Tokio Marine Kiln Group Limited

Annual Report and
Financial Statements
For the year ended 31 December 2016

Registered office
20 Fenchurch Street
London
EC3M 3BY

Registered number: 2949032

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Parent company financial statements

Directors and officers

Directors

I Brimecome (Chairman)

R Bennison

P Culham (appointed 1 April 2016)

J W Dover

C A S Franks

D Garland

H-P Gerhardt

C Kojima

R C W Lewis (resigned 31 March 2016)

Y Otsuka (resigned 31 March 2016)

S Ruoff

T Suzuki (resigned 31 March 2017)

S Urano (appointed 1 April 2016)

Company Secretary

F J Molloy

Registered Office

20 Fenchurch Street
London
EC3M 3BY

Independent Auditors

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

Group strategic report for the year ended 31 December 2016

The directors of Tokio Marine Kiln Group Limited (the Company) present their strategic report on the Group for the year ended 31 December 2016. The Company is a private limited company incorporated and registered in England and Wales.

Principal activities and business review

The Company is a holding company for subsidiaries involved in international insurance and reinsurance business (collectively 'TMK').

On 27 November 2013, TMK transferred its investment in capacity in Syndicates 510 and 308 to Tokio Marine Underwriting Limited (TMUL), a fellow subsidiary of Tokio Marine & Nichido Fire Insurance Co. Limited (TMNF). Hence, the 2013 year of account, which closed at December 2015, was the last year TMK participated on any Lloyds syndicate. Therefore, since 1st January 2016, TMK's primary source of income is from its wholly owned underwriting subsidiary Tokio Marine Kiln Insurance Limited (TMKI), with additional fee commission income from Tokio Marine Kiln Syndicates Limited (TMKS) and Tokio Marine Kiln Insurance Services Limited (TMKIS). TMKI's principal activity is in the underwriting of commercial marine cargo, property and liability insurance business in the United Kingdom, and in Europe, through branch offices in Belgium, France, Germany, Italy, Netherlands and Spain and agencies in other European countries.

In addition TMK, through TMKS, acts as managing agent for third party capital providers participating on the Tokio Marine Kiln Group's managed syndicates, Syndicates 510, 308, 557 and 1880. Income is derived through charging an annual management fee (typically 0.75% of underwriting capacity) and profit commission (typically, 17.5% on underwriting profits).

Tokio Marine Kiln's operations in the Company Market

Tokio Marine Kiln Insurance Limited underwrites commercial marine cargo, property and liability insurance business in the UK, and in Europe through branches in Belgium, France, Germany, Italy, Netherlands and Spain and agencies in other European countries. It underwrites both Japanese related and local market commercial risks. It also underwrites aviation pool business, which is wholly reinsured with a group company in Japan.

Tokio Marine Kiln's operations in the Lloyd's Market

Tokio Marine Kiln Syndicates Limited, the Group's Lloyd's managing agent, manages four syndicates:

Tokio Marine Kiln Combined Syndicate 510 is the Group's flagship syndicate. It is a recognised lead underwriter in each of the main areas in which it operates; namely property, reinsurance, marine and special risks, accident and health and aviation.

Tokio Marine Kiln Catastrophe Syndicate 557 underwrites property catastrophe reinsurance, both in the US and worldwide. It is positioned as a special purpose syndicate to write a quota share reinsurance of the business of Syndicate 510's reinsurance division.

Tokio Marine Kiln Life Syndicate 308 underwrites group and individual term life assurance.

Tokio Marine Kiln Syndicate 1880 underwrites general insurance and reinsurance business worldwide including reinsurance of Tokio Marine Kiln group businesses including Kiln Syndicate 510.

Other operations

Tokio Marine Kiln Hong Kong Limited and Tokio Marine Kiln Singapore Pte Limited operate in Hong Kong and Singapore respectively, underwriting specialist classes of business accepted by Syndicate 510 and Syndicate 1880, including engineering and construction risks.

Tokio Marine Kiln Europe S.A. operates in Belgium, France and Germany specialising in marine hull and cargo, aviation and space business and gives the Group access to business that is not typically placed through the Lloyd's market.

TMK owns a 49% equity interest in WNC Insurance Holding Corporation which is a managing general agent that provides flood, wind, hazard and auto insurance to financial institutions in the US.

TMK owns a 49% stake in NAS Insurance Services, LLC which is a managing general agent that provides a broad range of speciality professional liability, legal expense, healthcare, entertainment and reinsurance products including cyber and medical billing errors insurance in the US.

Summary of financial position at 31 December 2016

TMK reported a profit for the financial year of £4.8m (2015: £10.7m loss). The Company has reported other comprehensive income of £12.0m (2015: £3.3m).

Events during the year

The Group reported a profit for the year of £4.8m (2015: £10.7m loss). The prior year loss is largely attributed to the underwriting performance of TMKI, where the company insurance platform experienced an unprecedented number of large Property claims, as well as the impact of the Tianjin Explosion and UK floods. Despite TMKI's improved net incurred loss ratio in 2016 of 68% (2015: 85%), the Group was adversely affected by a number of large losses on the French and UK Property portfolios as well as the Seksui fire loss in the last quarter of 2016 and the Ogden discount rate adjustment in 2017.

The above were counteracted by an increase in fees and commission income retained in TMK during 2016, as a result of the transfer of capacity to TMUL. Foreign exchange gains were £13.6m higher than prior year, following the devaluation of the pound against the Euro and USD rates.

Review of the Business

The key financial performance indicators during the year were as follows:

	2016	2015 Including Syndicate Share	2015 Excluding Syndicate Share
	£'m	£'m	£'m
Gross earned premium	**217.6**	231.5	203.4
Net earned premium	**127.0**	149.0	122.1
Net earned premium/Gross earned premium	**58%**	64%	60%
Net incurred loss ratio	**68%**	64%	85%
Expense ratio	**45%**	42%	43%
Combined ratio	**113%**	106%	129%
Net technical provisions	**198.7**	410.2	181.3
Funds invested at the year-end (including cash at bank)	**514.7**	768.2	427.4
Net Investment income	**6.1**	5.7	3.4
Net investment return on average funds invested	**0.9%**	0.7%	0.8%
Profit/(loss) after taxation	**7.5**	(10.7)	(22.0)

In the table above, the 2015 comparatives 'Excluding Syndicate Share' represent 2015 restated financials, whereby the corporate member's share of the syndicates' 2013 and prior results have been excluded. This is in order to show the 2015 comparatives on a like-for-like basis with the 2016 KPIs. The 2015 KPIs 'Including Syndicate Share' represent the 2015 results as reported as at December 2015.

During 2016, net earned premium increased by 4% to £127.0m (2015: £122.1m). However, the net earned premium to net written premium ratio has remained stable at 98.6%.

The net incurred loss ratio has decreased by 17%, with TMKI having experienced a year of unprecedented level of large loss activity in 2015. However, 2016 was not an uneventful year for TMK, with the net loss ratio being adversely affected by the large claim on the Seksui account and by the change in the Ogden discount rate. On the 27 February 2017, the UK government announced a steeper than expected cut to the discount rate applied to lump-sum personal injury compensation. The rate was reduced from 2.5% to -0.75%, resulting in a 4% deterioration in the net loss ratio of the Company. This early estimate, which only affects UK liability claims, may be updated during 2017 after the claims department complete their review of existing claims for potential deteriorations as a result of the discount rate change and following further government consultation into the calculation of the Ogden rate. This potential deterioration is not expected to be material.

The expense ratio, comprising of net acquisition costs and administrative expenses, is broadly in line with prior year at 45% (2015: 43%). Net acquisition cost ratio has slightly improved at 14% (2015: 15%) as a result of a decrease in the Marine division acquisition cost ratio, which in turn is driven by a higher proportion of the Designated Account Management Programme ('DAMP') business carrying a higher level of outward commissions. The administrative expense ratio is 31% (2015: 28%).

The combined ratio has reduced to 113% (2015: 129%) reflecting the decrease in the net incurred loss ratio.

Net technical provisions, comprising unearned premiums and claims outstanding, have increased by £17.4m to £198.7m (2015: £181.3m) in part as a result of the large claim on the Seksui account and the Ogden rate change, but mainly due to the devaluation of the pound against the Euro following the Brexit referendum.

Investment income, net of 'realised and unrealised gains and losses' and 'expenses and charges on investments', is £6.1m (2015: £3.4m). TMK continues to follow a conservative investment approach with capital preservation taking precedence over total return. Assets are invested in fixed income securities, Absolute Return Funds and cash with short durations and high credit ratings to avoid excessive credit and interest rate risk. The fixed income portfolio is invested in government bonds, government agency bonds and investment grade credit.

Future developments

The Company will continue to operate as a holding company for the Group.

Principal risks and uncertainties

It is TMK's policy to confine exposure to risk primarily in core areas of expertise: the underwriting of insurance risk. This approach means that TMK is at the cautious end of the spectrum in all areas of financial risk management, such as investment management and reserving. This allows TMK to protect its capital on the statement of financial position and focus its risk appetite on underwriting.

Insurance risk

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

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

a) Underwriting risk

The risk arising from fluctuations in the frequency and severity of financial losses incurred as a result of the acceptance of TMK's insurance portfolio of business. Insurance risk is managed by agreeing TMK's appetite for these risks annually through a business plan, which sets out targets for volumes, pricing, line sizes and retention by class of business. Volume and price performance is monitored against the business plan monthly, and all of the components of the insurance result and risk appetite quarterly. Through TMKI the Group writes a significant amount of catastrophe exposed business. Catastrophe modelling software is used to model maximum probable losses from that business with the output used as part of the monitoring against risk appetite.

b) Reinsurance risk

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

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

c) Reserving risk

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

TMKI's Actuarial function is responsible for estimating claims reserves on a quarterly basis. The reserves are estimated using a variety of techniques, generally based upon statistical analyses of historical loss and premium development patterns. In addition to the statistical techniques, the Actuarial function engages with the underwriting and claims departments so that relevant information relating to reserve exposures can be included in the claims reserving process.

In addition, TMK engages external professional consultants to perform a detailed review of the year end internal reserve quantification each year. Further, the consultants provide an Independent Reserve Review in order to demonstrate their confidence in the adequacy of booked reserves.

Credit risk

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

TMK is exposed to three types of credit risk: reinsurer credit risk, broker/intermediary credit risk and investment credit risk. Credit exposure and aggregate exposure to reinsurers are managed by the Reinsurance Security Committee. It assesses and is required to approve all new reinsurers before business is placed with them, and monitors the credit ratings of all reinsurers used. The performance of premium debtors, from brokers and intermediaries, is monitored quarterly by the Credit Control Committee. The Investment Committee regularly tracks and reviews our investment portfolio.

Market risk

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

The investment policy is set to protect the capital, and not to manage it as a separate profit centre. Funds managed by our investment managers are subject to set guidelines, and the on-going investment strategy and investment objectives that are agreed by the Investment Committee. These include the requirement for the prudent person principle as outlined in the Solvency II Directive text. Additionally TMK meets regularly with the fund managers to review performance. TMK maintains a diversified investment portfolio to restrict the concentration of assets and has no exposure to equity related investments.

Liquidity risk

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

Future cash flows are managed on a daily basis and TMK ensures that there is sufficient day-to-day cash to settle immediate liabilities.

Agency risk

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

TMK is aware of its fiduciary responsibilities to capital providers across each of its four syndicates and is careful to ensure equity between them.

Operational risk

The risk that errors caused by people, processes or systems lead to losses to TMK.

We seek to manage this risk by the recruitment of high calibre staff and providing them with high quality training. Operational risk forms a significant part of TMK's risk register. Risks are reviewed on a regular basis with departmental heads responsible for identifying, assessing and controlling operational risks effectively.

There is a strong risk reporting and risk governance system in place to ensure effective risk management of operational risk. Management receives operational risk updates on a quarterly basis and the Audit and Risk Committee also reviews the operational risk profile quarterly, in line with the Risk Management Framework.

Regulatory risk

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

TMK is required to comply with the requirements of the Financial Conduct Authority (FCA), the Prudential Regulation Authority (PRA) and Lloyd's. The Compliance function is responsible for monitoring compliance with regulation and monitoring of regulatory change. The Compliance framework outlines the broad regulatory and compliance structure that applies to all staff.

TMK is also required to comply with the requirements of the European Insurance and Occupational Pensions Authority (EIOPA) regarding Solvency II which went live on 1 January 2016.

The nature of its business exposes TMK to controls and sanctions which regulate international trade. Processes and controls are in place to screen and monitor transactions against relevant requirements to assure compliance with them.

Conduct risk

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

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

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

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

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

Emerging risk

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

We are committed to the continual research and identification of emerging risks and actively undertake research independently, and via participation in industry working parties on the subject. Through the effective management of emerging risks we are able to identify external trends and threats, and improve risk selection and knowledge of future risk exposures. Emerging risks may present both threats and opportunities to the business and as it has done in the past, we will readily seize opportunities arising in the area of emerging risks.

Reputational risk

Reputational risk is the risk that negative publicity regarding an institution's business practices will lead to a loss of revenue or litigation. In the modern digital era, reputational risk and the subsequent threat to our strong brand is becoming more significant. Loss of confidence from customers, regulators or capital providers could cause long term harm to the business.

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

Future business risk

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

- The cyclical nature of insurance business with fluctuations in capacity, competition and the frequency and severity of losses, as a result of both man-made and natural disasters;
- The increased uncertainty in financial markets post Brexit;
- The result of competition which can cause rates to vary sharply in the short term;
- The lack of reinsurance or retrocession availability;
- Actual claims may exceed claims provisions;
- Distribution channels: the Group is heavily dependent on brokers;
- TMK may be affected by litigation on insurance policy wording e.g. exclusion clauses;
- Severe and rapid exchange rate fluctuations;
- Regulatory or compliance changes; and
- Reputation damage as a result of real or perceived negligence or malpractice.

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

By order of the Board

F J Molloy
Company Secretary
28 April 2017

Group directors' report for the year ended 31 December 2016

The directors of Tokio Marine Kiln Group Limited (the Company) present their report and the audited consolidated financial statements for the year ended 31 December 2016. Tokio Marine Kiln Group Limited is a private limited company incorporated and registered in England and Wales.

Future developments

Future developments are discussed in the strategic report.

Dividends

The directors paid a dividend of £20.0m for the year ended 31 December 2016 (2015: £81.2m).

Directors

The names of the current directors and those who served throughout the year are listed on page 3.

Directors' indemnities

The Company maintains liability insurance for its directors and officers.

Employees

Disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with TMK continues and the appropriate training is arranged. It is the policy of TMK that the training, career development and promotion of a disabled person should as far as possible be identical to that of a person who does not suffer from a disability.

Employee involvement

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that views are taken into account when decisions are made that are likely to affect their interests. All employees are aware of the financial and economic performance of their business units and of the group as a whole, and are rewarded according to the results of both through an annual bonus scheme. Communication with all employees continues through emails, memos, briefing groups, a management forum and the company intranet.

Financial instruments and risk management

Information on the use of financial instruments by the Group and its management of financial risk is disclosed in note 36. In particular TMK's exposure to credit risk and liquidity risk are separately disclosed in the note.

Political donations

The company made no donations for political purposes (2015: nil).

Post balance sheet events

There are no post balance sheet events impacting TMK's performance.

Statement of disclosure of information to auditors

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

1) so far as each of them is aware, there is no information relevant to the audit of the Company's consolidated financial statements for the year ended 31 December 2016 of which the auditors are unaware; and

2) each director has taken all steps that he ought to have taken in his duty as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent company 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 group and the company and of the profit or loss of the group 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 IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the group and parent company financial statements respectively; and
- 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 them to ensure that the financial statements comply with the Companies Act 2006 and, with regards to the group financial statements, Article 4 of the IAS Regulations. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company's corporate and financial information included on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Appointment of independent auditors

The Board has previously approved the appointment of PricewaterhouseCoopers LLP as auditors on an ongoing basis.

By order of the Board

F J Molloy
Company Secretary
28 April 2017

Independent auditor's report to the member of Tokio Marine Kiln Group Limited

Report on the group financial statements

Our opinion

In our opinion, Tokio Marine Kiln Group Limited's group financial statements (the "financial statements"):

- give a true and fair view of the state of the group's affairs as at 31 December 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; 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 and Financial Statements (the "Annual Report"), comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated income statement and consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

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 Group 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 Group directors' report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the group 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 Group directors' report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of 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. 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.

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 12, 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 parent 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 group'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 Group directors' report, we consider whether those reports include the disclosures required by applicable legal requirements.

