TOKIO MILLENNIUM RE (UK) LIMITED

REGISTERED IN ENGLAND AND WALES NO. 02553288
A MEMBER OF TOKIO MARINE HOLDINGS, INC. (JAPAN)

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

EXECUTIVE DIRECTOR

Mark James Phillip Julian

NON-EXECUTIVE DIRECTORS

David John Finch
Stephan Ruoff
Toshiaki Suzuki
Clemens Anton Theodor Wolf von Bechtolsheim

REGISTERED OFFICE

5th Floor
20 Fenchurch Street
London EC3M 3BY
United Kingdom

INDEPENDENT AUDITORS

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

PRINCIPAL BANKERS

HSBC Bank plc
1st Floor
60 Queen Victoria Street
London EC4N 4TR
United Kingdom

Business Model

Tokio Millennium Re (UK) Limited ("The Company") underwrote non-life insurance/reinsurance risks until 30 June 2015. From 1 July 2015, it ceased underwriting, with all new and renewed risks being underwritten by its fellow-subsidiary, Tokio Millennium Re AG UK Branch ("TMR AG's UK Branch" or "UK Branch").

This restructure achieved two objectives for the Tokio Millennium Re group ("TMR AG"). The first improved the capital backing on offer to our customers, with TMR AG's larger balance sheet in comparison with TMRUK Ltd's, the former of which is also backed by a parental guarantee for TMR AG's cedants further underscoring our security. The second enhanced our overall capital efficiency.

Business Review

Strategy and Objectives

The Company's strategy is to safeguard the business of its clients. To achieve this, its objectives are to:

- Maintain a sound financial footing. Clients can rely on the Company to hold sufficient capital to cover all claims underwritten. The Company also has an unconditional and irrevocable guarantee from its immediate parent in Japan.
- Ensure a highly accurate evaluation and analysis of the potential hazards faced by its clients. The Company uses proprietary and innovative risk modelling techniques, based on Tokio Marine's longstanding underwriting experience since its establishment in 1879.

Results and Performance

The results for the financial year are set out on pages 10 and 11. The Company generated a post-tax loss of £(1.8) million (2015: £0.4 million) during the financial year. Net assets stood at £197.3 million (2015: £201.6 million) at the end of the financial year.

Future Outlook

As part of the overall harmonisation within the Tokio Millennium Re group, the Company's renewal rights on its treaty portfolio were transferred on 1 July 2015 to its fellow subsidiary, TMR AG's UK Branch. In line with this, the Company plans to also transfer the run-off treaty portfolio to the new UK Branch through a Part VII FSMA 2000 process, although this is subject to further reviews, regulatory and court approvals.

The renewal rights on its direct and facultative portfolio were transferred on 1 January 2011 to Syndicate 1880 managed by Tokio Marine Kiln Syndicates Limited. The run-off of this portfolio will continue to be managed by the Company until an exit strategy is formulated.

Principal Risks and Uncertainties

Overall organisational risks

The risk management function oversees the management of all organisational risks and continues to enhance the mechanisms used to identify, quantify and manage accumulated exposures within the limits of the Company's risk appetite. The steering of the overall risk strategy is directed by the Board of Directors.

General insurance risk

General insurance risk arises from:

- fluctuations in the timing, frequency and severity of claims and claim settlements relative to expectations;
- unexpected claims arising from a single source;
- inadequate claims reserves; and
- inadequate reinsurance protection.

The adequacy of the Company's general insurance reserves is reviewed by the Reserving Committee and approved by the Board of Directors. For comparison purposes, the reserves are also independently re-projected by an independent firm of actuaries.

Financial risk

Financial risk arises through the Company's holdings in financial assets, financial liabilities, insurance/reinsurance assets and policyholder/cedant liabilities. The key financial risk is that proceeds from financial assets are insufficient to fund obligations arising from policies as they fall due. The most important components of financial risk are: interest rate risk; currency risk; credit risk; and liquidity risk.

The Company adopts the Tokio Marine group-wide Enterprise Risk Management framework which is tailored and used as a guide to measure, monitor and control all risks inherent in the business, including those relating to financial risk - by ensuring these remain within its risk appetite limits. This system establishes acceptable levels of measurable risks and ensures the sufficiency of equity in light of those risks. Risk amounts are monitored to ensure these are maintained within permissible ranges based on the Company's economic capital model and are reported to the Board of Directors on a periodic basis within the Own Risk and Solvency Assessment ("ORSA") document.

The Company does not use hedge accounting to manage risks. Instead, it manages risks by calculating the value-at-risk for major asset components, and the tail value-at-risk for major liability components in the Balance Sheet. The value-at-risk is an indicator - at a given confidence interval - of the worst loss expected to be suffered over a specified duration from the measurement date. The tail value-at-risk, on the other hand, measures the loss expected to be suffered once the given confidence interval is breached.

Interest rate risk

Interest rate risk arises primarily from the Company's investment portfolio which comprise debt securities, money market funds and cash deposits. To the extent that claims inflation is correlated with interest rates, liabilities to policyholders/cedants are also exposed to interest rate risk.

The Company monitors interest rate risk by calculating the value-at-risk, average maturity and average duration of its investment portfolio. These indicators measure the sensitivity of assets and liabilities to changes in current interest rates. There is currently minimal interest rate risk exposure on assets as these are principally short-to-medium term in duration.

Currency risk

The Company is exposed to currency risk in respect of policyholder/cedant liabilities which are denominated in currencies other than GBP. The Company seeks to mitigate currency risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency.

Principal Risks and Uncertainties (continued)

Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Company is exposed to credit risk are:

- exposure to investments in debt securities, money market funds and cash deposits;
- reinsurers' share of insurance/reinsurance claim reserve liabilities;
- claim recovery amounts due from reinsurers in respect of claims already paid;
- premium amounts due from insurance/reinsurance policyholders/cedants; and
- premium amounts due from insurance/reinsurance intermediaries.

The Company monitors its exposure to a single counterparty, or groups of related counterparties, and to territorial and industry segments.

There is no significant credit risk in respect of reinsurers as the Company's reinsurers are the Tokio Marine group companies.

Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due. In order to meet such calls, the Board sets minimum limits on the maintenance of cash deposits and investments.

Key Performance Indicators

Key performance indicators	2016 £000	2015 £000	Movement during the financial year
Earned premium	79,264	152,266	The higher combined ratio is mainly driven by a change in the reserves within our Motor portfolio as a result of a drop in the Ogden discount rate from a positive 2.5% to a negative 0.75%.
Underwriting profit/(loss)	(9,115)	(2,180)	
Net combined ratio	111.5%	101.4%	
Investment return	4,216	2,061	Investment yield has improved from previous year as the portfolio was favourably affected by improved macroeconomic conditions and a reduction of UK interest rates.
Investments/cash deposits	454,124	445,910	
Investment yield	0.9%	0.5%	
Investments/cash deposits	454,124	445,910	There continues to be a healthy composition of investments and cash deposits within total assets.
Total assets	496,596	560,995	
Investments/cash deposits composition	91.4%	79.5%	
Pre-tax profit/(loss)	(2,177)	524	Return on equity has worsened as a result of an increase in claims reserves caused by a drop in the Ogden discount rate as announced by the Lord Chancellor.
Opening shareholder's equity	201,588	200,535	
Return on equity	(1.1)%	0.3%	

Mark Julian
Director

March 2017

Directors and Their Interests

The following individuals served as directors during the financial year, and up to the approval date of this report:

Names	Appointed	Resigned
David Finch	Prior to 1 January 2016	-
Mark James Phillip Julian	Prior to 1 January 2016	-
Stephan Ruoff	Prior to 1 January 2016	-
Toshiaki Suzuki	Prior to 1 January 2016	-
Clemens Anton Theodor Wolf von Bechtolsheim	Prior to 1 January 2016	-

Political Donations

The Company made no political donations during the year (2015: £nil).

Directors' Indemnification

All TMRUK's directors benefited from qualifying third party indemnity provisions by way of Directors' and Officers' Insurance, limited to £10 million (2015: £10 million) in the aggregate including costs and expenses, plus £1 million additional (2015: £1 million) for every Non-Executive Director. Coverage was in place during the financial year and remains so at the approval date of this report.

Independent Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office.

Future Outlook

The main features of the Company's future development can be found in the Strategic Report. The future development forms part of this Directors' Report and is incorporated into it by cross-reference.

Dividends Paid and Declared

During the year, an interim dividend of £nil (2015: £nil) was paid, amounting to 0p (2015: 0p) per ordinary share. No dividends are proposed (2015: £nil).

Financial Instruments

The financial risk management objectives and policies for the Company can be found within the Strategic Report, with details of exposure being found in Note 1. Financial risk management objectives and policies form part of this Directors' Report and is incorporated into it by cross reference.

Statement of Directors' Responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Company's financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards under Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and Financial Reporting Standard 103 "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland for entities issuing insurance contracts" ("FRS 103") have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable it to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that they have complied with the above requirements in the preparation of the financial statements.

