps are recorded at fair value with changes in fair values recorded in the consolidated statement of comprehensive income. Fair value is estimated by management primarily based on the unexpired period of risk, an evaluation of the probability of loss and other unobservable inputs. The Company's catastrophe swap derivatives are initially priced at fair value in a non-stressed market and amortisation reflects the change in fair value in the absence of any loss events. The inputs for catastrophe swap derivatives are purely based on management's evaluation and are unobservable.

Receivables

The Company's receivables have fixed or determinable payments and are carried at cost less any provision for impairment in value. Refer to Note 3(b) for discussion on receivables arising from reinsurance contracts.

Impairment of financial assets

Objective factors that are considered when determining whether a financial asset or group of financial assets may be impaired include, but are not limited to, the following:

- negative rating agency announcements in respect of investment issuers, reinsurers and debtors;
- significant reported financial difficulties of investment issuers, reinsurers and debtors;
- actual breaches of credit terms such as persistent late payments or actual default;
- the disintegration of the active market(s) in which a particular asset is traded or deployed; and
- adverse economic or regulatory conditions that may restrict future cash flows and asset recoverability.

(d) Deposit assets and liabilities

Certain contracts do not transfer sufficient insurance risk and are accounted for using the deposit method of accounting. Management exercises judgment in determining whether contracts contain sufficient risk to be accounted for as reinsurance contracts. Under the deposit method of accounting, the deposit asset or liability is initially measured based on the consideration paid or received. In subsequent periods, the deposit asset or liability is adjusted by calculating the effective yield on the deposit to reflect actual receipts or payments to date and future expected receipts or payments.

The Company earns fee income for the provision of these contracts. Fee income is based upon the terms of the contracts, with the unearned portion deferred in the consolidated balance sheet, as deferred fee income. The revenue and expense recorded for such contracts is included in other underwriting income.

(e) Property and equipment

Property and equipment are stated at cost less accumulated depreciation calculated on a straight-line basis over the estimated useful lives of the assets. The specific depreciable rates of the significant asset classes are as follows:

Computer equipment	3 years
Fixtures and fittings	5 years
Leasehold improvements	Over the term of the underlying lease
Motor vehicles	5 years
Office equipment	4 years

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Intangible assets

Intangible assets are stated at cost less amortisation calculated on a straight-line basis over the estimated useful lives of the assets. The Company's intangible assets comprise of computer software with a specific amortization rate of 3 years.

(g) Impairment of assets

Assets that are subject to amortisation are tested for impairment when there is an indication of a possible impairment at the reporting date.

Non-financial assets

Objective factors that are considered when determining whether a non-financial asset (such as an intangible asset or item of property and equipment) or group of non-financial assets may be impaired include, but are not limited to, the following:

- adverse economic, regulatory or environmental conditions that may restrict future cash flows and asset usage and/or recoverability;
- the likelihood of accelerated obsolescence arising from the development of new technologies and products; and the disintegration of the active market(s) to which the asset is related.

Impairment loss

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised as income immediately.

(h) Bad debt provision

The Company reviews receivables on a quarterly basis and bad debt provision is recorded only to the extent that repayment is unlikely or no longer expected in full amount. In addition, the Company considers known and emerging credit events to determine if other provisions are necessary.

(i) Translation of foreign currencies

The consolidated financial statements of the Company are presented in United States dollars.

Foreign currency transactions are recorded in the functional currency for each entity using the exchange rates prevailing at the dates of the transactions, or at the average rate for the period when this is a reasonable approximation. Monetary assets and liabilities denominated in foreign currencies are translated at period end exchange rates. The resulting exchange differences on translation are recorded in profit or loss. Non-monetary assets and liabilities carried at historical cost denominated in a foreign currency are translated at historic rates. Non-monetary assets and liabilities carried at fair value denominated in a foreign currency are translated at the exchange rate at the date the estimated fair value was determined, with resulting exchange differences recorded in accumulated other comprehensive income in shareholder's equity.

The functional currency of the Bermuda and United States branches is the United States dollar. The functional currencies of the Company's Swiss operation and Australian branch are the Euro and Australian dollar, respectively. In translating the financial results of those entities whose functional currency is other than the United States dollar reporting currency, assets and liabilities are converted into United States dollars using the rates of exchange in effect at the balance sheet dates, and revenues and expenses are converted using the average foreign exchange rates for the period. The effect of translation adjustments are reported in the consolidated balance sheet and consolidated statement of changes in shareholder's equity as a foreign currency translation adjustment, a separate component of accumulated other comprehensive income.

(j) Leases

All leases are classified as operating leases and are not recognised in the consolidated balance sheet. Rentals payable under operating leases are charged to income on a straight-line basis over the lease term.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Long term incentive compensation plan

In 2008, the Board approved a compensation program for employees. The compensation program consists of accumulation units which are based on movements in the net asset value of the Company and are settled in cash once a cliff vesting service period has been rendered. The Company accounts for the compensation program in accordance with IFRS 2, *Share-based Payment*. As a liability award, the cost is remeasured at each reporting period until the settlement date. The cost of such services is recognised over the service period in the consolidated statement of comprehensive income. The grant date of the units is determined to be upon authorisation of the awards in accordance with the Company's governance structure.

(l) Taxation

The Switzerland based operating entity and the Australia and the United States branches of the Company operate in jurisdictions where they are subject to taxation. Income taxes have been provided in accordance with the provisions of IAS 12, *Income Taxes*. Current and deferred income taxes are charged or credited to profit or loss. Deferred income taxes are provided for all temporary differences between the bases of assets and liabilities used in the consolidated balance sheet and those used in the various jurisdictional tax returns. Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The Company recognises a tax benefit relating to uncertain tax positions only where the position is probable not to be sustained assuming examination by tax authorities. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

(m) Retirement benefit obligation

Payments to the defined benefit contribution plan are recognised as an expense when employees have rendered services entitling them to the contributions.

The Company has a defined benefit post retirement plan in relation to the Switzerland operation. The net retirement benefit obligation in relation to this plan is based on, among other things, assumptions of the discount rate, estimated return on plan assets, and salary increases. The cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. Actuarial gains and losses are recognised in other comprehensive income. Past service costs are recognised immediately in the period of the plan amendment. The Company recognises the over funded or underfunded status of the defined benefit postretirement plan as an asset or liability in its consolidated balance sheet and recognises changes in the funded status in the year in which the changes occur through other comprehensive income. Any asset resulting from this calculation is limited to the sum of any cumulative unrecognised net losses and the present value of any economic benefits available in the form of refunds or reductions in future contributions to the plan.

Accounting standards and amendments issued but not yet adopted

Accounting standards issued and amendments to published standards that are not yet effective up to the date of issuance of the Company's consolidated financial statements are listed below. The Company intends to adopt these standards when they become effective.

IFRS 9, *Financial Instruments*

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial statements, including a new expected credit loss model for calculating impairment of financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The new standard may have an effect on the classification and measurement of the Company's financial assets. The Company is in the process of analysing the impact of this Standard on its consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting standards and amendments issued but not yet adopted (continued)

Amendments to IAS 19, *Employee benefits*, regarding defined benefit plans

These amendments to IAS 19, published in November 2013, apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. These amendments are applicable for accounting periods beginning on or after 1 July 2014 and are not expected to have a material impact on the Company's results, although additional disclosures may be required.

Annual Improvements to IFRSs 2010 — 2012 Cycle

In December 2013, the IASB issued its annual amendments to IFRSs and the related bases for conclusions and guidance. The IASB uses the annual improvements process to make necessary, but non-urgent, amendments to IFRSs that will not be included as part of a major project. These amendments affect seven standards, namely: IFRS 2, *Share-based payment*; IFRS 3, *Business combinations*; IFRS 8, *Operating segments*; IFRS 13, *Fair value measurement*; IAS 16, *Property, plant and equipment*; IFRS 9, *Financial instruments*; and IAS 39 — *Financial instruments — Recognition and measurement*. The amendments primarily remove inconsistencies and clarify wording. The amendments are effective for annual periods beginning on or after 1 July 2014 and will have no material impact on the Company's consolidated financial statements.

Annual Improvements to IFRSs 2011 — 2013 Cycle

In December 2013, the IASB issued its annual amendments to IFRSs and the related bases for conclusions and guidance. The IASB uses the annual improvements process to make necessary, but non-urgent, amendments to IFRSs that will not be included as part of a major project. These amendments affect four standards, namely: IFRS 1, *First time adoption*; IFRS 3, *Business combinations*; IFRS 13, *Fair value measurement*; and IAS 40, *Investment property*. The amendments primarily remove inconsistencies and clarify wording. The amendments are effective for annual periods beginning on or after 1 July 2014 and will have no material impact on the Company's consolidated financial statements.

Amendments to IAS 16, *Property, plant and equipment*, and IAS 38, *Intangible assets*, regarding depreciation and amortisation

These amendments to IAS 16 and IAS 38, published in May 2014, have clarified the use of revenue-based methods to calculate depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. These amendments are applicable for annual periods beginning on or after 1 January 2016 and are not expected to have an impact on the Company's results.

Amendments to IAS 27, *Separate financial statements*, regarding the equity method

These amendments to IAS 27, published in August 2014, allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. These amendments are applicable for annual periods beginning on or after 1 January 2016 and are not expected to have a material impact on the Company's results.

Amendments to IFRS 10, *Consolidated financial statements*, and IAS 28, *Investments in associates and joint ventures*

These amendments to IFRS 10 and IAS 28, published in September 2014, address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments are applicable for annual periods beginning on or after 1 January 2016 and are not expected to have a material impact on the Company's results.

IFRS 15, *Revenue from contracts with customers*

IFRS 15, published in May 2014, is a converged standard from the IASB and FASB on revenue recognition. IFRS 15 will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally. The new standard is applicable for annual periods beginning on or after 1 January 2017 and the impact of adoption, if any, on the Company's results is still being assessed.

4. RISK DISCLOSURES

The Company, through its Enterprise Risk Management Unit ("ERM"), Risk Management Working Group and Risk Management Committee ("RMC"), seeks to identify all material risks inherent in its business including emerging risks; to understand the manifestations of each risk; and to assess, control, mitigate and manage these risks appropriately.

The objectives of TMR AG's risk management process are to ensure that:

- all material risks are proactively identified;
- the potential to cause losses or generate profits is understood and assessed;
- appropriate action is taken to manage the assumption of each risk based on that assessment and the Company's stated risk appetite;
- an appropriate level of capital is held to cover financial and non-financial risks from all sources; and
- following a severe catastrophic event(s), appropriate capital action can be executed to remain solvent and meet its obligations under reinsurance contracts.

The oversight of the Company's risk management program is provided by the Board of Directors and senior management who are assisted by the RMC. The Board is charged with setting the orientation of TMR AG's business. It pays particular attention to business strategy, capital allocation, risk control framework and ensures that they are implemented.

The Company is exposed to risks from several sources. These include underwriting risk, market risk, credit risk, liquidity risk, operational risk and strategic risk.

A. Underwriting risk

Underwriting risk consists of premium risk, catastrophe risk and reserve risk.

Underwriting risk may be due to either the acceptance of risks that do not comply with the Company's underwriting guidelines and corporate strategy, or the acceptance of risks that result in losses and expenses greater than it had anticipated at the time of underwriting.

As a reinsurance company, TMR AG is in the business of taking underwriting risk and therefore has a high appetite for underwriting risk. TMR AG's risk limits are defined in the TMR AG Risk Appetite and Risk Tolerance/Limit Policy for underwriting risk and reserve risk combined.

The Company has underwriting guidelines in place that clearly define the territorial scope, risks to be written, business to be avoided, acceptance limits, maximum policy period, maximum net retention, outward reinsurance, security requirement (for retrocessionaires) and underwriting authority.

As a part of the risk control strategy and governance at TMR AG, all contracts must be reviewed and approved by an Underwriting Committee before they can be bound.

The Company employs experienced catastrophe analysts and modelers, as well as experienced and credentialed actuaries, to perform pricing analyses to ensure that each risk is adequately priced.

Premium risk
Premium risk is the risk that the premium to be earned over the next twelve-month period from the in-force, new or renewal reinsurance contracts is insufficient to cover the claim costs, claim adjustment expenses as well as the acquisition costs to be incurred by those contracts over the same period.

The Company has purchased retrocessions in the past several years to enhance the diversity of the portfolio, improve capital efficiency, manage the net retention and protect the capital of TMR AG. The Company will continue to utilise this important risk management tool when the pricing and risk mitigation impact justifies doing so.

4. RISK DISCLOSURES (continued)

A. Underwriting risk (continued)

Premium risk (continued)

Details of annual premiums assumed by geographic area of risk insured are provided below:

	2014 Reinsurance premiums assumed US$'000	2014 Percentage of total	2013 Reinsurance premiums assumed US$'000	2013 Percentage of total
Geographic area of risk insured				
North America	$ 899,041	76.7%	$ 687,201	76.6%
Europe	156,261	13.3%	103,931	11.6%
Worldwide	62,860	5.4%	46,324	5.2%
Australasia	48,806	4.2%	50,128	5.6%
Other	5,198	0.4%	9,585	1.0%
Total	$ 1,172,166	100.0%	$ 897,169	100.0%

Details of annual premiums assumed by line of business are provided below:

	2014 Reinsurance premiums assumed US$'000	2014 Percentage of total	2013 Reinsurance premiums assumed US$'000	2013 Percentage of total
Line of business				
Property	$ 556,801	47.5%	$ 471,791	52.6%
Casualty	517,982	44.2%	271,741	30.3%
Specialty	76,757	6.5%	133,576	14.9%
Multi line	20,626	1.8%	20,061	2.2%
Total	$ 1,172,166	100.0%	$ 897,169	100.0%

Catastrophe risk

Catastrophe risk is the risk that the premium to be earned over the next twelve-month period from the catastrophe exposed reinsurance contracts (in-force, new or renewal) is insufficient to cover potential claim costs, claim adjustment expenses as well as the acquisition costs associated with those contracts that may originate from extreme or exceptional catastrophic events over the same period, such as hurricanes, earthquakes, windstorms, landslides and terrorist attacks.

Catastrophe risk is classified as a separate and distinct class of underwriting risk mainly due to its low frequency and high severity characteristics, its potential to affect numerous contracts simultaneously and inflict significant erosion of TMR AG's capital.

A core element of TMR AG's book of business continues to be property catastrophe reinsurance. Therefore, TMR AG has a high appetite for catastrophe risk as long as this business is adequately priced. The Company writes reinsurance risks for periods of mainly one year so that the contracts can be assessed for pricing and terms and adjusted to reflect any changes in market conditions.

The Company has made a series of strategic moves to diversify, spread and dilute its catastrophic exposures as well as optimise its underwriting portfolio through geographical diversification and by writing casualty and specialty lines and lower layers of business.

Catastrophe risk is the dominant contributor and driver of TMR AG's total risk. TMR AG's catastrophe exposures are managed by limiting the amount of exposure in any one geographic zone.

Retrocession is purchased to enhance the diversity of TMR AG's portfolio, maintain the net retention and even out peak exposures and more effectively manage the volatility of TMR AG's book of business.

4. RISK DISCLOSURES (continued)

A. Underwriting risk (continued)

Reserve risk

Reserve risk is the risk that the best (point) estimate of unpaid loss and loss adjustment expense reserves are inadequate to cover all future payments for the full settlement of claims from all prior accident years (on or prior to the valuation date).

Reserve risk is distinct from premium risk and is related to exposures that have already been earned and claims that have already been incurred but have not yet been reported ("IBNR") or fully settled.

TMR AG has focused on short-tailed property lines of business and has some appetite for longer-tailed casualty and specialty lines of business. TMR AG's risk limits are not defined separately for catastrophe risk, non-catastrophe premium risk and reserve risk, but are defined for insurance risk as a whole.

To manage reserving risk, TMR AG's actuarial team use a range of recognised actuarial techniques to project gross premiums written, monitor claims development patterns and stress test ultimate insurance liability balances. An independent actuary also performs a quarterly review for the Company.

A full analysis of loss and loss adjustment expense reserves is performed on a quarterly basis. The reserve analyses are reviewed by and discussed with underwriters, actuaries, claims, finance and senior management prior to submission to the Reserve Committee. The Reserve Committee is appointed by the Executive Committee to review the sufficiency of the estimated loss reserves and to appraise the adequacy and effectiveness of the loss reserving practices of TMR AG. The Reserve Committee is comprised of the Chief Executive Officer ("CEO"), Chief Risk Officer ("CRO"), Chief Operations Officer ("COO"), Chief Financial Officer ("CFO"), Claims unit leader and the reserving actuary.

The table below illustrates the development of the estimates of ultimate cumulative claims for the Company after the end of the underwriting year, illustrating how amounts estimated have changed from the first estimate made.

Estimate of gross ultimate liability

		2009 US$'000	2010 US$'000	2011 US$'000	2012 US$'000	2013 US$'000	2014 US$'000	Total US$'000
At end of accident year	$	43,975	191,957	515,356	324,587	306,172	431,405	
One year later		46,829	206,494	529,491	318,895	306,962		
Two years later		45,644	213,431	504,483	317,360			
Three years later		45,104	222,238	523,370				
Four years later		48,962	231,680					
Five years later		46,231						
Ultimate liability 2009 – 2014		46,231	231,680	523,370	317,360	306,962	431,405	1,857,008
Ultimate liability pre-2009								448,199
								2,305,207
Payments made 2009 – 2014		(45,713)	(156,415)	(445,656)	(232,918)	(174,836)	(112,598)	(1,168,136)
Payments made pre-2009								(437,766)
								(1,605,902)
Gross liability as at 31 December 2014	$							699,305

4. RISK DISCLOSURES (continued)

A. Underwriting risk (continued)

Reserve risk (continued)

Estimate of net ultimate liability

	2009 US$'000	2010 US$'000	2011 US$'000	2012 US$'000	2013 US$'000	2014 US$'000	Total US$'000
At end of accident year	$ 31,810	170,263	377,402	254,575	305,924	386,508	
One year later	38,565	169,950	389,664	251,442	306,438		
Two years later	38,249	167,065	369,326	246,004			
Three years later	38,064	181,156	389,245				
Four years later	42,028	190,598					
Five years later	39,312						
Ultimate liability 2009 – 2014	39,312	190,598	389,245	246,004	306,438	386,508	1,558,105
Ultimate liability pre-2009							395,776
							1,953,881
Payments made 2009 – 2014	(38,995)	(113,652)	(314,583)	(166,664)	(174,655)	(111,998)	(920,547)
Payments made pre-2009							(385,502)
							(1,306,049)
Net liability as at 31 December 2014	$						647,832

A summary of changes in outstanding losses and loss expenses for 2014 and 2013, including outstanding losses recoverable from reinsurers, is presented in Note 17.

The reserves established can be more or less than adequate to meet individual claims arising. The level of uncertainty varies significantly from class to class but can arise from inadequate case reserves for known large losses and catastrophes or from inadequate provision for IBNR. The Company believes that the loss reserves established are adequate, however a 1% improvement/deterioration in the total estimated losses would have an impact on profit before tax of $7.0 million gain/loss (2013 — $5.8 million). There was no change to the Company's reserving methodology during the year.