Other matter

We have reported separately on the parent company financial statements of Tokio Marine Kiln Group Limited for the year ended 31 December 2016.

Mark Bolton

Mark Bolton (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
28 April 2017

Consolidated income statement for the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Gross written premiums	3	**222,930**	203,070
Ceded premiums		**(94,076)**	(76,394)
Net written premiums	3	**128,854**	126,676
Change in the provision for unearned premiums	3	**(1,810)**	22,289
Net insurance premium		**127,044**	148,965
Insurance claims and loss adjustment expenses	4	**(132,658)**	(174,474)
Insurance claims and loss adjustment expenses recovered from reinsurers	4	**46,579**	79,275
Investment return from underwriting assets	5	**4,235**	4,354
Net operating expenses	9	**(56,867)**	(63,290)
(Loss) from underwriting operations		**(11,667)**	(5,170)
Investment return from non-underwriting assets	5	**3,761**	3,567
Fees and commission income	6	**138,813**	107,188
Other income	7	**930**	551
Finance costs	8	**(801)**	(1,179)
Corporate and administrative expenses	9	**(128,262)**	(111,937)
Gains/(losses) arising from foreign exchange	13	**4,517**	(9,084)
Share of profit of joint ventures		**3,188**	2,303
Share of profit of associated companies		**99**	10
Profit/(loss) on ordinary activities before taxation		**10,578**	(13,751)
Income tax credit/(expense)	14	**(5,813)**	3,101
Profit/(loss) for the year attributable to the equity shareholder		**4,765**	(10,650)

The notes on pages 19 to 70 are an integral part of these financial statements.

Consolidated statement of comprehensive income for the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Profit/(loss) for the year		**4,765**	(10,650)
Other comprehensive income			
Re-measurements on post-employment benefit obligation	33	**(862)**	480
Tax on items taken to equity		**172**	(112)
Exchange differences on retranslation of foreign operations		**12,691**	2,937
Other comprehensive income for the year, net of tax		**12,001**	3,305
Total comprehensive income/(loss) for the year		**16,766**	(7,345)

Consolidated statement of changes in equity For the year ended 31 December 2016

	Called up share capital £'000	Share Premium £'000	Merger Reserve £'000	Retained earnings £'000	Total £'000
As at 1 January 2015	1,010	64,990	75,575	314,118	455,693
(Loss) for the year	-	-	-	(10,650)	(10,650)
Re-measurements on post-employment benefit obligation	-	-	-	480	480
Tax on items taken to equity	-	-	-	(112)	(112)
Exchange differences on retranslation of foreign operations	-	-	-	2,937	2,937
Dividend paid to equity shareholder	-	-	-	(81,210)	(81,210)
As at 31 December 2015	1,010	64,990	75,575	225,563	367,138
Profit for the year	-	-	-	**4,765**	**4,765**
Re-measurements on post-employment benefit obligation	-	-	-	**(862)**	**(862)**
Tax on items taken to equity	-	-	-	**172**	**172**
Exchange differences on retranslation of foreign operations	-	-	-	**12,691**	**12,691**
Dividend paid to equity shareholder	-	-	-	**(20,000)**	**(20,000)**
As at 31 December 2016	**1,010**	**64,990**	**75,575**	**222,329**	**363,904**

The notes on pages 19 to 70 are an integral part of these financial statements.

Consolidated statement of financial position as at 31 December 2016

	Note	2016 £'000	2015 £'000
Assets			
Property, plant and equipment	15	**19,459**	20,439
Intangible assets	16	**20,704**	23,684
Investment in joint ventures	17	**73,237**	59,230
Investments in associated undertakings	18	**2,331**	1,921
Retirement benefit surplus	33	**2,102**	5,619
Deferred tax asset	19	**10,538**	14,088
Deferred acquisition costs	20	**8,058**	7,402
Prepayments and accrued income	21	**63,537**	28,000
Reinsurance assets	29	**114,251**	161,379
Insurance receivables	22	**83,715**	111,084
Other assets	23	**32,706**	25,019
Current taxes		**7,432**	10,693
Financial investments	24	**305,807**	608,137
Cash and cash equivalents	25	**208,851**	160,093
Total assets		**952,728**	1,236,788
Equity and liabilities			
Called up share capital	26	**1,010**	1,010
Share premium		**64,990**	64,990
Merger reserve		**75,574**	75,575
Retained earnings		**222,330**	225,563
Total equity		**363,904**	367,138
Liabilities			
Retirement benefit obligation - reimbursement	33	**1,758**	4,700
Deferred tax liabilities	19	**4,765**	25,687
Provisions	28	**10,078**	10,236
Insurance contract liabilities	29	**312,908**	571,596
Insurance payables	31	**162,926**	159,644
Other liabilities	32	**81,767**	89,330
Current taxes		**14,447**	8,378
Financial liabilities	24	**175**	79
Total liabilities		**588,824**	869,650
Total equity and liabilities		**952,728**	1,236,788

The notes on pages 19 to 70 are an integral part of these financial statements.

The financial statements on pages 15 to 70 were approved by the Board of directors on 28 April 2017 and were signed on its behalf by:

J W Dover

Chief Financial Officer

C A S Franks

Chief Executive Officer

Consolidated statement of cash flows for the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Cash used in operating activities excluding interest income	35	**(212,816)**	(91,937)
Cash flows from investing activities			
Purchase of intangible assets		**(2,710)**	(8,985)
Purchase of property, plant and equipment		**(2,564)**	(1,793)
Interest and dividends received		**7,516**	14,290
Net (purchases)/sales of investments		**265,330**	171,402
Fair value losses/(gains)		**954**	4,448
Cash inflows from investing activities		**268,526**	179,362
Cash flows from financing activities			
Fees on banking facilities		**(801)**	(1,179)
Dividend paid to shareholder		**(20,000)**	(81,210)
Cash used in financing activities		**(20,801)**	(82,389)
Net increase in cash and cash equivalents and bank overdrafts		**34,909**	5,036
Effect of exchange rate changes on cash and cash equivalents and bank overdrafts		**13,849**	2,514
Net cash and cash equivalents and bank overdrafts at beginning of year		**160,093**	152,543
Net cash and cash equivalents and bank overdrafts at end of year	25	**208,851**	160,093

The notes on pages 19 to 70 are an integral part of these financial statements.

Notes to the consolidated financial statements for the year ended 31 December 2016

1. Accounting policies

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

1.1 Group and its operations

The consolidated financial statements of Tokio Marine Kiln Group Limited (the Company) for the year ended 31 December 2016 were approved on 28 April 2017.

The principal activities of the Tokio Marine Kiln Group Limited Consolidated Group (the Group) consist of the underwriting of insurance and reinsurance business together with associated activities. The Company is incorporated and registered in England and Wales.

1.2 Basis of preparation

The Group's financial statements have been prepared in accordance with EU Endorsed International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared on the going concern basis under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain 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 the financial statements, are disclosed in Note 2.

The Group financial statements are prepared in sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated.

The directors have opted to present the income statement in a way that best represents the way in which the Group is managed. As a result investment income and operating expenses have been allocated between underwriting and non-underwriting activities to separately report an underwriting result in the consolidated income statement.

The table below presents the result where all income and expenses are combined. Total income comprises net insurance premium revenue, investment income, fees and commission income and other income. Total expenses comprise net insurance claims incurred, net operating expenses, corporate and administrative expenses and finance costs. They are reconciled to the consolidated income statement as follows.

	Note	**2016 £'000**	2015 £'000
Total income		**274,783**	264,625
Total expenses		**(272,009)**	(271,605)
Gains/(losses) arising from foreign exchange	13	**4,517**	(9,084)
Share of profit of joint venture	17	**3,188**	2,303
Share of profit of associated companies	18	**99**	10
Profit/(loss) on ordinary activities before taxation		**10,578**	(13,751)
Income tax credit/(expense)	14	**(5,813)**	3,101
Profit/(loss) after tax attributable to the equity shareholder		**4,765**	(10,650)

1.3 Changes in accounting policies

There are no changes to accounting policies.

1.4 New standards, amendments and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017, and have not been applied in preparing these consolidated financial statements. None of these are expected to have significant effect on the consolidated financial statements of Group. The Group is yet to determine the impact of the following new standards:

IFRS 9 'Financial Instruments' which addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets (effective 1 January 2018).

IFRS 15 'Revenue from contracts with customers' which replaces IAS 18, covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption (effective 1 January 2018).

IFRS 16 'Leases' results in almost all leases being recognised in the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change (effective 1 January 2019).

1.5 Basis of consolidation

The Group consolidated financial statements incorporate the financial statements of the Company, and entities controlled by the Company (its subsidiaries), for the 12 months ended 31 December 2016. Newly acquired subsidiaries are consolidated from the date at which the Group acquires control. A subsidiary ceases to be consolidated from the date the Group relinquishes control. The accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Inter-company transactions, balances and unrealised gains or losses between Group entities are eliminated.

1.6 Summary of accounting policies

a) Revenue recognition

Premiums

Gross written premiums comprise the total premiums receivable for the whole period of cover under contracts incepting during the financial year and include estimates for pipeline premiums, together with adjustments arising in the financial year to premiums receivable in respect of business written in previous financial years.

All premiums included in the income statement relate to continuing operations. All premiums are shown gross of commission payable to intermediaries and are exclusive of taxes and duties levied thereon.

Written premiums are recognised as earned income over the period of the policy on a time apportionment basis which approximates the pattern of risk of the underlying contract. The provision for unearned premiums is calculated on a daily pro-rata basis.

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

Reinstatement Premiums

Reinstatement premiums arise on both inwards and outwards policies when a loss has been incurred on a policy and there is a clause which requires the reinstatement of the policy with the payment of a further premium by the policyholder. They are recognised as written and earned in full at the date of the event giving rise to the reinstatement premium.

Outwards reinstatement premiums payable in the event of a claim being made are charged to the same underwriting year as that to which the recovery is credited.

Profit commission on managing agency activities

The Group only recognises its share of profit commission from third parties participating in TMKS managed syndicates. The Lloyd's managing agent's agreement enables profit commission to be payable by syndicates at the close of the relevant year of account (YOA) or alternatively for the managing agents to receive payment on account of anticipated profit commission in line with interim profits released to capital providers.

The profit commission due is calculated by reference to the managing agency agreement and accounted for on an accruals basis as at the year-end date. The accrual for profit commission receivable from managed syndicates is recognised using an earnings pattern which represents the most reliable estimate of the three year development of a Lloyd's year of account.

Investment income from underwriting assets

Investment returns comprising interest receivable together with fair value investment gains and losses are recognised within 'Investment return from underwriting assets' in the income statement on an accruals basis.

Non-insurance revenue comprises:

i) Investment income from non-underwriting assets are recognised in the income statement on an accruals basis.

ii) Net gains and losses on the movement of the fair value of non-underwriting investments.

iii) Fees and recharges which are earned from activities as a Lloyd's managing agent. Managing agent's fees are levied on the syndicates allocated capacity (stamp) of each managed syndicate and are earned as the services are provided. Operating administrative expenses and allocated costs are recharged to the managed syndicates on an apportionment basis.

iv) Other income which includes gains and losses from the sale of fixed asset investments.

b) Foreign currency translation

Functional and presentational currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Sterling which is also the functional currency of the company.

Transactions and balances

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

Group entities

The results and financial position of Group entities which have a functional currency different from the presentation currency, are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at the year-end date;
- income and expenses are translated at average exchange rates; and
- all resulting exchange differences are recognised in the statement of other comprehensive income.

c) Claims incurred, claims reserves and related reinsurance recoveries

Paid claims represent all claims paid during the year and include claims handling expenses. Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the statement of financial position date, including the cost of claims incurred but not yet reported to the Group. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported (IBNR) is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insurer until many years after the event giving rise to the claims has happened. Classes of business where the IBNR proportion of the total reserve is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. Classes of business where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims the Group uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in Group processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous periods;
- changes in the legal environment;
- the effects of inflation;
- changes in the mix of business;
- the impact of large losses; and
- movements in industry benchmarks.

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

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

Where possible the Group adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

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

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability. An estimate of the future cost of indirect claims handling is calculated on an average cost per claim basis. Actual claims handling expenses and number of claims incurred during the year are used to determine the average claims handling cost which is applied to expected future claims.

Reinsurance recoveries in respect of estimated claims IBNR are assumed to be consistent with the historical pattern of such recoveries, adjusted to reflect changes in the nature and extent of the Group's reinsurance programme over time. An assessment is also made of the recoverability of reinsurance recoveries having regard to market data on the financial strength of each of the reinsurers.

Property

These business areas are predominantly 'short tail', in that is there is not a significant delay between the occurrence of the claim and the claim being reported to the Group. The costs of claims notified to the Group at the statement of financial position date are estimated on a case by case basis to reflect the individual circumstances of each claim. The ultimate expected cost of claims is projected from this data by reference to statistics which show how estimates of claims incurred in previous periods have developed over time to reflect changes in the underlying estimates of the cost of notified claims and late notifications.

Marine and Aviation

This business area is predominantly commercial cargo risks that are 'short tail' in nature. The methodology for estimating the short tail element of the business is the same as described above.

Liability claims

Liability claims are longer tail than the classes of business described above and so a larger element of the claims provision relates to IBNR claims. Claims estimates for the Group's liability business are derived from a combination of loss ratio based estimates and an estimate based upon actual claims experience using a predetermined formula whereby greater weight is given to actual claims experience as time passes. The initial estimate of the loss ratio based on the experience of previous years adjusted for factors such as premium rate changes and claims inflation, and on the anticipated market experience, is an important assumption in this estimation technique. The assessment of claims inflation and anticipated market experience is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort. This class of business is also subject to the emergence of new types of latent claims but no allowance is included for this as at the statement of financial position date.

Unexpired risk reserve

Provision is made where the cost of claims and expenses arising after the end of the financial year from contracts concluded before that date, is expected to exceed the provision for unearned premiums, net of deferred acquisition costs, and premiums receivable.

d) Finance costs

Finance costs comprise bank charges and facility fees on letters of credit, and are recorded in the period in which they are incurred. The finance costs also include the expected investment return on pension assets and interest cost on the benefit obligation with respect to the defined benefit pension scheme.

e) Net operating expenses

Net operating expenses are recognised on the accruals basis and represent the expenses incurred on underwriting operations. Expenses comprise the cost of acquiring business including commission and profit commission as well as the staff costs and other expenses attributable to underwriting operations.

f) Performance Related Remuneration

The Performance Related Remuneration (PRR), (see note 11) inclusive of employer's national insurance contributions, may be payable to staff based on Group profitability and eligible staff fulfilling certain vesting criteria. It is recognised in the financial statements over the employment period to vesting, with the first instalment charged to the financial year in which the profit is made. Future amounts payable under PRR represent unvested bonus amounts. These amounts will vest and be recognised in future periods when certain future employment conditions are fulfilled.

g) Income taxes

The tax expense or credit represents the sum of current tax and deferred tax.

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because items of income and expense are taxed in different periods, and it excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates applicable as at the year-end date.

h) Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each year end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates based on the enacted or substantially enacted tax laws expected to apply in the period when the liability is settled or the asset is realised and are shown in note 19. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

i) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment losses. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

They are depreciated on a straight-line basis over the expected useful lives of each category of asset as follows:

Computer hardware	3 - 4 years
Office furniture and internal structures	4 - 6 years
Motor vehicles	4 - 5 years
Long term lease	Over the term of the lease
Property (internal structure)	10 years
Property (building)	33 years

Land is not depreciated.

Expenditure to restore the future economic benefit of an asset, if it extends the useful life of the asset, is capitalised. Costs for repairs and maintenance are expensed.

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the de-recognition of the asset is included in the income statement in the period of de-recognition.

j) Intangible assets

Computer software and assets under development

Computer software and assets under development are stated at cost less accumulated amortisation and any recognised impairment losses. Costs capitalised are those directly associated with the production of identifiable and unique software products controlled by the Group that will generate economic benefits exceeding costs beyond one year.

Computer software assets are amortised using the straight line method over their useful lives, not exceeding a period of four years. Assets under development are not amortised.

Computer software and assets under development are subject to an annual impairment review. The amount of any impairment is recognised directly in the income statement.

Goodwill

Goodwill arising on acquisitions, representing the excess of the purchase consideration over the fair value of identifiable assets and liabilities and contingent liabilities acquired is capitalised.

Following initial recognition, goodwill is stated at cost less any accumulated impairment losses. The carrying amount of goodwill for each cash generating unit is tested for impairment annually, or when events or changes in circumstance indicate that the carrying amount might be impaired, by comparing the higher of the fair value less selling costs and the value in use of the future earnings stream from the acquired subsidiary against the carrying value of goodwill. Goodwill is held in the currency of the acquired entity and revalued to the closing rate at each statement of financial position date.

