Tokio Marine Kiln Group Limited

Annual Report and
Financial Statements
For the year ended 31 December 2018

Registered office
20 Fenchurch Street
London
EC3M 3BY

Registered number: 2949032

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Parent company financial statements

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Directors and officers

Directors

I Brimecome (Chairman, resigned 1 September 2018)

C J B Williams (Chairman, appointed 1 September 2018)

R Bennison

P Culham (resigned 31 December 2018)

J W Dover (resigned 30 September 2018)

C A S Franks

H-P Gerhardt (resigned 12 December 2018)

K Hatakeyama

B Irick (appointed 21 September 2018)

I Ishii (appointed 1 November 2018)

C Kojima (resigned 31 December 2018)

S Komiya (resigned 31 October 2018)

A McNamara (appointed 27 April 2018; resigned 31 December 2018)

R Patel (appointed 1 October 2018)

S Ruoff (resigned 12 December 2018)

S Urano

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 2018

The directors of Tokio Marine Kiln Group Limited (the Company) present their strategic report on the Group for the year ended 31 December 2018. 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').

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). 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, USA 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 & special lines, marine & special risks, A&H, Contingency and Equine, reinsurance, enterprise risk 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.

In October 2017, Syndicate 308 was placed into run-off following highly competitive market conditions, a rising expense base and increasing losses. TMK remains committed to ensuring that existing policy holders will not be affected by this decision.

Tokio Marine Kiln Syndicate 1880 underwrites general insurance and reinsurance business worldwide including reinsurance of Tokio Marine Kiln group businesses including 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 property, engineering and construction risks. On 24 October 2018, TMK announced a reorganisation of its Asian operations based primarily in Singapore with supporting offices in Hong Kong and Shanghai. TMK closed its Hong Kong office ensuring suitable arrangements for the orderly runoff of the business.

The Tokio Marine Group have strategically decided to have only one presence in Europe: Tokio Marine Europe S.A. (TME). As a consequence, TMK's European syndicate service Company (Tokio Marine Kiln Europe) no longer fits into the future plans of the Group and the related carrying value has been materially impaired.

In the prior year, TMK owned a 49% equity interest in WNC Insurance Holding Corporation, a US-based coverholder specialising in specialist flood, lender-placed and homeowners insurance. On 12 January 2018, TMK purchased the remaining 51% share in the business, giving the TMK Group its first wholly owned operation in the US, where ambitious growth targets have been set for the next three years.

TMK owned 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. On 1 April 2019, the TMK Group sold its interest in NAS Insurance Services, LLC to TMHCC for a total consideration of £44.7m. The investment in NAS was held via KU 510 and amounted to £43.4m.

Summary of financial position at 31 December 2018

TMK reported a loss for the financial year of £18.1m (2017: profit of £1.8m). The Company has reported other comprehensive income of £0.4m (2017 loss: £5.3m).

Events during the year

The TMK Group reported a loss for the year of £18.1m (2017 profit of £1.8m). The loss is largely attributed to the underwriting performance of TMKI, which reported a loss in 2018 of £19.8m (2017: £16.3m). TMKI has benefitted from top-line growth of 6% driven by UK binder business and growth in the UK Local Non-Japanese book. Despite the top-line growth, the Company has made an underwriting loss of £21.2m in 2018, which is £1.9m higher than the prior year loss. A large part of this adverse experience has been due to the significant large loss activity experienced during the year.

Review of the Business

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

	2018	2017
	£'m	£'m
Gross written premium	**302.2**	286.5
Net written premium	**191.6**	177.0
Gross earned premium	**297.4**	249.6
Net earned premium	**185.4**	145.9
Net earned premium/Gross earned premium	**62%**	58%
Net incurred loss ratio	**66%**	68%
Expense ratio	**44%**	46%
Combined ratio	**111%**	114%
Net technical provisions	**294.6**	260.2
Funds invested at the year-end (including cash at bank)	**600.6**	603.4
Net Investment income	**0.1**	4.3
Net investment return on average funds invested	**0.0%**	0.8%
(Loss)/profit after taxation	**(18.1)**	1.8

The company produced a loss after taxation of 18.1m. This was driven by a combined ratio of 111% as the company continued to perform adverse to both original plan and forecast.

Gross written premium has moderately increased by 5.5% since prior year. This is primarily driven by an increase in UK non-Japanese book, notably the property and casualty divisions. There was a reduction in GWP within the Japanese business (£1.5m) driven by the marine book due to a lower level of declaration premiums written in the year.

Net written premium is 8% higher than prior year. Overall, net written premium as a proportion of gross has increased from 62% to 64%. This is driven by the non-Japanese business which has a higher retention ratio in 2018.

Net earned premium increased by 27%. The net earned premium to net written premium ratio is 97% (2017: 82%), which is higher than the prior year due to the new binder business which earns at a faster rate.

The net incurred loss ratio has decreased slightly to 66% (2017: 68%). 2018 saw fewer large losses with the most notable being the Log For You fire (£5.4m) and Plageco (£5.1m).

The expense ratio, comprising of net acquisition costs and administrative expenses, is broadly in line with prior year at 44% (2017: 46%). Net acquisition cost ratio is 2.6% above prior year (2017: 16.1%). Acquisition costs are higher in 2018 due to the new binder business.

As a result of the net incurred loss ratio and expense ratio improving from prior year, the combined ratio has improved to 111% (2017: 114%).