4. RISK DISCLOSURES (continued)

B. Market risk

Market risk refers to the risk of financial loss due to a change in the value of the financial assets in TMR AG's investment portfolio or a change of market risk factors that affect the value of such assets. TMR AG has identified interest rate risk, foreign exchange risk and revaluation risk as its main sources of market risk.

Interest rate risk
Interest rate risk is a function of general economic and financial market factors (such as the level, trend and volatility of interest rates) as well as the characteristics of the individual fixed interest securities held in TMR AG's investment portfolio. TMR AG cannot control the former but it can control the latter.

The company manages interest rate risk by primarily investing in short-duration financial assets and cash and cash equivalents.

Investment Guidelines are established to manage this risk. These guidelines set parameters within which the external investment manager must operate. The guidelines are set by the Investment Committee. The Investment Guidelines specify the limitations on the maximum percentage of assets that can be invested in a single issuer or in a single asset class. There are also specific limitations on the maximum maturity for various classes of fixed interest securities and the minimum requirements of credit ratings.

The investment mix of the fixed interest portfolios is as follows:

As at 31 December 2014	Fair value US$'000	Percentage of portfolio
US Treasuries	$ 305,657	22.0%
Non-US government	27,595	2.0%
Corporate	612,636	44.0%
Agency mortgage-backed	294,456	21.2%
Asset-backed	150,060	10.8%
Total fixed interest securities	$ 1,390,404	100.0%

As at 31 December 2013	Fair value US$'000	Percentage of portfolio
US Treasuries	$ 284,319	22.2%
US government agencies	26,302	2.1%
Non-US government	29,708	2.3%
Corporate	600,435	46.8%
Agency mortgage-backed	219,619	17.1%
Asset-backed	121,120	9.5%
Total fixed interest securities	$ 1,281,503	100.0%

4. RISK DISCLOSURES (continued)

B. Market risk (continued)

The sensitivity of the Company's fixed interest investment portfolio to interest rate movements is detailed below, assuming linear movements in interest rates:

Immediate shift in yield (basis points)	2014 US$'000	%	2013 US$'000	%
100	$ (41,547)	(3.0)	$ (36,824)	(2.9)
75	(31,126)	(2.2)	(27,739)	(2.2)
50	(20,702)	(1.5)	(18,566)	(1.5)
25	(10,302)	(0.7)	(9,314)	(0.7)
(25)	9,943	0.7	6,603	0.5
(50)	17,734	1.3	12,254	1.0
(75)	24,029	1.7	17,272	1.3
(100)	29,773	2.1	21,675	1.7

The durations of the managed portfolios are as follows:

	2014	2013
Fixed interest securities	2.93	2.92

Foreign exchange risk

The Company operates internationally and its exposures to foreign exchange risk arise primarily with respect to the United States dollar, Australian dollar, Euro and New Zealand dollar. The presentation currency of the Company is the United States dollar in which the Company reports its consolidated financial results. The effect of this on foreign exchange risk is that TMR AG is exposed to fluctuations in exchange rates for non-United States dollar denominated transactions and net assets.

4. RISK DISCLOSURES (continued)

B. Market risk (continued)

Foreign exchange risk (continued)

The Company hedges certain non-United States dollar liabilities with non-United States dollar assets to mitigate against this risk. The Company's assets and liabilities, categorised at their translated carrying amounts as at 31 December 2014, are as follows:

Assets	US$ US$'000	AU$ US$'000	Euro US$'000	NZ$ US$'000	Other US$'000	Total US$'000
Cash and cash equivalents	$ 86,097	$ 16,050	$ 22,294	$ 33,197	$ 10,122	$ 167,760
Funds withheld	39,226	–	13,543	–	32	52,801
Short term investments	137,905	114,834	284,787	–	–	537,526
Fixed interest securities, designated at fair value through profit and loss	–	–	–	27,595	–	27,595
Fixed interest securities, available for sale	1,362,809	–	–	–	–	1,362,809
Investments in catastrophe bonds, available for sale	34,136	–	6,250	–	–	40,386
Accrued interest receivable	5,939	1,276	33	351	–	7,599
Premiums receivable	377,918	21,495	37,523	661	36,986	474,583
Deposit assets	–	–	337,677	–	–	337,677
Prepaid reinsurance premiums	31,382	2,268	275	–	275	34,200
Fair value of derivative assets	1,806	–	–	–	–	1,806
Outstanding losses recoverable from reinsurers	50,928	204	–	–	341	51,473
Deferred acquisition expenses	178,517	8,061	1,971	91	12,888	201,528
Unearned profit commission	1,346	435	9	–	–	1,790
Deferred tax asset	–	468	–	–	3,462	3,930
Property and equipment	11,491	93	2,185	–	–	13,769
Intangible assets	6,939	–	251	–	–	7,190
Other assets	3,672	282	21,342	–	738	26,034
Total assets as at 31 December 2014	$ 2,330,111	$ 165,466	$ 728,140	$ 61,895	$ 64,844	$ 3,350,456

Liabilities	US$ US$'000	AU$ US$'000	Euro US$'000	NZ$ US$'000	Other US$'000	Total US$'000
Outstanding losses and loss expenses	$ 476,827	$ 17,420	$ 72,116	$ 123,699	$ 9,243	$ 699,305
Liability for collateral held on behalf of counterparties	4,928	20	310,302	–	–	315,250
Reinsurance balances payable	42,686	5,778	966	2,238	1,355	53,023
Deposit liabilities	–	–	337,677	–	–	337,677
Unearned premiums	559,251	50,229	26,681	756	51,910	688,827
Fair value of derivative liabilities	2,550	–	–	–	–	2,550
Deferred commission income	2,506	289	15	–	30	2,840
Accounts payable and accrued expenses	13,715	2,545	–	–	2,988	19,248
Retirement benefit obligation	–	–	–	–	2,874	2,874
Deferred fee income	3,599	–	–	–	–	3,599
Deferred tax liability	948	–	–	–	–	948
Note payable	25,000	–	–	–	–	25,000
Total liabilities as at 31 December 2014	$ 1,132,010	$ 76,281	$ 747,757	$ 126,693	$ 68,400	$ 2,151,141

4. RISK DISCLOSURES (continued)

B. Market risk (continued)

Foreign exchange risk (continued)

The Company's assets and liabilities, categorised at their translated carrying amounts as at 31 December 2013, are as follows:

Assets	US$ US$'000	AU$ US$'000	Euro US$'000	NZ$ US$'000	Other US$'000	Total US$'000
Cash and cash equivalents	$ 35,404	$ 7,119	$ 25,423	$ 51,667	$ 7,612	$ 127,225
Funds withheld	21,790	–	3,388	24,331	–	49,509
Short term investments	177,515	109,315	–	–	–	286,830
Fixed interest securities, designated at fair value through profit and loss	–	–	–	29,708	–	29,708
Fixed interest securities, available for sale	1,251,795	–	–	–	–	1,251,795
Investments in catastrophe bonds, available for sale	49,221	–	18,184	–	–	67,405
Accrued interest receivable	6,525	926	140	369	–	7,960
Premiums receivable	290,973	15,878	45,316	482	2,785	355,434
Prepaid reinsurance premiums	24,243	615	–	–	80	24,938
Fair value of derivative assets	14,039	–	–	–	–	14,039
Outstanding losses recoverable from reinsurers	30,082	336	–	–	251	30,669
Deferred acquisition expenses	127,469	5,782	1,655	42	968	135,916
Unearned profit commission	4,314	433	10	–	–	4,757
Deferred tax asset	–	476	–	–	3,762	4,238
Property and equipment	10,698	123	1,886	–	–	12,707
Intangible assets	5,071	–	196	–	–	5,267
Other assets	5,328	21	62	–	–	5,411
Total assets as at 31 December 2013	$ 2,054,467	$ 141,024	$ 96,260	$ 106,599	$ 15,458	$ 2,413,808

Liabilities	US$ US$'000	AU$ US$'000	Euro US$'000	NZ$ US$'000	Other US$'000	Total US$'000
Outstanding losses and loss expenses	$ 387,055	$ 18,589	$ 39,913	$ 132,641	$ 5,493	$ 583,691
Liability for collateral held on behalf of counterparties	22,846	32	–	–	–	22,878
Reinsurance balances payable	17,405	–	688	48	81	18,222
Unearned premiums	411,713	37,999	24,630	371	8,582	483,295
Fair value of derivative liabilities	10,665	–	–	–	–	10,665
Deferred commission income	1,564	262	–	–	12	1,838
Accounts payable and accrued expenses	13,197	2,628	–	–	2,542	18,367
Retirement benefit obligation	–	–	–	–	814	814
Deferred fee income	979	–	–	–	–	979
Total liabilities as at 31 December 2013	$ 865,424	$ 59,510	$ 65,231	$ 133,060	$ 17,524	$ 1,140,749

4. RISK DISCLOSURES (continued)

B. Market risk (continued)

Foreign exchange risk (continued)

As at 31 December 2014, the Company used closing rates of exchange for major currencies of: US$ 1: AU$ 1.22; US$ 1: Euro 0.82; and US$ 1: NZ$ 1.28.

The impact on net income of a proportional foreign exchange movement of 10% up and 10% down against the United States dollar at the year end closing rates, applied on foreign currency net assets, would be an increase or decrease of $0.1 million (2013: $8.4 million). This analysis assumes that all other variables, in particular interest rates, remain constant and that the underlying valuation of assets and liabilities in their base currency is unchanged.

Revaluation risk

The Company is subject to revaluation risk as a result of the translation into the Company's United States dollar reporting currency of the consolidated balance sheet of the Company's Swiss operation and Australian branch, whose functional currencies are the Euro and the Australian dollar, respectively.

C. Credit risk

Credit risk is the risk of potential financial loss due to unexpected default, or deterioration in the credit ratings, of the debtors or counterparties of TMR AG.

Asset credit risk may arise from the unexpected default, or deterioration in the credit ratings, of the debtors or issuers of the financial instruments (e.g. bonds, mortgage backed securities ("MBS"), asset backed securities ("ABS")) that TMR AG holds in its investment portfolio, which may cause them to lose value.

Credit risk on premiums receivable from cedants is managed by conducting business with reputable broking organisations, with whom the Company has established relationships, and by rigorous cash collection procedures. The Company also has a broker approval process in place.

The table below presents an analysis of the Company's major exposures to counterparty credit risk, based on their rating.

2014	Cash and cash equivalents US$'000	Funds withheld US$'000	Investments (1) US$'000	Premiums receivable US$'000	Deposit assets US$'000	Losses recoverable US$'000	Derivative assets US$'000
AAA	$ –	$ –	$ 599,122	$ –	$ –	$ –	$ –
AA+, AA, AA-	63,712	34,103	819,640	35,492	–	–	–
A+, A, A-	104,048	13,281	287,954	179,406	–	43,874	–
BBB+, BBB, BBB-	–	3,164	221,214	32,204	–	–	–
Other/Unknown (2)	–	2,253	40,386	227,481	337,677	7,599	1,806
Total	$ 167,760	$ 52,801	$ 1,968,316	$ 474,583	$ 337,677	$ 51,473	$ 1,806

2013	Cash and cash equivalents US$'000	Funds withheld US$'000	Investments (1) US$'000	Premiums receivable US$'000	Deposit assets US$'000	Losses recoverable US$'000	Derivative assets US$'000
AAA	$ –	$ –	$ 326,338	$ –	$ –	$ –	$ –
AA+, AA, AA-	73,451	28,214	799,826	6,335	–	–	–
A+, A, A-	53,774	16,815	292,480	227,684	–	–	–
BBB+, BBB, BBB-	–	3,164	149,689	2,387	–	–	–
Other/Unknown (2)	–	1,316	67,405	119,028	–	30,669	14,039
Total	$ 127,225	$ 49,509	$ 1,635,738	$ 355,434	$ –	$ 30,669	$ 14,039

(1) Investments comprise of short term investments, fixed interest securities and catastrophe bonds

(2) Losses recoverable, deposit assets and derivative assets classified as "Other/Unknown" are fully collateralised

4. RISK DISCLOSURES (continued)

C. Credit risk (continued)

The following table shows premiums receivable that are past due but not impaired:

	2014 US$'000	2013 US$'000
Less than 90 days past due	$ 16,754	$ 4,550
Between 91 and 180 days past due	341	370
Over 180 days past due	309	463
Total	$ 17,404	$ 5,383

TMR AG does not embrace significant credit risk and therefore invests mostly in highly-rated bonds to limit the amounts of credit exposure with respect to particular rating categories and any one issuer.

TMR AG is also exposed to various counterparty credit risks in the course of conducting its underwriting activities. For example, it may have a significant amount of premiums receivables held by its brokers, clients or retrocessionaires. It may have posted funds or collateral with clients or other parties as required by the reinsurance contracts. It may have cash deposits in a number of banking institutions. A retrocessionaire may fail to meet its obligations under the retrocession contracts.

This type of credit risk is called counterparty credit risk, which is modeled as a set of frequency-severity distributions resulting from the scenario analyses conducted and maintained by the ERM Unit using TMR AG's risk register.

To control and mitigate counterparty credit risk, the rules of the Risk Appetite and Risk Limit policy concerning counterparty credit risk apply. Most of the retrocessions are either collateralised or placed with highly-rated reinsurers. TMR AG transacts most of its reinsurance business through major and reputable brokers and spreads its cash deposits across a number of reputable commercial banks.

In addition, a retrocession arrangement may be made with a retrocessionaire who does not meet the criteria in the Risk Appetite and Risk Limit Policy if collateral with an equivalent or better rating than the minimum A- rating is obtained for an amount at least equal to 100% of the retroceded limit.

At 31 December 2014, the Company's credit risk exposure in relation to losses recoverable from unrated counterparties to reinsurance ceded agreements is $7.6 million (2013 — $30.7 million), which is fully collateralised by letters of credit and assets held in trusts by the reinsurance counterparty for the benefit of the Company.

At 31 December 2014, the Company's exposure to credit risk of the counterparties to catastrophe swap agreements is $1.8 million (2013 — $14.0 million), which is fully collateralised by letters of credit and assets held in trusts by the reinsurance counterparty for the benefit of the Company.

D. Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its contractual obligations in a timely manner due to the inability of its investment assets to be sold without causing a significant movement in the price and with minimum loss of value.

TMR AG aims to keep liquidity risk as low as possible so that the Company will be able to meet its contractual obligations in a timely manner, even under stressed scenarios such as following a major catastrophic event.

Liquidity risk can be an outcome or consequence of the Company's exposures to catastrophe risk and market risk. However, for the purpose of monitoring risk limits, liquidity risk is included in and shares the risk limit with the market risk category.

TMR AG's investment policy puts the safety and liquidity of its invested assets before and above its pursuit of investment earnings. The Company holds a significant amount of its assets in cash, cash equivalents and other short term investments. In addition, its other investments are mainly comprised of fixed interest securities such as United States treasury and agency bonds, high-rated corporate bonds, asset-backed securities and mortgage backed securities issued by United States government-sponsored agencies. Almost all of these fixed interest securities are of high credit quality and most of them are also highly liquid and can be sold on the open market quickly with little or no impact on prices.

4. RISK DISCLOSURES (continued)

D. Liquidity risk (continued)

The maturity dates of the Company's fixed interest portfolio are as follows:

	2014 US$'000	2013 US$'000
Less than one year	$ 88,060	$ 114,322
Between one and two years	206,976	227,985
Between two and three years	300,874	209,194
Between three and four years	122,990	213,577
Between four and five years	92,107	116,914
Over five years	134,881	58,772
Asset backed and mortgage backed securities	444,516	340,739
Total fixed interest securities	$ 1,390,404	$ 1,281,503

The maturity profile of the financial liabilities of the Company is as follows:

	Years until liability becomes due				
As at 31 December 2014	Less than one US$'000	One to three US$'000	Three to five US$'000	Over five US$'000	Total US$'000
Outstanding losses and loss expenses	$ 227,319	$ 217,888	$ 100,481	$ 153,617	$ 699,305
Liability for collateral held on behalf of counterparties	79,850	119,954	65,047	50,399	315,250
Reinsurance balances payable	51,428	1,595	–	–	53,023
Deposit liabilities	74,901	119,954	65,047	77,775	337,677
Fair value of derivative liabilities	2,550	–	–	–	2,550
Accounts payable and accrued expenses	17,362	1,361	525	–	19,248
Note payable	–	25,000	–	–	25,000
Total	$ 453,410	$ 485,752	$ 231,100	$ 281,791	$ 1,452,053

	Years until liability becomes due				
As at 31 December 2013	Less than one US$'000	One to three US$'000	Three to five US$'000	Over five US$'000	Total US$'000
Outstanding losses and loss expenses	$ 192,663	$ 198,628	$ 80,885	$ 111,515	$ 583,691
Liability for collateral held on behalf of counterparties	22,878	–	–	–	22,878
Reinsurance balances payable	18,222	–	–	–	18,222
Fair value of derivative liabilities	10,665	–	–	–	10,665
Accounts payable and accrued expenses	17,520	697	150	–	18,367
Total	$ 261,948	$ 199,325	$ 81,035	$ 111,515	$ 653,823

While the estimation of the ultimate liability for outstanding losses and loss expenses is complex and incorporates a significant amount of judgment, the timing of payment of outstanding losses and loss expenses is also uncertain and cannot be predicted as simply as for other financial liabilities. Actuarial and statistical techniques, past experience and management's judgment have been used to determine a likely settlement pattern.

4. RISK DISCLOSURES (continued)

E. Operational risk

Operational risk refers to the risk of financial or other loss, or potential damage to the Company's reputation resulting from inadequate or failed internal processes, people and systems or from external events.

The following are some of the examples of operational risks facing the Company:

- legal and compliance risk;
- information technology risk;
- loss of key officers or employees;
- system failure and business disruption;
- execution errors;
- employment practice liability; and
- internal and external fraud.

Through the scenario analysis process, TMR AG has also made efforts to identify and assess the financial impact of various operational risks. These risks are managed through internal control and monitoring tools such as the risk register.

TMR AG has a low appetite for operational risk. Unlike underwriting and investment risks, operational risk has no upside and only downside and therefore should be avoided if feasible and cost-effective.

Operational risk is difficult to quantify but can be controlled through appropriate corporate governance and internal control measures. The Company has developed a number of policies and procedures aimed to control or mitigate the negative impact that may potentially result from operational risk events.

F. Strategic risk

Strategic risk is the risk to earnings or capital arising from adverse business decisions or improper implementation of those decisions or inability to act in response to business opportunities or to adapt to changes in its operating environment.

The following are examples of strategic risks facing the Company:

- industry overcapacity that results in prolonged soft market conditions;
- flawed response plans to market price cycles, including maintaining premium volume and market share during market declines and improper performance incentives for underwriters and others;
- planning processes (e.g., plan loss ratio setting, target premium volume) that are not fully integrated with internal financial indicators and external benchmarks or are based on forecasts that are inherently optimistic;
- expansion into new lines or territories with inadequate underwriting expertise, pricing systems, price monitoring capabilities, understanding of regulatory requirements, claims handling staff; and
- failure of large information technology and infrastructure projects to achieve the specified goals.