Statement of Information Disclosure to Auditors

Each of the persons who is a director at the date of this report confirms that:

- So far as each of them is aware, there is no information relevant to the audit of the Company's financial statements for the year ended 31 December 2016 of which the auditors are unaware; and
- The director has taken all steps that he/she ought to have taken in his/her duty as a director in order to make him/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

By order of the Board

Mark Julian
Director

March 2017

Independent auditors' report to the members of Tokio Millennium Re (UK) Ltd

Report on the financial statements

Our opinion

In our opinion, Tokio Millennium Re (UK) Ltd's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the ANNUAL REPORT (the "Annual Report"), comprise:

- the Statement of Financial Position as at 31 December 2016;
- the Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Equity for the year then ended;
- the accounting policies; and
- the notes to the financial statements, which include other explanatory information.

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

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

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Independent Auditors' Report to the Member of Tokio Millennium Re (UK) Limited (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

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

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

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

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Mark Bolton (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

March 2017

	Notes	2016 £000	2015 £000
EARNED PREMIUMS, NET OF REINSURANCE			
Premiums written			
Gross amount	2(a),2(b)	2,957	149,979
Reinsurers' share		(755)	(898)
		2,202	149,081
Change in the provision for unearned premiums			
Gross amount	3	77,567	5,451
Reinsurers' share	3	(505)	(2,266)
		77,062	3,185
Earned premiums, net of reinsurance	4	79,264	152,266
CLAIMS INCURRED, NET OF REINSURANCE			
Claims paid			
Gross amount	5	(72,227)	(52,995)
Reinsurers' share	5	3,546	887
		(68,681)	(52,108)
Change in the provision for claims			
Gross amount	5,6(a)	(179)	(72,843)
Reinsurers' share	5,6(a)	(4,778)	704
		(4,957)	(72,139)
Claims incurred, net of reinsurance	5	(73,638)	(124,247)
Operating expenses, net of reinsurance			
Gross amount	7	(22,144)	(34,607)
Reinsurers' share	7	100	70
		(22,044)	(34,537)
Change in the equalisation provision	2(a),6(c)	7,303	4,338
BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS	2(a)	**(9,115)**	**(2,180)**
INVESTMENT RETURN			
Investment income	8	7,391	6,935
Realised gain/(loss) on investments		(4,294)	(4,281)
Unrealised gain/(loss) on investments		1,612	(152)
Investment expenses and charges		(493)	(441)
Total investment return		4,216	2,061
OTHER INCOME AND CHARGES			
Other income	9(a)	2,727	863
Other charges	9(b)	(4)	(220)
		2,723	643
OPERATING PROFIT/(LOSS) AND PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAX			
Assumed treaty business		(2,336)	(1,094)
Direct and assumed facultative business		159	1,618
		(2,177)	524
Tax charge on profit on ordinary activities	10(a)	351	(162)
PROFIT/(LOSS) FOR THE FINANCIAL YEAR	**2(b)**	**(1,826)**	**362**

	Notes	2016 £000	2015 £000
PROFIT/(LOSS) FOR THE FINANCIAL YEAR	**2(b)**	**(1,826)**	**362**
OTHER COMPREHENSIVE INCOME			
Unrealised gain/(loss) on revaluation of group undertaking	11	(2,505)	691
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(4,331)**	**1,053**

STATEMENT OF FINANCIAL POSITION : ASSETS

TOKIO MILLENNIUM RE (UK) LIMITED

As at 31 December 2016

	Notes	2016 £000	2015 £000
INVESTMENTS			
Investments in group undertakings	11	2,683	5,188
Other financial investments	12	371,763	391,749
Deposits with ceding undertakings	13	2,069	2,936
		376,515	399,873
REINSURERS' SHARE OF TECHNICAL PROVISIONS			
Provision for unearned premiums	3	662	1,055
Claims outstanding	6(a)	6,106	10,324
		6,768	11,379
DEBTORS			
Debtors arising out of direct insurance operations	14	78	229
Debtors arising out of reinsurance operations	15	22,196	71,150
Other debtors including taxation and social security	16	2,102	4,167
		24,376	75,546
OTHER ASSETS			
Intangible assets	17	3	16
Tangible assets	18	164	434
Cash at bank and in hand		82,361	54,161
Deferred tax asset	10(d)	730	379
		83,258	54,990
PREPAYMENTS AND ACCRUED INCOME			
Accrued interest		2,100	2,226
Deferred acquisition costs	19	2,490	16,252
Other prepayments and accrued income	20	1,089	729
		5,679	19,207
TOTAL ASSETS		**496,596**	**560,995**

STATEMENT OF FINANCIAL POSITION : LIABILITIES

TOKIO MILLENNIUM RE (UK) LIMITED

As at 31 December 2016

	Notes	2016 £000	2015 £000
CAPITAL AND RESERVES			
Called up share capital	21	125,000	125,000
Revaluation reserve	11	1,561	4,066
Profit and loss account		70,696	72,522
Total equity		197,257	201,588
TECHNICAL PROVISIONS			
Provision for unearned premium	3	11,304	85,039
Claims outstanding	6(a)	284,642	264,261
Equalisation provision	6(c)	-	6,847
		295,946	356,147
PROVISIONS FOR OTHER RISKS AND CHARGES			
Onerous lease	22	133	367
		133	367
CREDITORS			
Creditors arising out of insurance operations		7	17
Creditors arising out of reinsurance operations		651	742
Other creditors including taxation and social security	23	184	340
		842	1,099
ACCRUALS AND DEFERRED INCOME			
Reinsurers' share of deferred acquisition costs	19	61	137
Other accruals and deferred income	24	2,357	1,657
		2,418	1,794
TOTAL EQUITY AND LIABILITIES		**496,596**	**560,995**

The financial statements on pages 10 to 46 were approved by the Board of Directors on March 2017 and signed on its behalf by:

Mark Julian
Chief Executive Officer

	2016			
	Share capital £000	Revaluation reserve £000	Profit and loss account £000	Total equity £000
At beginning of year	125,000	4,066	72,522	201,588
Profit/(loss) after tax (refer Note 2(b))	-	-	(1,826)	(1,826)
Revaluation loss on group undertaking (refer Note 11)	-	(2,505)	-	(2,505)
Dividends paid	-	-	-	-
At end of year	125,000	1,561	70,696	197,257

	2015			
	Share capital £000	Revaluation reserve £000	Profit and loss account £000	Total equity £000
At beginning of year	125,000	3,375	72,160	200,535
Profit/(loss) after tax (refer Note 2(b))	-	-	362	362
Revaluation gain on group undertaking (refer Note 11)	-	691	-	691
Dividends paid	-	-	-	-
At end of year	125,000	4,066	72,522	201,588

STATEMENT OF ACCOUNTING POLICIES

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

(a) Statement of compliance

The financial statements have been prepared in accordance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"), Financial Reporting Standard 103, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland for entities issuing insurance contracts" ("FRS 103") and the Companies Act 2006, under the provision of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("SI 2008/410").

(b) Basis of preparation

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

The preparation of financial statements in conformity with FRS 102 requires the use of critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to these financial statements are disclosed in Accounting Policy (g) under Claims Incurred.

(c) Exemption from preparing consolidated financial statements

The Company has taken advantage of the exemption under Companies Act 2006 section 405(2), which states that a subsidiary undertaking may be excluded from consolidation if its inclusion is not material for the purpose of giving a true and fair view.

Accordingly, these financial statements are the Company's separate financial statements.

(d) Exemption from preparing cash flow statement

The Company has taken advantage of the exemption under FRS 102 paragraph 1.12(b), from preparing a Statement of Cash Flows, on the basis that it is a qualifying entity and its ultimate parent company, Tokio Marine Holdings Inc. (registered in Japan), includes the Company's cash flows in its publicly available consolidated financial statements.

(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 Statement of Comprehensive Income - 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 Company, 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 Statement of Financial Position as unearned premium reserves ("UPR"). UPR are retranslated at closing rate and will be recognised as earned premiums in future financial periods' Statement of Comprehensive Income - Technical Account.

STATEMENT OF ACCOUNTING POLICIES (continued)

(g) Claims incurred

Claims incurred are recognised within the Statement of Comprehensive Income - 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 Statement of Financial Position 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 Company 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 Statement of Financial Position, the Company considers the claim circumstances as reported, including any information available from loss adjusters.

The Company's gross outstanding claim estimates of large losses are based on best estimates of claims given the currently available information 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 Statement of Financial Position 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 Company applies the three reserving methods of a priori loss ratio, link ratio and Bornhuetter Ferguson. The Company 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.

Assumed treaty contracts

These contracts currently comprise a mixed portfolio of Property, Liability, Accident/Health, Motor, Financial, Marine, Transport and Aggregate lines. The majority 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 Company. Certain contracts have exposure to periodic payment orders and these are longer tail in nature where the claim payments are structured as annuities over an extended time horizon.