Renewal rights

Costs directly relating to securing the intangible rights to customer contract relationships are capitalised. These costs are amortised, using the straight line method, over their useful economic life, which is deemed to be 3 years. They are carried at cost less accumulated amortisation and any recognised impairment losses.

k) Business Combinations

Business combinations are accounted for using the acquisition accounting method. This involves recognising identifiable assets and liabilities of the acquired business at fair value. Contingent consideration has been included in the cost of the acquisitions and is discounted to net present value (NPV) at the date of acquisition, to result in a fair value for the consideration. Contingent consideration is recognised to the extent that it is expected to be paid.

Branch Accounting

TMKI only has branches whereby no consolidation is required. The branches are treated as sub-divisions of TMKI and depending on the branch, they each carry out their own accounting to a certain degree of autonomy. The branches are reported as part of TMKI's overall result.

l) Deferred acquisition costs

Acquisition costs, comprising commission and other costs related to the acquisition of new insurance contracts are deferred to the extent that they are attributable to premiums unearned at the statement of financial position date.

m) Financial investments

Information relating to investments is reported to internal management on a fair value basis therefore all financial investments, excluding loan notes issued by a joint venture, are designated at fair value through profit or loss at inception. These are initially recorded at cost, which equates fair value and subsequently carried at fair value through profit or loss.

All regular purchases and sales of financial investments are recognised on the trade date, being the date the Group commits to purchase or sell the asset.

Fair value determinations for financial investments are based on either bid market prices at close of business on the year end date for listed investments, broker or dealer price quotations, or by reference to current market values of another substantially similar instrument.

The Group holds loan notes issued by a joint venture at amortised cost together with the associated accrued interest.

n) Derivative financial instruments

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

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

o) De-recognition of financial assets and financial liabilities

A financial asset is derecognised when the contractual right to receive cash flows expires or where they have been transferred and the Group has also transferred substantially all risks and rewards of ownership. A financial liability is derecognised once the obligation under the liability is discharged, cancelled or expires.

p) Insurance receivables/payables

Insurance receivables/payables are recognised and carried at the recoverable amount. The carrying value of insurance receivables/payables is reviewed for impairment whenever events or circumstances indicate that the carrying amount is greater than the recoverable amount, with the impairment adjustment recorded in the income statement.

q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less from the date of acquisition and repayable on demand bank overdrafts. These investments are believed to be subject to insignificant risk of change in fair value.

r) Product classification

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract, or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect.

s) Retirement benefit obligation

Contributions to the Group defined contribution pension scheme are charged when due.

For the group defined benefit scheme (now closed to future years of service accrual), the cost of providing benefits is determined by the Scheme Actuary under the projected unit method, with actuarial valuations for IAS 19 being carried out at each year end date. The retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation less the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan, and is only recognised to the extent the amount is recoverable.

The total pension scheme assets/obligations are recognised on the Group's consolidated statement of financial position. Also recognised is a reimbursement asset/obligation reflecting amounts recoverable/payable under the managing agency agreement from third party Names participating in TMKS's managed syndicates. TMKS secured agreement from members' agents effective 1 January 2005 to this treatment. The Group considers that the credit risk associated with these Lloyd's syndicates is low and that therefore it is virtually certain that the syndicates will reimburse any amount payable in accordance with the advised actuarial funding plan.

Actuarial gains and losses are recognised through the Statement of Comprehensive Income in the period they occur. The expected investment return on pension assets and interest cost on the benefit obligation with respect to the defined benefit pension scheme are recognised immediately in finance costs in the income statement.

t) Contingent consideration

Contingent consideration is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration is recognised as a change to other income.

u) Provisions

A provision is recognised when the Group has a present legal or constructive obligation, as a result of a past event, that is expected to result in an outflow of resources. A provision is recognised when a reliable estimate of the amount of the obligation can be made.

Dilapidations

Provisions for dilapidations are recognised for each property lease where there is an obligation to make good the dilapidations. They are based on the Group's best estimate of the likely committed cash outflow and take account of the time value of money.

v) Leases

A lease is an agreement whereby the lessor conveys to the lessee in return for payment the right to use an asset for a period of time. Rentals payable under operating leases are charged to the income statement on a straight-line basis over the lease terms. The Group does not currently have any finance leases. If a lease becomes onerous a discounted provision is made for the expected net cash outflow occurring on the remaining period on the lease.

w) Investments in associates

The Group's interests in its associates, being those entities over which it has significant influence and which are neither subsidiaries nor joint ventures, are accounted for using the equity method of accounting. Under the equity method, the investment in an associate is carried in the statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate less any impairment in value of individual investments. The consolidated income statement reflects the share of the associate's results after tax.

Where a Group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

x) Investment in joint venture

The Group's interest in its joint venture, to which it has joint control is being accounted for using the equity method of accounting. Under the equity method, the investment in joint venture is carried in the statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the joint venture less any impairment. The consolidated income statement reflects the share of the joint venture's results after tax.

y) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously.

z) Current and non-current disclosure

For each asset and liability line item that includes amounts expected to be recovered or settled (a) no more than 12 months after the year end date and (b) more than 12 months after the year end date, the relevant note discloses the amount expected to be recovered or settled after more than 12 months.

aa) Dividends payable

The Group recognises dividends as payable when they are approved by the shareholder.

bb) Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction, from the proceeds, net of tax.

2. Use of critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The areas involving significant estimates or judgements are:

Written premium	Written premium is reported according to its date of inception. Pipeline premium is based on underwriters' estimated premiums written on a line of business basis.
Earned premium	The earning of premiums is based primarily on time apportionment, with an adjustment for the risk profile of certain classes of business.
Incurred but not reported claims (IBNR)	The estimation of claims IBNR requires a variety of estimation techniques, generally based upon statistical analysis of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims.
Reinsurance recoverables	Reinsurance is deemed to be fully recoverable unless there is a reason to doubt its full recoverability. In these circumstances specific provisions are made based on the expected proportional recovery.
Financial investments	Financial investments are carried in the statement of financial position at market values. Market valuations of funds are obtained from fund administrators. The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques.
Pension Liabilities	A full description is set out in note 33 under principal actuarial assumptions.

3. Net insurance premium

	Note	2016 £'000	2015 £'000
Gross premium revenue			
Gross written premiums	29	**222,930**	203,070
Reinsurers' share of gross written premiums	29	**(94,076)**	(76,394)
Total net written premiums	29	**128,854**	126,676
Change in the provision for unearned premiums			
Gross change in unearned premium provision		**(5,379)**	28,411
Reinsurers' share of change in unearned premium provision		**3,569**	(6,122)
Total net change in the provision for unearned premiums		**(1,810)**	22,289
Total net insurance premium revenue	29	**127,044**	148,965

During the year, the Group did not assume or cede any reinsurance policies that resulted in a profit or loss on inception.

4. Net insurance claims and loss adjustment expenses

	Note	2016 £'000	2015 £'000
Gross claims paid			
Total gross claims paid	29	**118,030**	309,069
Reinsurers' share of gross claims paid	29	**(36,248)**	(105,498)
Total net claims paid	29	**81,782**	203,571
Gross change in insurance liabilities			
Gross change in outstanding claims		**14,629**	(134,595)
Reinsurers' share of change in outstanding claims		**(10,331)**	26,223
Total net change in insurance liabilities		**4,298**	(108,372)
Total net insurance claims incurred	29	**86,080**	95,199

5. Investment Return

	2016 £'000	2015 £'000
Interest on investments and cash	**4,031**	9,389
Net fair value gains/(losses) on underwriting investments	**204**	(5,035)
Investment income from underwriting assets	**4,235**	4,354
Interest on investments and cash	**3,486**	4,902
Net fair value gains/(losses) on non-underwriting investments	**275**	(1,335)
Investment income from non-underwriting assets	**3,761**	3,567
Total investment income	**7,996**	7,921

	2016 £'000	2015 £'000
Financial Assets at fair value through profit or loss (designated upon initial recognition)		
Net fair value gains/(losses)	**479**	(6,370)
Interest income	**4,711**	12,038
Financial Assets at cost		
Interest Income	**1,942**	1,480
Cash and cash equivalents interest income	**864**	773
Total investment income	**7,996**	7,921

An analysis of the investment income by investment type is shown below:

	Rate of return		Investment Income	
	2016 %	2015 %	**2016 £'000**	2015 £'000
Syndicate investments	**-**	1.0	**-**	2,787
Funds at Lloyd's: Fixed interest and cash	**0.7**	0.5	**145**	172
Corporate investments	**1.8**	1.0	**7,851**	4,962
Total investment income	**1.7**	0.9	**7,996**	7,921

Returns from corporate investments include gains and losses from unlisted investments. 'Funds at Lloyd's' is the capital required by Lloyd's to support the amount of insurance business a member can underwrite.

The rate of return by investment currency is shown below:

	Rate of return	
	2016 %	2015 %
Sterling	**1.6**	0.8
US dollar	**1.9**	1.0
Canadian dollar	**-**	1.2
Euros	**2.0**	1.6
Blended rate of return	**1.7**	0.9

6. Fees and commission income

	2016 £'000	2015 £'000
Agency fees receivable from non-group capital providers	**11,034**	11,052
Profit commission on closing YOA	**32,119**	8,139
Profit commission on other YOA	**17,800**	15,871
Recharges to non-group capital providers	**77,860**	72,126
Total fees and commission income	**138,813**	**107,188**

A proportion of the total expenses incurred by the managing agency is charged to the non-group capital providers of each syndicate.

7. Other income

	2016 £'000	2015 £'000
Interest income	**5**	-
Other	**925**	551
Total other income	**930**	551

8. Finance costs

	Note	**2016 £'000**	2015 £'000
Bank facility fees		**771**	1,066
Net cost of defined benefit pension scheme	33	**(39)**	(10)
Amortisation		**2**	-
Unwinding of discount on provisions		**67**	123
Total finance costs		**801**	1,179

9. Operating and administrative expenses

	2016 £'000	2015 £'000
Net operating expenses	**56,867**	63,290
Corporate and administrative expenses	**128,262**	111,937
Total operating and administrative expenses	**185,129**	175,227

	Note	2016 £'000	2015 £'000
Acquisition costs		**33,515**	28,981
Reinsurance commissions		**(15,330)**	(11,695)
Movement in deferred acquisition costs		**(656)**	9,001
Staff costs	10	**69,259**	64,558
Profit related bonus element	10	**13,496**	17,110
Profit commission	10	**11,883**	4,863
Auditor's remuneration	12	**1,189**	1,631
Depreciation charge	15	**3,557**	3,327
Amortisation charge	16	**6,729**	5,224
Other administrative expenses		**61,487**	52,226
Strategic projects		**-**	1
Total operating and administrative expenses		**185,129**	175,227

Net operating expenses represent the Company platform costs incurred by the Group. Corporate and administrative expenses are expenses incurred by group companies including expenses incurred by the managing agency, and recharged to non-group capital providers. The above table is an analysis of the nature of the expenses allocated to the Group. Profit commission relates to the proportion of total profit commission receivable awarded to the underwriters.

10. Staff costs and other employee related costs

Particulars of employee costs (including directors) are set out below:

	2016 £'000	2015 £'000
Salaries and bonuses	**61,575**	56,019
Social security costs	**7,684**	8,539
	69,259	64,558
Profit related bonus element	**13,496**	17,110
Profit commission	**11,883**	4,863
Total staff and other employee related costs	**94,638**	86,531

The average monthly number of persons employed by the Group during the year was 721; 464 non-underwriting and 257 underwriting staff (2015: 676; 411 non-underwriting and 265 underwriting staff).

Directors' emoluments

	2016 £'000	2015 £'000
Aggregate emoluments	**7,233**	5,352

The remuneration of the highest paid director is disclosed in the table below.

	2016	2015
	£'000	£'000
Fees and other emoluments:		
C A S Franks	**2,056**	1,753

There are no directors accruing benefits under any TMK defined benefit or defined contribution pension schemes.

11. Performance Related Remuneration (PRR)

PRR comprises (1) 6.2% of total remuneration excluding PRR, (2) an element of profit commission received and (3) a Profit Related Bonus Element (PRBE). This third element (PRBE) of the PRR pool received (see accounting policy f) is calculated as part of the budget process, this is then uplifted or reduced based on the actual profit achieved. It is recognised in the financial statements over the employment period to vesting, a maximum of five years, with the first instalment charged in the current financial year.

The total amount charged for the three elements described above in these financial statements is £16,463,093 (2015: £19,679,040). This comprises two components being the PRR amounts vested in the current period (i.e. unvested at the previous statement of financial position date) plus the element of the 2016 financial year's PRR computed as described above and chargeable to the current period.

As at the year-end date the amount of unvested PRR totals £20,210,071 (2015: £19,830,501). This is detailed below:

	2016	2015
	£'000	£'000
Due April 2017	-	13,007
Due April 2018	**14,325**	4,796
Due April 2019	**4,072**	906
Due April 2020	**803**	1,122
Due April 2021	**1,010**	-
	20,210	19,831

Kiln Incentive Plan

If invited by the Nomination and Remuneration committee, selected staff can elect to allocate an element of their PRR to a longer term incentive plan, with results linked to the profitability and effectiveness of the business. A maximum of 10% of the individual overall PRR award for each financial year can be allocated. An offer in respect of the 2016 financial year will be made in April 2017 (2015 financial year offer acceptance: £631,103).

12. Auditor's remuneration

	2016 £'000	2015 £'000
Fees payable to the Company's auditors for the audit of the parent company and consolidated financial statements	**143**	138
Fees payable to the Company's auditors and its associates for other services:		
-The audit of the company's subsidiaries	**499**	474
-Audit related assurance services	**395**	349
-Tax advisory services	**8**	6
-All other services	**144**	664
Total auditor's remuneration	**1,189**	1,631

Included within the auditing of financial statements of the company's subsidiaries is syndicate audit remuneration which includes those fees paid on behalf of non-group capital support to the syndicates.

13. Gains/(losses) arising from foreign exchange

Impact of foreign exchange related items	2016 £'000	2015 £'000
Income statement		
Net gains/(losses) on forward exchange hedges and option contracts	**(11,288)**	778
Net gains/(losses) on transactions and translation of assets and liabilities at closing rates	**15,805**	(9,862)
Total foreign exchange gains/(losses) recognised in the consolidated income statement	**4,517**	(9,084)
Statement of financial position		
Gains on retranslation of foreign operations recognised in other comprehensive income	**12,691**	2,937
Total impact of foreign exchange on net assets	**17,208**	(6,147)

Exchange Rates

	31 December 2016	31 December 2015
Average		
US dollar	1.35	1.53
Canadian dollar	1.79	1.95
Euro	1.22	1.38
Closing		
US dollar	1.24	1.47
Canadian dollar	1.66	2.05
Euro	1.17	1.36

14. Income tax expense

Current year tax expense/(credit)	Note	**2016 £'000**	2015 £'000
Current Tax			
UK corporation tax on profits		**19,643**	3,659
Overseas tax on profits		**520**	1,951
Adjustments in respect of prior years		**2,850**	118
Total current tax		**23,013**	5,728
Deferred Tax			
(Reversal)/Charge of temporary differences		**(17,633)**	(8,360)
Effect of reduction of UK corporation tax rate from 20% to 19% in 2017 and to 17% in 2020		**433**	(469)
Total deferred tax	19	**(17,200)**	(8,829)
Income tax (credit)/expense reported in the consolidated income statement		**5,813**	(3,101)

Deferred Tax		**2016 £'000**	2015 £'000
Income tax expense/(credit) reported in consolidated statement of comprehensive income	19	**(172)**	112

The tax on the Group's profit/(loss) before tax differs from the theoretical amount that would arise from applying the UK standard rate of corporation tax to profits/(losses) of the Group. The reasons for this are as follows:

Reconciliation of total tax charge	**2016 £'000**	2015 £'000
Profit/(Loss) on ordinary activities before tax	**10,577**	(13,751)
Profit/(Loss) on ordinary activities before tax multiplied by the standard rate of corporation tax in the UK of 20% (2015: 20.25%)	**2,115**	(2,784)
Expenses permanently disallowable	**180**	(20)
Adjustments in respect of prior years	**1,321**	117
Effect of reductions in UK corporation tax rate	**432**	(469)
Overseas tax at rates different to UK	**1,765**	55
Total tax charge for the year	**5,813**	(3,101)

15. Property, plant and equipment

	Note	Office furniture Owned £'000	Computer hardware Owned £'000	Motor vehicles Owned £'000	Land & Buildings Owned £'000	Longhold lease £'000	Total £'000
Cost							
At 1 January 2016		**7,144**	**4,374**	**158**	**12,765**	**5,729**	**30,170**
Foreign exchange difference		**60**	**26**	**22**	**83**	**17**	**208**
Additions		**996**	**1,515**	**-**	**53**	**-**	**2,564**
Disposals		**(38)**	**(6)**	**(37)**	**(56)**	**-**	**(137)**
At 31 December 2016		**8,162**	**5,909**	**143**	**12,845**	**5,746**	**32,805**
Accumulated depreciation							
At 1 January 2016		**(5,238)**	**(2,293)**	**(74)**	**(1,667)**	**(459)**	**(9,731)**
Foreign exchange difference		**(36)**	**(21)**	**(10)**	**(47)**	**(17)**	**(131)**
Charge for the year	9	**(596)**	**(1,333)**	**(27)**	**(1,279)**	**(322)**	**(3,557)**
Disposals		**32**	**6**	**25**	**10**	**-**	**73**
At 31 December 2016		**(5,838)**	**(3,641)**	**(86)**	**(2,983)**	**(798)**	**(13,346)**
Net book value 1 January 2016		**1,906**	**2,081**	**84**	**11,098**	**5,270**	**20,439**
Net book value 31 December 2016		**2,324**	**2,268**	**57**	**9,862**	**4,948**	**19,459**

Depreciation is charged in corporate and administrative expenses in the income statement.