Strategic risks can be split into two components, one being the risk emanating from making business decisions (active) such as the last two risks in the list above, and the other emanating from a lack of response to industry challenges (passive) such as the first three risks in the list above.

Strategic risk is especially important for TMR AG because it has aimed to improve and optimise the risk profile of its business by growing those lines of business which help to diversify its current concentration in catastrophe exposures. Therefore it has strong interest in growing its current book of business profitably and developing new lines of business or markets.

Although there is inherent risk in strategic expansion into new lines and geographical areas, there are also many benefits. In setting TMR AG's appetite for this risk, both the risk and the benefits are taken into consideration.

TMR AG identifies and assesses various strategic risks within its risk register and performs scenario analyses to evaluate the potential financial impact that may arise from such risks.

The responsibility of risk control and mitigation rests with the CEO, who is assisted by the CRO. New business will be evaluated periodically to determine whether or not it has met the strategic goals of the Company. Those that do not meet the strategic goals will be subject to review for remedial action or for possible exit. Such review can be initiated by the CEO or may be automatically triggered.

4. RISK DISCLOSURES (continued)

Capital model

The Company attempts to identify and appropriately define all material risks internal and external to the Company, understand the manifestations of each risk, and ensure that risks are managed, controlled or mitigated. To the extent that a risk is not fully mitigated, the Company will measure the financial impact of the risk and include it in its capital adequacy assessment and measurement framework. The internal capital model covers all of the material risks identified above, including regulatory obligations.

Each of the material risks is measured and modeled by TMR AG's internal or third-party vendor models. The results are aggregated into a probability distribution of the Company's profit and loss (via Monte Carlo simulation) in order to provide a holistic view of all risks facing the Company. In the risk aggregation process, both risk correlation and diversification effects are taken into account. From the probability distribution, the Company's overall capital requirements using various risk measures and under various capital standards can be determined.

5. CASH AND CASH EQUIVALENTS

	2014 US$'000	2013 US$'000
Cash at bank	$ 167,760	$ 92,165
Short term fixed deposits	–	35,060
	$ 167,760	$ 127,225

Cash and cash equivalents represent cash at bank, short term fixed deposits and other short term highly liquid investments that are subject to insignificant risk of changes in fair value.

6. FUNDS WITHHELD

Funds withheld at 31 December 2014 totalling $52.8 million (2013 — $49.5 million) represents funds furnished by the Company to its cedants and held in trust by trustees. The funds do not trigger any cash flows and cannot be realised by cedants without the Company's consent. In the event of default on such a deposit, the Company's reinsurance commitment would be reduced to the same extent.

7. INVESTMENTS

(a) Short term investments

The Company's short term investments represent bank deposits and investments in money market funds with an original term of greater than 90 days but less than one year. At 31 December, short term investments comprised of the following:

	2014 US$'000	2013 US$'000
Money market funds	$ 422,691	$ 177,515
Fixed deposits	114,835	109,315
	$ 537,526	$ 286,830

7. INVESTMENTS (continued)

(b) Fixed interest securities, designated at fair value through profit and loss

The Company's fixed interest securities designated at fair value through profit and loss relate to non-US government bonds, with ratings of AA+ as assigned by Standard & Poor's and mature in 2015. These securities are measured at fair value with all changes from one accounting period to the next being recorded in the consolidated statement of comprehensive income.

The book value, fair value and unrealised gains and losses on fixed interest securities designated at fair value through profit and loss are as follows:

At 31 December 2014	Amortised cost US$'000	Unrealised gains US$'000	Unrealised losses US$'000	Fair value US$'000
Non-US government	$ 29,809	$ –	$ (2,214)	$ 27,595

At 31 December 2013	Amortised cost US$'000	Unrealised gains US$'000	Unrealised losses US$'000	Fair value US$'000
Non-US government	$ 30,879	$ –	$ (1,171)	$ 29,708

(c) Fixed interest securities, available for sale

(i) The amortised cost, fair value and unrealised gains and losses of investments in available for sale fixed interest securities are as follows:

At 31 December 2014	Amortised cost US$'000	Unrealised gains US$'000	Unrealised losses US$'000	Fair value US$'000
US Treasuries	$ 301,760	$ 4,296	$ (399)	$ 305,657
Corporate	610,663	3,626	(1,653)	612,636
Agency mortgage-backed	292,743	3,493	(1,780)	294,456
Asset-backed	150,124	308	(372)	150,060
	$ 1,355,290	$ 11,723	$ (4,204)	$ 1,362,809

At 31 December 2013	Amortised cost US$'000	Unrealised gains US$'000	Unrealised losses US$'000	Fair value US$'000
US Treasuries	$ 279,588	$ 6,601	$ (1,870)	$ 284,319
US government agencies	25,498	804	–	26,302
Corporate	598,499	4,945	(3,009)	600,435
Agency mortgage-backed	224,625	2,849	(7,855)	219,619
Asset-backed	121,032	452	(364)	121,120
	$ 1,249,242	$ 15,651	$ (13,098)	$ 1,251,795

In the normal course of business, available for sale fixed interest securities and cash and cash equivalents with fair value of $301.9 million as at 31 December 2014 (2013 — $54.1 million), were deposited in trust for the benefit of ceding companies and credit institutions.

7. INVESTMENTS (continued)

(c) Fixed interest securities, available for sale (continued)

(ii) The amortised cost and estimated fair value of available for sale fixed interest securities as of 31 December 2014, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to repay obligations with or without prepayment penalties.

	Amortised cost	Fair value
	US$'000	US$'000
Within one year	$ 59,888	$ 60,465
From one to five years	719,829	722,948
From five to ten years	132,706	134,880
Subtotal	912,423	918,293
Agency mortgage-backed	292,743	294,456
Asset-backed	150,124	150,060
Total	$ 1,355,290	$ 1,362,809

(iii) The Company's available for sale fixed interest securities carry a weighted average credit rating of AA- as assigned by Standard & Poor's. The minimum credit rating of securities within the available for sale fixed interest securities portfolio is BBB-.

The rating profile of the Company's available for sale fixed interest securities is shown in the table below.

	2014	2013
	US$'000	US$'000
AAA	$ 177,524	$ 148,823
AA+, AA ,AA-	676,118	660,803
A+, A, A-	287,954	292,480
BBB+, BBB, BBB-	221,213	149,689
	$ 1,362,809	$ 1,251,795

(d) Investments in catastrophe bonds, available for sale

The Company's investments in catastrophe bonds comprise of nine bonds. All catastrophe bonds with the exception of one are rated by internationally recognised rating agencies. For those which are rated they have an equivalent Standard and Poor's credit rating ranging from BB+ to B-. Maturities on these bonds range from 2015 to 2017. The issuers of these securities have used the proceeds raised to collateralise certain catastrophe reinsurance obligations, mainly North American and European wind and earthquake risks. The investment in these securities is therefore at risk of loss, in whole or in part, if a covered catastrophe occurs.

The cost, fair value and unrealised gains and losses of investments in catastrophe bonds were as follows:

As at 31 December 2014	Cost US$'000	Unrealised gains US$'000	Unrealised losses US$'000	Fair value US$'000
Catastrophe bonds	$ 40,078	$ 312	$ (4)	$ 40,386

As at 31 December 2013	Cost US$'000	Unrealised gains US$'000	Unrealised losses US$'000	Fair value US$'000
Catastrophe bonds	$ 66,444	$ 969	$ (8)	$ 67,405

Unrealised losses on catastrophe bonds held in 2014 and 2013 comprise an accumulation of unrealised losses on a security by security basis caused by general market movements rather than credit events. As of 31 December 2014 and 2013, the Company had no unrealised losses caused by other factors or circumstances, including issuer specific credit risks or due to exposures to catastrophe events.

7. INVESTMENTS (continued)

(e) Components of investment income

The components of net investment income for the years ended 31 December 2014 and 2013 were as follows:

	2014 US$'000	2013 US$'000
Interest on available for sale fixed interest securities	$ 32,608	$ 30,727
Interest on fixed interest securities designated through profit and loss	1,749	2,992
Amortisation of available for sale fixed interest securities	(7,190)	(6,951)
Realised gains on available for sale fixed interest securities	3,309	2,413
Unrealised loss on fixed interest securities designated through profit and loss	(800)	(1,782)
Investment management fees	(1,246)	(1,158)
Subtotal	28,430	26,241
Interest on cash and cash equivalents	1,015	1,698
Interest on short term investments	4,129	4,549
Interest on funds withheld	2,846	1,784
Net investment income	$ 36,420	$ 34,272

8. FAIR VALUE MEASUREMENTS

Fair value measurements are established in accordance with the framework provided by IFRS 13, *Financial Instruments: Disclosures*. IFRS 13 establishes a fair value hierarchy with the highest priority given to quoted prices in active markets and the lowest priority given to unobservable inputs.

The following are the levels within the fair value hierarchy.

- Level 1 — Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these instruments does not entail a significant degree of judgment.
- Level 2 — Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals, broker quotes and certain pricing indices.
- Level 3 — Valuations based on inputs that are unobservable and significant to the overall fair value measurement. These measurements include circumstances where there is little, if any, market activity for the asset or liability. In these cases, significant management assumptions can be used to establish management's best estimate of the assumptions used by other market participants in determining the fair value of the asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement of the asset or liability. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgement, and the Company considers factors specific to the asset or liability.

8. FAIR VALUE MEASUREMENTS (continued)

Below is a summary of the assets and liabilities that are measured at fair value on a recurring basis:

As at 31 December 2014	Total US$'000	Quoted prices in active markets for identical assets US$'000	Other observable inputs US$'000	Unobservable inputs US$'000
		(Level 1)	(Level 2)	(Level 3)
Financial assets				
Short term investments	$ 537,526	$ 537,526	$ –	$ –
Fixed interest securities				
US Treasuries	305,657	305,657	–	–
Non-US government	27,595	–	27,595	–
Corporate	612,636	–	612,636	–
Agency mortgage-backed	294,456	–	294,456	–
Asset-backed	150,060	–	150,060	–
Investments in catastrophe bonds	40,386	–	40,386	–
Derivative assets	1,806	–	–	1,806
Total	1,970,122	843,183	1,125,133	1,806
Financial liabilities				
Derivative liabilities	(2,550)	–	–	(2,550)
Total	$ 1,967,572	$ 843,183	$ 1,125,133	$ (744)

As at 31 December 2013	Total US$'000	Quoted prices in active markets for identical assets US$'000	Other observable inputs US$'000	Unobservable inputs US$'000
		(Level 1)	(Level 2)	(Level 3)
Financial assets				
Short term investments	$ 286,830	$ 286,830	$ –	$ –
Fixed interest securities				
US Treasuries	284,319	284,319	–	–
US government agencies	26,302	–	26,302	–
Non-US government	29,708	–	29,708	–
Corporate	600,435	–	600,435	–
Agency mortgage-backed	219,619	–	219,619	–
Asset-backed	121,120	–	121,120	–
Investments in catastrophe bonds	67,405	–	67,405	–
Derivative assets	14,039	–	–	14,039
Total	1,649,777	571,149	1,064,589	14,039
Financial liabilities				
Derivative liabilities	(10,665)	–	–	(10,665)
Total	$ 1,639,112	$ 571,149	$ 1,064,589	$ 3,374

During the year, there were no transfers made between Levels 1, 2 and 3 of the fair value hierarchy.

8. FAIR VALUE MEASUREMENTS (continued)

Short term investments

Short term investments, which comprise securities due to mature within one year of the date of purchase, that are traded in active markets are classified within Level 1 as fair values are based on quoted market prices.

Fixed interest securities

Fixed interest securities included in Level 1 consist of the Company's investments in United States Treasuries. Investments in fixed interest securities included in Level 2 consist of the Company's investments in United States government agencies, non-United States government, corporate, agency mortgage-backed and asset-backed securities. The Company's fixed interest securities are priced using pricing services, such as index providers and pricing vendors. The pricing vendors provide pricing for a high volume of liquid securities that are actively traded. For securities that do not trade on an exchange, the pricing services generally utilise market data and other observable inputs in pricing models to determine prices. Prices are generally verified using third party data. The Company considers these Level 2 inputs as they are corroborated with other externally obtained information. The techniques generally used to determine the fair value of fixed interest securities are detailed below by asset class.

US Treasuries

These securities are primarily priced by pricing vendors. When pricing these securities, the vendor may utilise daily data from many real time market sources, including active trades, as such, the Company considers its United States Treasury fixed interest securities as Level 1.

US government agencies

The issuers of the Company's agency fixed interest securities primarily consist of the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and other agencies' debentures. Fixed interest securities included in agencies are primarily priced by pricing vendors. When evaluating these securities, the vendor may gather information from market sources and integrate other observations from markets and sector news. Evaluations are updated by obtaining broker dealer quotes and other market information including actual trade volumes, when available. These are considered observable inputs therefore, the fair value of the securities are classified as Level 2.

Non-US government

Fixed interest investments included in non-United States government are primarily priced by pricing vendors. When evaluating these securities, the vendor may gather information from market sources and integrate other observations from markets and sector news. Evaluations are updated by obtaining broker dealer quotes and other market information including actual trades, when available. For securities in which trade volume is low, the pricing vendor may also utilise data from more frequently traded securities with similar attributes. These are considered observable inputs therefore, the fair value of the securities are classified as Level 2.

Corporate

The issuers consist of well known corporate issuers with ratings ranging from BBB to AAA assigned by major rating agencies. The Company's corporate fixed interest securities are primarily priced by pricing vendors and are considered as Level 2. When evaluating these securities, the vendor may gather information from market sources regarding the issuer of the security, obtain credit data, as well as other observations from markets and sector news. Evaluations are updated by obtaining broker dealer quotes and other market information including actual trades, when available. The pricing vendor may also consider the specific terms and conditions of the securities, including any specific features which may influence risk. These are considered observable inputs therefore, the fair value of the securities are classified as Level 2.

Agency mortgage-backed

The issuers of the Company's agency mortgage-backed fixed interest securities primarily consist of the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Government National Mortgage Association and other agencies. The Company's agency mortgage-backed fixed interest securities are primarily priced by pricing vendors utilising daily inputs from the active TBA market which is extremely liquid, as well as the United States treasury market. The vendor inputs may also utilise additional information, such as the weighted average maturity, weighted average coupon and other pool level data which is provided by the sponsoring agency. Valuations may also be corroborated by daily active market quotes. These are considered observable inputs therefore, the fair value of the securities are classified as Level 2.

Asset-backed

The underlying collateral for the Company's asset-backed fixed interest securities primarily consists of automobile and credit card loans. Securities held in this sector are primarily priced by pricing vendors and are considered as Level 2 by the Company as inputs are observable. The pricing vendor may apply dealer quotes and other available trade information such as bid and offers, prepayment spreads which may be adjusted for the underlying collateral or current price data, the United States treasury curve, swap curve and TBA values as well as cash settlement.

8. FAIR VALUE MEASUREMENTS (continued)

Investments in catastrophe bonds

The Company's investments in catastrophe bonds are recorded at fair value based on quoted market prices, or when such prices are not available, by reference to published broker or underwriter bid and offer indications. As such, the Company considers its investments in catastrophe bonds as Level 2.

Fair value of derivative assets and liabilities

Included in Level 3 are the Company's catastrophe swap derivatives. Catastrophe swap derivatives are stated at fair value as estimated by management primarily based on the unexpired period of risk, an evaluation of the probability of loss and other unobservable inputs. The Company's catastrophe swap derivatives are initially priced at fair value in a non-stressed market and amortisation reflects the change in fair value in the absence of any loss events. The fair value of derivative contracts is sensitive to loss triggering events. In the event of a loss, the Company would adjust the fair value of the derivative to account for a recovery or liability in accordance with the contract terms and the estimate of exposure under the contract. The inputs for catastrophe swap derivatives are purely based on management's evaluation and are unobservable.

Below is a reconciliation of the beginning and ending balances of derivative assets and liabilities measured at fair value on a recurring basis using Level 3 inputs:

Fair value of derivative assets and liabilities

	Derivative assets US$'000	Derivative liabilities US$'000	Net US$'000
As at 31 December 2012	$ 11,499	$ (4,432)	$ 7,067
Unrealised (losses) gains included in net derivative expense	(14,190)	18,806	4,616
Realised (losses) gains included in net derivative expense	(35,523)	13,371	(22,152)
Purchases	52,253	—	52,253
Sales	—	(38,410)	(38,410)
As at 31 December 2013	14,039	(10,665)	3,374
Unrealised (losses) gains included in net derivative expense	(1,752)	7,210	5,458
Realised (losses) gains included in net derivative expense	(18,557)	25,513	6,956
Purchases	8,076	—	8,076
Sales	—	(24,608)	(24,608)
As at 31 December 2014	$ 1,806	$ (2,550)	$ (744)

As at 31 December 2014, derivative assets comprise of unearned derivative expense of $1.8 million (2013 — $9.9 million) and derivative recoverable of $nil (2013 — $4.1 million).

As at 31 December 2014, derivative liabilities comprise of unearned derivative income of $2.5 million (2013 — $10.7 million).

The following methods and assumptions are used by the Company in estimating fair value disclosures for other financial instruments:

Cash and cash equivalents, short term investments and liability for collateral held on behalf of counterparties

The carrying amounts reported in the consolidated balance sheet for these instruments approximate their fair values.

Other assets and liabilities

The fair value of funds withheld, accrued interest receivable, premiums receivable, deposit assets, other assets, reinsurance balances payable, deposit liabilities, accounts payable, note payable and accrued expenses approximates their carrying value due to their short term nature. The estimates of fair values are subjective in nature and are not necessarily indicative of the amounts that the Company would actually realise in a current market exchange. However, any differences would not be expected to be material. Certain instruments such as prepaid reinsurance premiums, outstanding losses recoverable from reinsurers, deferred acquisition expenses, unearned profit commission, property and equipment, intangible assets, other assets, outstanding losses and loss expenses, unearned premiums, deferred commission income and deferred fee income are excluded from fair value disclosure. Thus, the total fair value amounts cannot be aggregated to determine the underlying economic value of the Company.

9. NET DERIVATIVE INCOME

Net derivative income consists of catastrophe swap derivative premiums earned of $16.5 million (2013 — $21.7 million net expense) and recoveries made under the Company's catastrophe swap derivatives of $2.2 million (2013 — $4.2 million).

As discussed in Note 4 under 'Credit Risk', the Company's maximum exposure to unrated counterparties is fully collateralised.

10. COLLATERAL HELD ON BEHALF OF COUNTERPARTIES

Collateral received in the form of cash, which is not legally segregated from the Company, is recognised as an asset in the consolidated balance sheet with a corresponding liability for the repayment. In addition, amounts arising from the application of the deposit method of accounting to ceded retrocession or reinsurance contracts are included.