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 Company.

STATEMENT OF ACCOUNTING POLICIES (continued)

(g) Claims incurred (continued)

Reinsurance recoveries

For ceded outstanding claims within the Statement of Financial Position, 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 Statement of Financial Position, these are assumed to be consistent with the historical pattern of recoveries, and adjusted to reflect changes in the Company'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 Statement of Financial Position 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 Statement of Financial Position 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

Equalisation Provisions are additional loss reserves required under the Solvency I regime (EC Non-Life Directive 1987/343) for the purposes of mitigating exceptionally high loss ratios in future financial periods. When the Solvency II regime (EC Solvency II Directive 2009/138) came into force on 1 January 2016, Equalisation Provisions were abolished.

(j) Acquisition costs

Acquisition costs

Acquisition costs within the Statement of Comprehensive Income - 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 Statement of Financial Position as deferred acquisition costs ("DAC"). DAC are retranslated at closing rate and will be charged in future financial periods' Statement of Comprehensive Income - Technical Account.

(k) Financial instruments

The Company has chosen to adopt FRS 102 section 11 in respect of financial instruments.

Financial assets

Basic financial assets, including trade and other receivables, cash and bank balances, bonds and similar debt instruments are initially recognised at transaction price. Upon their initial recognition, debt instruments are designated by the entity as fair value through profit or loss, and are subsequently measured at fair value which is the current bid market price. Any changes in fair value are recognised in the Statement of Comprehensive Income - Non Technical Account.

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

Financial liabilities

Basic financial liabilities, including trade and other payables are initially recognised at transaction price. Trade payables are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised at the transaction price when recorded.

Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is an enforceable right to set off the recognised amounts, and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

STATEMENT OF ACCOUNTING POLICIES (continued)

(l) Investment in subsidiary company

Investment in the subsidiary company is held at fair value through Other Comprehensive Income. Differences between historical cost and fair value are recognised in the Revaluation Reserve.

(m) Investment return

Investment return is recognised within the Statement of Comprehensive Income 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 Statement of Financial Position date, and their acquired cost if purchased during the financial period; or
- The market value of investments at the Statement of Financial Position date, and their market value at the last Statement of Financial Position 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 arises from:

- Income receivable by the Company from group undertakings for risk consultancy services; and
- Income receivable by the Company from its sublease on an office premise.

(o) Foreign currency translations and settlements

The Company's reporting and functional currency is GBP.

The Company operates in the three transactional 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. At each period end:

- Foreign currency monetary items, including the Statement of Comprehensive Income, are translated at closing rates. Individual line items in the Statement of Comprehensive Income are translated at the average rate, with the retranslation into closing rates taken to exchange gains and losses.
- Foreign currency non-monetary items measured at historical cost are translated using the exchange rate prevailing at the date of the transaction.
- Foreign currency non-monetary items measured at fair value are translated using the exchange rate prevailing at the date fair value was determined.

All foreign exchange gains and losses are recognised in the Statement of Comprehensive Income - Non Technical Account. These arise from:

- Settlements of non-GBP/EUR/USD foreign currency transactions.
- Retranslations of monetary items at period end exchange rates.
- Differences on non-monetary items between theoretical period end exchange rate values, and the established historic or fair values recognised at various exchange rates.

STATEMENT OF ACCOUNTING POLICIES (continued)

(p) Operating leases

Operating lease rentals are charged to the Statement of Comprehensive Income - Non Technical Account evenly over the period of the lease.

(q) Current and deferred taxation

Current tax

Current tax is recognised in the Statement of Comprehensive Income - 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 Statement of Financial Position 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, including revaluations of investment gains/losses recognised within the Statement of Comprehensive Income - Non Technical Account. Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference. 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 Company only operates a defined contribution pension scheme - a plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid, the Company has no further payment obligations. Contributions to the scheme are charged to the Statement of Comprehensive Income - 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 Company's assets.

(s) Tangible assets

Tangible assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bringing the asset to its working condition for its intended use, dismantling and restoration costs and borrowing costs capitalised. The costs of tangible assets are capitalised on the Statement of Financial Position 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
- Office equipment — 2 years

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

(t) Intangible assets

The only intangible asset is computer software. This is stated at cost less accumulated amortisation and accumulated impairment losses. Computer software is amortised over its estimated useful life of 2 years, on a straight line basis.

Where factors, such as technological advancement or changes in market price, indicate that residual value or useful life have changed, the residual value, useful life or amortisation rate are amended prospectively to reflect the new circumstances.

The assets are reviewed for impairment if the above factors indicate that the carrying amount may be impaired.

(u) Distributions to equity shareholders

Dividends and other distributions to Company's shareholders are recognised as a liability in the financial statements in the period in which the dividends and other distributions are approved by the Company's shareholders. These amounts are recognised in the Statement of Changes in Equity.

1. RISK MANAGEMENT

The Company, through its risk management function and the Risk Committee, seeks to identify all material risks inherent in its business including emerging risks, understand the manifestations of each risk, then assess, control, mitigate and manage these risks appropriately.

The objectives of the Company's risk management function are to ensure that:

- all material risks are proactively identified;
- the probability and impact of each risk are quantified on a pre-mitigation and post-mitigation basis;
- 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 function falls within the remit of the Risk Committee, a sub-committee of the Executive Committee which reports to the Board of Directors. The Risk Committee is charged with setting the orientation of the Company's business. It pays particular attention to business strategy, capital allocation, risk control framework and ensures these are implemented.

The Company is exposed to risks from several sources. These fall into the broad categories of: underwriting risk (comprising premium, catastrophe and reserve); financial risk (comprising interest rate, foreign exchange, credit and liquidity); operational risk; and strategic risk.

Underwriting risk

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

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

As a reinsurance Company, TMRUK is in the business of taking underwriting risk and therefore has a high appetite for underwriting risk. The Company's risk limits are defined in the Company's risk appetite and risk tolerance limits for all underwriting risks.

The Company has underwriting guidelines in place that clearly define each underwriter's authority, permitted territorial scope, risks to be written, risks to be avoided, acceptance limits, maximum policy period, maximum net retention, and outward reinsurance.

As part of the Company's risk control strategy and governance, all contracts must be reviewed and approved by the Executive Committee, a sub-committee of the Audit Committee, before these can be bound.

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

Financial risk

Financial risk refers to the risk of financial loss due to a change in the value of the Company's assets, or a change of market risk factors that affect the value of such assets. The Company has identified the following as its main sources of financial risks: interest rate risk, foreign exchange risk, credit risk and liquidity risk.

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.

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.

1. RISK MANAGEMENT (continued)

(a) Underwriting risk - premium

Premium risk is the risk that the premium to be earned over the next 12 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.

Details of gross premiums written by geographical area of risk insured are set out below.

	2016		2015	
	Gross written premiums		Gross written premiums	
	£000	%	£000	%
Geographic area of risk insured				
United Kingdom	1,645	55%	65,464	44%
North, Central and South America	914	31%	3,704	2%
Europe	737	25%	1,565	1%
Worldwide	636	22%	49,448	33%
Africa and Middle East	(157)	(5)%	5,409	4%
Asia and Australia	(818)	(28)%	24,389	16%
	2,957	100%	149,979	100%

Details of gross premiums written by line of business are provided below.

	2016		2015	
	Gross written premiums		Gross written premiums	
	£000	%	£000	%
Line of business				
Liability	3,474	117%	22,694	15%
Motor	1,712	58%	57,982	39%
Transport	416	14%	2,329	2%
Marine	85	3%	15,157	10%
Aggregate Cover	-	0%	404	0%
Accident and Health	(138)	(5)%	289	0%
Property	(833)	(28)%	35,691	24%
Financial Lines	(1,759)	(59)%	15,433	10%
	2,957	100%	149,979	100%

(b) Underwriting risk - catastrophe

Catastrophe risk is the risk that the premium to be earned over the next 12 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 but not limited to 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 the Company's capital.

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 spreading risks across multiple lines of businesses.

1. RISK MANAGEMENT (continued)

(c) Underwriting risk - reserve

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

Reserve risk is distinct from premium risk and is related to premium exposures that have already been earned, as well as claims outstanding.

A summary of changes in claims reserves is presented in Note 6. This comprises outstanding claims reserves, claims incurred but not reported reserves, unallocated loss adjustment reserves and any reinsurers' share thereof. There was no change to the Company's reserving methodology during the year.

To manage reserving risk, the Company's actuarial team uses a range of recognised actuarial techniques to project gross premiums written to ultimate, monitor claims development patterns, and stress test ultimate insurance liabilities. An independent firm of actuaries also performs an annual reprojection of the ultimate insurance liabilities.