	Note	Office furniture Owned £'000	Computer hardware Owned £'000	Motor vehicles Owned £'000	Land & Buildings Owned £'000	Longhold lease £'000	Total £'000
Cost							
At 1 January 2015		6,736	7,171	183	12,511	5,724	32,325
Foreign exchange difference		(2)	2	(9)	(26)	5	(30)
Additions		424	1,086	-	283	-	1,793
Disposals		(14)	(3,885)	(16)	(3)	-	(3,918)
Completed projects		-	-	-	-	-	-
At 31 December 2015		7,144	4,374	158	12,765	5,729	30,170
Accumulated depreciation							
At 1 January 2015		(4,714)	(4,987)	(54)	(466)	(108)	(10,329)
Foreign exchange difference		-	(2)	2	15	(5)	10
Charge for the year	9	(537)	(1,200)	(27)	(1,217)	(346)	(3,327)
Disposals		13	3,896	5	1	-	3,915
At 31 December 2015		(5,238)	(2,293)	(74)	(1,667)	(459)	(9,731)
Net book value 1 January 2015		2,022	2,184	129	12,045	5,616	21,996
Net book value 31 December 2015		1,906	2,081	84	11,098	5,270	20,439

16. Intangible assets

	Note	Computer Software	Intangible assets under development	Goodwill	Renewal rights	Total
		£'000	**£'000**	**£'000**	**£'000**	**£'000**
Cost						
At 1 January 2016		**39,667**	**2,324**	**9,612**	-	**51,603**
Foreign exchange difference		**45**	-	**1,040**	-	**1,085**
Additions		**1,119**	**1,591**	-	-	**2,710**
Disposals		**(32)**	-	-	-	**(32)**
Completed projects		**2,837**	**(2,837)**	-	-	-
At 31 December 2016		**43,635**	**1,078**	**10,652**	-	**55,366**
Accumulated amortisation						
At 1 January 2016		**(27,919)**	-	-	-	**(27,919)**
Foreign exchange difference		**(45)**	-	-	-	**(45)**
Charge for the year	9	**(6,729)**	-	-	-	**(6,729)**
Disposals		**31**	-	-	-	**31**
At 31 December 2016		**(34,662)**	-	-	-	**(34,662)**
Net book value 1 January 2016		**11,748**	**2,324**	**9,612**	-	**23,684**
Net book value 31 December 2016		**8,973**	**1,078**	**10,652**	-	**20,704**

Amortisation is charged in corporate and administrative expenses in the income statement.

	Note	Computer Software	Intangible assets under development	Goodwill	Renewal rights	Total
		£'000	*£'000*	*£'000*	*£'000*	*£'000*
Cost						
At 1 January 2015		43,032	4,695	9,752	2,602	60,081
Foreign exchange difference		12	-	(140)	-	(128)
Additions		6,689	2,296	-	-	8,985
Disposals		(14,733)	-	-	(2,602)	(17,335)
Completed projects		4,667	(4,667)			
At 31 December 2015		39,667	2,324	9,612	-	51,603
Accumulated amortisation						
At 1 January 2015		(36,670)	-	-	(2,602)	(39,272)
Foreign exchange difference		(11)	-	-	-	(11)
Charge for the year	9	(5,224)	-	-	-	(5,224)
Disposals		13,986	-	-	2,602	16,588
At 31 December 2015		(27,919)	-	-	-	(27,919)
Net book value 1 January 2015		6,362	4,695	9,752	-	20,809
Net book value 31 December 2015		11,748	2,324	9,612	-	23,684

An analysis of goodwill is shown below:

	2016 £'000	2015 £'000
Kiln Europe S.A.	**5,154**	4,437
Tokio Marine Kiln Hong Kong Limited	**1,746**	1,423
Tokio Marine Kiln Regional Underwriting Limited	**3,752**	3,752
	10,652	9,612

Goodwill

Goodwill is measured by reference to the original cost of the acquisition less any accumulated impairment charges. Each acquisition is assessed separately as a cash generating unit for impairment testing purposes. This impairment test is performed annually or whenever there is an indication that the cash generating unit may be impaired. No impairment has been made during the year.

The recoverable amount of goodwill for each cash generating unit is based on value in use and is calculated using a discounted cash flow methodology. Future cash flows are based on management forecasts projected out until 2026 at the growth rate deemed appropriate for each investment. The future cash flows are discounted at the Group's cost of capital of 8.2%.

17. Investment in joint ventures

Investment in WNC Holding Company, LP

On 9 June 2011, RJ Kiln & Co. (No. 2) Limited, itself a wholly owned subsidiary of TMK, entered into a joint venture to form WNC Holding Company, LP which is incorporated and registered in the United States.

WNC Holding Company, LP went on to purchase WNC Insurance Holding Corporation which is a managing general agent that provides flood, wind, hazard and automobile insurance to financial institutions in the US. The Group owns a 49% equity interest and is using the equity accounting method as per IFRS 11.

Investment in NAS Insurance Services, LLC

On 14 February 2014, Kiln Underwriting (510) Limited, a wholly owned subsidiary of TMK, entered into a joint venture to purchase a 49 per cent share in NAS Insurance Services, LLC (NAS) which is incorporated and registered in the United States. TMK has benefitted from a profitable coverholder relationship with NAS for over 30 years through the Property, Marine and Special Risks divisions of Syndicate 510 and previously through Syndicate 807.

	WNC Holding Company LP £'000	NAS Insurance Services, LLC £'000	2016 £'000
At 1 January 2016	**27,160**	**32,070**	**59,230**
Share of profit/(loss)	**445**	**2,743**	**3,188**
Other comprehensive income	**5,026**	**5,794**	**10,820**
At 31 December 2016	**32,631**	**40,606**	**73,237**

	WNC Holding Company LP	NAS Insurance Services, LLC	2015
	£'000	£'000	£'000
At 1 January 2015	25,617	29,299	54,916
Share of profit/(loss)	(29)	2,332	2,303
Other comprehensive income	1,572	1,678	3,250
Revaluation of contingent consideration	-	280	280
Dividend distributed	-	(1,519)	(1,519)
At 31 December 2015	27,160	32,070	59,230

Statement of financial position

	WNC Holding Company LP	**NAS Insurance Services, LLC**	**2016**	WNC Holding Company LP	NAS Insurance Services, LLC	2015
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Current assets	**34,101**	**39,393**	**73,494**	32,340	21,807	54,147
Non current assets	**50,771**	**21,774**	**72,545**	47,471	13,803	61,274
Total assets	**84,872**	**61,167**	**146,039**	79,811	35,610	115,421
Current liabilities	**(36,367)**	**(30,340)**	**(66,707)**	(31,107)	(15,933)	(47,040)
Non current liabilities	**(57,278)**	**(8,608)**	**(65,886)**	(56,850)	(5,560)	(62,410)
Net Assets	**(8,773)**	**22,219**	**13,446**	(8,146)	14,117	5,971

Statement of comprehensive income

	WNC Holding Company LP	**NAS Insurance Services, LLC**	**2016**	WNC Holding Company LP	NAS Insurance Services, LLC	2015
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Revenue	**25,085**	**23,532**	**48,617**	21,996	17,484	39,480
Profit/(loss) for the period	**(627)**	**8,102**	**7,475**	(517)	2,184	1,667

Reconciliation of financial information

	WNC Holding Company LP	NAS Insurance Services, LLC	2016	WNC Holding Company LP	NAS Insurance Services, LLC	2015
	£'000	£'000	£'000	£'000	£'000	£'000
Opening net assets 1 January	**(8,146)**	**14,117**	**5,971**	(7,629)	11,933	4,304
Profit/(loss) for the period	**909**	**5,597**	**6,506**	(58)	4,759	4,701
Other comprehensive income	**(1,536)**	**2,505**	**969**	(459)	525	66
Dividend distributed	**-**	**-**	**-**	-	(3,100)	(3,100)
Closing net assets 31 December	**(8,773)**	**22,219**	**13,446**	(8,146)	14,117	5,971
Interest in Joint venture @ 49%	**(4,299)**	**10,887**	**6,589**	(3,992)	6,917	2,926
Goodwill	**36,930**	**29,718**	**66,648**	31,152	25,152	56,304
Closing net assets	**32,631**	**40,605**	**73,236**	27,160	32,069	59,230

18. Investment in associated undertakings

On 15 February 2008 TMKS, a wholly owned subsidiary of TMK purchased a 30% share in Ibex Insurance Services Ltd, a company registered and incorporated in Gibraltar. The beneficial owner is Syndicate 510, and all profits or losses are passed on to the capital providers of this syndicate.

	2016	2015
	£'000	£'000
Income Statement Group Share		
Revenue	**1,374**	902
Profit on ordinary activities	**99**	10
Profit reported in the income statement	**99**	10
Statement of financial position - Group Share		
Investments	**182**	145
Long term assets	**2,021**	1,746
Current assets	**664**	506
Total Assets	**2,867**	2,397
Current liabilities	**(520)**	(467)
Long term loan	**(16)**	(9)
Net assets	**2,331**	1,921

The movements in the Group's investment in associated undertakings are as follows:

	2016	2015
	£'000	£'000
Balance at 1 January	**1,921**	2,010
Foreign Exchange	**311**	(99)
Share of profit after tax arising in the year	**99**	10
Balance at 31 December	**2,331**	1,921

19. Deferred Taxation

	2016 £'000	2015 £'000
Deferred tax asset	**10,538**	14,088
Deferred tax liability	**(4,765)**	(25,687)
Net (liability)/asset	**5,773**	(11,599)

	Note	Capital Allowances	Expenses to be relieved in future periods	Income taxable in future periods	Total
		£'000	£'000	£'000	£'000
Net (liability)/asset at 1 January 2015		4,137	7,958	(32,411)	(20,316)
Income statement charge	14	(51)	951	7,929	8,829
Statement of comprehensive income	14	-	-	(112)	(112)
Net (liability)/asset at 31 December 2015		4,086	8,909	(24,594)	(11,599)
Income statement charge	14	**(377)**	**(2,518)**	**20,095**	**17,200**
Statement of comprehensive income	14	**-**	**-**	**172**	**172**
Net (liability)/asset at 31 December 2016		**3,709**	**6,391**	**(4,327)**	**5,773**

	2016 £'000	2015 £'000
Deferred tax to be realised within 12 months	**2,302**	(19,221)
Deferred tax to be realised after 12 months	**3,471**	7,622
Total deferred taxation	**5,773**	(11,599)

The deferred tax asset relating to capital allowances arises from the excess of tax written down values over book carrying values of tangible fixed assets. The deferred tax asset arising from expenses to be relieved in future years relates primarily to accruals for employee remuneration, UK tax losses and other short-term timing differences. The deferred tax liability arising from income taxable in future years relates to short-term timing differences.

The deferred tax balances have been re-measured during the year to reflect the reductions in the UK corporation rate from 20% to 19% on 1 April 2017 and to 17% on 1 April 2020. These reductions in tax rates have resulted in a debit to the income statement of £432,000 (2015 credit: £469,000).

20. Deferred acquisition costs

	2016 £'000	2015 £'000
At 1 January	**7,402**	16,402
Cost deferred during the year	**1,147**	(133)
Charge for the year	**(491)**	(8,867)
At 31 December	**8,058**	7,402

All deferred acquisition costs are considered current.

21. Prepayments and accrued income

	2016 £'000	2015 £'000
Prepayments	**8,490**	6,914
Accrued interest	**225**	162
Accrued profit commission	**54,822**	20,924
Total prepayments and accrued income	**63,537**	28,000

	2016 £'000	2015 £'000
Current prepayments and accrued income	**52,005**	16,825
Non current prepayments and accrued income	**11,532**	11,175
Total prepayments and accrued income	**63,537**	28,000

22. Insurance receivables

	2016 £'000	2015 £'000
Due from agents, brokers and intermediaries	**68,114**	76,051
Due from reinsurers	**15,601**	35,033
Total insurance receivables	**83,715**	111,084

	2016 £'000	2015 £'000
Current insurance receivables	**65,336**	97,664
Non-current insurance receivables	**18,379**	13,420
Total insurance receivables	**83,715**	111,084

23. Other assets

	2016 £'000	2015 £'000
IPT Recoverable	**1,401**	1,213
Amounts owed by related party	**1,632**	1,626
Other receivables	**29,672**	22,180
Total other assets	**32,706**	25,019

	2016 £'000	2015 £'000
Current other assets	**26,091**	19,341
Non-current other assets	**6,615**	5,678
Total other assets	**32,706**	25,019

24. Financial investments

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

- Level 1 financial instruments comprises mainly of government bonds, securities maturing in less than three months and treasury derivatives. These have been valued at fair value using quoted prices in an active market.
- Level 2 financial instruments are less regularly traded government agency bonds, supranational bonds, corporate bonds and currency derivatives. These fair values have been derived from quoted prices. Term deposits are also classified as level 2 as these are not quoted on an active market.
- The fair values for level 3 financial instruments are generally derived from inputs that are not based on observable market data. The fair value for level 3 financial instruments is generally derived from inputs that are not based on observable market data. Level 3 securities consist of a position in a private corporate loan fund.

	2016 £'000			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial investment assets				
Debt securities:				
Government securities	**73,572**	-	-	**73,572**
Debt securities	-	**83,891**	-	**83,891**
Term deposits	-	**36,965**	-	**36,965**
Bond Fund	-	**63,447**	-	**63,447**
Loan Fund	-	-	**17,015**	**17,015**
Derivatives	-	-	-	-
Total financial investment assets at fair value through the income statement - designated upon initial recognition	**73,572**	**184,303**	**17,015**	**274,890**
Loan notes at amortised cost				**30,917**
Total financial investment assets	**73,572**	**184,303**	**17,015**	**305,807**

	2016 £'000 Level 1	Level 2	Level 3	Total
Financial investment liabilities				
Derivatives	**175**	**-**	**-**	**175**
Total financial investment liabilities at fair value through the income statement - designated upon initial recognition	**175**	**-**	**-**	**175**

	2015 £'000 Level 1	Level 2	Level 3	Total
Financial investment assets				
Debt securities:				
Government securities	208,453	-	-	208,453
Debt securities	-	223,057	-	223,057
Term deposits	-	83,627	-	83,627
Bond Fund	-	54,490	-	54,490
Loan Fund	-	-	12,913	12,913
Derivatives	197	-	-	197
Total financial investment assets at fair value through the income statement - designated upon initial recognition	208,650	361,174	12,913	582,737
Loan notes at amortised cost	-	-	-	25,400
Total financial investment assets	208,650	361,174	12,913	608,137

	2015 £'000 Level 1	Level 2	Level 3	Total
Financial investment liabilities				
Derivatives	79	-	-	79
Total financial investment liabilities at fair value through the income statement - designated upon initial recognition	79	-	-	79

Level 3 financial instruments

	2016 £'000	2015 £'000
Financial investment assets		
Opening balance	**12,913**	19,289
Sales during the year	**(5,828)**	(12,293)
Purchases during the year	**7,285**	5,007
Gains / (Losses) recognised in the income statement	**2,646**	910
Closing balance	**17,015**	12,913

Financial investments include corporate investments held by group entities. As the Group no longer participates on the Syndicates, it no longer holds Funds at Lloyd's.