11. REINSURANCE AND OTHER ASSETS

	2014 US$'000	2013 US$'000
Premiums receivable	$ 474,583	$ 355,434
Deposit assets	337,677	–
Accrued interest receivable	7,599	7,960
Outstanding losses recoverable from reinsurers	51,473	30,669
Other assets	26,034	5,411
	$ 897,366	$ 399,474

The current and non-current portions are expected to be as follows:

	2014 US$'000	2013 US$'000
Current portion	$ 518,296	$ 355,146
Non-current portion	379,070	44,328
	$ 897,366	$ 399,474

The Company assesses its reinsurance receivables for impairment on a quarterly basis by reviewing counterparty payments history. The carrying amounts disclosed above reasonably approximate to the fair value at the reporting date.

12. DEPOSIT CONTRACTS

Effective 1 July 2014, Tokio Millennium Re AG — Bermuda branch ("TMRB") entered into a loss portfolio transfer agreement ("LPTA"). TMRB accepted, on a fully collateralised basis, the liability of a loss portfolio with an aggregate limit capped at Euro 366 million. Through a quota share retrocession agreement, TMRB retroceded 100% of its liability to another party. TMRB is compensated through a ceding commission as a percentage of the initial aggregate limit, which is earned from the LPTA effective date to expected contract termination date.

13. DEFERRED ACQUISITION EXPENSES AND DEFERRED COMMISSION INCOME

The reconciliation of opening and closing deferred acquisition expenses incurred and ceded is as follows:

	2014				2013			
	Gross US$'000	Ceded US$'000	Other US$'000	Net US$'000	Gross US$'000	Ceded US$'000	Other US$'000	Net US$'000
At 1 January	$ 135,916	$ (1,838)	$ (188)	$ 133,890	$ 108,756	$ (1,756)	$ (4)	$ 106,996
Expense deferred	304,198	(15,330)	(1,017)	287,851	183,128	(9,112)	(119)	173,897
Amortisation	(235,780)	14,350	503	(220,927)	(155,496)	9,317	(65)	(146,244)
Other	(2,806)	(22)	–	(2,828)	(472)	(287)	–	(759)
At 31 December	$ 201,528	$ (2,840)	$ (702)	$ 197,986	$ 135,916	$ (1,838)	$ (188)	$ 133,890

The current and non-current portions are expected to be as follows:

	2014 US$'000	2013 US$'000
Current portion	$ 145,122	$ 111,957
Non-current portion	52,864	21,933
	$ 197,986	$ 133,890

14. TAXATION

The Swiss operation is subject to Swiss cantonal and federal taxes of 21.15% (2013: 21.15%). The Company has branches that operate in Australia and in the United States which are subject to income taxes at statutory rates of 30% and 35%, respectively.

The Company has subsidiaries and a branch in Bermuda which are not subject to income or capital gains tax under the current Bermuda law. In the event there is a change in current law such that income or capital gains are imposed, the Company would be exempt from such tax until March 2035 pursuant to the Bermuda Exempted Undertakings Tax Protection Act of 1966.

Income tax

The Swiss standard rate of tax is 21.15% (2013: 21.15%), whereas the tax charges for the year ended 31 December 2014 as a percentage of profit before tax is 4.35% (2013: 1.83%). The reasons for this difference are explained below:

	2014 US$'000	2013 US$'000
Profit before income tax	$ 74,514	$ 142,640
Tax calculated at the standard corporation tax rate applicable in Switzerland: 21.15% (2013: 21.15%)	15,759	30,168
Non-taxable income	(20,672)	(29,949)
Tax rate differences on foreign branches	954	410
Deferred tax adjustment in respect of prior years	1,589	1,820
Tax rate adjustment	5,623	–
Other	(9)	165
Actual expense for income tax	$ 3,244	$ 2,614

The following table presents the major components of the income tax expense:

	2014 US$'000	2013 US$'000
Corporation tax charge for the year	$ 3,410	$ 2,354
Deferred tax credit for the year	(1,755)	(1,560)
Adjustments in respect of prior year deferred tax	1,589	1,820
Total tax charge	$ 3,244	$ 2,614

14. TAXATION (continued)

Deferred tax

The Company's deferred tax asset results from an operating loss carry forward and IFRS versus tax basis accounting differences. A deferred tax asset of $1.6 million has been written down to nil during the year (2013: $1.8 million) for tax benefits which management determined will not be realised against future taxable profits. The deferred tax asset of $3.9 million as at 31 December 2014 (2013: $4.2 million) has been recognised as the Company expects the business to produce taxable profits in future periods against which the tax losses can be offset.

In accordance with IAS 12, to avoid the need for detailed scheduling of the timing of the reversal of each temporary difference, TMR AG has offset its deferred tax asset against its deferred tax liability, as they relate to the same taxable entities and relate to income taxes levied by the same taxation authorities.

Net deferred tax assets analysed by balance sheet headings and after appropriate netting are as follows:

As at 31 December	2013 US$'000	Income statement (charge)/credit US$'000	Foreign currency translation US$'000	2014 US$'000
Premiums receivable	$ 248	$ 125	$ (35)	$ 338
Outstanding losses and loss expenses	4,017	(733)	(352)	2,932
Deferred acquisition expenses	342	193	(44)	491
Accounts payable and accrued expenses	138	(8)	(11)	119
Operating losses	4,208	1,448	(581)	5,075
Retirement benefit obligation	85	10	(9)	86
Other	69	39	(5)	103
Total deferred tax assets	$ 9,107	$ 1,074	$ (1,037)	$ 9,144
Investment assets	$ (574)	$ (117)	$ 67	$ (624)
Premiums receivable	(248)	(554)	67	(735)
Outstanding losses and loss expense	(4,029)	(255)	429	(3,855)
Other	(18)	18	–	–
Total deferred tax liabilities	$ (4,869)	$ (908)	$ 563	$ (5,214)
Net deferred tax assets	$ 4,238	$ 166	$ (474)	$ 3,930

Separately, a deferred tax liability of $0.9 million as at 31 December 2014 (2013: $nil) was recognized with respect to unrealised gains on investments held by the United States branch and recorded in other comprehensive income.

15. PROPERTY AND EQUIPMENT

Property and equipment as at 31 December 2014 comprise:

	Computer equipment US$'000	Fixtures and fittings US$'000	Leasehold improvements US$'000	Motor vehicles US$'000	Office equipment US$'000	Total US$'000
Cost						
As at 1 January 2014	$ 8,271	$ 2,753	$ 11,521	$ 129	$ 20	$ 22,694
Additions	1,286	611	2,682	27	–	4,606
Disposals	(11)	–	–	(29)	–	(40)
As at 31 December 2014	$ 9,546	$ 3,364	$ 14,203	$ 127	$ 20	$ 27,260
Accumulated depreciation						
As at 1 January 2014	$ 5,481	$ 1,508	$ 2,881	$ 101	$ 16	$ 9,987
Charge for the year	1,477	346	1,699	13	1	3,536
Disposals	(11)	–	–	(21)	–	(32)
As at 31 December 2014	$ 6,947	$ 1,854	$ 4,580	$ 93	$ 17	$ 13,491
Net book value						
As at 31 December 2014	$ 2,599	$ 1,510	$ 9,623	$ 34	$ 3	$ 13,769
As at 1 January 2014	$ 2,790	$ 1,245	$ 8,640	$ 28	$ 4	$ 12,707

Property and equipment at 31 December 2013 comprise:

	Computer equipment US$'000	Fixtures and fittings US$'000	Leasehold improvements US$'000	Motor vehicles US$'000	Office equipment US$'000	Total US$'000
Cost						
As at 1 January 2013	$ 6,421	$ 2,287	$ 9,651	$ 129	$ 20	$ 18,508
Additions	1,850	466	1,870	–	–	4,186
Disposals	–	–	–	–	–	–
As at 31 December 2013	$ 8,271	$ 2,753	$ 11,521	$ 129	$ 20	$ 22,694
Accumulated depreciation						
As at 1 January 2013	$ 4,114	$ 1,235	$ 1,818	$ 90	$ 14	$ 7,271
Charge for the year	1,367	273	1,063	11	2	2,716
Disposals	–	–	–	–	–	–
As at 31 December 2013	$ 5,481	$ 1,508	$ 2,881	$ 101	$ 16	$ 9,987
Net book value						
As at 31 December 2013	$ 2,790	$ 1,245	$ 8,640	$ 28	$ 4	$ 12,707
As at 1 January 2013	$ 2,307	$ 1,052	$ 7,833	$ 39	$ 6	$ 11,237

16. INTANGIBLE ASSETS

Intangible assets at 31 December 2014 comprise:

		Computer software US$'000
Cost		
As at 1 January 2014	$	23,002
Additions		5,658
Disposals		–
As at 31 December 2014	$	28,660
Accumulated amortisation		
As at 1 January 2014	$	17,735
Charge for the year		3,735
Disposals		–
As at 31 December 2014	$	21,470
Net book value		
As at 31 December 2014	$	7,190
As at 1 January 2014	$	5,267

Intangible assets at 31 December 2013 comprise:

		Computer software US$'000
Cost		
As at 1 January 2013	$	19,170
Additions		3,832
Disposals		–
As at 31 December 2013	$	23,002
Accumulated amortisation		
As at 1 January 2013	$	14,296
Charge for the year		3,439
Disposals		–
As at 31 December 2013	$	17,735
Net book value		
As at 31 December 2013	$	5,267
As at 1 January 2013	$	4,874

17. INSURANCE LIABILITIES

(a) Outstanding losses and loss expenses and losses recoverable from reinsurers

The summary of changes in outstanding losses and loss expenses is as follows:

	Outstanding losses and loss expenses US$'000	Outstanding losses recoverable from reinsurers US$'000	Net US$'000
As at 31 December 2012	$ 537,381	$ (94,083)	$ 443,298
Incurred losses related to:			
Current year	306,172	(248)	305,924
Prior years	(9,567)	12,065	2,498
Loss assumed by novation	(2,018)	–	(2,018)
Net effect of foreign currency exchange rate changes	(5,681)	334	(5,347)
Total incurred	288,906	12,151	301,057
Paid losses related to:			
Current year	47,191	–	47,191
Prior years	195,405	(51,263)	144,142
Total paid	242,596	(51,263)	191,333
As at 31 December 2013	$ 583,691	$ (30,669)	$ 553,022
Incurred losses related to:			
Current year	431,405	(1,022)	430,383
Prior years	36,265	(3,217)	33,048
Adverse development cover	–	(43,875)	(43,875)
Loss recovery by novation	73	–	73
Net effect of foreign currency exchange rate changes	(15,892)	91	(15,801)
Total incurred	451,851	(48,023)	403,828
Paid losses related to:			
Current year	112,598	(600)	111,998
Prior years	223,639	(26,619)	197,020
Total paid	336,237	(27,219)	309,018
As at 31 December 2014	$ 699,305	$ (51,473)	$ 647,832

The current and non-current portions of the outstanding losses and loss expenses are expected to be as follows:

2014	Outstanding losses and loss expenses US$'000	Outstanding losses recoverable from reinsurers US$'000	Net US$'000
Current	$ 227,319	$ (7,141)	$ 220,178
Non-current	471,986	(44,332)	427,654
	$ 699,305	$ (51,473)	$ 647,832

17. INSURANCE LIABILITIES (continued)

(a) Outstanding losses and loss expenses and losses recoverable from reinsurers (continued)

2013	Outstanding losses and loss expenses US$'000	Outstanding losses recoverable from reinsurers US$'000	Net US$'000
Current	$ 192,663	$ (13,135)	$ 179,528
Non-current	391,028	(17,534)	373,494
	$ 583,691	$ (30,669)	$ 553,022

During 2014, the Company incurred net losses of $463.4 million (2013 — $308.4 million), of which $38.4 million related to the adverse development on the 2010 and 2011 New Zealand earthquake, $10.6 million related to the June 2014 European hailstorm losses and $12.3 million related to two 2014 aggregate treaty losses.

The remaining net losses in 2014 mostly relate to expected losses on proportional and non-catastrophe property and casualty contracts, as well as loss development from prior years.

The Company experienced net adverse development of $33.0 million (2013 — $2.5 million) attributable to prior years. Out of this total, $38.4 million is related to adverse development on the 2010 and 2011 New Zealand earthquake, based on additional information received from a cedant during the year, and $3.4 million is related to unfavourable development on a 2013 aggregate treaty. Offsetting these were favourable development on 2012 crop losses, Hurricane Ike and 2011 United States tornado losses of $3.2 million, $2.6 million and $2.0 million, respectively, following receipt of updated loss information from cedants.

During 2013, the Company incurred net losses of $308.4 million, of which $12.6 million related to adverse development on 2012 North American crop losses, $4.9 million related to the January 2013 Australian flood losses and $4.4 million related to the May 2013 European flood losses.

The remaining net losses in 2013 mostly related to expected losses on proportional and non-catastrophe property and casualty contracts, as well as loss development from prior years.

For certain catastrophic events, there is considerable uncertainty underlying the assumptions and associated estimated reserves for losses and loss adjustment expenses. Reserves are reviewed regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary. Such adjustments could require a material change in the amount estimated. The uncertainty surrounding reserves for property catastrophe exposures arises from problems such as policy coverage issues, multiple events affecting one geographic area and the impact on claims adjusting by ceding companies. These issues can cause significant delays to the timing of notification of changes to loss estimates reported by ceding companies. In particular, the estimates for the New Zealand earthquakes and North American crop losses have been based on a review of contracts affected by the events, information received from both clients and brokers, industry insured loss estimates, output from both industry and proprietary models and management judgment. It has also been assumed that underlying policy terms and conditions are upheld during the loss adjustment process. There remains the potential for legal and regulatory issues arising regarding the scope of coverage. Consequently, the ultimate net impact of losses from these events on the Company's net income might differ substantially from the foregoing estimate. Such adjustments, if necessary, are reflected in results of operations in the period in which they become known.

(b) Unearned premiums

The current and non-current portions of the unearned premiums are expected to be as follows:

	2014 US$'000	2013 US$'000
Current portion	$ 501,569	$ 389,172
Non-current portion	187,258	94,123
	$ 688,827	$ 483,295

18. REINSURANCE AND OTHER LIABILITIES

	2014 US$'000	2013 US$'000
Outstanding losses and loss expenses	$ 699,305	$ 583,691
Liability for collateral held on behalf of counterparties	315,250	22,878
Reinsurance balances payable	53,023	18,222
Deposit liabilities	337,677	–
Fair value of derivative liabilities	2,550	10,665
Accounts payable and accrued expenses	19,248	18,367
Note payable	25,000	–
	$ 1,452,053	$ 653,823

The current and non-current portions are expected to be as follows:

	2014 US$'000	2013 US$'000
Current portion	$ 453,410	$ 261,948
Non-current portion	998,643	391,875
	$ 1,452,053	$ 653,823

19. NOTE PAYABLE

The company issued a private catastrophe bond ("Omamori") using a segregated account of Shima Re which provides TMR AG with a source of fully-collateralised second event retrocessional reinsurance protection against United States earthquakes and named storms. The Omamori catastrophe bond is a three-year deal which incepted on 17 January 2014. The transaction was facilitated by TSM as insurance manager of Shima Re. In accordance with IFRS 10, *Consolidated Financial Statements*, as TMR AG has control over the Omamori segregated account, it has been consolidated within the Company's financial statements. As a result of this transaction, a note payable of $25.0 million as at 31 December 2014 (2013: $nil) has been recorded in the consolidated balance sheet.

20. RETIREMENT BENEFIT OBLIGATION

(a) Defined benefit scheme

The Company's Swiss operation offers a defined benefit pension plan to its employees. The plan offers mandatory benefits as prescribed by the Law on Occupational Benefits in Switzerland as well as voluntary benefits. These mandatory benefits comprise guarantees regarding the level of interest paid annually on accrued pension savings as well as how these accrued savings are converted into a pension payment at the time of retirement. The Company and the members contribute a defined percentage of salary to the pension arrangement. Credit accumulation is granted on these contributions. At retirement, the accumulated contributions are converted into a pension. The liability shown relates solely to active members and disability pensioners since the responsibility for meeting old-age pensions in payment is irrevocably transferred to an insurance company. Independent actuarial reviews of the ongoing benefit obligations were undertaken at 31 December 2014.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2014 % pa	2013 % pa
Discount rate	1.20	2.40
Expected rate of salary increase	2.60	2.60
Interest credit rate	1.75	1.75
Demographic assumptions	BVG2010GT	BVG2010GT

The table below shows the impact on the defined benefit obligation that a change in certain key assumptions would have:

Assumption change	Defined benefit obligation $
(Increase)/decrease in discount rate by 0.25%	(11,458)/12,574
(Decrease)/increase in salary by 0.25%	(11,904)/12,093

Amounts recognised in the consolidated statement of comprehensive income in respect of the defined benefit scheme are as follows:

	2014 US$'000	2013 US$'000
Current service cost	$ 739	$ 578
Interest cost	217	139
Interest on plan assets	(200)	(101)
Administration costs	28	–
Prior year adjustment	(41)	–
	$ 743	$ 616

The amount included in the consolidated balance sheet arising from the Company's obligations with respect to its defined benefit scheme is as follows:

	2014 US$'000	2013 US$'000
Present value of defined benefit obligations	$ 11,997	$ 7,834
Fair value of plan assets	(9,123)	(7,092)
Adjustment/foreign currency translation	–	72
Retirement benefit obligation	$ 2,874	$ 814

20. RETIREMENT BENEFIT OBLIGATION (continued)

(a) Defined benefit scheme (continued)

Movements in the present value of the defined benefit obligation during the year are as follows:

	2014 US$'000	2013 US$'000
As at 1 January	$ 7,834	$ 7,738
Current service cost	739	578
Interest cost	217	139
Contributions from plan participants	278	201
Actuarial loss (gain)	2,097	(1,664)
Net transfers	1,979	680
Administrative costs	28	–
Foreign currency translation adjustment	(1,175)	162
As at 31 December	$ 11,997	$ 7,834

There were no actuarial gains or losses from changes in demographic assumptions. The actuarial loss in 2014 was primarily driven by the change in financial assumptions.

The average duration of the defined benefit obligation was 18.6 years in 2014 (2013: 16.8 years).

Movements in the fair value of plan assets during the year are as follows:

	2014 US$'000	2013 US$'000
Opening fair value of plan assets	$ 7,092	$ 5,469
Interest income on plan assets	200	101
Actuarial loss	(187)	(61)
Contributions from plan participants	278	201
Employer contributions	693	539
Net transfers	1,979	680
Foreign currency translation adjustment	(932)	163
Closing fair value of plan assets	$ 9,123	$ 7,092

The analysis of the plan assets and the expected rate of return by asset class are not provided for the defined benefit scheme as the investment decisions are at the discretion of third parties to whom the Company has ceded investment risk under the insurance policies taken out to meet its obligations.

The Company expects to make a contribution of $0.7 million (2013: $0.6 million) to the defined benefit scheme during the next financial year.

(b) Defined contribution plan

The Company operates a defined contribution plan in the Bermuda and Australian branches. The total contributions for the year ended 31 December 2014 amounted to $1.4 million (2013 — $1.6 million).

The Company also maintains a defined contribution plan for employees of its United States branch in accordance with Section 401(k) of the Internal Revenue Code. The total contribution for the year ended 31 December 2014 amounted to $0.1 million (2013 — $nil).