A full analysis of claims reserves is performed on a quarterly basis. The analysis is reviewed by and discussed with underwriters, actuaries, claims, finance and senior management prior to submission to the Reserve Committee, a sub-committee of the Executive Committee. The Reserve Committee's remit is to review the sufficiency of the estimated claims reserves and to critically assess the claims reserving practices of the Company.

The claims 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 reserves for known large losses and catastrophes, or from inadequate provision for unknown losses. The Company believes that the claims reserves establised are adequate, however a 1% improvement/deterioration in the total estimated losses would have an impact on profit before tax of £2,846 thousand gain/loss (2015: £2,643 thousand).

Concentrations of claims reserves by line of business are provided below.

Gross claims reserves	2016 Claims reserves £000	2016 %	2015 Claims reserves £000	2015 %
Line of business				
Motor	135,689	47%	100,188	38%
Liability	45,344	16%	40,338	15%
Financial Lines	43,477	15%	36,612	14%
Property	41,528	15%	70,166	27%
Marine	13,396	5%	12,016	5%
Transport	2,882	1%	2,755	1%
Aggregate Cover	1,568	1%	973	0%
Accident and Health	758	0%	1,213	0%
	284,642	100%	264,261	100%

On 27 February 2017, the Lord Chancellor revised down the Ogden discount rate to -0.75% from +2.50%. This movement resulted in an overall £26.2 million increase in TMRUK Ltd's lump sum Motor claim reserves in 2016 for policies written in underwriting years 2012, 2013, 2014 and 2015.

The Company believes that the lump sum Motor claim reserves are adequate but does recognise the sensitivities of key assumptions involved in the calculation of the reserve. For example, a 5 year change in the average age of the claimant and/or life expectancy of the claimant may have a material impact on the lump sum Motor claim reserves.

1. RISK MANAGEMENT (continued)

(c) Underwriting risk - reserve (continued)

The table below summarises the development of gross ultimate cumulative claim estimates at the end of each financial year, illustrating how amounts estimated have changed from the first estimate made.

Gross ultimate liability estimates at end of financial years	Underwriting years 2005 £000	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000
End of financial year 1	17,474	11,230	19,639	43,205	29,520	44,369
End of financial year 2	25,287	27,944	54,944	58,392	53,457	61,896
End of financial year 3	22,947	40,886	54,431	61,402	52,591	53,030
End of financial year 4	24,896	35,449	53,777	64,093	50,098	50,859
End of financial year 5	23,325	35,595	60,522	69,561	51,286	50,525
End of financial year 6	22,505	31,542	64,342	68,261	50,873	50,385
End of financial year 7	22,317	32,675	65,825	65,796	50,763	50,046
End of financial year 8	22,497	32,163	61,899	63,182	52,632	
End of financial year 9	22,674	30,774	60,106	64,609		
End of financial year 10	22,584	30,556	60,519			
End of financial year 11	22,534	30,501				
End of financial year 12	22,158					
Ultimate liability	22,158	30,501	60,519	64,609	52,632	50,046
Paid to-date	(21,726)	(29,587)	(56,074)	(60,511)	(47,231)	(44,818)
Unpaid liability (excluding ULAE)	432	914	4,445	4,098	5,401	5,228
ULAE liability	6	13	65	60	79	77
Unpaid liability (including ULAE) at 31 December 2016	438	927	4,510	4,158	5,480	5,305

Gross ultimate liability estimates at end of financial years	Underwriting years 2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	Total £000
End of financial year 1	35,481	35,314	40,679	58,555	76,746	
End of financial year 2	52,632	53,808	80,172	109,511	127,369	
End of financial year 3	45,713	51,991	86,084	114,352		
End of financial year 4	43,929	52,238	89,597			
End of financial year 5	43,911	61,553				
End of financial year 6	44,158					
End of financial year 7						
End of financial year 8						
End of financial year 9						
End of financial year 10						
End of financial year 11						
End of financial year 12						
Ultimate liability	44,158	61,553	89,597	114,352	127,369	717,493
Paid to-date	(38,350)	(31,767)	(42,968)	(45,180)	(40,291)	(458,503)
Unpaid liability (excluding ULAE)	5,808	29,786	46,629	75,161	87,078	258,990
ULAE liability	85	533	873	1,210	1,450	4,452
Unpaid liability (including ULAE) at 31 December 2016	5,893	34,014	47,502	76,371	88,528	284,642

1. RISK MANAGEMENT (continued)

(c) Underwriting risk - reserve (continued)

The table below summarises the development of net ultimate cumulative claim estimates at the end of each financial year, illustrating how amounts estimated have changed from the first estimate made.

	Underwriting years					
Net ultimate liability estimates at end of financial years	2005 £000	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000
End of financial year 1	12,511	11,230	19,639	43,205	29,520	44,369
End of financial year 2	20,603	27,944	54,944	58,392	53,457	61,896
End of financial year 3	19,815	40,886	54,431	61,402	52,591	53,030
End of financial year 4	19,079	35,449	53,777	64,093	50,098	50,859
End of financial year 5	18,866	35,595	60,522	69,561	51,286	50,525
End of financial year 6	18,046	31,542	64,342	68,261	50,873	50,385
End of financial year 7	17,858	32,675	65,825	65,796	50,763	50,046
End of financial year 8	18,038	32,163	61,899	63,182	52,632	
End of financial year 9	18,215	30,774	60,106	64,609		
End of financial year 10	18,125	30,556	60,519			
End of financial year 11	18,075	30,501				
End of financial year 12	17,699					
Ultimate liability	17,699	30,501	60,519	64,609	52,632	50,046
Paid to-date	(17,266)	(29,587)	(56,074)	(60,511)	(47,231)	(44,818)
Unpaid liability (excluding ULAE)	433	914	4,445	4,098	5,401	5,228
ULAE liability	6	13	65	60	79	77
Unpaid liability (including ULAE) at 31 December 2016	439	927	4,510	4,158	5,480	5,305

	Underwriting years					
Net ultimate liability estimates at end of financial years	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	Total £000
End of financial year 1	35,122	26,435	39,427	57,534	76,746	
End of financial year 2	52,632	44,156	78,742	105,555	132,391	
End of financial year 3	45,713	41,548	84,763	117,865		
End of financial year 4	43,929	42,996	94,522			
End of financial year 5	43,911	55,444				
End of financial year 6	44,158					
End of financial year 7						
End of financial year 8						
End of financial year 9						
End of financial year 10						
End of financial year 11						
End of financial year 12						
Ultimate liability	44,158	51,749	88,028	111,876	127,369	699,187
Paid to-date	(38,350)	(25,918)	(42,968)	(43,288)	(40,291)	(446,303)
Unpaid liability (excluding ULAE)	5,808	29,526	45,060	68,588	87,078	252,884
ULAE liability	85	533	873	1,210	1,450	4,452
Unpaid liability (including ULAE) at 31 December 2016	5,893	30,059	52,428	75,787	93,550	278,536

1. RISK MANAGEMENT (continued)

(d) Financial risk - interest

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 debt securities held in the Company's investment portfolio. The Company cannot control the former but it can control the latter.

The Company manages interest rate risk by calculating the value-at-risk, average maturity and average duration of its debt securities portfolio. These indicators measure the sensitivity of the portfolio's valuation to changes in interest rates. There is currently minimal interest rate risk exposure on the portfolio as these are principally short-to-medium term in duration.

Investment guidelines are established to manage this risk. These guidelines set parameters within which the external investment managers must operate. The guidelines are approved by the Audit Committee which is a sub-committee of the Board of Directors. 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 asset classes and minimum requirements of credit ratings.

The investment mix of debt securities held in the portfolio is as follows:

	2016							
	Fixed Rate		Floating Rate		Inflation Protected		Total	
	Fair values		Fair values		Fair values		Fair values	
Debt securities	£000	%	£000	%	£000	%	£000	%
UK government	177,904	57%	-	0%	-	0%	177,904	57%
Non-UK government	29,767	10%	3,338	1%	-	0%	33,105	11%
Non-UK government agencies	13,988	4%	866	0%	-	0%	14,854	4%
Supranational	3,811	1%	405	0%	-	0%	4,216	1%
Corporate	42,064	13%	25,009	9%	-	0%	67,073	22%
Government backed	15,277	5%	-	0%	-	0%	15,277	5%
	282,811	90%	29,618	10%	-	0%	312,429	100%

	2015							
	Fixed Rate		Floating Rate		Inflation Protected		Total	
	Fair values		Fair values		Fair values		Fair values	
Debt securities	£000	%	£000	%	£000	%	£000	%
UK government	160,491	52%	-	0%	8,301	3%	168,792	55%
Non-UK government	28,952	9%	2,947	1%	-	0%	31,899	10%
Non-UK government agencies	10,182	3%	3,735	1%	-	0%	13,917	4%
Supranational	2,205	1%	136	0%	-	0%	2,341	1%
Corporate	44,203	14%	37,962	13%	-	0%	82,165	27%
Government backed	7,225	2%	3,850	1%	-	0%	11,075	3%
	253,258	81%	48,630	16%	8,301	3%	310,189	100%

The sensitivity analysis for interest rate risk illustrates how changes in the portfolio's fair values will fluctuate because of changes in market interest rates at the reporting date. This is detailed below assuming linear movements in interest rates.