	2016 **£'000**	2015 £'000
Financial investment liabilities		
Opening balance	-	3,317
Gains recognised in the income statement	-	-
Settlement during the year	-	(3,317)
Closing balance	-	-

The opening balance in 2015 of £3m relates to the contingent consideration on NAS which was settled during 2015.

2016	**Corporate investments**		**Syndicate investments**	**Total**
	Funds at Lloyd's **£'000**	**Other** **£'000**	**£'000**	**£'000**
Debt securities and other fixed income securities	-	**83,891**	-	**83,891**
Government securities	-	**73,572**	-	**73,572**
Term deposits	-	**36,965**	-	**36,965**
Bond Fund	-	**63,447**	-	**63,447**
Loan fund	-	**17,015**	-	**17,015**
Foreign exchange derivatives	-	-	-	-
At fair value	-	**274,890**	-	**274,890**
Loan notes at amortised cost	-	**30,917**	-	**30,917**
Total Financial investment assets at 31 December 2016	-	**305,807**	-	**305,807**

2015	Corporate investments		Syndicate investments	Total
	Funds at Lloyd's £'000	Other £'000	£'000	£'000
Debt securities and other fixed income securities	3,104	130,990	88,963	223,057
Government securities	6,600	100,702	101,151	208,453
Term deposits	-	71,219	12,408	83,627
Bond Fund	-	20,073	34,417	54,490
Loan fund	-	12,913	-	12,913
Foreign exchange derivatives	-	177	20	197
At fair value	9,704	336,074	236,959	582,737
Loan notes at amortised cost	-	25,400	-	25,400
Total Financial investment assets at 31 December 2015	9,704	361,474	236,9659	608,137

In 2016, TMK did not have any forward currency contracts in place. The total net fair value of these contracts as at 31 December 2016 is therefore £nil (2015: gain of £117,689).

	2016 £'000	2015 £'000
Current financial investment assets	**152,112**	384,142
Non-current financial investments	**153,696**	223,995
Total financial investments	**305,808**	608,137

A more detailed analysis of the maturity of investments is disclosed in note 36.

25. Cash and cash equivalents

	2016 £'000	2015 £'000
Cash at bank and in hand	**86,879**	76,774
Short-term bank deposits	**121,972**	83,319
Total cash and cash equivalents	**208,851**	160,093

All deposits are subject to an average variable interest rate of 0.29% per annum (2015: 0.32%) and have an average maturity of one day (2015: two days). The carrying amounts disclosed above reasonably approximate fair values at year end.

26. Called up share capital

	2016 £'000	2015 £'000
Allotted Ordinary shares and fully paid:		
As at 1 January 101,000,000 (2015: 101,000,000) at 1p each	**1,010**	1,010
As at 31 December 101,000,000 (2015: 101,000,000) at 1p each	**1,010**	1,010

All issued shares are fully paid.

27. Dividends

Declared and paid during the year	2016 £'000	2015 £'000
Interim dividends paid during the year 19.8p per 1p share (2015:80.4p per share)	**20,000**	81,210

28. Provisions

Land and buildings

5th Floor, 20 Fenchurch Street:

A provision of £247,037 was recognised in 2015 to cover the partial sub-let of the 5th Floor, 20 Fenchurch Street, for which the remaining term of the lease is four years. During 2016, £5,409 was additionally provided and there was a £15,250 unwind of the discount. These were offset by £77,293 of the provision utilised in 2016, bringing the closing balance to £190,403.

60 Gracechurch Street:

Tokio Marine Europe Limited (TME) acts as a guarantor of a 10 year term lease which commenced on 27 September 2011 in respect of 60 Gracechurch Street and terminates on 28 September 2021. On 7 November 2014 TME vacated the property and is liable for the remaining annual rental charge of £953,018. A provision of £1,362,064 was recorded at the end of 2015 on the basis that there is a partial sub-let of the building and the remaining unoccupied space will take an additional twelve months to rent. The provision was based on the net present value of the expected cash flows relating to the lease, applying a discount rate of 9%. During 2016, the unoccupied space was rented out. As such £1,004,201 of the provision was released in 2016. This was partially offset by the unwind of the discount of £51,563, bringing the final provision to £409,426.

Dilapidations

A provision of £5,640,000 has been created to cover the dilapidations on the lease at 20 Fenchurch Street. This lease expires on 6 October 2031. A provision of £280,695 has been created to cover the dilapidations on the lease at 60 Gracechurch Street. This lease expires on 28 September 2021.

Canadian Tax

Since the enactment of Canadian law in 2010, non-resident insurers writing business in Canada must pay General Sales Tax on expenses incurred relating to services provided by third parties. After a review by the Canadian Revenue Agency in 2012, it became apparent that no non-resident insurer acted on this. A provision of £1,223,000 was created in 2013 for the liability for the 2013 and prior years of account. In 2016, with the syndicate capacity having fully transferred to TMUL, this provision was also moved to TMUL.

Other

As disclosed in the 2016 Lloyd's Auctions, Syndicate 308, manged by TMKS, may have written an international term life contract, through one of its coverholders, in breach of relevant local licensing requirements. Once discovered, TMK reported the issue to the relevant local regulators and is working with all parties to resolve the situation. The details of the resolution have not yet been agreed, however TMKS has a provision of £2,037,903 (2015: £340,000) to cover potential regulatory sanctions and future professional fees to resolve the matter.

	Land and buildings	Dilapidations	Canadian Tax	Other	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
At 1 January 2015	3,789	6,371	1,223	50	11,433
Utilised during the year	(2,050)	(450)	-	319	(2,181)
Provided during the year	(253)	-	-	1,114	861
Unwinding of discounting	123	-	-	-	123
At 31 December 2015	1,609	5,921	1,223	1,483	10,236
Utilised during the year	**(1,081)**	**-**	**(1,223)**	**(75)**	**(2,379)**
Provided during the year	**5**	**-**	**-**	**2,189**	**2,194**
Unwinding of discounting	**67**	**-**	**-**	**(40)**	**27**
At 31 December 2016	**600**	**5,921**	**-**	**3,557**	**10,078**

29. Insurance contract assets and liabilities

Insurance contract assets and liabilities may be analysed as follows:

	2016 Insurance contract liabilities £'000	2016 Reinsurance assets £'000	2016 Net £'000	2015 Insurance contract liabilities £'000	2015 Reinsurance assets £'000	2015 Net £'000
Provision for reported claims	**169,451**	**(64,383)**	**105,068**	341,443	(90,558)	250,885
Provision for claims incurred but not reported (IBNR)	**85,028**	**(32,761)**	**52,267**	177,102	(57,281)	119,821
Total claims reported and IBNR provision	**254,479**	**(97,144)**	**157,335**	518,545	(147,839)	370,706
Provision for unearned premiums	**58,429**	**(17,107)**	**41,322**	53,051	(13,540)	39,511
Total insurance contract liabilities	**312,908**	**(114,251)**	**198,657**	571,596	(161,379)	410,217

The provision for claims reported by policy holders and claims IBNR may be analysed as follows:

	Note	2016 Insurance contract liabilities £'000	2016 Reinsurance assets £'000	2016 Net £'000	2015 Insurance contract liabilities £'000	2015 Reinsurance assets £'000	2015 Net £'000
At 1 January		**518,545**	**(147,839)**	**370,706**	646,715	(172,511)	474,204
Claims liability transferred		**(300,423)**	**71,492**	**(228,931)**	-	-	-
Claims incurred during the year		**132,658**	**(46,578)**	**86,080**	174,474	(79,275)	95,199
Claims paid during the year	4	**(118,030)**	**36,248**	**(81,782)**	(309,069)	105,498	(203,571)
Foreign exchange adjustments		**21,729**	**(10,467)**	**11,262**	6,425	(1,551)	4,874
At 31 December		**254,479**	**(97,144)**	**157,335**	518,545	(147,839)	370,706

The claims liability transferred relates to syndicate 510 and 308, which have been transferred across from Kiln Underwriting Limited (KUL) to TMUL

The provision for unearned premiums may be analysed as follows:

	Note	2016 Insurance contract liabilities £'000	2016 Reinsurance assets £'000	2016 Net £'000	2015 Insurance contract liabilities £'000	2015 Reinsurance assets £'000	2015 Net £'000
At 1 January		**53,051**	**(13,540)**	**39,511**	81,462	(19,662)	61,800
Premiums written in the year	3	**222,930**	**(94,076)**	**128,854**	203,070	(76,394)	126,676
Premiums earned during the year		**(217,551)**	**90,507**	**(127,044)**	(231,481)	82,516	(148,965)
At 31 December		**58,430**	**(17,107)**	**41,322**	53,051	(13,540)	39,511

The gross and reinsurers' share of unearned premiums relate to the open underwriting year and are therefore all current.

30. Insurance contracts liabilities and reinsurance assets – assumptions, sensitivities and claims development

The following claims development table provides information about TMK's ability to provide a robust estimate of the ultimate claims cost. All years reported are translated at 2016 year end exchange rates for consistency. Future claims represent the underwriters' view on claims on events which have not yet been incurred at the year-end date. These claims will be charged against premiums reported as unearned premium at the year-end date.

Gross before reinsurance				**Underwriting Year**			
Estimate of ultimate claims at end of:	2010 & prior £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m
Year 1	1,640	219	398	369	146	194	141
Year 2	1,591	189	370	368	155	197	
Year 3	1,550	198	363	369	160		
Year 4	1,544	186	366	372			
Year 5	1,544	181	368				
Year 6	1,544	180					
Year 7	1,544						
Less:							
Claims paid	1,520	174	356	358	120	122	21
Future claims	-	-	-	-	-	3	45
Add:							
Management margin	1	-	-	-	2	4	4
Outstanding claims reserves	**25**	**6**	**12**	**14**	**42**	**76**	**79**
Total outstanding claims reserve	**254**						

Net of reinsurance				**Underwriting Year**			
Estimate of ultimate claims at end of:	2010 & prior £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m
Year 1	541	93	84	85	96	106	90
Year 2	520	82	73	75	99	106	
Year 3	515	82	72	78	104		
Year 4	512	78	76	78			
Year 5	513	81	77				
Year 6	514	81					
Year 7	514						
Less:							
Claims paid	502	76	68	68	80	59	13
Future claims	-	-	-	-	-	3	32
Add:							
Management margin	-	-	-	1	1	4	2
Outstanding claims reserves	**12**	**5**	**9**	**11**	**25**	**48**	**47**
Total outstanding claims reserve	**157**						

A sensitivity analysis has been applied by adjusting total gross and net outstanding claims reserves by 1%. This indicates that an increase in gross and net outstanding claims reserves of 1% would result in £2.5m million more gross reserves and £1.6m million more net reserves being reported. A decrease in gross and net outstanding claims reserves of 1% would result in £2.5 million less gross reserves and £1.6 million less net reserves being reported. The profit effect at the net level i.e. net of reinsurance, is £1.6 million (profit after tax £1.3m).

31. Insurance payables

	2016 £'000	2015 £'000
Trade payables:		
Arising out of direct insurance operations	**89,390**	62,547
Arising out of reinsurance operations	**47,189**	71,819
Deposits from reinsurers	**26,347**	25,278
Total insurance payables	**162,926**	159,644

All amounts repayable are due and expected to be paid within the next 12 months and the carrying value approximates fair value.

32. Other liabilities

	2016 £'000	2015 £'000
Accrued expenses and deferred income	**24,529**	21,682
Payable to third party names	**10,303**	5,041
Bonus accruals	**33,692**	31,658
Owed to parent company	**-**	90
Owed to related party	**39**	12,281
Other payables	**13,204**	18,578
Total other liabilities	**81,767**	89,330

All accrued expenses, deferred income, and other payables are due and expected to be paid within the next 12 months. The carrying value of all other liabilities approximates fair value.

33. Pension benefit obligation

The Group provides a defined benefit pension for eligible employees through the RJ Kiln & Co. Pension and Assurance Scheme (the Scheme). The assets of the Scheme are held in a separate trustee-administered fund.

A pension benefit obligation arises in respect of the defined benefit (DB) funded scheme which was closed to all staff from 30 April 2003 and under which no further years of service obligations can accrue. Prior to the closing of the Scheme, the DB scheme provided benefits on the basis of one forty-fifth of final salary for each year of pensionable employment. A 5% rate of revaluation of deferred pensions is the subject of a legal underpin and may not therefore be changed without individual scheme member consent. The Group currently contributes to the DB scheme an amount equal to the contribution recommended by the Scheme actuary. The best estimate of the funding contribution to the scheme for the 2016 calendar year is an amount of £1,513,000 (2015: £1,513,000) of which £248,000 (2015: £248,000) is borne by the Group.

A full actuarial valuation is performed every three years. The duration of the Scheme's liability is around 21 years. Funding valuations are also obtained for the years between the full actuarial valuations. As per the Scheme rules, if after securing all benefits there remains a surplus in the Scheme, this will be paid by the Trustees to the Company after deducting any relevant tax. This is subject to prior agreement with the Inland Revenue.

Recharge to syndicates

The syndicates that Tokio Marine Kiln Syndicates Limited manages have been credited for their share of the pension surplus. At the Group level, the consolidated pension now comprises two components: the gross surplus to the scheme and the amount repayable to the syndicates. The obligation to reimburse the third party Names has been recognised as a separate liability in the Group's statement of financial position. In all other respects, this reimbursement obligation has been treated as a Scheme liability. Accordingly, where relevant, the disclosures below recognise this liability. As the recharge to the syndicates is directly proportionate to the underlying pension Scheme surplus, the expected return on the reimbursement asset directly mirrors the returns and expenses of the Scheme set out overleaf.

Valuation of the defined benefit pension fund

	2016
Date of last formal funding valuation	31 December 2016
Assets at valuation date	£69.6 million
Funding liabilities at valuation date	£67.5 million
Surplus at valuation date	£2.1 million
Lump sum contributions per annum to remove the deficit	£1.5 million

Summary of the Group pension scheme

	31 December 2016 £'000	31 December 2015 £'000
Present value of assets	**69,576**	61,766
Present value of obligations	**(67,474)**	(56,147)
Gross surplus in the scheme	**2,102**	5,619
Of which is allocated to syndicates	**(1,758)**	(4,700)
Gross surplus attributable to the Group	**344**	919
Deferred tax charge	**(69)**	(186)
Net surplus attributable to the Group	**275**	733

Analysis of the amount recognised in the income statement

	Note	**31 December 2016 £'000**	31 December 2015 £'000
Interest on benefit obligation		**2,069**	2,077
Expected return on pension assets		**(2,308)**	(2,141)
100% impact		**(239)**	(64)
Third parties' share of finance costs		**200**	54
Group share included in finance costs	8	**(39)**	(10)

Analysis of the amounts recognised in the Statement of Comprehensive Income

	31 December 2016 £'000	31 December 2015 £'000
Re-measurements		
Actual return less expected return on scheme assets	**5,935**	(2,560)
Changes in assumptions underlying the present value of scheme liabilities	**(11,982)**	5,309
Experience gain arising on the scheme's liabilities	**778**	184
Re-measurements	**(5,269)**	2,932
Deferred tax	**1,054**	(594)
100% Net re-measurement	**(4,215)**	2,338
Re-measurements, 100% level	**(5,269)**	2,932
Third parties' share of actuarial (gain)/loss	**4,407**	(2,452)
Prior year adjustment	**-**	-
Re-measurements, Group share	**(862)**	480
Deferred tax	**172**	(96)
Group share included in SOCI	**(690)**	384
Net cumulative actuarial losses, 100% level	**(9,888)**	(4,619)
Net cumulative actuarial losses, Group share	**(2,630)**	(1,768)

Re-measurements which arose over the year have been recognised immediately in the Statement of Comprehensive Income. The Group allocates a proportion of the Scheme surplus to the managed syndicates, which gives rise to a liability relating to amounts payable to the third parties' share of the syndicate surplus.