21. SHARE CAPITAL

	2014 US$'000	2013 US$'000
Authorised, issued and fully paid, shares of CHF 0.91 ($1) par value each	$ 250,000	$ 250,000
Contributed surplus	$ 400,000	$ 400,000

Fully paid issued shares, which have a par value of CHF 0.91 ($1) each, carry one vote per share and carry a right to dividends.

Contributed surplus represents cash contributed by the shareholder in excess of the issued share capital.

22. CEDED REINSURANCE

The Company uses retrocessional agreements to reduce its exposure to risk of loss on reinsurance assumed. These agreements generally provide for recovery of a portion of losses and loss expenses from retrocessionaires. The Company remains liable to its cedants to the extent that the retrocessionaires do not meet their obligations under these agreements. Failure of reinsurers to honour their obligations could result in losses to the Company. The Company defines rated reinsurers as companies with a minimum S&P or A.M. Best rating of A-, and net assets of more than $100 million and where the retroceded amount is equal to or less than 10% of the reinsurer's net assets. The Company evaluates the financial condition of its rated reinsurers and monitors concentration of credit risk, on an ongoing basis, arising from similar geographic regions, activities, or economic characteristics of the reinsurers in order to minimise its exposure to significant losses from rated reinsurer insolvencies. Provisions are made for amounts considered potentially uncollectible.

The Company requires non-rated reinsurers to fully collateralise their reinsurance obligations. As further discussed in Note 4 under 'Credit Risk', the Company's maximum exposure to unrated reinsurers is fully collateralised.

In addition to purchasing retrocessional cover, the Company also uses derivative instruments to cover certain assumed reinsurance risks. Refer to Note 2 and Note 8.

23. ACQUISITION EXPENSES

	2014 US$'000	2013 US$'000
Acquisition expenses	$ 288,868	$ 173,897
Change in deferred acquisition expenses	(67,941)	(27,653)
	$ 220,927	$ 146,244

24. RESULTS OF OPERATING ACTIVITIES

Results of operating activities are stated after charging the following amounts:

	2014 US$'000	2013 US$'000
Depreciation of property and equipment	$ 3,504	$ 2,716
Amortisation of intangible assets	3,735	3,439
Operating lease charges	3,249	2,554
Foreign exchange losses (gains)	11,661	(111)

25. EMPLOYEE BENEFIT EXPENSES

	2014 US$'000	2013 US$'000
Wages and salaries	$ 26,270	$ 22,422
Long term incentive compensation plan	1,481	588
Retirement benefit obligation costs — defined benefit scheme	743	616
Retirement benefit obligation costs — defined contribution scheme	1,613	1,641
Bonus and other benefits	12,153	14,567
	$ 42,260	$ 39,834

26. COMMITMENTS

(a) The Company leases office space under operating leases which expire at various dates. The Company renews and enters into new leases in the ordinary course of business as required. Total rent expense with respect to these operating leases for the year ended 31 December 2014 was $3.2 million (2013 — $2.7 million).

Future minimum lease payments under the leases are expected to be as follows:

Year	US$'000
2015	$ 3,918
2016	3,767
2017	2,399
2018	2,340
2019	2,351
Later	3,026
Total	$ 17,801

(b) The above lease agreements also include a maintenance commitment. Maintenance expense for the current year amounts to $0.8 million (2013 — $0.8 million) which has been included in general and administrative expenses.

(c) Some lease agreements for office space provide an option to extend the lease beyond the expiration date.

(d) Effective 6 August 2010, the Company entered into a Revolving Letter of Credit Facility Agreement ("Facility A") with Barclays Bank PLC ("Barclays Bank"). Facility A provided commitments from Barclays Bank in an aggregate amount of $100.0 million and provided for the issuance and renewal of letters of credit which are used to support the Company's reinsurance obligations.

Facility A was amended effective 12 September 2014. Under the terms of the amended agreement the $100.0 million commitment remained unchanged and the commitment termination date was extended to 12 September 2017. Under the terms of the amended agreement, letters of credit can now be issued in alternative currencies other than United States Dollars.

For letters of credit issued in Australian Dollars and subject to the applicable regulations of the Australian Prudential Regulation Authority, the final maturity date will not extend beyond 12 September 2019. For all other letters of credit issued the final maturity date will not extend beyond 12 September 2018.

Under Facility A, the Company is required to pledge cash or eligible securities with collateral value (as determined as therein provided) that equals or exceeds 100% of the aggregate amount of its outstanding letters of credit.

The unutilised portion of Facility A may be cancelled in whole or in part (if in part, in minimum amounts of $0.5 million) by the Company without penalty upon due written notice of not less than five business days to Barclays Bank. Amounts so cancelled may not be re-instated. Facility A contains representations, warranties and covenants customary for facilities of this type. In addition to the customary covenants, the Company is required to promptly notify Barclays Bank on becoming aware of any negative change in outlook or downgrade in its current rating by any rating agency.

26. COMMITMENTS (continued)

(d) continued

Effective 9 August 2011, the Company entered into a second Revolving Letter of Credit Facility Agreement ("Facility B") with Barclays Bank. Facility B provided commitments from Barclays Bank in an aggregate amount of Australian Dollar $1.0 million. Facility B expired on 31 December 2014. Existing Australian Dollar letters of credit previously issued under Facility B are now issued under the alternative currency provisions which were included in the amendment to Facility A as outlined above.

At 31 December 2014, Barclays Bank has issued letters of credit of $11.8 million (2013 — $0.9 million) in favour of ceding companies under Facility A. At 31 December 2013, Barclays Bank had issued letters of credit in United States Dollar equivalent of $0.7 million in favour of ceding companies under Facility B. The Company pledged as security $62.7 million (2013 — $2.5 million) of fixed interest securities and $11.2 million (2013 — $0.1 million) of cash to collateralise the letters of credit.

Effective 14 May 2012, the Company entered into a Revolving Letter of Credit Facility Agreement ("Mizuho Facility") with Mizuho Bank, Ltd. ("Mizuho Bank"). The Mizuho Facility provided commitments from Mizuho Bank in an aggregate amount of $300.0 million and provided for the issuance and renewal of letters of credit which are used to support the Company's reinsurance obligations. The Mizuho Facility was amended effective 12 December 2014 and 21 January 2015 (the "Amended Mizuho Facility Agreement"). Under the Amended Mizuho Facility Agreement, the Mizuho Facility has now been increased to $600.0 million and the commitment termination date was extended to 16 January 2016. The Mizuho Facility contains representations, warranties and covenants customary for facilities of this type.

At 31 December 2014, Mizuho Bank has issued letters of credit of $395.3 million (2013 — $263.6 million) in favour of ceding companies.

27. LONG TERM INCENTIVE COMPENSATION PLAN

The Company granted its accumulation units under its long term incentive compensation plan on 1 April of each calendar year from 2009 to 2014. The value of the units are based on movements in the net asset value of the Company and will be settled in cash four years from the date of issue if the fair value of units at that date exceeds the grant date fair value.

The units issued as at 31 December 2014 and grant date fair value per unit are summarised as follows:

Grant year	2014	2013	2012	2011
Units issued	11,119,980	2,955,500	1,110,448	616,496
Fair value per unit at grant date	$0.30	$0.97	$1.24	$1.45

In accordance with IFRS 2, the fair value of options granted is estimated using a pricing model with the following assumptions:

Grant year	2014	2013	2012	2011
Expected unit life	4 years	4 years	4 years	4 years
Expected volatility	14%	14%	12%	6%
Risk-free interest rate	1.1%	0.7%	0.3%	0.03%
Forfeiture rate	8.33%	15.0%	16.67%	16.67%

At 31 December 2014, the fair value per unit discounted at the risk free rates are summarised as follows:

Grant year	2014	2013	2012	2011
Fair value per unit	$0.28	$0.19	$1.50	$0.50

27. LONG TERM INCENTIVE COMPENSATION PLAN (continued)

The table below shows the recognised and unrecognised expense for grant years 2014, 2013, 2012 and 2011:

Grant year	2014 US$'000	2013 US$'000	2012 US$'000	2011 US$'000
Expense during the year	$ 584	$ 95	$ 447	$ 289
Unrecognised expense (to be recognised over remaining service period)	$ 2,529	$ 315	$ 521	$ 19
Remaining service period (in months)	39	27	15	3

On 31 March 2014, accumulation units granted on 1 April 2010 were settled in cash. The total cash settlement awarded on 31 March 2014 was $0.5 million.

The activity during 2014 is summarised as follows:

Grant year	2014 Units	2013 Units	2012 Units	2011 Units	2010 Units
Outstanding at beginning of year	–	3,081,437	1,151,424	641,986	393,745
Granted	11,826,580	–	–	–	–
Exercised	–	–	–	–	(393,745)
Forfeited	(706,600)	(125,937)	(40,976)	(25,490)	–
Adjustment	–	–	–	–	–
Outstanding at end of year	11,119,980	2,955,500	1,110,448	616,496	–

28. RELATED PARTIES

During 2014, the Company assumed several reinsurance agreements from related parties under common control. The reinsurance premiums assumed under these agreements totaled $7.6 million (2013 — $7.0 million) with associated acquisition expenses of $0.7 million (2013 — $0.4 million) and net loss and loss expenses incurred of $4.6 million (2013 — $4.8 million). As at 31 December 2014, the consolidated balance sheet includes $1.9 million (2013 — $2.1 million), $0.8 million (2013 — $1.0 million) and $0.1 million (2013 — $0.1 million) of premiums receivable, unearned premium and deferred acquisition expenses, respectively.

Key management personnel compensation

The aggregate remuneration of Directors and key management was as follows:

	2014 US$'000	2013 US$'000
Wages and salaries	$ 3,740	$ 3,229
Long term incentive compensation plan	537	314
Retirement benefit obligation costs	200	198
Bonus and other benefits	2,632	1,829
	$ 7,109	$ 5,570

29. STATUTORY REQUIREMENTS

TMR AG is supervised by the Swiss Financial Market Supervisory Authority ("FINMA"), the Bermuda Monetary Authority ("BMA"), the Australian Prudential Regulation Authority ("APRA") and the New York State Department of Financial Services ("NYSDFS").

The minimum required statutory capital and surplus is the amount of statutory capital and surplus necessary to satisfy regulatory requirements based on the Company's current operations.

(a) Switzerland

The Company (since redomestication) and the Swiss operating entity are regulated by FINMA pursuant to the Insurance Supervisory Law. The Company's accounts are prepared in accordance with the Swiss Code of Obligations, the Insurance Supervisory Law and the Insurance Supervisory Ordinance.

TMR AG is obligated to maintain a minimum level of capital based on the Swiss Code of Obligations and Insurance Supervisory Law. In addition, the company is required to perform a minimum solvency margin calculation based on the Solvency I and Swiss Solvency Test ("SST") regulations as stipulated by the Insurance Supervisory Law. The SST is based on an economic view and required capital is derived from an internal capital model. The amount of dividends that TMR AG is permitted to distribute is restricted to freely distributable reserves which consist of retained earnings and the current year profit. The solvency and capital requirements must still be met following any distribution. As at 31 December 2014 the required solvency margin was $186.6 million and the actual amount was $1,128.8 million. The Company met all its capital requirements at 31 December 2014.

(b) Bermuda

Tokio Millennium Re AG — Bermuda branch ("TMRB") is registered under The Insurance Act 1978 (Bermuda), Amendments thereto and Related Regulations (the "Insurance Act") as a Class 3B insurer. Under the Insurance Act, the Company is required to annually prepare and file statutory and IFRS financial statements and a statutory financial return. The Insurance Act also requires the Company to maintain minimum levels of statutory capital and surplus. At 31 December 2014 and 2013, this amount was $151.1 million and $117.1 million, respectively. Actual statutory capital and surplus was $959.3 million and $1,101.7 million, respectively.

The Bermuda Solvency Capital Requirement ("BSCR") is a risk-based capital model used to determine an enhanced capital requirement and target capital level (defined as 120% of the enhanced capital requirement) for Class 3B insurers. The prescribed form of capital and solvency return, comprises the insurer's BSCR model, a schedule of fixed income investments by rating category, a schedule of net loss and loss expense provision by line of business, a schedule of premiums written by line of business, a schedule of risk management and a schedule of fixed income securities by security type. The BSCR includes a standardised model used to measure the risk associated with an insurer's assets, liabilities and premiums, and a formula to take account of catastrophe risk exposure. The Authority requires all Class 3B insurers to maintain their capital at a target level which is 120% of the amount calculated in accordance with the BSCR or the company's approved internal model (the Enhanced Capital Requirement or "ECR"). In addition, TMRB is required to maintain a minimum solvency margin. Both requirements have been met.

The Insurance Act limits the maximum amount of annual dividends and distributions that may be paid by the Company in any year which would exceed 25% of its prior year statutory capital and surplus or reduce its prior year statutory capital by 15% or more, without the prior approval of the BMA. Furthermore, the Company is not permitted to declare or pay a dividend, or make a distribution out of contributed surplus, if the realisable value of its assets would be less than the aggregate of its liabilities, issued share capital and share premium accounts. During 2014, the Company distributed a total of $140.0 million (2013: $nil) to Tokio Marine and Nichido Fire Insurance Co., Ltd and therefore no approval was required.

The Company is also required to maintain a minimum liquidity ratio whereby the value of its relevant assets is not less than 75% of the amount of its relevant liabilities. Relevant assets include cash and cash equivalents, short term investments, catastrophe bonds, fixed interest securities, accrued interest receivable, premiums receivable, funds withheld and other assets. Certain categories of assets do not qualify as relevant assets under the statute. Relevant liabilities are outstanding losses and loss expenses, unearned premiums, deferred fee income, funds withheld ceded, accounts payable and accrued expenses, net of outstanding losses recoverable from reinsurers and prepaid reinsurance premiums.

29. STATUTORY REQUIREMENTS (continued)

(c) Australia (continued)

Tokio Millennium Re AG — Australia branch ("TMRA") is authorised to carry on insurance business under subsection 12(l) of the Insurance Act 1973. TMRA is regulated by the Australian Prudential Regulation Authority ("APRA") in accordance with the Insurance Act 1973 and APRA Prudential Standards. TMRA's regulatory reporting is prepared in accordance with the Australian Accounting Standards and APRA Prudential Standards. TMRA have complied with the APRA requirements in both 2014 and 2013.

APRA Prudential Standards require the maintenance of net assets in Australia in excess of a calculated Prescribed Capital Amount ("PCA"). The net assets in Australia at 31 December 2014 were $88.9 million (2013 — $87.1 million) and resulted in a surplus of $39.6 million (2013 — $47.7 million) above the PCA of $49.3 million (2013 — $39.3 million) estimated under the new Prudential Standards.

TMRA has an Internal Capital Adequacy Assessment Process ("ICAAP") to ensure compliance with regulatory capital requirements. In accordance with ICAAP, TMRA monitors its capital adequacy in order to ensure compliance with the relevant capital targets.

(d) United States

Tokio Millennium Re AG — United States branch ("TMRUS") is required to file a set of financial statements prepared in accordance with statutory accounting practices prescribed or permitted by the United States insurance regulators. Statutory net income and statutory surplus, as reported to the insurance regulatory authorities, differ in certain respect from the amounts prepared in accordance with IFRS and the main differences relate to the treatment of deferred acquisition expenses, deferred income, unrealised appreciation or decline in value of investments and non-admitted assets and deferred income taxes.

TMRUS is required to maintain a minimum combined statutory surplus of $35.9 million. As of 31 December 2014, the statutory surplus was $102.8 million (2013: $nil).

TMRUS as a United States Branch does not pay ordinary dividends and would need approval from the New York State Department of Financial Services for any return of capital to TMRAG. As of 31 December 2014, TMRUS did not return any capital to TMRAG. Any return of capital in subsequent periods would need to be approved by the NYSDFS based on the financial condition of TMRUS.

30. SUBSEQUENT EVENTS

The Company has completed its subsequent events evaluation for the period subsequent to the consolidated balance sheet date of 31 December 2014, through 3 March 2015, the date the consolidated financial statements were authorised for issue. There were no subsequent events that would warrant an adjustment to the consolidated financial statements.

HISTORICAL FINANCIAL DATA

31 December 2014, 2013, 2012, 2011 and 2010

Consolidated Balance Sheet

	2014 US$'000	2013 US$'000	2012 US$'000	2011 US$'000	2010 US$'000
Assets					
Cash and cash equivalents	$ 167,760	$ 127,225	$ 102,863	$ 247,875	$ 137,759
Funds withheld	52,801	49,509	54,185	25,105	24,308
Short term investments	537,526	286,830	278,345	121,545	59,510
Fixed interest securities, designated at fair value through profit and loss	27,595	29,708	76,443	–	–
Fixed interest securities, available for sale	1,362,809	1,251,795	1,081,099	932,275	1,021,262
Investments in catastrophe bonds, available for sale	40,386	67,405	79,466	138,625	120,545
Collateral held on behalf of counterparties	–	–	–	–	31,508
Deposit assets	337,677	–	–	–	–
Premiums receivable	474,583	355,434	251,115	145,226	105,781
Outstanding losses recoverable from reinsurers	51,473	30,669	94,083	97,662	19,459
Deferred acquisition expenses	201,528	135,916	108,756	75,567	48,839
Other assets	96,318	79,317	70,247	102,327	76,570
Total assets	**$ 3,350,456**	**$ 2,413,808**	**$ 2,196,602**	**$ 1,886,207**	**$ 1,645,541**
Liabilities					
Outstanding losses and loss expenses	$ 699,305	$ 583,691	$ 537,381	$ 511,089	$ 213,020
Liability for collateral held on behalf of counterparties	315,250	22,878	21,772	260	32,615
Reinsurance balances payable	53,023	18,222	71,291	39,370	18,654
Deposit liabilities	337,677	–	–	–	–
Unearned premiums	688,827	483,295	365,729	263,136	179,071
Other liabilities	57,059	32,663	27,089	21,487	14,538
Total liabilities	**2,151,141**	**1,140,749**	**1,023,262**	**835,342**	**457,898**
Shareholder's equity					
Share capital	250,000	250,000	250,000	250,000	250,000
Contributed surplus	400,000	400,000	400,000	400,000	400,000
Retained earnings	563,807	632,537	492,511	368,954	510,089
Accumulated other comprehensive income	(14,492)	(9,478)	30,829	31,911	27,554
Total shareholder's equity	**1,199,315**	**1,273,059**	**1,173,340**	**1,050,865**	**1,187,643**
Total liabilities and shareholder's equity	**$ 3,350,456**	**$ 2,413,808**	**$ 2,196,602**	**$ 1,886,207**	**$ 1,645,541**

Consolidated Statement of Comprehensive Income

	2014 US$'000	2013 US$'000	2012 US$'000	2011 US$'000	2010 US$'000
Revenue					
Net premiums written	$ 1,009,259	$ 779,005	$ 727,572	$ 537,812	$ 418,327
Net premiums earned	799,803	664,449	615,059	456,862	348,235
Other operating income	5,054	4,303	7,629	9,548	8,260
Total operating income	804,857	668,752	622,688	466,410	356,495
Net investment income	36,420	34,272	34,680	40,309	38,628
Total revenue	**841,277**	**703,024**	**657,368**	**506,719**	**395,123**
Expenses					
Net loss and loss expenses incurred	463,431	308,422	255,799	377,081	186,839
Acquisition expenses	220,927	146,244	173,953	126,021	59,037
General and administrative expenses	83,345	78,158	68,814	53,484	43,145
Net derivative expense	(18,703)	17,461	23,814	1,911	34,758
Other expenses	17,763	10,099	9,664	6,614	6,795
Total expenses	**766,763**	**560,384**	**532,044**	**565,111**	**330,574**
Profit (loss) before tax	**$ 74,514**	**$ 142,640**	**$ 125,324**	**$ (58,392)**	**$ 64,549**
Tax (expense) benefit	(3,244)	(2,614)	(1,767)	2,072	495
Net profit (loss)	**$ 71,270**	**$ 140,026**	**$ 123,557**	**$ (56,320)**	**$ 65,044**

Tokio Millennium Group

UK

TOKIO MILLENNIUM RE (UK) LTD

CONTENTS

STATEMENT ON STATUTORY ACCOUNTS OF TOKIO MILLENNIUM RE (UK) LIMITED

Tokio Millennium Re (UK) Limited | Year ended 31 December 2014

The subsequent pages in this document contain financial information excerpts from the statutory accounts of Tokio Millennium Re (UK) Limited for the year ended 31 December 2014.