	2016		2015	
	Fair Value Movement		Fair Value Movement	
Shifts in market interest rates	£000	%	£000	%
100 basis points	(3,527)	(1.1%)	(3,437)	(1.1%)
75 basis points	(2,656)	(0.9%)	(2,588)	(0.8%)
50 basis points	(1,778)	(0.6%)	(1,733)	(0.6%)
25 basis points	(893)	(0.3%)	(870)	(0.3%)
(25) basis points	900	0.3%	877	0.3%
(50) basis points	1,807	0.6%	1,762	0.6%
(75) basis points	2,722	0.9%	2,653	0.9%
(100) basis points	3,644	1.2%	3,552	1.1%

1. RISK MANAGEMENT (continued)

(e) Financial risk - foreign exchange

Although the Company's presentation and reporting currency is GBP, it operates internationally and its exposures to foreign exchange risk arise primarily from USD and EUR currencies when these exchange rates fluctuate against GBP. This impacts the USD- and EUR- denominated transactions, assets and liabilities. The Company seeks to mitigate foreign exchange risk by closely matching the estimated foreign currency denominated liabilities with assets in the same currency.

The Company's USD- and EUR-denominated assets and liabilities, translated into their carrying GBP amounts at these exchange rates of GBP 1 : USD 1.2357 : EUR 1.1733 (2015: GBP 1 : USD 1.4736 : EUR 1.3566) are as follows.

	2016			
	GBP denominations	USD denominations	EUR denominations	Total
	£000	£000	£000	£000
Total assets	359,593	113,715	23,289	496,597
Total liabilities	175,040	104,470	19,830	299,340
Total equity	184,553	9,245	3,459	197,257

	2015			
	GBP denominations	USD denominations	EUR denominations	Total
	£000	£000	£000	£000
Total assets	392,383	149,681	18,931	560,995
Total liabilities	197,978	145,356	16,073	359,407
Total equity	194,405	4,325	2,858	201,588

The impact on equity of a USD and EUR foreign exchange rate shift of 10% weakening or strengthening against GBP is detailed below. This assumes all other variables, such as interest rates, remain constant while the underlying assets and liabilities in their base currencies also remain unchanged.

	2016		
	USD denominated equity	EUR denominated equity	Total in/ (de)crease
Shifts in foreign exchange rates against GBP	£000	£000	£000
10% weaker	(840)	(314)	(1,155)
10% stronger	1,027	384	1,412

	2015		
	USD denomi-nated equity	EUR denomi-nated equity	Total in/ (de)crease
Shifts in foreign exchange rates against GBP	£000	£000	£000
10% weaker	(393)	(260)	(653)
10% stronger	481	318	799

1. RISK MANAGEMENT (continued)

(f) Financial risk - credit

Credit risk is the risk of potential financial loss due to unexpected default, or deterioration in the credit ratings of asset counterparties - causing a loss in asset values. These include in/reinsurance debtors receivable from brokers/cedants and financial investments with a diverse range of counterparty issuers.

Credit risk on in/reinsurance debtors is managed by conducting business with reputable intermediaries, with whom the Company has established relationships, and by rigorous cash collection procedures on overdue debtors.

Credit risk on financial investment is managed by stipulating a minimum credit rating score for each security within an asset class, setting exposure limits in each credit rating band, and limiting the amounts of credit exposure with any one counterparty.

The maturity dates of in/reinsurance debtors are as follows.

	2016 £000	2015 £000
Less than 3 months overdue	20,814	70,287
Between 4 and 12 months overdue	1,135	1,133
Between 1 and 2 years overdue	991	393
Beyond 2 years overdue	419	201
Doubtful debt provision	(1,084)	(635)
	22,275	71,379

An analysis of the financial investment and in/reinsurance debtor exposures by counterparty credit ratings is as follows.

	2016					
	Debt securities £000	Participations in investment pools £000	Deposits with credit institutions £000	Cash at bank and in hand £000	Debtors arising out of in/ reinsurance operations £000	Total £000
AAA	240,285	44,973	-	-	2	285,260
AA+	10,256	-	-	-	1,198	11,454
AA	513	-	-	-	8	521
AA-	10,391	-	-	23,273	61	33,725
A+	15,901	-	-	25,616	10,549	52,066
A	11,327	-	8,174	20,434	1,971	41,906
A-	14,346	-	6,187	13,038	347	33,918
BBB+	6,136	-	-	-	8	6,144
BBB	3,274	-	-	-	46	3,320
BBB-	-	-	-	-	-	-
Not rated	-	-	-	-	8,085	8,085
	312,429	44,973	14,361	82,361	22,275	476,399

1. RISK MANAGEMENT (continued)

(f) Financial risk - credit (continued)

	2015					
	Debt securities	Participations in investment pools	Deposits with credit institutions	Cash at bank and in hand	Debtors arising out of in/reinsurance operations	Total
	£000	£000	£000	£000	£000	£000
AAA	221,001	67,988	-	-	15	289,004
AA+	10,543	-	-	-	5,257	15,800
AA	2,688	-	-	-	18	2,706
AA-	21,793	-	-	36,898	524	59,215
A+	15,668	-	-	775	31,278	47,721
A	19,810	-	6,786	15,328	7,016	48,940
A-	7,572	-	6,786	239	3,169	17,766
BBB+	6,738	-	-	921	90	7,749
BBB	4,376	-	-	-	168	4,544
BBB-	-	-	-	-	781	781
Not rated	-	-	-	-	23,063	23,063
	310,189	67,988	13,572	54,161	71,379	517,289

Debtors arising out of in/reinsurance operations

- These reflect counterparty credit exposures to policyholders/cedants that arise in the course of conducting underwriting activities. Exposures in the "not rated" category relate to policyholders/cedants that do not have a credit rating. Notwithstanding, the Company transacts most of its in/reinsurance business through major and reputable intermediaries, where the relationships are either governed by terms of business agreements of a non-risk transfer type, or the law of agency in the absence of agreements - where the legal effect of either is the same.
- Legally, this means the Company is not on risk until the monies are received from policyholders/cedants by the Company - as the intermediary is acting in its capacity as agent rather than as principal. Consequently, monies received from policyholders/cedants by intermediaries that fail to pass these on will not result in the Company being on risk. Therefore, the Company's overall counterparty credit exposures are deemed to be low as the in/reinsurance coverage with policyholders/cedants could be cancelled pro rata temporis if monies are not received.

1. RISK MANAGEMENT (continued)

(g) Financial risk - liquidity

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 in value.

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

The Company's investment guidelines puts the safety and liquidity of its investable assets before and above its pursuit of investment returns. The Company holds a significant amount of its assets in shorter-term cash, deposits and investment pool. Its longer term assets are invested in debt securities, almost all of which are of high credit quality and can be sold on the open market quickly with little or no impact on prices.

The maturity dates of financial investment and cash at bank and in hand are as follows.

	2016				
	0-1 year £000	2-3 years £000	4-5 years £000	> 5 years £000	Total £000
Listed debt securities	177,592	98,501	30,093	6,243	312,429
Participations in investment pools	44,973	-	-	-	44,973
Deposits with credit institutions	14,361	-	-	-	14,361
Cash at bank and in hand	82,361	-	-	-	82,361
	319,287	98,501	30,093	6,243	454,124

	2015				
	0-1 year £000	2-3 years £000	4-5 years £000	> 5 years £000	Total £000
Listed debt securities	165,879	103,848	33,375	7,087	310,189
Participations in investment pools	67,988	-	-	-	67,988
Deposits with credit institutions	13,572	-	-	-	13,572
Cash at bank and in hand	54,161	-	-	-	54,161
	301,600	103,848	33,375	7,087	445,910

The maturity dates of claim reserves (excluding unearned premium reserves) shown below are based on estimated future payment outflows.

	2016				
	0-1 year £000	2-3 years £000	4-5 years £000	> 5 years £000	Total £000
Outstanding claims reserves	42,959	39,802	21,622	23,258	127,641
Claims incurred but not reported reserves	51,341	47,571	25,842	27,797	152,551
Unallocated loss adjustment expense reserves	1,497	1,388	754	811	4,450
	95,797	88,761	48,218	51,866	284,642

	2015				
	0-1 year £000	2-3 years £000	4-5 years £000	> 5 years £000	Total £000
Outstanding claims reserves	37,948	35,877	20,771	18,607	113,203
Claims incurred but not reported reserves	49,081	46,406	26,867	24,068	146,422
Unallocated loss adjustment expense reserves	1,553	1,470	851	762	4,636
	88,582	83,753	48,489	43,437	264,261

1. RISK MANAGEMENT (continued)

(h) Operational risk (continued)

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 examples of operational risks facing the Company:

- Legal and compliance risk.
- Information technology risk.
- Loss of key officers or employees.
- System failure and business interruption.
- Execution errors.
- Employment practice liability.
- Internal and external fraud.