Reconciliation of Present Value of Plan Liabilities and Assets

	31 December 2016 £'000	31 December 2015 £'000
Change in present value of defined benefit obligation		
Opening defined benefit obligation	**56,147**	62,635
Interest on obligation	**2,069**	2,077
Change in demographic assumptions	**-**	(1,588)
Change in financial assumptions	**11,982**	(3,720)
Experience (gains)/losses	**(778)**	(184)
Benefits paid	**(1,946)**	(3,073)
Present value of plan liabilities at end of year	**67,474**	56,147
Change in fair value of plan assets		
Opening fair value of plan assets	**61,766**	63,745
Expected return on plan assets	**2,308**	2,141
Actuarial (loss)/gain on plan assets	**5,935**	(2,560)
Contributions by employer	**1,513**	1,513
Benefits paid	**(1,946)**	(3,073)
Fair value of plan assets at end of year	**69,576**	61,766
Retirement benefit asset	**2,102**	5,619
Related deferred tax liability	**(420)**	(1,138)
Net pension asset	**1,682**	4,481

Reconciliation of reimbursement obligation

	31 December 2016 £'000	31 December 2015 £'000
Opening reimbursement obligation at 1 January	**(4,700)**	(928)
Net movement in actuarial losses	**4,407**	(2,452)
Interest on obligation	**1,731**	1,752
Expected return on plan assets	**(1,931)**	(1,807)
Share of contributions paid by third parties	**(1,265)**	(1,265)
Closing reimbursement obligation at 31 December	**(1,758)**	(4,700)

Assets in the Plan and the Actual Rates of Return

	Actual rate of return		Value at 31 December	
	2016	2015	**2016**	2015
	%	%	**£'000**	£'000
Fixed interest bonds	**15.78**	(0.99)	**39,244**	33,808
Insured Pensions	**-**	-	**10,062**	9,289
Equities	**19.91**	2.15	**10,314**	8,601
Absolute Return	**(2.46)**	(1.41)	**9,711**	9,956
Cash	**0.00**	0.02	**245**	112
Total market value of assets			**69,576**	61,766

The Scheme does not invest in financial instruments issued by, or any properties used by the Group and its associates.

Principal actuarial assumptions

Under IAS19, the valuation of the liability amount by the Scheme actuary has been estimated using appropriate actuarial techniques and major assumptions as set out below:

	31 December 2016 (per annum) %	31 December 2015 (per annum) %
Financial assumptions		
Rate of increase of pensions in payment		
-benefits accrued prior to 1 May 1999:	**5.00**	5.00
-benefits accrued after 1 May 1999:	**3.50**	3.25
Rate of revaluation of deferred pensions in excess of Guaranteed minimum pension	**5.00**	5.00
Discount rate	**2.70**	3.75
Inflation assumption	**3.50**	3.25

The post-retirement mortality assumptions adopted as at 31 December 2016 was S2NFA (2015: S2NFA) scaled by 85%, with allowance for future improvements in mortality in line with medium cohort projections with a 1% underpin.

The following life expectancies are implied, for someone:

Life Expectancy (years)	**2016**		2015	
	Currently aged 60	**Aged 60 in 20 years' time**	Currently aged 60	Aged 60 in 20 years' time
Male	**28.6**	**30.5**	28.5	30.4
Female	**30.9**	**32.9**	30.8	32.8

History of experience gains and losses

	2016 £'000	2015 £'000	2014 £'000	2013 £'000	2012 £'000
Present value of assets	69,576	61,766	63,745	55,412	54,219
Present value of liabilities	(67,474)	(56,147)	(62,635)	(51,041)	(53,731)
Surplus in plan	2,102	5,619	1,110	4,371	488
Difference between the expected and actual return on Scheme assets:					
Amount	5,935	(2,561)	6,122	(520)	4,455
Percentage of Scheme assets	9%	(4%)	10%	(1%)	8%
Experience gain/(loss) on Scheme liabilities:					
Amount	778	184	(330)	93	(226)
Percentage of present value of the Scheme liabilities	(1.2%)	(0.3%)	0.5%	(0.2%)	0.4%

Risks and risk management

The group's defined benefit pension scheme is closed to new entrants and future benefit accruals. It continues to mature, with increasing numbers of pensioners and reducing numbers of deferred pensioners. Benefits provided are largely fixed in relation to future pension increases (with only limited increases being inflation linked) but are uncertain to the extent that they are dependent on a number of factors such as members' and dependants' life expectancies, which could be 60 or more years into the future.

In common with other such schemes, it has a number of areas of risk. These risks are recorded and monitored by the pension scheme trustees on a regular basis, through a risk register, as part of a robust governance process.

A key area of risk is the funding position of the pension scheme (being the difference between the scheme's assets and liabilities). The funding position ultimately impacts the group's cash commitments, and is affected by changing economic and demographic factors. These commitments are normally re-assessed every three years when the trustees carry out a Scheme Funding valuation as required by legislation. The current Schedule of Contributions, agreed between the trustees and employer in connection with such a valuation, requires deficit contributions of £1.513m per annum. These contributions are kept under regular review.

The scheme's liabilities are backed by invested assets. As at 31 December 2016, these assets comprised approximately 67% in corporate bond funds (split broadly 70% in longer and 30% in shorter duration funds), 17% in a global equity fund and 16% in an absolute return investment fund. In addition, the scheme has a number of insurance policies, providing a full match for some of the scheme's pensioner liabilities.

The investment strategy is kept under regular review, with the trustees' objectives and approach further documented in the scheme's Statement of Investment Principles. As well as having regard to key economic indicators, the scheme's trustees consider the duration (a measure of sensitivity to changes in interest rates) of the scheme's assets and liabilities, as well as monitoring the covenant of sponsoring employer and funding levels - designed to ensure that the risks being run are manageable.

As at 31 December 2016 the estimated duration of the scheme's non-insured liabilities was approximately 21 years, compared with around 7 years for the scheme's assets. The longer duration of the scheme's liabilities compared to its assets means that the scheme's funding position deteriorates/improves (all else being equal) when bond yields fall/rise and is therefore a source of risk. To help illustrate the potential impact of the current duration mismatch on the scheme, if yields were to fall/rise by 0.25% p.a., then the estimated surplus on an accounting basis measure as at 31 December 2016 would, all else being equal, decrease/increase by approximately £2m.

The scheme's obligations are to provide a pension for the life of the member (and relevant dependants). This means that increases in life expectancy will result in an increase in the scheme's liabilities, except where insurance policies are already in place to match liabilities. The approximate effect of assuming members live 1 year longer/less gives a decrease/increase in the estimated surplus of £3m.

34. Investment in subsidiary undertakings

The following companies are directly and wholly-owned by Tokio Marine Kiln Group Limited:

Name	Country of Incorporation	Principal Activity	Registered Address
Tokio Marine Kiln Syndicates Limited	England & Wales	A registered Lloyd's underwriting agent (managing agency).	20 Fenchurch Street London, EC3M 3BY
Kiln Underwriting Limited	England & Wales	A corporate member at Lloyd's.	
Kiln Underwriting (No. 308) Limited	England & Wales	A corporate member at Lloyd's.	
Kiln Underwriting (807) Limited	England & Wales	A corporate member at Lloyd's.	
Kiln Underwriting (807) No. 2 Limited	England & Wales	A corporate member at Lloyd's.	
Kiln Underwriting (510) Limited	England & Wales	A holding company for overseas investments; holds a 49% share in NAS Insurance Services, LLC.	
Tokio Marine Kiln Insurance Services Limited	England & Wales	A service company established to provide administrative services to group companies.	
Kiln Pension Guarantee Limited	England & Wales	A guarantee company established to hold funds which will be used to fund pension obligations should Tokio Marine Kiln Syndicates become unable to do so.	
RJ Kiln & Co. (No. 2) Limited	England & Wales	A holding company for overseas investments; holds a 48% share in WNC Holding Company,LP.	
Tokio Marine Kiln Insurance Limited	England & Wales	Insurance company specialising in marine cargo, construction, property and liability insurance business.	
RJ Kiln & Co (No.3) Limited	England & Wales	A dormant company	
RJ Kiln & Co (No.4) Limited	England & Wales	A dormant company	
Tokio Marine Kiln Europe S.A.	Belgium	Insurance agent specialising in marine, hull and cargo, cyber, personal accident, aviation and space business.	Avenue du Luxembourg 35, 4020 Liège, Belgium

The following companies are wholly-owned subsidiaries of the above directly owned companies:

RJ Kiln & Co. (No. 1) Limited	England & Wales	A dormant company.	20 Fenchurch Street London, EC3M 3BY
Tokio Marine Kiln Regional Underwriting Limited	England & Wales	An insurance broking agent.	
Tokio Marine Europe Limited	England & Wales	A service company established to provide administrative services to group companies.	
Tokio Marine Kiln Hong Kong Limited	Hong Kong	An insurance agent underwriting energy, marine, property, aviation, engineering & construction, liability and personal accident insurance on behalf of the members of Syndicate 510 & 1880.	3804 The Lee Gardens, 33 Hysan Avenue, Causeway Bay, Hong Kong
Tokio Marine Kiln Singapore PTE Limited	Singapore	An insurance agent underwriting energy, marine, property, aviation, engineering & construction, treaty reinsurance and personal accident insurance on behalf of the members of Syndicate 510 & 1880.	138 Market Street, #03-04 CapitaGreen, Singapore 048946

The following companies are associates or joint ventures held indirectly by wholly owned subsidiaries:

Name & Ownership % of ordinary shares	Country of Incorporation	Principal Activity	Registered Address
Associate: Ibex Insurance Services LLC – 30%	Gibraltar	An underwriting agent specialising in expatriate insurance	68 Irish Town, Gibraltar, GX11 1AA
Joint venture: WNC Holding Company, LP – 49%	US	A holding company to WNC Holdings Group which is a managing general agent that provides flood, wind, hazard and auto insurance to financial institutions.	Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801
Joint venture: NAS Insurance Services, LLC – 49%	US	A managing general agent that provides a broad range of speciality professional liability, legal expense, healthcare, entertainment and reinsurance products.	16501 Ventura Boulevard, Suite 200, Encino, California 91436

35. Cash generated from operating activities

	2016 £'000	2015 £'000
Net profit/(loss) on ordinary activities before taxation	**10,577**	(13,751)
Adjustments for:		
Depreciation and amortisation charge including disposals	**10,480**	8,562
Share of joint venture's result	**(3,188)**	(2,303)
Share of associated undertaking's result	**(99)**	(10)
Change in receivables (reinsurance assets, prepayments & accrued income, insurance receivables and other)	**7,981**	61,719
Change in payables (insurance contract liabilities, insurance payables and other)	**(218,170)**	(115,022)
Interest and dividends receivable	**(7,515)**	(14,291)
Interest payable	**801**	1,179
Tax paid	**(13,683)**	(18,020)
Net cash used in operating activities	**(212,816)**	(91,937)

For 2016 net cash flows from the sale or purchase of investments and the fair value of gains or losses made on investments has been reclassified from operating activities to investing activities. Comparative information has also been reclassified to conform to the current year presentation.

36. Risk management policies

Details of the TMK's risk management framework are given in the 'principal risks and uncertainties section' pages 7-10 of the Strategic report.

a) Capital Management Framework

TMK's capital management framework includes determining its capital requirements on both regulatory and economic bases. From 1 January 2016, the Group uses the Standard Formula to determine its regulatory capital requirement.

For its economic capital requirement, the Group runs an in-house capital model. The main focus is on insurance risk which, as the Group's core activity, is the primary risk. The model also includes all sources of non-insurance risk, including investment risk, reserving risk, credit risk and operational risk. The Group uses the model to assess its held capital ensuring that at all times the held capital is greater than the regulatory capital requirement.

TMK capital base is made up of shareholders' equity £363.9m (2015: £367.1m). TMKI is the main subsidiary with insurance activity and as such has a regulatory capital requirement as at 31 December 2016 of £99.6m (unaudited). The Group met all external capital requirements during the year.

b) Insurance risk

Further details of the management of the Group's insurance risks are given on page 7.

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

Analysis of claims provision

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

As at 31 December 2016

	Gross Claims Provision £'000	**Reinsurance Claims Provision £'000**	**Net Claims Provision £'000**
Marine and Transport	**23,875**	**(6,518)**	**17,357**
Aviation	**33,591**	**(33,591)**	**-**
Life, Accident and health	**-**	**-**	**-**
Property and Liability	**195,071**	**(56,455)**	**138,617**
Reinsurance	**1,942**	**(581)**	**1,361**
Total	**254,479**	**(97,144)**	**157,335**

	Gross Claims Provision £'000	**Reinsurance Claims Provision £'000**	**Net Claims Provision £'000**
United Kingdom	**106,463**	**(31,892)**	**74,571**
Other Europe	**123,873**	**(49,628)**	**74,245**
NAFTA	**12,480**	**(12,480)**	**-**
Other countries	**11,663**	**(3,144)**	**8,518**
Total	**254,479**	**(97,144)**	**157,335**

As at 31 December 2015

	Gross Claims Provision £'000	Reinsurance Claims Provision £'000	Net Claims Provision £'000
Marine and Transport	84,548	19,239	65,309
Aviation	74,783	55,014	19,769
Life, Accident and health	12,633	605	12,028
Property and Liability	298,783	63,213	235,570
Reinsurance	47,798	9,768	38,030
Total	518,545	147,839	370,706

	Gross Claims Provision £'000	Reinsurance Claims Provision £'000	Net Claims Provision £'000
United Kingdom	126,947	40,304	86,643
Other Europe	131,194	42,338	88,856
NAFTA	134,967	50,221	84,746
Other countries	125,437	14,976	110,461
Total	518,545	147,839	370,706

Earned premium sensitivity analysis

Earned premium is estimated based on assumptions of how each risk is earned according to its method of placement and class of business. Each risk falling within a class of business is earned according to the estimated pattern applying to that class of business, which takes into account the class characteristics including exposure to seasonal weather related events. This approach is applied consistently year on year.

A sensitivity analysis has been applied by adjusting the percentage earned of by 1%. This indicates that an increase in net earned premium of 1% would result in £1.3 million more premium being reported (gross of acquisition costs), and applying the underlying attritional loss ratio this would result in an estimated increase in net profit before tax of £0.6

million. A decrease of 1% would result in £1.3 million less premium being reported and an estimated £0.6 million reduction in net profit before tax.

Claims sensitivity analysis

The claims ratio for 2016 is 67.8% (2015: 63.9%). A sensitivity analysis has been applied by adjusting the claims ratio by 1%. This indicates that an increase in the claims ratio of 1% would result in claims increasing by £1.3m (2015: £1.0m), profit before tax reducing by £1.3m (2015: £0.8m) and profit after tax reducing by £1.0m (2015: £0.6m).

c) Financial risk

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

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

d) Governance Framework

The governance structure comprises the Board of directors which in turn has delegated responsibility to a number of committees to manage particular aspects of the Group's affairs. Each committee operates within established written terms of reference for the conduct of the business of the Group.

TMK aims to identify all major risks to its business objectives and to ensure that these are managed effectively in order to control, reduce or eliminate their impact, balancing risk against reward. TMK's appetite for insurance risk is governed by its strategy to deliver risk-adjusted returns on capital for the shareholder. The Group operates in a highly regulated market place and intends to ensure that its risk processes and procedures comply with the PRA, FCA and Lloyd's.

e) Regulatory Framework

The conduct of insurance business and insurance mediation business in the United Kingdom is a regulated activity. As a result, the PRA, the FCA and Lloyd's have regulatory authority over TMK. They each have substantial powers of intervention in relation to the companies they regulate, in the ultimate sanction of the removal of authorisation to carry on insurance business. Authorisation by the PRA, the FCA and Lloyd's is therefore fundamental to the Group's business, and its business would be adversely affected should such authorisation be restricted or withdrawn.

PRA, FCA and Lloyd's

The regulation of insurance in the UK continues to undergo review and consultation and it is likely that additional changes in regulation will occur. Regulatory requirements of the PRA, FCA (including Solvency II) and Lloyd's may be changed in a manner which may adversely affect the business of the Group. The Compliance function is responsible for monitoring compliance with regulation and monitoring of regulatory change. The Compliance Framework outlines the broad regulatory and compliance structure that applies to all staff. It is possible that costs of compliance with the new regulatory regime could increase if there are changes to these regulatory regimes.

f) Credit risk

The following table provides information regarding credit risk exposures of the Group by classifying assets according to the credit ratings of the counterparties. For financial investments, the Standard & Poor's credit rating was used. For other assets, where a rating is provided by more than one rating agent, the highest rating was assigned to that asset. Where a security has no credit rating the rating of the issuer is used. During the year there were no material breaches in exposure limits.