This document does not constitute the statutory accounts of Tokio Millennium Re (UK) Limited within the meaning of Section 434 of the Companies Act 2006 in the United Kingdom.

The complete statutory accounts of Tokio Millennium Re (UK) Limited for the year ended 31 December 2014 are available from 5th Floor, 20 Fenchurch Street, London EC3M 3BY, United Kingdom. These were approved by its Board of Directors on 5 March 2015.

The statutory accounts of Tokio Millennium Re (UK) Limited were delivered on 30 March 2015 to the Registrar of Companies at Companies House, Crown Way, Cardiff CF14 3UZ, United Kingdom. Copies are also available from Companies House.

The Independent Auditors' Report by PricewaterhouseCoopers LLP - of 7 More London Riverside, London SE1 2RT, United Kingdom – on the statutory accounts of Tokio Millennium Re (UK) Limited was unqualified, was not modified, did not contain an emphasis-of-matter paragraph, and did not contain any statement under Sections 498(2) and 498(3) of the Companies Act 2006 in the United Kingdom.

		Group		Company	
	Notes	2014 £000	2013 £000	2014 £000	2013 £000
Earned premiums, net of reinsurance					
Premiums written					
Continuing operations - other		147,675	123,456	147,675	123,456
Discontinued operations		515	2,783	515	2,783
Gross amount	1(a),1(b)	148,190	126,239	148,190	126,239
Reinsurers' share		(7,750)	(12,187)	(7,750)	(12,187)
		140,440	**114,052**	**140,440**	**114,052**
Change in the provision for unearned premiums					
Gross amount	22	(13,310)	(19,770)	(13,310)	(19,770)
Reinsurers' share	22	(2,329)	(3,115)	(2,329)	(3,115)
		(15,639)	**(22,885)**	**(15,639)**	**(22,885)**
Earned premiums, net of reinsurance	2,28(b)	**124,801**	**91,167**	**124,801**	**91,167**
Claims incurred, net of reinsurance					
Claims paid					
Gross amount	3	(51,814)	(46,232)	(51,814)	(46,232)
Reinsurers' share	3	1,504	1,465	1,504	1,465
		(50,310)	**(44,767)**	**(50,310)**	**(44,767)**
Change in the provision for claims					
Gross amount	3,21(a)	(32,397)	(5,665)	(32,397)	(5,665)
Reinsurers' share	3,21(a)	446	603	446	603
		(31,951)	**(5,062)**	**(31,951)**	**(5,062)**
Claims incurred, net of reinsurance	3,28(b)	**(82,261)**	**(49,829)**	**(82,261)**	**(49,829)**
Operating expenses, net of reinsurance					
Gross amount	4	(37,564)	(33,497)	(37,662)	(33,589)
Reinsurers' share	4	397	645	397	645
	28(b)	**(37,167)**	**(32,852)**	**(37,265)**	**(32,944)**
Change in the equalisation provision	1(a),21(c),28(b)	**1,902**	**(1,302)**	**1,902**	**(1,302)**
Balance on the technical account for general business	1(a),28(b)	**7,275**	**7,184**	**7,177**	**7,092**
Investment return					
Investment income	8	8,010	6,239	8,008	6,237
Realised gain/(loss) on investments		(4,125)	(2,998)	(4,125)	(2,998)
Unrealised gain/(loss) on investments		356	(1,308)	356	(1,308)
Investment expenses and charges		(507)	(447)	(504)	(445)
Total investment return	28(b)	**3,734**	**1,486**	**3,735**	**1,486**

See accompanying notes to consolidated financial statements

		Group		Company	
	Notes	**2014** £000	**2013** £000	**2014** £000	**2013** £000
Other income and charges					
Other income	9(a)	4,730	7,210	884	3,203
Other charges	9(b)	(4,273)	(4,805)	(596)	(954)
	28(b)	**457**	**2,405**	**288**	**2,249**
Operating profit and profit on ordinary activities before tax					
Continuing operations - other	1(b),28(b)	2,805	8,314	2,539	8,066
Discontinued operations	1(b),28(b)	8,661	2,761	8,661	2,761
		11,466	**11,075**	**11,200**	**10,827**
Tax charge on profit on ordinary activities	10(a)	**(2,560)**	**(2,702)**	**(2,464)**	**(2,609)**
Profit for the financial year	1(b),20	**8,906**	**8,373**	**8,736**	**8,218**

See accompanying notes to consolidated financial statements

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Tokio Millennium Re (UK) Limited | Year ended 31 December 2014

		Group		Company	
	Notes	**2014** £000	**2013** £000	**2014** £000	**2013** £000
Profit for the financial year		8,906	8,373	8,736	8,218
Unrealised gain/(loss) on revaluation of group undertaking		–	–	328	105
Currency translation differences on brought forward balances	20	477	(1,158)	477	(1,158)
Currency translation differences on consolidation	20	158	(50)	–	–
Total recognised gains for the financial year		**9,541**	**7,165**	**9,541**	**7,165**

See accompanying notes to consolidated financial statements

		Group		Company	
	Notes	2014 £000	2013 £000	2014 £000	2013 £000
Investments					
Investments in group undertakings	11	–	–	2,758	2,430
Other financial investments	12	351,610	334,814	351,610	334,814
Deposits with ceding undertakings	13	1,551	1,014	1,551	1,014
		353,161	**335,828**	**355,919**	**338,258**
Reinsurers' share of technical provisions					
Provision for unearned premiums	22	3,296	5,612	3,296	5,612
Claims outstanding	21(a)	9,585	9,100	9,585	9,100
		12,881	**14,712**	**12,881**	**14,712**
Debtors					
Debtors arising out of insurance operations	14	316	452	316	452
Debtors arising out of reinsurance operations	15	61,366	48,575	61,366	48,575
Other debtors including taxation and social security	16	486	484	98	63
		62,168	**49,511**	**61,780**	**49,090**
Other assets					
Tangible assets	17	1,006	1,128	735	901
Cash at bank and in hand		44,278	26,535	41,771	24,455
Deferred tax asset	10(d)	457	421	345	329
		45,741	**28,084**	**42,851**	**25,685**
Prepayments and accrued income					
Accrued interest		2,256	2,175	2,256	2,175
Deferred acquisition costs	23	16,380	12,411	16,380	12,411
Other prepayments and accrued income	18	647	478	570	401
		19,283	**15,064**	**19,206**	**14,987**
Total assets		**493,234**	**443,199**	**492,637**	**442,732**

See accompanying notes to consolidated financial statements

BALANCE SHEET : LIABILITIES

		Group		Company	
	Notes	2014 £000	2013 £000	2014 £000	2013 £000
Capital and reserves					
Called up share capital	19	125,000	125,000	125,000	125,000
Revaluation reserve		–	–	1,636	1,308
Profit and loss account	20	73,796	72,473	72,160	71,165
Total shareholder's funds	1(b),20	**198,796**	**197,473**	**198,796**	**197,473**
Technical provisions					
Provision for unearned premium	22	88,651	73,581	88,651	73,581
Claims outstanding	21(a)	187,030	151,595	187,030	151,595
Equalisation provision	21(c)	10,867	12,358	10,867	12,358
		286,548	**237,534**	**286,548**	**237,534**
Provisions for other risks and charges					
Deferred taxation	10(d)	10	18	–	–
Other provisions	26	900	–	900	–
		910	**18**	**900**	**–**
Creditors					
Creditors arising out of insurance operations		18	30	18	30
Creditors arising out of reinsurance operations		1,589	4,956	1,589	4,956
Other creditors including taxation and social security	24	2,240	454	2,038	332
		3,847	**5,440**	**3,645**	**5,318**
Accruals and deferred income					
Reinsurers' share of deferred acquisition costs	23	157	316	157	316
Other accruals and deferred income	25	2,976	2,418	2,591	2,091
		3,133	**2,734**	**2,748**	**2,407**
Total liabilities		**493,234**	**443,199**	**492,637**	**442,732**

See accompanying notes to consolidated financial statements

BASIS OF ACCOUNTING

(a) Basis of preparation

The Group financial statements have been prepared under the provision of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("SI2008/410") relating to insurance groups and in accordance with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers ("the ABI SORP") dated December 2005, as amended in December 2006.

The financial statements have been prepared in accordance with applicable accounting standards. A summary of the more important Group accounting policies is set out below, together with an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the year.

The financial statements have also been prepared on the going concern basis in accordance with applicable accounting standards.

(b) Basis of consolidation

The Group financial statements incorporate the assets, liabilities and results of the Company and its subsidiary undertaking drawn up to 31 December each year. The results of subsidiary undertakings acquired or sold during the period are included in the consolidated results from the date of acquisition, or up to the date of disposal. On the acquisition of a subsidiary undertaking, all of its assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date.

(c) Exemption from preparing cash flow statement

The Group availed itself of the exemption under Financial Reporting Standard 1 ("FRS 1") (Revised 1996) - Cash Flow Statements - on the grounds that it is wholly owned by Tokio Marine Holdings Inc. (registered in Japan) which includes a consolidated cash flow statement in its financial statements. Accordingly, no cash flow statement is presented.

(d) Exemption from disclosing related party transactions

The Group availed itself of the exemption under Financial Reporting Standard 8 ("FRS 8") - Related Party Disclosures - on the grounds that it is wholly owned by Tokio Marine Holdings Inc. (registered in Japan). Accordingly, it has not disclosed any transactions with related entities that are wholly-owned by Tokio Marine Holdings Inc.

(e) Basis of accounting for underwriting activities

The results are determined on an annual basis whereby the incurred cost of claims, commissions and related expenses are charged against the earned proportion of premiums, net of reinsurance, as described below.

(f) Written, earned and unearned premiums

Premiums written

Premiums written are recognised within the Profit and Loss Technical Account, with the gross and ceded amounts disclosed separately. Premiums written are stated gross of acquisition costs payable to intermediaries, but net of any premium levies or indirect taxes.

Premiums written relate to business incepted during the financial period, together with any differences between booked premiums and those previously accrued on contracts which incepted in prior financial periods. Premiums written also include accruals of premium estimates due on all incepted contracts, but not yet receivable or notified to the Group, less an allowance for cancellations.

Earned premiums

Premiums written are earned on a time-apportionment basis to reflect the risk profile of each contract written.

Unearned premium reserves ("UPR")

Premiums written not earned are deferred within the balance sheet as unearned premium reserves ("UPR"). UPR will be recognised as earned premiums in future financial periods' profit and loss technical accounts.

BASIS OF ACCOUNTING (continued)

(g) Claims incurred

Claims incurred are recognised within the profit and loss technical account, with the gross and ceded amounts disclosed separately. Claims incurred comprise:

- Claims paid during the financial period;
- Movements in claim provisions during the financial period;
- Related internal and external claims handling costs attributable to the above; and
- Where applicable, deductions for salvage and other recoveries.

Claims provisions and related reinsurance recoveries

Claims provisions within the balance sheet comprise the following:

- Estimated costs of claims notified but not yet settled at the financial period end ("outstandings");
- Incurred but not reported claims at the financial period end ("IBNRs");
- Related internal and external claims handling costs attributable to the above; and
- Salvage and subrogation deductions, plus other recoveries where applicable.

Claims provisions are estimated at each financial period end based on best available information. The Group takes all reasonable steps to ensure that it has appropriate information regarding its estimated claim exposures and these are set so that no adverse run-off deviation is envisaged. Given the uncertainties in establishing claims provisions, it is likely that the final liability will prove different from the original estimates established. Where such uncertainty is deemed considerable, a degree of caution is exercised in setting claims provisions.

Notified outstanding claims

In estimating outstanding claims within the balance sheet, the Group considers the claim circumstances as reported, including any information available from loss adjusters.

The Group's gross outstanding claim estimates of large losses are based on best estimates of claims in light of currently available information sourced from: industry assessments of exposures; preliminary claims information obtained from policyholders, cedants and brokers to-date; and a review of in-force contracts. Actual gross losses from these events may vary materially from initial estimates due to the inherent uncertainties in making such determinations.

Incurred but not reported ("IBNR") claims

The estimation of IBNR claims within the balance sheet is generally subject to a greater degree of uncertainty than the estimation of notified outstanding claims as less information is available. IBNR claims may often not be apparent to the insured until many years have passed following the event which trigger such claims. Business classes where the proportion of IBNR claims are high in relation to total claims provisions will typically display greater variations between initial estimates and the final outcomes because of greater difficulties estimating these. Business classes where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility.

In calculating IBNR claims, the Group applies the three reserving methods of a priori loss ratio, link ratio and Bornhuetter Ferguson. The Group then selects the most appropriate method based on information derived by underwriters and actuaries during the initial pricing of the business, supplemented by industry data where appropriate.

These methods consider, among other things, premium rate changes, claims inflation and changes in terms and conditions that have been observed in the market.

The IBNR for each class of business is set to represent the best estimate of future claims with appropriate allowance for all risks faced. There is no longer a margin included in the IBNR. The IBNR in previous years has included a margin to take into account uncertainties in its estimation that arise from the fact that the claims experience is underdeveloped and that industry benchmark data is at times used in the reserving methodologies. The level of this margin has generally been decreasing each year as these uncertainties have reduced.

BASIS OF ACCOUNTING (continued)

(g) Claims incurred (continued)

Assumed treaty contracts

These contracts currently comprise a mixed portfolio of property, liability, accident/health, motor, financial and marine lines. These are short-to-medium tail in nature and there is generally not expected to be a significant delay between the occurrence of the claim and the claim being reported to the Group.

Direct contracts, assumed facultative contracts

These contracts comprise principally property and engineering lines. These are short-to-medium tail in nature and there is generally not expected to be a significant delay between the occurrence of the claim and the claim being reported to the Group.

Reinsurance recoveries

For ceded outstanding claims within the balance sheet, a separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provision.

For ceded IBNR claims within the balance sheet, these are assumed to be consistent with the historical pattern of recoveries, and adjusted to reflect changes in the Group's reinsurance programme over time.

An assessment is also made of their recoverability having regard to market data on the financial strength of the underlying reinsurers and their associated default probabilities.

(h) Unexpired risk provisions ("URP")

Unexpired risk provisions ("URP") are established within the balance sheet for any deficiencies arising when unearned premium reserves ("UPR"), net of associated deferred acquisition costs ("DAC") are insufficient to meet expected claims and expenses. No account is taken of future investment return arising from investments supporting the URP and UPR. The expected claims are calculated based on information available at the balance sheet date.

Unexpired risk surpluses and deficits are offset where business classes are managed together and a provision is made if an aggregate deficit arises.

(i) Equalisation provisions

Amounts are set aside as equalisation provisions in accordance with the PRA's Handbook for the purpose of mitigating exceptionally high loss ratios in future financial periods. Equalisation provisions are not liabilities because they are in addition to the claims provisions established as described in Accounting Policy (g) above. Notwithstanding this, they are required by Schedule 3 to SI 2008/410 to be included within technical provisions.

(j) Acquisition costs

Acquisition costs

Acquisition costs within the profit and loss technical account represent both external commissions and internal expenses associated with acquiring insurance contracts written during the financial period. Acquisition costs also include reinsurance commissions and profit participations - both receivable and payable. Acquisition costs are recognised in the financial period in which the related premiums are earned, with the gross and ceded amounts disclosed separately.

Deferred acquisition costs ("DAC")

Acquisition costs which relate to unearned premium reserves ("UPR") are recognised within the balance sheet as deferred acquisition costs. DAC will be charged in future financial periods' profit and loss technical accounts.

(k) Financial investments

Debt securities are carried within the balance sheet at market values based on bid prices prevailing at the balance sheet date, or those prevailing during the last trading day before that date. Participations in investment pools, deposits with credit institutions and deposits with ceding undertakings are all carried within the balance sheet at market values.

BASIS OF ACCOUNTING (continued)

(l) Investments in group undertakings

Investments in group undertakings are valued on the balance sheet at current values which utilise net book values as a proxy. Movements in the balance sheet values are taken to the revaluation reserve through the statement of total recognised gains and losses.

(m) Investment return

Investment return is recognised within the profit and loss non-technical account and comprises:

- Investment income earned during the financial period;
- Investment expenses, charges or interest incurred during the financial period;
- Movements in unrealised market value gains/losses during the financial period; and
- Realised investment gains/losses arising from the sales and maturities of investments during the financial period.

Investment income

Investment income comprises:

- Interest on bank balances, which are accounted for on an accruals basis;
- Coupons on bonds, which are accounted for on an accruals basis; and
- Returns on money market funds, which are accounted for on an accruals basis.

Investment expenses, charges or interest

These are recognised on an accruals basis.

Movements in unrealised gains/losses

Unrealised gains/losses on investments arising during the financial period represent the difference between:

- The market value of investments at the balance sheet date, and their acquired cost if purchased during the financial period; or
- The market value of investments at the balance sheet date, and their market value at the last balance sheet date if purchased in previous financial periods.

Realised gains/losses

These represent the difference between the net sales proceeds and acquired cost. Any unrealised gains/losses previously recognised will be reclassified as realised gains/losses upon the sale or maturity of investments.

(n) Other income

Fee income from group undertakings arises from:

- Income receivable by the Company from group undertakings for risk consultancy and support services; and
- Income receivable by the Company's subsidiary, Tokio Marine Technologies LLC, from group undertakings on:
  - Services for software development and consulting activities; and
  - Licenses for granting use of its internally developed 'core technology' software.

BASIS OF ACCOUNTING (continued)

(o) Foreign currency translations and settlements

The Group operates in the three functional currencies of GBP/EUR/USD. All non-GBP/EUR/USD transactions are translated into GBP/EUR/USD at the actual rates prevailing on the respective dates of the transactions.

The Group's reporting currency is GBP. The net investment method is used whereby all balance sheet assets/liabilities denominated in the functional currencies of GBP/EUR/USD are translated at closing rates into GBP. The profit and loss account is also translated at closing rates. This is affected by translating individual line items at an average rate with the exchange gains/losses arising from the retranslation, of the profit and loss account from average to closing rates, taken to other income/charges in the profit and loss non-technical account.