These risks are managed through internal control processes and monitoring tools such as the risk register.

The Company has a low appetite for operational risk. Unlike underwriting and financial 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 only 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.

(i) Strategic risk

Strategic risk is the risk to earnings or capital arising from adverse business decisions or the improper implementation of those decisions, or the inability to act in response to business opportunities or 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.
- Expansion into new lines or territories with inadequate underwriting expertise.
- Planning processes (such as plan loss ratio selection, and target premium volumes) that are not fully integrated with internal financial indicators and external benchmarks, or are based on forecasts that are inherently optimistic.
- Deficiencies and weaknesses in pricing systems, price monitoring capabilities, understanding of regulatory requirements, and risk comprehension by claims handling staff.
- Failure of large information technology and infrastructure projects to achieve specified goals.

Strategic risks can be split into two components. The first risk type, which is passive in nature, emanates from a lack of response to industry challenges such as the first three risks listed above. The second risk type, which is active in nature, emanates from making business decisions such as the last three risks listed above.

Strategic risk is especially important to the Company because it improves and optimises the risk profile. For instance, expanding into new lines of business or new territories, or shifting the existing mix in order to diversify away over-concentrations in insurance risks.

Although there is inherent risk in strategic expansion into new lines and territories, there are also many benefits. In setting the Company's appetite for this risk, both the risks and benefits are taken into consideration in tandem.

The responsibility for strategic risk control and mitigation rests with the Executive Committee, a sub-committee of the Board of Directors. New lines and territories will be evaluated periodically to determine whether or not it has met the strategic goals of the Company. Lines and territories that do not meet the strategic goals will be subject to remediation or review for possible exit.

1. RISK MANAGEMENT (continued)

(j) Capital management

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.

The Company's objectives in managing its capital are:

- To match the profile of its assets and liabilities, taking account of the risks inherent in the business.
- To satisfy the requirements of its policyholders, regulators and rating agencies.
- To retain financial flexibility by maintaining strong liquidity and access to a range of capital markets.
- To allocate capital efficiently in order to support stability.
- To manage exposures in line with movements in exchange rates.

An important aspect of the Company's overall capital management process is the setting of targeted risk-adjusted rates of return for individual business lines, which are aligned with line underwriters' performance objectives. This ensures that the Company is focused on the creation of value for shareholders.

The Company has various sources of capital available to it and seeks to optimise its capital usage to consistently maximise shareholder returns. The Company considers not only the traditional sources of capital funding but the alternative sources of capital including reinsurance when assessing its capital deployment and associated usage. The Company manages as capital, all items that are eligible to be treated as capital for regulatory purposes.

The Company is regulated by the Prudential Regulation Authority and the Financial Conduct Authority. As a regulated entity, it is subject to insurance solvency regulations under the EU Directive and the Solvency II Directive - which specify the minimum amount and type of capital that must be held in excess of its insurance liability obligations - in order to meet a certain solvency threshold. The Company manages capital in accordance with these rules and has embedded in its asset liability management framework the necessary tests to ensure continuous and full compliance with such regulations. In summary:

- At 31 December 2016, under the Solvency II Directive (effective 1 January 2016) the total capital available to meet the Minimum Capital Requirement and Solvency Capital Requirement (being the Own Funds) is approximately £133 million (unaudited). The Company has complied with all externally imposed capital requirements throughout the year. The annual Solvency II returns, which are subject to external audit, are to be filed by 20 May 2017.
- At 31 December 2015, the Company was subject to the Solvency I Directive (replaced by the Solvency II Directive on 1 January 2016). At 31 December 2015, under Solvency I the net admissable funds were approximately £195 million.
- The Company's equalisation provision requirements to protect against the impact of large claims and catastrophes for certain classes of business are set out in Note 6(c).

In addition, the Company manages capital by reference to various self-assessed risk-based measures, including but not limited to the use of internal models, throughout the year.

(k) Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- **Level A**
  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 B**
  Valuations based on prices of recent transactions when no quoted active price is available. Reference is also made to 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.

1. RISK MANAGEMENT (continued)

(k) Fair value estimation (continued)

- **Level C**
  Valuations based on a valuation technique. 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 judgment, and the Company considers factors specific to the asset or liability.

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

	2016			
Financial assets at fair value	Level A £000	Level B £000	Level C £000	Total £000
Listed debt securities				
UK government	177,904	-	-	177,904
Non-UK government	32,289	816	-	33,105
Non-UK government agencies	11,537	3,317	-	14,854
Supranational	4,216	-	-	4,216
Corporate	48,450	18,623	-	67,073
Government backed	13,564	1,713	-	15,277
Participations in investment pools	44,973	-	-	44,973
Deposits with credit institutions	14,361	-	-	14,361
Cash at bank and in hand	82,361	-	-	82,361
	429,655	24,469	-	454,124

	2015			
Financial assets at fair value	Level A £000	Level B £000	Level C £000	Total £000
Listed debt securities				
UK government	168,792	-	-	168,792
Non-UK government	30,824	1,075	-	31,899
Non-UK government agencies	8,084	5,832	-	13,916
Supranational	1,592	749	-	2,341
Corporate	45,690	36,476	-	82,166
Government backed	4,251	6,824	-	11,075
Participations in investment pools	67,988	-	-	67,988
Deposits with credit institutions	13,572	-	-	13,572
Cash at bank and in hand	54,161	-	-	54,161
	394,954	50,956	-	445,910

During the year, there were no transfers (2015: none) made from Levels A or B into Level C, and vice versa, within the fair value hierarchy.

2. SEGMENTAL INFORMATION

(a) Analyses by placing type

2016	Gross premiums written	Gross premiums earned	Gross claims incurred	Gross operating expenses	Reinsurance balances	Underwriting profit/(loss)
	£000	£000	£000	£000	£000	£000
Assumed treaty business						
Proportional reinsurance	1,347	64,939	(40,078)	(18,926)	(1,070)	4,865
Non-proportional reinsurance	847	14,317	(32,480)	(3,091)	-	(21,254)
Direct and assumed facultative business	763	1,268	152	(127)	(1,322)	(29)
	2,957	80,524	(72,406)	(22,144)	(2,392)	(16,418)
Change in equalisation provision						7,303
Underwriting profit/(loss)						(9,115)

2015	Gross premiums written	Gross premiums earned	Gross claims incurred	Gross operating expenses	Reinsurance balances	Underwriting profit/(loss)
	£000	£000	£000	£000	£000	£000
Assumed treaty business						
Proportional reinsurance	114,906	116,053	(98,050)	(27,466)	906	(8,557)
Non-proportional reinsurance	35,168	39,060	(29,877)	(7,101)	(979)	1,103
Direct and assumed facultative business	(95)	317	2,089	(40)	(1,430)	936
	149,979	155,430	(125,838)	(34,607)	(1,503)	(6,518)
Change in equalisation provision						4,338
Underwriting profit/(loss)						(2,180)

The reinsurance balance represents the change to the Statement of Comprehensive Income - Technical Account Balance from the aggregate of all items relating to reinsurance outwards.

2. SEGMENTAL INFORMATION (continued)

(b) Analyses by geographical area

	2016			2015		
By destination	Assumed treaty £000	Direct/ assumed facultative £000	Total £000	Assumed treaty £000	Direct/ assumed facultative £000	Total £000
Gross premiums written						
United Kingdom	1,643	2	1,645	65,535	(71)	65,464
North, Central and South America	(18)	932	914	4,257	(553)	3,704
Europe	727	10	737	1,459	106	1,565
Worldwide	635	1	636	49,492	(44)	49,448
Africa and Middle East	(1)	(156)	(157)	5,146	263	5,409
Asia and Australia	(792)	(26)	(818)	24,185	204	24,389
	2,194	763	2,957	150,074	(95)	149,979

	2016			2015		
By origin	Assumed treaty £000	Direct/ assumed facultative £000	Total £000	Assumed treaty £000	Direct/ assumed facultative £000	Total £000
United Kingdom						
Gross premiums written	2,194	763	2,957	150,074	(95)	149,979
Profit/(loss) before tax	(2,336)	159	(2,177)	(1,094)	1,618	524
Profit/(loss) after tax	(1,959)	133	(1,826)	(756)	1,118	362
Net assets/(liabilities)	189,671	7,586	197,257	193,964	7,624	201,588

Net assets attributable to assumed treaty operations, and to direct and facultative operations have been distributed based on total capital as a % of total liabilities.