As at 31 December 2016

	AAA	AA	A	<A	NR	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Financial investments						
Funds at Lloyd's	-	-	-	-	-	-
Syndicate investments	-	-	-	-	-	-
Other corporate investments	**27,864**	**89,274**	**67,516**	**4,930**	**116,223**	**305,807**
Cash and cash equivalents	**84,332**	**3,968**	**119,216**	**1,334**	**1**	**208,851**
Reinsurers' share of outstanding claims including reinsurers' IBNR	**79,432**	**5,242**	**7,985**	**2,484**	**2,001**	**97,144**
Reinsurance debtors	**234**	-	**494**	-	**330**	**1,058**
Total credit risk exposure	**191,862**	**98,484**	**195,211**	**8,748**	**118,555**	**612,860**

Over half of the NR Financial Investments are positions in BlackRock UCITS (Undertakings for Collective Investment in Transferable Securities) funds, the average rating of the underlying securities are A rated. The remaining NR assets consist of covered bonds and non-traded private loan funds & loan notes.

As at 31 December 2015

	AAA	AA	A	<A	NR	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Financial investments						
Funds at Lloyd's	7,165	1,307	662	340	230	9,704
Syndicate investments	56,771	89,855	46,351	9,293	34,690	236,960
Other corporate investments	122,801	40,146	120,923	6,663	70,940	361,473
Cash and cash equivalents	52,923	5,270	99,523	1,130	1,247	160,093
Reinsurers' share of outstanding claims including reinsurers' IBNR	72,569	19,652	45,481	3,931	6,206	147,839
Reinsurance debtors	3,511	2,122	3,658	375	387	10,053
Total credit risk exposure	315,740	158,352	316,598	21,732	113,700	926,122

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

31 December 2016	**Fully performing**	**Past due**	**Impaired**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Insurance receivables	**69,231**	**19,006**	**(3,005)**	**83,715**
Cash and cash equivalents	**208,851**	-	-	**208,851**
Total	**278,082**	**19,006**	**(3,005)**	**292,566**

31 December 2015	Fully performing	Past due	Impaired	Total
	£'000	£'000	£'000	£'000
Insurance receivables	95,484	19,653	(4,053)	111,084
Cash and cash equivalents	160,093	-	-	160,093
Total	255,577	19,653	(4,053)	271,177

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

g) Liquidity risk

Liquidity risk is defined as the risk of the Group being unable to meet its liabilities in a timely manner because of the lack of liquid resources. Future cash flows are managed on a daily basis and TMK ensures that there is sufficient day-to-day cash to settle immediate liabilities. The majority of TMK's funds are managed by external fund managers, with the remainder kept in-house to meet daily cash flow requirements.

The following processes are used to manage liquidity requirements:

- Cash forecasting;
- Investment policy;
- Short term cash management;
- Contingency planning for financial resources; and
- Cash balance reporting.

The following table analyses the significant monetary assets and liabilities into their relevant maturity groups based on the remaining period at the year-end date to their contractual maturities or expected settlement dates:

As at 31 December 2016	**Up to 1 year**	**1-3 years**	**3-5 years**	**Over 5 years**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Assets					
Reinsurance outstanding claims including Reinsurers IBNR	**47,910**	**29,780**	**10,394**	**9,061**	**97,145**
Financial investments	**152,112**	**53,228**	**84,627**	**15,840**	**305,807**
Insurance receivables	**65,336**	**18,379**	**-**	**-**	**83,715**
Other assets	**26,091**	**6,615**	**-**	**-**	**32,706**
Cash and cash equivalents	**208,851**	**-**	**-**	**-**	**208,851**
	500,300	**108,003**	**95,021**	**24,901**	**728,224**
Liabilities					
Gross outstanding claims including IBNR	**123,003**	**81,923**	**28,489**	**21,064**	**254,479**
Insurance payables	**162,926**	**-**	**-**	**-**	**162,926**
Other liabilities	**45,932**	**35,835**	**-**	**-**	**81,767**
	331,861	**117,758**	**28,489**	**21,064**	**499,172**

As at 31 December 2015	Up to 1 year	1-3 years	3-5 years	Over 5 years	Total
	£'000	£'000	£'000	£'000	£'000
Assets					
Reinsurance outstanding claims including Reinsurers IBNR	38,650	27,018	13,786	68,387	147,841
Financial investments	384,141	158,161	31,680	34,155	608,137
Insurance receivables	97,664	13,420	-	-	111,084
Other assets	19,341	5,678	-	-	25,019
Cash and cash equivalents	160,093	-	-	-	160,093
	699,890	204,277	45,466	102,542	1,052,174
Liabilities					
Gross outstanding claims including IBNR	114,760	82,113	25,102	296,570	518,545
Insurance payables	159,644	-	-	-	159,644
Other liabilities	58,827	30,503	-	-	89,330
	333,231	112,616	25,102	296,570	767,519

h) Foreign Currency Risk

The company platform, TMKI, is exposed to currency risk through its underwriting activities, primarily through its branch operations in Europe. Kiln Pension Guarantee Limited (KPT) holds investment portfolios in Euros and both TMKI and KUL hold investment portfolios in US dollars, giving rise to additional currency exposure.

A further exposure to currency arises in respect of profit commission receivable on third party capital managed by the group. Profit commission is receivable in sterling, but as the underlying profit is developing in different currencies the final receivable amount, and related expense, are dependent on exchange rates ruling at the close of the relevant year of account.

The Group's currency exposure and future cash flows are monitored in each currency and potential exposures and shortfalls addressed by foreign currency transactions. Foreign currency liquidity and exposure for the Group is the responsibility of the Chief Financial Officer. Strategy is recommended by the Finance Group and agreed by the Investment Committee.

The following table summarises the Group's exposure to foreign currency exchange rate risks at year end by categorising those assets and liabilities by major currencies.

		Sterling equivalent				
As at 31 December 2016		**Pound sterling**	**US dollar**	**Canadian dollar**	**Euro**	**Total**
	Note	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Assets						
Reinsurance assets	29	**13,500**	**35,774**	**(9)**	**64,986**	**114,251**
Financial investments at fair value through profit or loss	24	**199,433**	**46,369**	**-**	**60,005**	**305,807**
Insurance receivables	22	**20,654**	**13,162**	**(1)**	**49,900**	**83,715**
Other assets	23	**30,543**	**(51)**	**5**	**2,210**	**32,706**
Cash and cash equivalents	25	**100,459**	**73,192**	**507**	**34,694**	**208,851**
		364,590	**168,446**	**502**	**211,794**	**745,330**
Liabilities						
Insurance contract liabilities	29	**104,611**	**45,952**	**87**	**162,258**	**312,908**
Insurance payables	31	**50,392**	**81,454**	**11**	**31,070**	**162,926**
Other liabilities	32	**75,945**	**4,182**	**23**	**1,617**	**81,767**
		230,947	**131,587**	**121**	**194,945**	**557,601**
Net assets/liabilities		**133,643**	**36,859**	**381**	**16,849**	**187,729**

As at 31 December 2015	Note	Pound sterling £'000	US dollar £'000	Canadian dollar £'000	Euro £'000	Total £'000
		Sterling equivalent				
Assets						
Reinsurance assets	29	35,493	85,085	2,834	37,967	161,379
Financial investments at fair value through profit or loss	24	293,270	201,124	50,360	63,383	608,137
Insurance receivables	22	42,978	20,273	812	47,020	111,084
Other assets	23	18,369	2,534	1,255	2,862	25,019
Cash and cash equivalents	25	86,050	50,635	3,660	19,748	160,093
		476,160	359,651	58,921	170,979	1,065,712
Liabilities						
Insurance contract liabilities	29	205,379	227,336	20,623	118,258	571,596
Insurance payables	31	68,195	71,706	3,369	16,374	159,644
Other liabilities	32	80,800	2,526	20	5,984	89,330
		354,375	301,568	24,012	140,616	820,570
Net assets/liabilities		121,785	58,083	34,909	30,363	245,142

Sensitivity Analysis:

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

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

	31 December 2016		31 December 2015	
	Impact on loss before tax £'000	**Impact on equity £'000**	Impact on loss before tax £'000	Impact on equity £'000
Net assets				
10 cents increase in USD	**(8,493)**	**(6,794)**	(7,301)	(5,823)
10 cents increase in CAD	**(21)**	**(17)**	(1,625)	(1,296)
10 cents increase in EUR	**(3,876)**	**(3,101)**	(3,462)	(2,761)
10 cents decrease in USD	**9,983**	**7,986**	8,367	6,673
10 cents decrease in CAD	**23**	**19**	1,792	1,429
10 cents decrease in EUR	**4,600**	**3,680**	4,012	3,200
Financial Instruments				
10 cents increase in USD	**(1,779)**	**(1,423)**	(2,847)	(2,271)
10 cents increase in CAD	**(26)**	**(21)**	(1,568)	(1,250)
10 cents increase in EUR	**2,243**	**1,795**	441	351
10 cents decrease in USD	**2,091**	**1,673**	3,263	2,602
10 cents decrease in CAD	**30**	**24**	1,729	1,379
10 cents decrease in EUR	**(2,663)**	**(2,130)**	(511)	(407)

i) Interest rate risk

Investment Return Risks:

The Group and its subsidiaries, TMKI, KUL and KPT, hold investments in their respective statements of financial position and the performance of their investment portfolios may affect profits. The income derived by the Group and its subsidiaries from their investments, and the capital value of their investments, may fall as well as rise. Therefore, changes in interest rates, equity returns, credit ratings and other economic variables could substantially affect the Group's profitability.

Sensitivity Analysis:

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

The following table shows the estimated impact of a 1% movement in the UK, US, Canadian and Euro interest rates on the market value of the Group's investments.

	31 December 2016		31 December 2015	
	Impact on profit before tax	**Impact on equity**	Impact on profit before tax	Impact on equity
	£'000	**£'000**	£'000	£'000
1% increase in the US interest rates	**(51)**	**(41)**	(1,367)	(1,090)
1% increase in the UK interest rates	**(3,191)**	**(2,553)**	(2,458)	(1,961)
1% increase in the Canadian interest rates	**51**	**41**	(538)	(429)
1% increase in the Euro interest rates	**(206)**	**(165)**	(461)	(368)
	(3,397)	**(2,717)**	(4,824)	(3,848)

j) Market risk

Market risk is defined as that associated with the financial markets. Funds managed by the Group's investment managers are subject to guidelines and investment objectives that are agreed by the Investment Committee, which meets regularly with the fund managers to review performance. As stated elsewhere in these financial statements, it is the Group's policy to confine its exposure to risk primarily to its core area of expertise, the underwriting of specialty insurance risk. This approach means that the group is at the cautious end of the spectrum in all areas of financial risk management, such as investment management.

The treasury business that is managed internally is subject to market risk policies set by the Board and carried out by the Finance Group. The Finance Group decides where to place funds on deposit and will consider the long term credit ratings of the financial institution when placing funds on deposit. Funds are generally placed in line with maturing cash flow liabilities in order to reduce interest rate exposure risk. A similar policy is used for foreign exchange exposure with potential foreign currency risk against sterling reduced through either spot or forward hedging.

The maximum exposures to each type of issuer for investment risk purposes apply:

- Government Agency 25%
- Government issued debt 100%
- Corporate bonds 75%

During 2016, the Group has used external fund managers, Threadneedle Asset Management Limited, BlackRock Investment Management (UK) Limited, Mitsubishi UFJ Asset Management (UK) Limited, Pemberton Asset Management and Intermediate Capital Group (ICG) to manage the Group assets.

k) Pension scheme asset risks

The Group's pension scheme holds assets against the pension obligations. The Scheme currently has a surplus as described above in note 33. The Scheme holds corporate bond funds with a profile similar to the reference interest rate used by the Scheme actuary. These funds offer a good approximation to, but not an exact match, of the discount rate used to value Scheme obligations, and also will not take account of improvements in mortality in Scheme members.

Sensitivity analysis

The valuation of the Scheme is highly sensitive to interest rates. The Scheme's actuary uses a reference interest rate as the discount rate to value future pension obligations back to the yea- end date. The reference interest rate used as at 31 December 2016, was 2.70% (2015: 3.75%), which broadly equated to the interest rate on a selection of corporate bonds with a duration greater than 15 years. The Scheme's valuation is highly sensitive to movements in this reference corporate bond interest rate. The following tables demonstrate the sensitivities to corporate bond interest rate.

As at 31 December 2016

Corporate bonds	**No change in discount rate £'000**	**1% rise in discount rate £'000**	**1% fall in discount rate £'000**
Gross surplus /(deficit)	**2,102**	**12,422**	**(11,878)**
Net surplus/(deficit) after tax	**1,682**	**9,938**	**(9,502)**

As at 31 December 2015

Corporate bonds	No change in discount rate £'000	1% rise in discount rate £'000	1% fall in discount rate £'000
Gross surplus /(deficit)	5,619	13,361	(4,693)
Net surplus/(deficit) after tax	4,481	10,655	(3,743)

l) Taxation risks

The tax charge of the Group is primarily attributable to UK corporation tax. A significant change in the basis or rate of UK corporation tax may have a material impact on the group's tax charge.

UK corporation tax operates under a self-assessment system. A large part of UK tax legislation is open to interpretation by case law and developed practice, which can change and evolve over time. There is always the risk of a difference between the Group's interpretation of the UK tax code and that of HM Revenue and Customs, which could result in a significant adjustment to the Group's tax charge.

Due to the international expansion of the Group, the Group now falls under various tax jurisdictions. There is a risk that any of these tax jurisdictions could challenge the respective companies' individual tax returns in respect not only of their own operations, but also intra-group transactions. Most tax jurisdictions require intra-group transactions to be set at an arm's length price. The determination of a fair arm's length price is open to interpretation and can be the subject of challenge by any tax jurisdiction affected by the intra-group transaction.

m) Operational risk

Operational risk is defined as the risk of loss or impairment of services resulting from inadequate or failed internal processes, people and systems, or from external events.

Examples of operational risk are:

- Systems collapse/backup failure
- Failure of reporting units to deliver data to schedule
- Failure to comply with statutory and regulatory requirements
- Deliberate damage
- Loss of premises through fire or flood.

The Group's policy is to identify operational risks with a view to:

- Eliminating or mitigating any loss of services to clients
- Eliminating or mitigating any risk of the Group being unable to fulfil its statutory reporting requirements to regulatory bodies or to provide relevant information to management
- Eliminating or mitigating any loss by clients or the Group arising from operational risk
- Eliminating or mitigating any risk of reputational loss or damage to Group.

The Group's operational risk policy aims to ensure that the Group maintains adequate financial resources and systems as well as controls over its systems, processes and staff. The qualitative analysis of risk management at the Group is then considered in the risk quantification process when determining the levels of capital required within the business.

n) Brand risk

Reputation risk is the risk of negative publicity as a result of the Group's contractual arrangements, customers, products and services. Key sources of reputation risk include operation of a Lloyd's franchise, interaction with the investment community and other providers of our insurance capital, and reliance upon the TMK brand. The Group aims to minimise reputation risks. Where it is not possible to eliminate reputation risks altogether, the Group seeks to minimise their frequency and severity and manage reputation risk through public relations and communication channels.

o) Agency risk

Agency risk is the risk that managers do not act in the best interest of their principle. Tokio Marine Kiln Syndicates Limited, a wholly owned subsidiary is aware of it fiduciary responsibilities to capital providers across each of its four syndicates and is careful to ensure equity between them.

37. Contingencies and commitments

a) Finance commitments

Letter of credit facility

On 27 March 2009 KUL, a wholly owned subsidiary of Tokio Marine Kiln Group Limited entered into a US $254,736,000 syndicated banking facility with The Bank of Tokyo-Mitsubishi UFJ Ltd. On the 25 November 2011 this was increased to $448,000,000 and an additional GBP £93,000,000 facility established. On the 1 January 2016 the dollar facility was reduced to $237,000,000. These facilities are guaranteed by the Group's immediate parent company Tokio Marine & Nichido Fire Insurance Co., Ltd and are not held in the statement of financial position, as they have not been called upon.

b) Capital commitments and lease obligations

There are no capital commitments at 31 December 2016 (2015: nil).

The Group has the following operating lease obligations:

	2016 £'000	2015 £'000
Land and buildings		
Total future minimum lease payments:		
Within one year	**5,971**	5,542
Between one year and five years	**20,848**	20,402
Later than five years	**38,213**	42,563
	65,032	68,507

2016 operating lease costs totalling £4,967,819 (2015: £4,830,000) were charged to the income statement.

All lease payments relate to the minimum lease payments in the year.

38. Related party transactions

Transactions with and balances from or to related parties

The Group enters into transactions with its related parties in the normal course of business.

As a wholly owned subsidiary of Tokio Marine Holdings, Inc. (TMH), which is the ultimate parent company, all fellow group members are related parties. Transactions with other group members include expense recharges, costs relating to the letter of credit (see note 37).