Exchange gains/losses arising on consolidation, into GBP, of its subsidiary undertaking are taken to the profit and loss reserve through the statement of total recognised gains and losses.

Exchange gains/losses arising from cash settlements of balance sheet assets/liabilities, and from internal transfers of balance sheet assets/ liabilities between the three functional currency ledgers of GBP/EUR/USD are taken to the profit and loss non-technical account.

(p) Operating leases

Operating lease rentals are charged to the profit and loss technical account evenly over the period of the lease. When a lease becomes onerous, a provision is made to reflect all obligations and charges arising on the remaining lease period, net of any sub-let income receivable on the remaining lease period.

(q) Current and deferred taxation

Current tax

Current tax is recognised in the profit and loss non-technical account and reflects:

- Estimated tax charges/credits associated with the current financial period's taxable profits/losses; and
- Changes in previously estimated tax charges/credits associated with previous financial periods' taxable profits/losses.

Deferred tax

Deferred tax assets/liabilities within the balance sheet arise from differences in timing between the recognition of taxable profits/losses in the financial statements, versus their recognition in the tax computation.

Provision is made for all material timing differences within the profit and loss non-technical account. Using the liability method, deferred tax is calculated at rates at which it is expected the tax will arise. This provision is not discounted.

Deferred tax assets are recognised to the extent that it is regarded more likely than not that these will be recovered.

(r) Pension costs

The Group only operates a defined contribution pension scheme. Contributions to the scheme are charged to the profit and loss technical account and represent the amounts payable during the current financial period. Contributions are accumulated and invested by an independent scheme manager across a portfolio of assets which are held separately from the Group's assets.

(s) Tangible fixed assets and depreciation

The costs of acquiring tangible fixed assets are capitalised on the balance sheet within the following categories, and depreciated on a straight line basis over the estimated useful lives stipulated below:

- Leasehold improvements 3 to 10 years
- Furniture/fixtures/fittings 2 years
- Computer hardware 2 years
- Computer software 2 to 3 years
- Office equipment 2 years

(t) Dividends

Dividends are recognised when paid. Unpaid dividends are recognised as a liability when a dividend declaration motion proposed by the directors are resolved by the shareholders - and are no longer at the discretion of the Company.

1. SEGMENTAL INFORMATION

(a) Analyses by class of business

Company 2014

	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses £000	Reinsurance balances £000	Underwriting profit/(loss) £000
Continuing operations						
Assumed treaty business						
Proportional reinsurance	101,555	85,021	(59,429)	(28,095)	(3,123)	(5,626)
Non-proportional reinsurance	46,120	47,725	(30,805)	(9,317)	(3,526)	4,077
	147,675	**132,746**	**(90,234)**	**(37,412)**	**(6,649)**	**(1,549)**
Discontinued operations						
Direct and assumed facultative business						
Fire and other damage to property	515	2,134	6,023	(250)	(1,083)	6,824
	515	**2,134**	**6,023**	**(250)**	**(1,083)**	**6,824**
	148,190	**134,880**	**(84,211)**	**(37,662)**	**(7,732)**	**5,275**
					Change in equalisation provision	1,902
					Underwriting profit	7,177

Company 2013

	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses £000	Reinsurance balances £000	Underwriting profit/(loss) £000
Continuing operations						
Assumed treaty business						
Proportional reinsurance	79,333	67,069	(29,963)	(25,130)	(8,332)	3,644
Non-proportional reinsurance	44,123	35,219	(22,215)	(8,051)	(3,099)	1,854
	123,456	**102,288**	**(52,178)**	**(33,181)**	**(11,431)**	**5,498**
Discontinued operations						
Direct and assumed facultative business						
Fire and other damage to property	2,783	4,181	281	(408)	(1,158)	2,896
	2,783	**4,181**	**281**	**(408)**	**(1,158)**	**2,896**
	126,239	**106,469**	**(51,897)**	**(33,589)**	**(12,589)**	**8,394**
					Change in equalisation provision	(1,302)
					Underwriting profit	7,092

The reinsurance balance represents the change to the profit and loss technical account from the aggregate of all items relating to reinsurance outwards.

1. SEGMENTAL INFORMATION (continued)

(b) Analyses by geographical area

	Company 2014			Company 2013		
By destination	Continuing operations £000	Discontinued operations £000	Total £000	Continuing operations £000	Discontinued operations £000	Total £000
Gross premiums written						
United Kingdom	67,432	20	67,452	69,937	29	69,966
Europe	1,502	(2)	1,500	1,183	203	1,386
Asia and Australia	27,415	196	27,611	13,267	326	13,593
Africa and Middle East	5,480	388	5,868	2,265	476	2,741
North, Central and South America	745	(33)	712	4,135	1,624	5,759
Worldwide	45,101	(54)	45,047	32,669	125	32,794
	147,675	**515**	**148,190**	**123,456**	**2,783**	**126,239**

	Company 2014			Company 2013		
By origin	Continuing operations £000	Discontinued operations £000	Total £000	Continuing operations £000	Discontinued operations £000	Total £000
United Kingdom						
Gross premiums written (refer Note 1(a),1(b))	147,675	515	148,190	123,456	2,783	126,239
Profit/(loss) before tax (refer Note 28(b))	2,539	8,661	11,200	8,066	2,761	10,827
Profit/(loss) after tax (refer Note 20)	1,980	6,756	8,736	6,122	2,096	8,218
Net assets/(liabilities) (refer Note 20)	185,458	13,338	198,796	168,366	29,107	197,473

The net assets/(liabilities) attributable to continuing and discontinued operations have been distributed based on the existing ratio of net assets/(liabilities) over total liabilities.

2. EARNED PREMIUMS, NET OF REINSURANCE

	Group and Company 2014			Group and Company 2013		
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
Premiums written	148,190	(7,750)	140,440	126,239	(12,187)	114,052
Change in the provision for unearned premiums (refer Note 22)	(13,310)	(2,329)	(15,639)	(19,770)	(3,115)	(22,885)
Earned premiums (refer Note 28(b))	**134,880**	**(10,079)**	**124,801**	**106,469**	**(15,302)**	**91,167**

3. CLAIMS INCURRED, NET OF REINSURANCE

	Group and Company 2014			Group and Company 2013		
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
Claims paid						
Claims and allocated loss adjustment expenses paid	(51,281)	1,504	(49,777)	(45,603)	1,465	(44,138)
Unallocated loss adjustment expenses paid (refer Note 4)	(533)	–	(533)	(629)	-	(629)
	(51,814)	**1,504**	**(50,310)**	**(46,232)**	**1,465**	**(44,767)**
Change in the provision for claims (refer Note 21(a))						
Outstanding claims reserve movement	(4,257)	703	(3,554)	(2,639)	1,674	(965)
Claims incurred but not reported reserve movement	(27,307)	(257)	(27,564)	(3,051)	(1,071)	(4,122)
Unallocated loss adjustment expense reserve movement	(833)	–	(833)	25	–	25
	(32,397)	**446**	**(31,951)**	**(5,665)**	**603**	**(5,062)**
Claims incurred (refer Note 28(b))	**(84,211)**	**1,950**	**(82,261)**	**(51,897)**	**2,068**	**(49,829)**

4. NET OPERATING EXPENSES

	Group 2014			Group 2013		
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
Acquisition costs						
Acquisition costs	(26,534)	217	(26,317)	(22,493)	521	(21,972)
Profit commissions	(2,273)	19	(2,254)	(1,949)	8	(1,941)
Change in deferred acquisition costs (refer Note 23)	3,543	167	3,710	2,613	121	2,734
Change in deferred profit commissions (refer Note 23)	7	(6)	1	(367)	(5)	(372)
	(25,257)	**397**	**(24,860)**	**(22,196)**	**645**	**(21,551)**
Administrative expenses						
Gross administrative expenses	(13,852)	–	(13,852)	(12,934)	–	(12,934)
Transferred to unallocated loss adjustment expenses paid (refer Note 3)	533	–	533	629	–	629
Transferred to investment expenses	212	–	212	208	–	208
Transferred to acquisition costs	800	–	800	796	–	796
	(12,307)	**–**	**(12,307)**	**(11,301)**	**–**	**(11,301)**
Net operating expenses (refer Note 28(b))	**(37,564)**	**397**	**(37,167)**	**(33,497)**	**645**	**(32,852)**

	Company 2014			Company 2013		
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
Acquisition costs						
Acquisition costs	(26,534)	217	(26,317)	(22,493)	521	(21,972)
Profit commissions	(2,273)	19	(2,254)	(1,949)	8	(1,941)
Change in deferred acquisition costs (refer Note 23)	3,543	167	3,710	2,613	121	2,734
Change in deferred profit commissions (refer Note 23)	7	(6)	1	(367)	(5)	(372)
	(25,257)	**397**	**(24,860)**	**(22,196)**	**645**	**(21,551)**
Administrative expenses						
Gross administrative expenses	(13,950)	–	(13,950)	(13,026)	–	(13,026)
Transferred to unallocated loss adjustment expenses paid (refer Note 3)	533	–	533	629	–	629
Transferred to investment expenses	212	–	212	208	–	208
Transferred to acquisition costs	800	–	800	796	–	796
	(12,405)	**–**	**(12,405)**	**(11,393)**	**–**	**(11,393)**
Net operating expenses (refer Note 28(b))	**(37,662)**	**397**	**(37,265)**	**(33,589)**	**645**	**(32,944)**

5. STAFF COSTS

(a) Staff numbers

	Group		Company	
	2014 Number	2013 Number	2014 Number	2013 Number
Average number of employees (including Directors) employed during the financial year				
Underwriting	8	8	8	8
Claims	4	3	4	3
Risk	34	35	12	12
Finance	10	9	8	7
IT	8	8	6	6
Administration, Human Resources and Compliance	5	6	4	5
Management	11	12	6	7
	80	**81**	**48**	**48**

(b) Staff costs

	Group		Company	
	2014 £000	2013 £000	2014 £000	2013 £000
Aggregate payroll costs of employees (including Directors) employed during the financial year				
Wages and salaries	6,966	7,330	4,816	5,171
Social security costs	620	575	494	449
Other pension costs	401	404	314	311
	7,987	**8,309**	**5,624**	**5,931**

The pension costs above represent the Group's contributions to defined contribution pension schemes. Pension costs of £32,618 were unpaid at the year end (2013: £26,553).

6. DIRECTORS' EMOLUMENTS

	Group and Company	
	2014 £000	**2013** £000
Aggregate emoluments	271	356
Sums paid to third parties for Directors' services	80	80
	351	**436**

	Group and Company	
	2014 £000	**2013** £000
Highest paid Director		
Aggregate emoluments	261	349
	261	**349**

The highest paid Director did not exercise share options or receive shares in respect of qualifying services under any long term incentive scheme (2013: None).

No season ticket travel loans (2013 £Nil) were granted to any Directors during the year (2013: None). The loan amount outstanding at year end was £Nil (2013 £Nil).

No compensation for loss of office was paid to any Directors (2013 £Nil).

No retirement benefits (2013: £Nil) accrued to any Directors (2013: None) under the Group's defined contribution scheme.

No guarantees (2013: £Nil) on behalf of any Directors (2013: None) were granted during the year.

7. AUDITORS' REMUNERATION

During the year, the Group (including its overseas subsidiaries) obtained the following services from the Company's auditor and its associates:

	Group		Company	
	2014 £000	**2013** £000	**2014** £000	**2013** £000
Fees payable to the Company's auditor and its associates for the audit of the parent Company and consolidated financial statements	(114)	(106)	(114)	(106)
Fees payable to the Company's auditor and its associates for other services:				
The audit of the Company's subsidiaries	(44)	(39)	–	–
Audit-related assurance services	(31)	(23)	(31)	(23)
	(189)	**(168)**	**(145)**	**(129)**

8. INVESTMENT INCOME

	Group		Company	
	2014 £000	2013 £000	2014 £000	2013 £000
Income from debt securities	7,544	5,804	7,544	5,804
Income from deposits with ceding undertakings and other deposits	128	14	128	14
Income from deposits with credit institutions and cash at bank and in hand	186	199	184	197
Income from participations in investment pools	152	222	152	222
	8,010	**6,239**	**8,008**	**6,237**

9. OTHER INCOME AND OTHER CHARGES

(a) Other Income

	Group		Company	
	2014 £000	2013 £000	2014 £000	2013 £000
Interest receivable on corporation tax repayments	1	–	1	–
Fee income from group undertakings	4,325	4,165	479	158
Exchange gain on cash settlements	403	–	403	–
Exchange gain on revaluation of profit and loss account from average to closing rates and on internal transfers of balance sheet assets/liabilities between functional currencies	–	3,039	–	3,039
Gain on tangible fixed assets disposals	–	4	–	4
Other income	1	2	1	2
	4,730	**7,210**	**884**	**3,203**

(b) Other Charges

	Group		Company	
	2014 £000	2013 £000	2014 £000	2013 £000
Non-technical expenses	(3,676)	(3,851)	–	–
Loss on tangible fixed assets disposals	(40)	–	(39)	–
Exchange loss on cash settlements	–	(954)	–	(954)
Exchange loss on revaluation of profit and loss account from average to closing rates and on internal transfers of balance sheet assets/liabilities between functional currencies	(557)	–	(557)	–
	(4,273)	**(4,805)**	**(596)**	**(954)**

10. CORPORATION TAX

(a) Tax (charge)/credit on profit on ordinary activities

	Group		Company	
	2014 £000	**2013** £000	**2014** £000	**2013** £000
United Kingdom corporation tax at 21.50% (2013: 23.25%)				
Current tax on income for the year	(2,478)	(2,609)	(2,478)	(2,609)
Adjustments in respect of previous financial years	(2)	(17)	(2)	(17)
	(2,480)	**(2,626)**	**(2,480)**	**(2,626)**
Foreign corporation tax				
Current tax on income for the year	(116)	(138)	–	–
	(116)	**(138)**	**–**	**–**
Total current tax (refer Note 10(b))	**(2,596)**	**(2,764)**	**(2,480)**	**(2,626)**
United Kingdom deferred tax movements				
Origination and reversal of timing differences	18	45	16	45
Adjustment in respect of previous financial years	–	13	–	13
Impact of change in UK tax rate	–	(41)	–	(41)
	18	**17**	**16**	**17**
Foreign deferred tax movements				
Origination and reversal of timing differences	18	45	–	–
	18	**45**	**–**	**–**
Total deferred tax movements (refer Note 10(d))	**36**	**62**	**16**	**17**
Tax on profit on ordinary activities	**(2,560)**	**(2,702)**	**(2,464)**	**(2,609)**

10. CORPORATION TAX (continued)

(b) Factors affecting tax (charge)/credit for the year

The tax assessed on the profit on ordinary activities for the year is different than that resulting in applying the standard rate of corporation tax in the UK of 21.50% (2013: 23.25%). The differences are reconciled below:

	Group		Company	
	2014 £000	2013 £000	2014 £000	2013 £000
Profit on ordinary activities before tax	11,466	11,075	11,200	10,827
Profit on ordinary activities before tax multiplied by the standard rate of corporation tax in the United Kingdom at 21.50% (2013: 23.25%)	(2,465)	(2,575)	(2,408)	(2,517)
Factors affecting charge:				
United Kingdom:				
Expenses not deductible for tax purposes	(51)	(40)	(51)	(40)
Capital allowances in excess of depreciation	(32)	(44)	(32)	(44)
Prepaid/(accrued) expenses deductible in current/future year	(1)	1	(1)	1
Profit/(loss) on sale of non qualifying fixed assets	(1)	1	(1)	1
Movement in technical/doubtful debt provisions	15	(10)	15	(10)
Adjustment to tax charge in respect of previous financial years	(2)	(17)	(2)	(17)
	(72)	**(109)**	**(72)**	**(109)**
Foreign:				
Expenses not deductible for tax purposes	(5)	(5)	–	–
Capital allowances in excess of depreciation	(9)	(32)	–	–
Prepaid/(accrued) expenses deductible in current/future year	(11)	(13)	–	–
Higher tax rates on foreign earnings	(35)	(30)	–	–
Exchange gain/(loss) not taxable for tax purpose	1	–	–	–
Profit/(loss) on sale of non-qualifying fixed assets	1	1	–	–
Adjustment to tax charge in respect of previous financial years	(1)	(1)	–	–
	(59)	**(80)**	**–**	**–**
Current tax charge for the year (refer Note 10(a))	**(2,596)**	**(2,764)**	**(2,480)**	**(2,626)**

(c) Components of current corporation tax debtors/(creditors)

	Group		Company	
	2014 £000	2013 £000	2014 £000	2013 £000
United Kingdom:				
Corporation tax in respect of current financial year (refer Note 24)	(1,625)	(50)	(1,625)	(50)
Corporation tax in respect of prior financial year (refer Note 16)	1	–	1	–
Foreign:				
Corporation tax in respect of current financial year (refer Note 16)	16	(90)	–	–
Corporation tax in respect of prior financial year (refer Note 16)	49	97	–	–
	(1,559)	**(43)**	**(1,624)**	**(50)**

10. CORPORATION TAX (continued)

(d) Components of deferred tax assets/(liabilities)

	Group			Company		
	Current £000	Non-current £000	Total £000	Current £000	Non-current £000	Total £000
Tangible fixed assets depreciation less/(greater) than capital allowances:						
At beginning of year	–	229	229	–	247	247
Exchange gain/(loss) on retranslation of brought forward balances from last to this year closing rates	–	(1)	(1)	–	–	–
Movement during year – pure	–	37	37	–	29	29
Exchange gain/(loss) on retranslation of in-year movement from average to closing rates	–	1	1	–	–	–
At end of year	**–**	**266**	**266**	**–**	**276**	**276**
Prepaid/accrued items:						
At beginning of year	97	–	97	–	5	5
Exchange gain/(loss) on retranslation of brought forward balances from last to this year closing rates	6	–	6	–	–	–
Movement during year – pure	11	2	13	–	1	1
Exchange gain/(loss) on retranslation of in-year movement from average to closing rates	2	–	2	–	–	–
At end of year	**116**	**2**	**118**	**–**	**6**	**6**
Provision for doubtful debt:						
At beginning of year	–	77	77	–	77	77
Exchange gain/(loss) on retranslation of brought forward balances from last to this year closing rates	–	–	–	–	–	–
Movement during year - pure	–	(14)	(14)	–	(14)	(14)
Exchange gain/(loss) on retranslation of in-year movement from average to closing rates	–	–	–	–	–	–
At end of year	**–**	**63**	**63**	**–**	**63**	**63**

10. CORPORATION TAX (continued)

(d) Components of deferred tax assets/(liabilities) (continued)

	Group			Company		
	Current £000	Non-current £000	Total £000	Current £000	Non-current £000	Total £000
Total:						
At beginning of year	97	306	403	–	329	329
Exchange gain/(loss) on retranslation of brought forward balances from last to this year closing rates	6	(1)	5	–	–	–
Movement during year – pure (refer Note 10(a))	11	25	36	–	16	16
Exchange gain/(loss) on retranslation of in-year movement from average to closing rates	2	1	3	–	–	–
At end of year	**116**	**331**	**447**	**–**	**345**	**345**
Consisting of:						
Deferred tax assets	116	341	457	–	345	345
Deferred tax liabilities	–	(10)	(10)	–	–	–
At end of year	**116**	**331**	**447**	**–**	**345**	**345**

There were no unprovided deferred tax assets/liabilities at year end (2013: £Nil).