3. PROVISION FOR UNEARNED PREMIUMS

	2016 £000
Gross	
At beginning of year	85,039
Exchange gain/(loss) on retranslation of brought forward balances from last to this year closing rates	7,160
Increase/(decrease) during year (refer Note 4)	(77,567)
Exchange gain/(loss)on retranslation of in-year movement from average to closing rates	(3,328)
At end of year	11,304
Reinsurers' share	
At beginning of year	1,055
Exchange gain/(loss) on retranslation of brought forward balances from last to this year closing rates	165
Increase/(decrease) during year (refer Note 4)	(505)
Exchange loss/(gain)on retranslation of in-year movement from average to closing rates	(53)
At end of year	662

4. EARNED PREMIUMS, NET OF REINSURANCE

	2016			2015		
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
Premiums written	2,957	(755)	2,202	149,979	(898)	149,081
Change in the provision for unearned premiums (refer Note 3)	77,567	(505)	77,062	5,451	(2,266)	3,185
Earned premiums	80,524	(1,260)	79,264	155,430	(3,164)	152,266

5. CLAIMS INCURRED, NET OF REINSURANCE

	2016			2015		
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
Claims paid						
Claims and allocated loss adjustment expenses paid	(72,108)	3,546	(68,562)	(52,708)	887	(51,821)
Unallocated loss adjustment expenses paid (refer Note 7)	(119)	-	(119)	(287)	-	(287)
	(72,227)	3,546	(68,681)	(52,995)	887	(52,108)
Change in the provision for claims (refer Note 6(a))						
Outstanding claims reserve movement	(7,815)	(2,808)	(10,623)	(38,377)	801	(37,576)
Claims incurred but not reported reserve movement	7,152	(1,970)	5,182	(33,513)	(97)	(33,610)
Unallocated loss adjustment expense reserve movement	484	-	484	(953)	-	(953)
	(179)	(4,778)	(4,957)	(72,843)	704	(72,139)
Claims incurred	(72,406)	(1,232)	(73,638)	(125,838)	1,591	(124,247)

6. TECHNICAL PROVISIONS

(a) Claims outstanding

	2016			
	Out-standing claims reserves £000	Claims incurred but not reported reserves £000	Unallocated loss adjustment expense reserves £000	Total claims out-standing £000
Gross				
At beginning of year	113,203	146,422	4,636	264,261
Exchange loss/(gain) on retranslation of brought forward balances from last to this year closing rates	6,740	15,249	337	22,326
Increase/(decrease) during year (refer Note 5)	7,815	(7,152)	(484)	179
Exchange loss/(gain) on retranslation of in-year movement from average to closing rates	(118)	(1,969)	(37)	(2,124)
At end of year	127,640	152,550	4,452	284,642
Reinsurers' share				
At beginning of year	4,970	5,354	-	10,324
Exchange loss/(gain) on retranslation of brought forward balances from last to this year closing rates	443	213	-	656
Increase/(decrease) during year (refer Note 5)	(2,808)	(1,970)	-	(4,778)
Exchange (loss)/gain on retranslation of in-year movement from average to closing rates	(43)	(53)	-	(96)
At end of year	2,562	3,544	-	6,106

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

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

	2016			2015		
	Non-catastrophe losses £000	Catastrophe losses £000	Total losses £000	Non-catastrophe losses £000	Catastrophe losses £000	Total losses £000
Assumed treaty business						
Proportional reinsurance	11,480	700	12,180	(775)	560	(215)
Non-proportional reinsuraı	(18,852)	400	(18,452)	4,980	-	4,980
Direct and assumed facultative business	577	-	577	3,120	-	3,120
	(6,795)	1,100	(5,695)	7,325	560	7,885

(c) Equalisation provision

	2016 £000
At beginning of year	6,847
Increase/(decrease) during year	(7,303)
Exchange (gain)/loss on retranslation	456
At end of year	-

The decrease in the equalisation provision during the year has had the effect of increasing the Statement of Comprehensive Income - Technical Account Balance, and the profit/(loss) before tax for the year, by £(6,847) thousand (2015: £4,338 thousand decrease). The effect of the release of the provision is to increase equity by £(6,847) thousand (2015: £nil).

7. NET OPERATING EXPENSES

	2016			2015		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	£000	£000	£000	£000	£000	£000
Acquisition costs						
Acquisition costs	(269)	30	(239)	(25,870)	52	(25,818)
Profit commissions	(2,495)	(23)	(2,518)	617	(6)	611
Change in deferred acquisition costs (refer Note 19)	(14,550)	88	(14,462)	(579)	17	(562)
Change in deferred profit commissions (refer Note 19)	(116)	5	(111)	12	7	19
	(17,430)	100	(17,330)	(25,820)	70	(25,750)
Administrative expenses						
Gross administrative expenses	(4,948)	-	(4,948)	(9,217)	-	(9,217)
Transferred to unallocated loss adjustment expenses paid (refer Note 5)	119	-	119	287	-	287
Transferred to investment expenses	115	-	115	143	-	143
Transferred to acquisition costs	-	-	-	-	-	-
	(4,714)	-	(4,714)	(8,787)	-	(8,787)
Net operating expenses	(22,144)	100	(22,044)	(34,607)	70	(34,537)

8. INVESTMENT INCOME

	2016	2015
	£000	£000
Income from debt securities	6,810	6,466
Income from deposits with ceding undertakings and other deposits	32	22
Income from deposits with credit institutions and cash at bank and in hand	266	179
Income from participations in investment pools	283	268
	7,391	6,935

9. OTHER INCOME AND OTHER CHARGES

(a) Other Income

	2016	2015
	£000	£000
Exchange gain on retranslation of brought forward Statement of Financial Position from last to this year closing rates	1,279	-
Exchange gain on cash settlements	582	-
Exchange loss on revaluation of in-year movements on Statement of Comprehensive Income from average to closing rates	366	-
Fee income from group undertakings	363	629
Rental income from sublease	137	207
Interest receivable on corporation tax repayments	-	26
Gain on tangible fixed assets disposals	-	1
	2,727	863

9. OTHER INCOME AND OTHER CHARGES (continued)

(b) Other Charges

	2016 £000	2015 £000
Other charges	(4)	(1)
Exchange loss on revaluation of in-year movements on Statement of Comprehensive Income from average to closing rates	-	(178)
Exchange gain on retranslation of brought forward Statement of Financial Position from last to this year closing rates	-	(41)
	(4)	(220)

10. CORPORATION TAX

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

	2016 £000	2015 £000
United Kingdom corporation tax at 20.00% (2015: 20.25%)		
Current tax on income for the year	-	(195)
Adjustments in respect of previous financial years	-	1
Total current tax (refer Note 10(b))	-	(194)
United Kingdom deferred tax movements		
Origination and reversal of timing differences	365	31
Adjustment in respect of previous financial years	(14)	1
Total deferred tax movements (refer Note 10(d))	351	32
Tax on profit on ordinary activities	351	(162)

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 20.00% (2015: 20.25%). The differences are reconciled below:

	2016 £000	2015 £000
Profit/(Loss) on ordinary activities before tax	(2,177)	524
Profit on ordinary activities before tax multiplied by the standard rate of corporation tax in the United Kingdom at 20.00% (2015: 20.25%)	435	(106)
Factors affecting charge:		
Non taxable income	-	-
Expenses not deductible for tax purposes	(1)	(25)
Loss on disposal of non-qualifying assets	-	-
Differences in tax rates	(69)	(33)
Adjustment in respect of prior periods	(14)	2
	(84)	(56)
Tax charge for the year (refer Note 10(a))	351	(162)

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

	2016 £000	2015 £000
Corporation tax in respect of current financial year (refer Note 16)	984	(160)
Corporation tax in respect of prior financial year (refer Note 16)	39	1
	1,023	(159)

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

	2016				
	At beginning of the year £000	Movement during the year - pure £000	Movement during the year - adjustment £000	Movement during the year - rate change £000	At end of the year £000
Tangible fixed assets depreciation less/(greater) than capital allowances	252	(10)	(8)	-	234
Prepaid/accrued items	12	(7)	-	-	5
Doubtful debt provision	115	76	(6)	-	185
Claims equalisation reserves:	-	(1,047)	-	-	(1,047)
Losses carried forward:	-	1,353	-	-	1,353
	379	365	(14)	-	730

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. With effect from 1 April 2017 the UK headline rate of corporation tax will reduce from 20% to 19%, and will reduce further to 17% on 1 April 2020. The rate reductions to 19% and 17% were substantively enacted at the balance sheet date. The closing deferred tax balance is recognised at a blended rate between 20% and 17% based on when the deferred tax balance is estimated to reverse.

There were no unprovided deferred tax assets/(liabilities) at year end (2015: £nil).

11. INVESTMENTS IN GROUP UNDERTAKINGS

	2016 £000	2015 £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	4,066	3,375
Movements during year	(2,505)	691
At end of year	1,561	4,066
Net book value		
At end of this year	2,683	5,188
At end of last year	5,188	4,497

Group undertakings	Principal activity	Class of shares held	Percentage holding	Country of incorporation	Capital and reserves at 31 December 2016 USD'000	Profit/(loss) for year ended 31 December 2016 USD'000
Tokio Marine Technologies LLC	Software development and consultancy	Ordinary	100%	United States of America	4,875 (2015: 4,613)	262 (2015: 317)

Registered Office: c/o The Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808, United States of America.