Transactions carried out with TMH Group companies during the year are shown in the following table:

	2016 £'000	2015 (restated) £'000
Corporate expenses		
Expense recharges income	**1,538**	1,709
Interest on loans	**5**	-
Finance costs	**(138)**	(314)
	1,405	1,395
Technical transactions		
Written premiums accepted	**925**	600
Written premiums ceded	**(51,169)**	(45,526)
Recoveries received	**29,826**	82,218
	(20,418)	37,292
Balances outstanding at year end		
Corporate balances	**15,760**	(10,412)
Reinsurance balance	**79,548**	113,758
	95,308	103,346

The technical transactions reported in 2015 relate to reinsurance business placed and received with Syndicates 510 and 308 (2013 YoA). With both Syndicate's business now transferred to TMUL, there are no such transactions in 2016.

Managed Syndicates 557, 1880, 510 and 308

The Group manages syndicates 557, 1880, 510 and 308 through its wholly owned subsidiary TMKS. The Group no longer has any participation on the syndicates. The Group charges a managing agency fee, profit commission and recharges expenses borne on their behalf.

Transactions carried out with these syndicates during the year are shown in the following table.

	2016 £'000	2015 £'000
Corporate expenses		
Profit commission received	**9,725**	2,257
Managing agency fee	**11,052**	11,033
Recharged expenses	**43,124**	40,786
	63,901	54,076
Technical transactions		
Written premiums accepted	-	9,950
Written premiums ceded	-	(28,342)
Recoveries received	-	(3,801)
Recoveries paid	-	3,856
	-	(18,337)
Balances outstanding at year end		
Corporate balances	**35,579**	6,860
Reinsurance balances	-	9,830
	35,579	16,690

Subsidiaries, associates and joint ventures

No restrictions are placed on either the subsidiaries or the associates to transfer funds to the parent company in the form of cash dividends and repayments of loans when due and no guarantees or collateral were provided to subsidiaries or to the associate. The Group is not liable for any contingent liabilities arising on behalf of the subsidiaries or of the associate and will not settle any liabilities on behalf of them, other than those liabilities already disclosed in note 37.

The Group has a 30% holding in Ibex Insurance Services Limited which pays a management fee and a share of their results totalling a profit of £99,066 (2015: £10,272). At 31 December 2016 a balance of £12,500 was owed to the Group (2015: £6,250).

The Group has a 49% holding in WNC Holding Company, LP. The Group also holds a $20m subordinated loan note in the company with the rate of interest accruing at 6% (due to be repaid June 2020 and June 2021) together with a $10m subordinated loan note with the rate of interest at 7% (due to be repaid June 2022). It was agreed that no interest would be payable by WNC Holding Company, LP on these loans for the 2016 year with interest recommencing from 1st January 2017 onwards. All other terms and conditions of the loan agreements remain unchanged. The balance at year end was $37.3m (£30.1m), (2015: $37.3m (£25.4m)).

In 2014 the Group acquired a 49% holding in NAS Insurance Services, LLC.

Key management personnel

Key management personnel of the Group represents all directors, executive and non-executive, of TMK, TMKI, TMKS and Active Underwriters

Compensation of key management personnel

	2016 **£'000**	2015 £'000
Total compensation of key management personnel (short term employee benefits)	**13,598**	11,175

KS Underwriting LLP

During 2009 a Limited Liability Partnership (LLP) was established, which enables employees to participate in Group managed syndicates at Lloyd's. The LLP's participation in Syndicate 510 began in 2010. There were no material transactions between the LLP and the Group in 2016 (2015: £nil).

39. Ultimate parent company and controlling party

The immediate parent company is Tokio Marine & Nichido Fire Insurance Co., Ltd (TMNF). The ultimate parent company and controlling party is Tokio Marine Holdings, Inc. incorporated in Japan.

Copies of the consolidated financial statements of Tokio Marine Holdings, Inc. are available from 1-2-1 Marunouchi, Chiyoda-ku, Tokyo, 100-0005, Japan.

40. Post balance sheet events

There are no post balance sheet events impacting TMK's performance.

Parent Company Financial Statements

Independent auditor's report to the member of Tokio Marine Kiln Group Limited

Report on the parent company financial statements

Our opinion

In our opinion, Tokio Marine Kiln Group Limited's parent company financial statements (the "financial statements"):

- give a true and fair view of the state of the parent company's affairs as at 31 December 2016;
- 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 and Financial Statements (the "Annual Report"), comprise:

- the parent company statement of financial position as at 31 December 2016;
- the notes to the financial statements, which include a summary of significant accounting policies and 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 101 "Reduced Disclosure Framework", 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 Group 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 Group directors' report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the parent 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 Group 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 by the parent company, 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.

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 12, 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 & 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 parent 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 parent 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 Group directors' report, we consider whether those reports include the disclosures required by applicable legal requirements.

Other matter

We have reported separately on the group financial statements of Tokio Marine Kiln Group Limited for the year ended 31 December 2016.

Mark Bolton

Mark Bolton (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
28 April 2017

Parent company statement of financial position as at 31 December 2016

	Note	2016 £'000	2015 £'000
Fixed Assets			
Shares in group undertakings	4	**122,288**	122,288
Investments			
Loans to group undertakings	6	**30,111**	25,400
		152,399	147,688
Current assets			
Debtors	7	**91,849**	66,166
Cash at bank and in hand		**2,579**	1,310
		94,428	67,476
Creditors: amounts falling due within one year	9	**(22,224)**	(36,630)
Net current assets		**72,204**	30,846
Total assets less current liabilities		**224,603**	178,534
Provisions	10	**(1,108)**	(953)
Net assets		**223,495**	177,581
Capital and reserves			
Called up share capital	11	**1,010**	1,010
Share premium	12	**64,990**	64,990
Retained earnings	12	**157,495**	111,581
Total shareholder's funds	12	**223,495**	177,581

The notes on pages 75 to 80 are an integral part of these financial statements.

The financial statements on pages 74 to 80 were approved by the Board of directors on 28 April 2017 and were signed on its behalf by:

J W Dover

Chief Financial Officer

C A S Franks

Chief Executive Officer

Notes to the financial statements for the year ended 31 December 2016

1. Accounting policies

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

1.1 Basis of preparation

These financial statements have been prepared on the going concern basis, under historical cost convention as modified by the revaluation of investments in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. No separate income statement is presented as permitted by Section 408 of the Companies Act 2006. The company's profit after tax for the financial year was £65,913,591 (2015: £72,132,193).

From 1 January 2015, the Company adopted FRS101 Reduced Disclosure framework. FRS 101 provides a reduced framework for qualifying subsidiaries of entities otherwise reporting under full EU endorsed IFRS.

The preparation of financial statements in accordance with FRS101 requires the use of certain 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 the financial statements, are disclosed in Note 2.

Exemptions for qualifying entities under FRS101

FRS 101 allows a qualifying entity certain disclosure exemptions, subject to certain conditions which have been complied with.

The company has taken advantage of the following exemptions:

- The preparation of cash flow statements on the basis that the parent company's consolidated statement of cash flows will include the Company's cash flows.
- The preparation of related party disclosures on the basis that the parent company's consolidated financial statements will include the Company's related party disclosures.

1.2 New standards, amendments and interpretations not yet adopted

No new accounting standards, or amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2016, have had a material impact on the company.

1.3 Principal accounting policies

a. Investment income

UK dividends are recognised when the right to receive payment is established and do not include any imputed tax credit. Income from fixed interest securities is accounted for using the effective interest method.

Realised gains or losses represent the difference between net sales proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the valuation of investments at the statement of financial position date and their purchase price or, if they have been previously valued, their valuation at the last statement of financial position date. Provision is made for any impairment in value and is written off to the income statement.

b. Foreign currency translation

Functional and presentational currency

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

Transactions and balances

Foreign currency transactions are recorded in the functional currency using the exchange rates prevailing at the dates of the transactions or an appropriate average rate of exchange. Foreign exchange gains and losses resulting from the settlement of monetary items relating to such transactions and from the measurement at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

c. Income taxes

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because items of income and expense are taxed in different periods, and it excludes items that are never taxable or deductible.

d. Deferred taxation

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each year end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates based on the enacted or substantially enacted tax laws expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

e. Investments

Subsidiary and associated undertakings are valued at cost plus incidental expenses less any provision for impairment. Loans are subsequently measure at amortised cost.

f. Borrowings

Borrowings are initially recognised at current value, net of transaction costs incurred and subsequently stated at amortised cost. Current value is normally determined by reference to the value of the proceeds received. Any difference between the initial carrying amount and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

g. Provisions

A provision is recognised when the Company has a present legal or constructive obligation, as a result of a past event, that is expected to result in an outflow of resources. A provision is recognised when a reliable estimate of the amount of the obligation can be made.

2. Employee and director information

The company had no employees during the year ended 31 December 2016 (2015: None). All company staff are employed by other group entities and their salaries and related costs are recharged to those companies on a regular basis.

The directors' emoluments for services to the group are reported in the consolidated group financial statements.

3. Auditor's remuneration

	2016 **£'000**	2015 £'000
Remuneration for audit services	**143**	138

4. Shares in group undertakings

	2016 **£'000**	2015 £'000
Shares in group undertakings	**122,288**	122,288

5. Investment in subsidiary undertakings

The following companies are directly and wholly-owned by the Company:

Name	**Country of Incorporation**	**Principal Activity**	**Registered Address**
Tokio Marine Kiln Syndicates Limited	England & Wales	A registered Lloyd's underwriting agent (managing agency).	20 Fenchurch Street London, EC3M 3BY
Kiln Underwriting Limited	England & Wales	A corporate member at Lloyd's.	
Kiln Underwriting (No. 308) Limited	England & Wales	A corporate member at Lloyd's.	
Kiln Underwriting (807) Limited	England & Wales	A corporate member at Lloyd's.	
Kiln Underwriting (807) No. 2 Limited	England & Wales	A corporate member at Lloyd's.	
Kiln Underwriting (510) Limited	England & Wales	A holding company for overseas investments; holds a 49% share in NAS Insurance Services, LLC.	
Tokio Marine Kiln Insurance Services Limited	England & Wales	A service company established to provide administrative services to group companies.	
Kiln Pension Guarantee Limited	England & Wales	A guarantee company established to hold funds which will be used to fund pension obligations should Tokio Marine Kiln Syndicates become unable to do so.	
RJ Kiln & Co. (No. 2) Limited	England & Wales	A holding company for overseas investments; holds a 48% share in WNC Holding Company,LP.	
Tokio Marine Kiln Insurance Limited	England & Wales	Underwriting company specialising in marine cargo, construction, property and liability insurance business.	
RJ Kiln & Co (No.3) Limited	England & Wales	A dormant company	
RJ Kiln & Co (No.4) Limited	England & Wales	A dormant company	
Tokio Marine Kiln Europe S.A.	Belgium	Insurance agent specialising in marine, hull and cargo, cyber, personal accident, aviation and space business.	Avenue du Luxembourg 35, 4020 Liège, Belgium

The following companies are wholly-owned subsidiaries of the above directly owned companies:

RJ Kiln & Co. (No. 1) Limited	England & Wales	A dormant company.	
Tokio Marine Kiln Regional Underwriting Limited	England & Wales	An insurance broking agent.	20 Fenchurch Street London, EC3M 3BY
Tokio Marine Europe Limited	England & Wales	A service company established to provide administrative services to group companies.	
Tokio Marine Kiln Hong Kong Limited	Hong Kong	An insurance agent underwriting energy, marine, property, aviation, engineering & construction, liability and personal accident insurance on behalf of the members of Syndicate 510 & 1880.	3804 The Lee Gardens, 33 Hysan Avenue, Causeway Bay, Hong Kong
Tokio Marine Kiln Singapore PTE Limited	Singapore	An insurance agent underwriting energy, marine, property, aviation, engineering & construction, treaty reinsurance and personal accident insurance on behalf of the members of Syndicate 510 & 1880.	138 Market Street, #03-04 CapitaGreen, Singapore 048946

The following companies are an associate and a joint venture held indirectly by wholly owned subsidiaries:

Name & Ownership % of ordinary shares	**Country of Incorporation**	**Principal Activity**	**Registered Address**
Associate: Ibex Insurance Services Ltd - 30%	Gibraltar	An underwriting agent specialising in expatriate insurance	68 Irish Town, Gibraltar, GX11 1AA
Joint venture: WNC Holding Company, LP - 49%	US	A holding company to WNC Holdings Group which is a managing general agent that provides flood, wind, hazard and auto insurance to financial institutions	Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801
Joint venture: NAS Insurance Services, LLC - 49%	US	A managing general agent that provides a broad range of speciality professional liability, legal expense, healthcare, entertainment and reinsurance products.	16501 Ventura Boulevard, Suite 200, Encino, California 91436

6. Loans to undertakings

	2016 £'000	2015 £'000
Loans to undertakings	**30,111**	25,400

The Company holds a $20m subordinated loan note in WNC Holding Company, LP with the rate of interest accruing at 6% (due to be repaid June 2020 and June 2021) together with a $10m subordinated loan note with the rate of interest at 7% (due to be repaid June 2022). It was agreed that no interest would be payable by WNC Holding Company, LP on these loans for the 2016 year with interest recommencing from 1st January 2017 onwards. All other terms and conditions of the loan agreements remain unchanged. The balance at year end was $37.3m (£30.1m), (2015: $37.3m (£25.4m)).

7. Debtors

	2016 £'000	2015 £'000
Amounts owed by Group undertakings	**88,480**	63,053
Corporation tax	**2,346**	3,092
Deferred tax asset (note 8)	**170**	-
Other debtors	**806**	-
Prepayments and accrued income	**47**	21
	91,849	66,166

The amounts owed by Group undertakings includes a loan to Kiln Underwriting (510) Limited to purchase NAS Insurance Services, LLC, a loan to RJ Kiln & Co (No.2) Limited to purchase WNC Holding Company, LP and a new loan facility to Tokio Marine Underwriting Limited.

8. Deferred tax asset

	2016 £'000	2015 £'000
Deferred tax asset		
Expenses to be relieved in future periods	**170**	-
Deferred tax asset at 31 December	**170**	-
Net deferred tax asset		
At 1 January	**-**	-
Income statement tax (charge)/credit	**170**	-
At 31 December	**170**	-

The deferred tax balance reflects the reduction in the UK corporation rate from 20% to 19% on 1 April 2017. The rate of UK corporation tax will change to 17% on 1 April 2020, this has no impact on the current deferred tax balance.

9. Creditors : amounts falling due within one year

	2016 £'000	2015 £'000
Amounts due to Group undertakings	**21,009**	35,415
Corporation tax payable	**1,215**	1,215
	22,224	36,630

10. Provisions

	2016 £'000	2015 £'000
At 1 January	**(953)**	-
Provided during the year	**(155)**	(953)
At 31 December	**(1,108)**	(953)

Provisions

The provision of £953,000 is primarily in relation to a legal case with a former employee. The £155,000 provided for during 2016 is the revaluation of this Euro denominated provision.

11. Called up share capital

	2016 **£'000**	2015 £'000
Authorised Ordinary shares: As at 1 January; 101,000,000 (2015: 101,000,000) at 1p each	**1,010**	1,010
As at 31 December; 101,000,000 (2015: 101,000,000) at 1p each	**1,010**	1,010
Allotted Ordinary shares, called up and fully paid: As at 1 January; 101,000,000 (2015: 101,000,000) at 1p each	**1,010**	1,010
As at 31 December 101,000,000 (2015: 101,000,000) at 1p each	**1,010**	1,010

12. Reconciliation of movements in shareholder's funds

	Called up share capital £'000	**Share premium £'000**	**Retained earnings £'000**	**Total £'000**
Balance at 1 January 2016	**1,010**	**64,990**	**111,581**	**177,581**
Profit for the financial year			**65,914**	**65,914**
Dividend paid to equity shareholder			**(20,000)**	**(20,000)**
Balance at 31 December 2016	**1,010**	**64,990**	**157,495**	**223,495**

	Called up share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2015	1,010	64,990	120,659	186,659
Profit for the financial year	-	-	72,132	72,132
Dividend paid to equity shareholder	-	-	(81,210)	(81,210)
Balance at 31 December 2015	1,010	64,990	111,581	177,581

13. *Ultimate parent company and controlling party*

The immediate parent company is Tokio Marine & Nichido Fire Insurance Co., Ltd ('TMNF'). The ultimate parent company and controlling party is Tokio Marine Holdings, Inc. incorporated in Japan.

Copies of the consolidated financial statements of Tokio Marine Holdings, Inc. are available from 1-2-1 Marunouchi, Chiyoda-ku, Tokyo, 100-0005, Japan.

14. Post balance sheet events

There are no post balance sheet events impacting TMK's performance.