11. INVESTMENTS IN GROUP UNDERTAKINGS

	Company	
	2014 £000	**2013** £000
Historic cost		
At beginning of year	1,122	1,122
Additions during the year	–	–
At end of year	**1,122**	**1,122**
Revaluation		
At beginning of year	1,308	1,203
Movements during year (refer Note 20)	328	105
At end of year	**1,636**	**1,308**
Net book value		
At end of this year	**2,758**	**2,430**
At end of last year	**2,430**	**2,325**

11. INVESTMENTS IN GROUP UNDERTAKINGS (continued)

Group undertakings	Principal activity	Class of shares held	Percentage holding	Country of incorporation	Capital and reserves at 31 December 2014	Profit for year ended 31 December 2014
Tokio Marine Technologies LLC	Software development and consultancy	Ordinary	100%	United States of America	US$'000 4,296 (2013: 4,024)	US$'000 272 (2013: 245)

12. OTHER FINANCIAL INVESTMENTS

	Group and Company Historical cost		Group and Company Market value	
	2014 £000	**2013** £000	**2014** £000	**2013** £000
Listed debt securities	289,132	218,277	286,748	215,550
Participations in investment pools	44,962	75,541	44,962	75,541
Deposits with credit institutions	19,900	43,723	19,900	43,723
	353,994	**337,541**	**351,610**	**334,814**

13. DEPOSITS WITH CEDING UNDERTAKINGS

	Group and Company	
	2014 £000	**2013** £000
Deposits with cedants	1,551	1,014
	1,551	**1,014**

14. DEBTORS ARISING OUT OF INSURANCE OPERATIONS

	Group and Company	
	2014 £000	**2013** £000
Amounts falling due within one year		
Amounts due from non-group undertakings	316	452
	316	**452**

15. DEBTORS ARISING OUT OF REINSURANCE OPERATIONS

	Group and Company	
	2014 £000	**2013** £000
Amounts falling due within one year		
Amounts due from non-group undertakings	52,493	36,948
Amounts due from group undertakings	8,873	11,627
	61,366	**48,575**

16. OTHER DEBTORS INCLUDING TAXATION AND SOCIAL SECURITY

	Group		Company	
	2014 £000	2013 £000	2014 £000	2013 £000
Amounts falling due within one year				
Value added tax recoverable	65	–	65	–
UK corporation tax receivable (refer Note 10(c))	1	–	1	–
Foreign corporation tax receivable (refer Note 10(c))	65	7	–	–
Other debtors	25	26	25	26
Amounts due from group undertakings	330	451	7	37
	486	**484**	**98**	**63**

17. TANGIBLE ASSETS

	Group 2014			
	Computer hardware and software £000	Furniture/ fixtures/fittings and office equipment £000	Leasehold improvements £000	Total £000
Book cost				
At beginning of year	4,582	410	801	5,793
Exchange gain/(loss) on retranslation of brought forward balances from last to this year closing rates	95	7	–	102
Additions during year	475	305	40	820
Disposals during year	(248)	(329)	–	(577)
At end of year	**4,904**	**393**	**841**	**6,138**
Accumulated depreciation				
At beginning of year	3,781	381	503	4,665
Exchange (gain)/loss on retranslation of brought forward balances from last to this year closing rates	82	6	–	88
Charge during year	732	68	102	902
Exchange (gain)/loss on retranslation of in-year movements from average to closing rates through profit and loss account	9	2	–	11
Eliminated on disposals during year	(207)	(327)	–	(534)
At end of year	**4,397**	**130**	**605**	**5,132**
Net book value				
At end of this year	**507**	**263**	**236**	**1,006**
At end of last year	**801**	**29**	**298**	**1,128**

The Group's depreciation charge for the year ended 31 December 2013 was £954,927.

17. TANGIBLE ASSETS (continued)

	Company 2014			
	Computer hardware and software £000	Furniture/ fixtures/fittings and office equipment £000	Leasehold improvements £000	Total £000
Book cost				
At beginning of year	3,065	299	801	4,165
Additions during year	368	220	–	588
Disposals during year	(225)	(285)	–	(510)
At end of year	**3,208**	**234**	**801**	**4,243**
Accumulated depreciation				
At beginning of year	2,477	284	503	3,264
Charge during year	580	34	99	713
Eliminated on disposals during year	(184)	(285)	–	(469)
At end of year	**2,873**	**33**	**602**	**3,508**
Net book value				
At end of this year	**335**	**201**	**199**	**735**
At end of last year	**588**	**15**	**298**	**901**

The Company's depreciation charge for the year ended 31 December 2013 was £708,091.

18. OTHER PREPAYMENTS AND ACCRUED INCOME

	Group		Company	
	2014 £000	2013 £000	2014 £000	2013 £000
Prepaid rent	12	25	11	17
Prepaid other expenses	423	415	347	346
Accrued income	212	38	212	38
	647	**478**	**570**	**401**

19. SHARE CAPITAL

	Group and Company	
	2014 £000	2013 £000
Allotted, called up and fully paid		
125,000,000 ordinary shares of £1 each	125,000	125,000
Authorised		
250,000,000 ordinary shares of £1 each	250,000	250,000

20. RECONCILIATION OF MOVEMENTS IN TOTAL SHAREHOLDER'S FUNDS

	Group 2014			Group 2013		
	Share capital £000	Profit and loss account £000	Total shareholder's funds £000	Share capital £000	Profit and loss account £000	Total shareholder's funds £000
At beginning of year	125,000	72,473	197,473	125,000	65,308	190,308
Exchange gain/(loss) on retranslation of brought forward balances from last to this year closing rates	–	477	477	–	(1,158)	(1,158)
Profit after tax	–	8,906	8,906	–	8,373	8,373
Exchange gain/(loss) arising on consolidation	–	158	158	–	(50)	(50)
Dividends paid	–	(8,218)	(8,218)	–	–	–
At end of year	**125,000**	**73,796**	**198,796**	**125,000**	**72,473**	**197,473**

	Company 2014			
	Share capital £000	Reservation reserve £000	Profit and loss account £000	Total shareholder's funds £000
At beginning of year	125,000	1,308	71,165	197,473
Revaluation gain/(loss) on group undertaking (refer Note 11)	–	328	–	328
Exchange gain/(loss) on retranslation of brought forward balances from last to this year closing rates	–	–	477	477
Profit after tax (refer Note 1(b),28(b))	–	–	8,736	8,736
Dividends paid	–	–	(8,218)	(8,218)
At end of year	**125,000**	**1,636**	**72,160**	**198,796**

	Company 2013			
	Share capital £000	Reservation reserve £000	Profit and loss account £000	Total shareholder's funds £000
At beginning of year	125,000	1,203	64,105	190,308
Revaluation gain/(loss) on group undertaking (refer Note 11)	–	105	–	105
Exchange gain/(loss) on retranslation of brought forward balances from last to this year closing rates	–	–	(1,158)	(1,158)
Profit after tax (refer Note 1(b),28(b))	–	–	8,218	8,218
At end of year	**125,000**	**1,308**	**71,165**	**197,473**

During the year, an interim dividend of £8,218,577 (2013: £Nil) was paid, amounting to 6.57p (2013: £Nil) per ordinary share. No final dividends are proposed (2013: £Nil).

21. TECHNICAL PROVISIONS

(a) Claims outstanding

	Group and Company 2014			
	Outstanding claims reserves £000	Claims incurred but not reported reserves £000	Unallocated loss adjustment expense reserves £000	Total claims outstanding £000
Gross				
At beginning of year	69,110	79,755	2,730	151,595
Exchange loss/(gain) on retranslation of brought forward balances from last to this year closing rates	1,123	1,711	45	2,879
Increase/(decrease) during year (refer Note 3)	4,257	27,307	833	32,397
Exchange loss/(gain) on retranslation of in-year movement from average to closing rates through profit and loss account	(592)	743	8	159
At end of year	**73,898**	**109,516**	**3,616**	**187,030**
Reinsurers' share				
At beginning of year	3,393	5,707	–	9,100
Exchange loss/(gain) on retranslation of brought forward balances from last to this year closing rates	(4)	15	–	11
Increase/(decrease) during year (refer Note 3)	703	(257)	–	446
Exchange (loss)/gain on retranslation of in-year movement from average to closing rates through profit and loss account	47	(19)	–	28
At end of year	**4,139**	**5,446**	**–**	**9,585**

21. TECHNICAL PROVISIONS (continued)

(b) Movements in prior accident years' provision for claims outstanding

The following favourable/(adverse) changes were experienced during the year:

	Group and Company 2014			Group and Company 2013		
	Non catastrophe losses £000	Catastrophe losses £000	Total losses £000	Non catastrophe losses £000	Catastrophe losses £000	Total losses £000
Continuing operations						
Assumed treaty business						
Proportional reinsurance	400	2,043	2,443	8,945	1,923	10,868
Non-proportional reinsurance	1,994	494	2,488	683	14	697
	2,394	**2,537**	**4,931**	**9,628**	**1,937**	**11,565**
Discontinued operations						
Direct and assumed facultative business						
Fire and other damage to property	8,672	223	8,895	3,591	(13)	3,578
	8,672	**223**	**8,895**	**3,591**	**(13)**	**3,578**
	11,066	**2,760**	**13,826**	**13,219**	**1,924**	**15,143**

(c) Equalisation provision

	Group and Company 2014 £000
At beginning of year	12,358
Exchange (gain)/loss on retranslation of brought forward balances from last to this year closing rates	–
Increase/(decrease) during year (refer Note 28(b))	(1,902)
Exchange (gain)/loss on retranslation of in-year movement from average to closing rates	411
At end of year	**10,867**

The decrease in the equalisation provision during the year has had the effect of increasing the balance on the consolidated profit and loss technical account for general business, and the profit before taxation for the year, by £1,902,261 (2013: £1,302,186 decrease). The effect of the provision is to decrease shareholder's funds by £10,866,776 (2013: £12,357,691 decrease).

22. PROVISION FOR UNEARNED PREMIUMS

	Group and Company
	2014
	£000
Gross	
At beginning of year	73,581
Exchange gain/(loss) on retranslation of brought forward balances from last to this year closing rates	1,155
Increase/(decrease) during year (refer Note 2)	13,310
Exchange gain/(loss) on retranslation of in-year movement from average to closing rates	605
At end of year	**88,651**
Reinsurers' share	
At beginning of year	5,612
Exchange (gain)/loss on retranslation of brought forward balances from last to this year closing rates	52
Increase/(decrease) during year (refer Note 2)	(2,329)
Exchange (gain)/loss on retranslation of in-year movement from average to closing rates	(39)
At end of year	**3,296**

23. DEFERRED ACQUISITION COSTS

	Group and Company		
		2014	
	Deferred acquisition costs £000	Deferred profit commissions £000	Total deferred acquisition costs £000
Gross			
At beginning of year	12,164	247	12,411
Exchange (gain)/loss on retranslation of brought forward balances from last to this year closing rates	255	4	259
Increase/(decrease) during year (refer Note 4)	3,543	7	3,550
Exchange (gain)/loss on retranslation of in-year movement from average to closing rates	158	2	160
At end of year	**16,120**	**260**	**16,380**
Reinsurers' share			
At beginning of year	310	6	316
Exchange gain/(loss) on retranslation of brought forward balances from last to this year closing rates	6	–	6
Increase/(decrease) during year (refer Note 4)	(167)	6	(161)
Exchange gain/(loss)on retranslation of in-year movement from average to closing rates	(4)	–	(4)
At end of year	**145**	**12**	**157**

24. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	Group		Company	
	2014 £000	2013 £000	2014 £000	2013 £000
Amounts falling due within one year				
Insurance premium tax payable	6	9	6	9
Value added tax payable	7	89	–	89
Employment tax payable	69	73	69	73
UK corporation tax payable (refer Note 10(c))	1,625	50	1,625	50
Other creditors – non-group undertakings	126	116	126	111
Other creditors – group undertakings	407	117	212	–
	2,240	**454**	**2,038**	**332**

25. OTHER ACCRUALS AND DEFERRED INCOME

	Group		Company	
	2014 £000	2013 £000	2014 £000	2013 £000
Accrued professional fees	410	324	329	229
Accrued outsourcing fees	78	108	78	108
Accrued rent	310	78	310	78
Accrued other expenses	2,178	1,905	1,874	1,676
Deferred income	–	3	–	–
	2,976	**2,418**	**2,591**	**2,091**

26. OTHER PROVISIONS

The Company has a non-cancellable lease on its former office location at 10th Floor, 2 Minster Court, London EC3R 7BB. The lease is for a 10 year period which commenced 23 May 2007 and expires on 22 May 2017.

On 31 December 2014, the Company vacated this former office location and remains liable for the remaining rental charges until the lease expires. Accordingly, a provision for £900,000 has been recognised and this comprises: all future rental charges to lease expiry; anticipated dilapidation costs on expiry; net of future rental income from the anticipated sub-let of the former office location.

27. GUARANTEES, FINANCIAL COMMITMENTS AND CONTINGENT LIABILITIES

(a) Guarantees

A credit facility with the Bank of Tokyo-Mitsubishi has been extended for US$ 3,177,411 and CA$ 43,897 at the end of the financial year (2013: US$ 6,149,885 and CA$ 43,897) pursuant to the issuance of several letters of credit to policyholders/cedants in the United States of America and Canada.

A credit facility with Mizuho Trust and Banking has been extended for US$ 4,613,095 at the end of the financial year (2013: US$ 18,722,508) pursuant to the issuance of several letters of credit to policyholders/cedants in the United States of America.

Investment balances of US$ Nil (2013: US$ Nil) which are held in trust with CIBC Mellon have been assigned to our cedant, Aviva International in Canada, pursuant to the reinsurance contract terms.

27. GUARANTEES, FINANCIAL COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(b) Capital commitments

Capital commitments, contracted but for which no provision has been made at the end of the financial year, were £Nil (2013: £Nil).

(c) Annual commitments

Annual commitments in respect of non-cancellable operating leases are as follows:

	Group		Company	
	2014 Land and buildings £000	2013 Land and buildings £000	2014 Land and buildings £000	2013 Land and buildings £000
Operating leases which expire:				
Within one year	48	82	48	35
Between one and five years	532	567	509	547
After five years	132	–	–	–
	712	**649**	**557**	**582**

Rent expenses for the period ended 31 December 2014 were £956,525 (2013: £676,878) for the Group and £830,776 (2013: £571,939) for the Company.

28. DISCONTINUED OPERATIONS

(a) Discontinued portfolio of underwriting contracts incepting prior to 1 January 2011

Discontinued operations within the profit and loss account reflect transactions that emanate from the direct/facultative property and engineering portfolio of contracts (refer Note 1(a)) which incepted prior to 1 January 2011.

(b) Analysis of discontinued operations within the profit and loss account

	Group 2014			Group 2013		
	Continuing operations £000	Discontinued operations £000	Total £000	Continuing operations £000	Discontinued operations £000	Total £000
Earned premiums, net of reinsurance (refer Note 2)	124,853	(52)	124,801	91,130	37	91,167
Claims incurred, net of reinsurance (refer Note 3)	(89,126)	6,865	(82,261)	(52,611)	2,782	(49,829)
Net operating expenses (refer Note 4)	(37,176)	9	(37,167)	(32,929)	77	(32,852)
Change in the equalisation provision (refer Note 21(c))	211	1,691	1,902	(1,305)	3	(1,302)
Balance on the technical account for general business	(1,238)	8,513	7,275	4,285	2,899	7,184
Investment return	3,734	–	3,734	1,486	–	1,486
Other income and charges (refer Note 9(a),9(b))	309	148	457	2,543	(138)	2,405
Operating profit	**2,805**	**8,661**	**11,466**	**8,314**	**2,761**	**11,075**

28. DISCONTINUED OPERATIONS (continued)

(b) Analysis of discontinued operations within the profit and loss account (continued)

	Company 2014			Company 2013		
	Continuing operations £000	Discontinued operations £000	Total £000	Continuing operations £000	Discontinued operations £000	Total £000
Earned premiums, net of reinsurance (refer Note 2)	124,853	(52)	124,801	91,130	37	91,167
Claims incurred, net of reinsurance (refer Note 3)	(89,126)	6,865	(82,261)	(52,611)	2,782	(49,829)
Net operating expenses (refer Note 4)	(37,274)	9	(37,265)	(33,021)	77	(32,944)
Change in the equalisation provision (refer Note 21(c))	211	1,691	1,902	(1,305)	3	(1,302)
Balance on the technical account for general business	(1,336)	8,513	7,177	4,193	2,899	7,092
Investment income	3,735	–	3,735	1,486	–	1,486
Other income and charges (refer Note 9(a),9(b))	140	148	288	2,387	(138)	2,249
Operating profit	**2,539**	**8,661**	**11,200**	**8,066**	**2,761**	**10,827**

29. RELATED PARTY TRANSACTIONS AND BALANCES

	Company 2014	Company 2013
	Balances Net debtor/ (creditor) £000	Balances Net debtor/ (creditor) £000
Wholly-owned by Tokio Marine Holdings Inc		
Tokio Marine Technologies LLC	16	16
Tokio Millennium Re AG	201	(7)
Tokio Millennium Re AG, Bermuda Branch	(636)	(1,045)
Tokio Millennium Re AG, Australia Branch	743	1,117
Tokio Marine Management Inc., Brazil Branch	–	1
Tokio Marine & Nichido Fire Insurance Co., Ltd.	–	(1)
Tokio Marine Holdings Inc.	–	2
Tokio Marine Kiln Insurance Services Limited	(833)	–
Syndicate 1880 managed by Tokio Marine Kiln Syndicates Limited	(816)	(2,552)

	Company 2014		Company 2013	
	Transactions Net income/ (expense) £000	Balances Net debtor/ (creditor) £000	Transactions Net income/ (expense) £000	Balances Net debtor/ (creditor) £000
Partially-owned by Tokio Marine Holdings Inc.				
Syndicate 510 managed by Tokio Marine Kiln Syndicates Limited	(2,197)	8,130	(1,216)	10,508

30. IMMEDIATE AND ULTIMATE PARENT UNDERTAKINGS

Tokio Marine & Nichido Fire Insurance Co. Ltd. (Japan) is the immediate parent and parent undertaking of the smallest group of undertakings to consolidate these financial statements for the current year end. This company's registered office is at 2-1 Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8050, Japan.

Tokio Marine Holdings Inc. (Japan) is the ultimate controlling party and parent undertaking of the largest group of undertakings to consolidate these financials statements for the current year end. This company's registered office is at Tokyo Kaijo Nichido Building Shinkan 13F, 1-2-1 Marunouchi, Chiyoda-ku, Tokyo 100-0005, Japan.

Copies of both companies' financial statements are available from the addresses provided above.