12. OTHER FINANCIAL INVESTMENTS

	2016 £000	2015 £000
Listed debt securities	312,429	310,189
Participations in investment pools	44,973	67,988
Deposits with credit institutions	14,361	13,572
	371,763	391,749

13. DEPOSITS WITH CEDING UNDERTAKINGS

	2016 £000	2015 £000
Deposits with cedants	2,069	2,936
	2,069	2,936

14. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2016 £000	2015 £000
Amounts falling due within one year		
Amounts due from non-group undertakings	78	229
	78	229

15. DEBTORS ARISING OUT OF REINSURANCE OPERATIONS

	2016 £000	2015 £000
Amounts falling due within one year		
Amounts due from non-group undertakings	18,104	59,505
Amounts due from group undertakings	4,092	11,645
	22,196	71,150

16. OTHER DEBTORS INCLUDING TAXATION AND SOCIAL SECURITY

	2016 £000	2015 £000
Amounts falling due within one year		
Value added tax recoverable	123	80
UK corporation tax receivable (refer Note 10(c))	1,023	1
Other debtors	22	36
Amounts due from group undertakings	934	4,050
	2,102	4,167

17. INTANGIBLE ASSETS

	2016 Computer software £000
Book cost	
At beginning of year	1,776
Exchange gain/(loss) on retranslation of brought forward balances from last to this year closing rates	-
Additions during year	-
Disposals during year	-
At end of year	1,776
Accumulated amortization	
At beginning of year	1,760
Exchange (gain)/loss on retranslation of brought forward balances from last to this year closing rates	-
Charge during year	13
Exchange (gain)/loss on retranslation of in-year movements from average to closing rates through Profit and Loss Account	-
Eliminated on disposals during year	-
At end of year	1,773
Net book value	
At end of this year	3
At end of last year	16

18. TANGIBLE ASSETS

	2016			
	Computer hardware £000	Furniture/ fixtures/ fittings and office equipment £000	Leasehold improve-ments £000	Total £000
Book cost				
At beginning of year	1,647	229	801	2,677
Additions during year	109	6	-	115
Disposals during year	-	-	-	-
At end of year	1,756	235	801	2,792
Accumulated depreciation				
At beginning of year	1,422	136	685	2,243
Charge during year	212	90	83	385
Eliminated on disposals during year	-	-	-	-
At end of year	1,634	226	768	2,628
Net book value				
At end of this year	122	9	33	164
At end of last year	225	94	116	434

The Company's tangible assets depreciation charge for the year ended 31 December 2015 was £439 thousand.

19. DEFERRED ACQUISITION COSTS

	2016		
	Deferred acquisition costs £000	Deferred profit commissions £000	Total deferred acquisition costs £000
Gross			
At beginning of year	15,976	276	16,252
Exchange (gain)/loss on retranslation of brought forward balances from last to this year closing rates	1,670	9	1,679
Increase/(decrease) during year (refer Note 7)	(14,550)	(116)	(14,666)
Exchange (gain)/loss on retranslation of in-year movement from average to closing rates	(773)	(2)	(775)
At end of year	2,323	167	2,490
Reinsurers' share			
At beginning of year	132	5	137
Exchange (gain)/loss on retranslation of brought forward balances from last to this year closing rates	24	-	24
Decrease during year (refer Note 7)	(88)	(5)	(93)
Exchange (gain)/loss on retranslation of in-year movement from average to closing rates	(7)	-	(7)
At end of year	61	-	61

20. OTHER PREPAYMENTS AND ACCRUED INCOME

	2016 £000	2015 £000
Prepaid rent	66	20
Prepaid other expenses	477	318
Accrued income	546	391
	1,089	729

21. SHARE CAPITAL

	2016 £000	2015 £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

The Company is a private company limited by shares and is incorporated in England. The address of its registered office is 5th Floor, 20 Fenchurch Street, London, EC3M-3BY, United Kingdom

22. ONEROUS LEASE

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 has been recognised and this comprises: all future rental charges to lease expiry; anticipated dilapidation costs on expiry; net of future rental income and utilities recovered from the sublease of the former office location.

	2016		
	Future rental income and utilities recovered £000	Future rental charges and dilapidation costs £000	Total £000
At beginning of year	(421)	788	367
Increase/(decrease) during year	230	(464)	(234)
At end of year	(191)	324	133

23. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2016 £000	2015 £000
Amounts falling due within one year		
Insurance premium tax payable	3	5
Employment tax payable	9	24
UK corporation tax payable (refer Note 10(c))	-	160
UK corporation tax deferred (refer Note 10(d))	-	-
Other creditors - non-group undertakings	172	151
Other creditors - group undertakings	-	-
	184	340

24. OTHER ACCRUALS AND DEFERRED INCOME

	2016 £000	2015 £000
Accrued professional fees	345	312
Accrued outsourcing fees	56	32
Accrued rent	-	-
Accrued other expenses	1,956	1,313
	2,357	1,657

25. STAFF COSTS

(a) Staff numbers

	2016 Number	2015 Number
Average number of employees (including directors) employed during the financial year		
Underwriting	3	5
Claims	2	3
Risk	4	9
Finance	4	7
IT	3	4
Administration, Human Resources and Compliance	2	4
Management	5	5
	23	37

(b) Staff costs

	2016 £000	2015 £000
Aggregate payroll costs of employees (including directors) employed during the financial year		
Wages and salaries	1,301	3,326
Social security costs	324	434
Other pension costs	78	217
	1,703	3,977

The pension costs above represent the Company's contributions to defined contribution pension schemes. Pension costs of £28 thousand were unpaid at the year end (2015: £61 thousand).

26. DIRECTORS' EMOLUMENTS

	2016 £000	2015 £000
Aggregate emoluments	140	356
Sums paid to third parties for directors' services	87	80
	227	436

	2016 £000	2015 £000
Highest paid director		
Aggregate emoluments	140	199
	140	199

The highest paid director did not exercise share options or receive shares in respect of qualifying services under any long term incentive scheme (2015: none).

No season ticket travel loans (2015: £nil) were granted to any directors during the year (2015: none). The loan amount outstanding at year end was £nil (2015: £nil).

No compensation for loss of office was paid to any directors (2015: £nil).

£12 thousand pension benefits unpaid (2015: £7 thousand) accrued to directors (2015: none) under the Company's defined contribution scheme.

No guarantees (2015: £nil) on behalf of any directors (2015: none) were granted during the year.

27. AUDITORS' REMUNERATION

During the year, the Company obtained the following services from its auditor:

	2016 £000	2015 £000
Fees payable to the Company's auditor for the audit of the Company's financial statements	109	135
Fees payable to the Company's auditor for other services	126	71
	235	206

28. GUARANTEES, FINANCIAL COMMITMENTS AND CONTINGENT LIABILITIES

(a) Guarantees

A credit facility with the Bank of Tokyo-Mitsubishi has been extended for USD 2,137 thousand and CAD 44 thousand at the end of the financial year (2015: USD 3,108 thousand and CAD 44 thousand) 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 USD 4,613 thousand at the end of the financial year (2015: USD 4,613 thousand) pursuant to the issuance of several letters of credit to policyholders/cedants in the United States of America.

(b) Annual commitments

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

	2016 Land and Buildings £000	2015 Land and Buildings £000
Operating leases which expire:		
Within one year	212	-
Between one and five years	-	509
	212	509

Rent expenses for the year ended 31 December 2016 were £569 thousand (2015: £763 thousand) for the Company.

29. RELATED PARTY TRANSACTIONS AND BALANCES

	2016 Balances Net Debtor/ (Creditor) £000	2015 Balances Net Debtor/ (Creditor) £000
Wholly-owned by Tokio Marine Holdings Inc		
Tokio Millennium Re AG	408	361
Tokio Millennium Re AG, Bermuda Branch	(1)	-
Tokio Millennium Re AG, Australia Branch	-	1
Tokio Marine Kiln Insurance Services Limited	(19)	-
Syndicate 1880 managed by Tokio Marine Kiln Syndicates Limited	(320)	(575)

	2016		2015	
	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	(8,339)	3,871	9,294	10,566

30. IMMEDIATE AND ULTIMATE PARENT UNDERTAKINGS

Tokio Marine & Nichido Fire Insurance Co. Ltd. (Japan) is the immediate parent. This company's registered office is located 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 financial statements for the current year end. This company's registered office is located at Tokyo Kaijo Nichido Building Shinkan 13F, 1-2-1 Marunouchi, Chiyoda-ku, Tokyo 100-0005, Japan.

Tokio Marine & Nichido Fire Insurance Co. Ltd. (Japan) is the parent undertaking of the smallest group of undertakings to consolidate these financial statements.

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