Net technical provisions, comprising unearned premiums and claims outstanding, have increased by £34.2m as a result of the higher unearned premium provisions on the binder business and increase in large losses in the period.

2018 investment income underperformance relative to the prior year is driven by negative returns within the BlackRock Absolute Return Fund which returned (1.76%) versus 2.80% for 2017. The Fund's overweight position in investment grade credit was the largest detractor to performance as risk-off moves, weaker data, Brexit and tariff trade wars weakened sentiment and pushed spreads wider with end of year liquidity exacerbating the move. Sterling fixed income performance also contributed to the poor returns, with 2018 seeing a return of 0.35% versus 0.57% for the previous year, as spreads widened.

Funds invested comprise investments of £279.6m (2017: £293.7m) and cash of £321.0m (2017: £309.6m).

Future developments

From 1 January 2019 the TMKI European business will be transferred to a newly formed company in Luxembourg, Tokio Marine Europe S.A. (TME), part of a group affiliate company, HCC International Insurance Company PLC ("HCCI"). The process has followed the Part VII transfer protocol in accordance with both UK and Luxembourg company law and has been approved by the Luxembourg regulator (Commissariat aux Assurances). This is discussed in further detail in note 41: Post balance sheet events.

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 balance sheet and focus its risk appetite on underwriting.

Risk management and risk appetite

A comprehensive, enterprise wide risk management framework is in place for the management of risk across the whole of TMK. A key element of this is the risk appetite framework which is approved by the Board each year and lays out the agreed appetite for each area of risk TMK is exposed to.

The risk appetite framework ensures that risk taking is aligned to TMK's strategy by including a set of risk preferences and tolerances. These are strategic choices taken by the business to deliver the best result to its stakeholders. These preferences and tolerances change over time as the strategy develops, ensuring TMK remains relevant to its clients, whilst adapting to market conditions.

TMK is exposed to a number of types of risk and have developed a strategy for categorising, managing and reporting these different risks. This high level categorisation is called the TMK Risk Universe. We define the Risk Universe as 'the complete view of all possible types of risk that the firm may face, reflecting the risk profile of the business'. The Universe includes risks that could positively or negatively impact the business.

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.

Due to the cyclical nature of insurance business, there is a risk that future earnings are lower or more volatile than expected with fluctuations in capacity, competition and the frequency and severity of losses, as a result of both man-made and natural disasters.

Underwriting risk

The risk arising from fluctuations in the frequency and severity of financial losses incurred as a result of the acceptance of the insurance portfolio of business. Insurance risk is managed by agreeing TMK's appetite annually through the risk appetite framework and the business plan, which sets out targets for volumes, pricing, line sizes and retention by class of business. Volume and price performance are monitored against the business plan monthly, and all of the components of the insurance result and risk appetite quarterly. TMK writes a significant amount of catastrophe exposed business.

Catastrophe modelling software is used to model maximum probable losses from catastrophe-exposed business. TMK has adopted a cyber aggregate monitoring tool to manage the growing exposures in this area.

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. The risk is heightened if there is a lack of reinsurance or retrocession availability in the market.

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.

Reserving risk

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

TMK estimate 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, the estimates are subject to independent review by external actuaries who sign an annual statement of Actuarial opinion on the sufficiency of the 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 is 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 the Company's investment portfolio, which is outsourced to two investment managers.

Market risk

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

Investments are held as a result of underwriting activities. The investment policy is set to protect the capital, and not to manage it as a separate profit centre. Funds managed by TMK's 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 regularly reviews the balance of assets and liabilities. TMK maintains a diversified investment portfolio to restrict the concentration of assets.

Liquidity risk

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

To mitigate liquidity risk, the finance team reviews TMK cash flow projections regularly to ensure that there is sufficient day-to-day cash to settle immediate liabilities.

Operational risk

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

TMK seeks 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. To assist with this, all departments have in place an internal control framework, documenting their controls. These controls are independently assessed on an annual basis by the Risk Management team.

There is a strong risk reporting and risk governance system in place to ensure effective risk management of operational risk. The Executive Risk and Capital Committee and the Risk, Capital & Compliance Committee review the most material elements of the operational risk profile quarterly, in line with the Risk Management Framework. Particular attention is paid to how the risks from cyber security threats are managed by the Information Security Group.

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), Lloyd's and the European Insurance and Occupational Pensions Authority (EIOPA) regarding Solvency II. 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.

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 ensure compliance with them.

Conduct risk

This is an important element of regulatory risk and is the risk of financial and/or service detriment which adversely affects the customer due to failings in the customer value chain.

TMK's conduct objective is to build, maintain and enjoy long term relationships with customers whether it be directly or indirectly, via a third party. This culture of partnership is fundamental to TMK's dealings with 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 TMK's 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 inherent conduct risk across products, distribution and customer types.

The underwriters, with the support of teams across TMK, take day to day ownership of conduct risk as they are the ones empowered to make decisions which commit TMK to relationships with customers and business partners. Conduct risk and TMK's treatment of customers is managed and monitored by the Conduct Risk Committee, which reports to the Risk, Capital and Compliance Committee and the Board quarterly.

Emerging risk

TMK defines an emerging risk as 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 and may relate to issues which are changing rapidly or are uncertain.

TMK is committed to the continual research and identification of emerging risks and actively undertake research independently, and via Lloyd's as a representative on the Lloyd's Emerging Risks Special Interest Group. Emerging risk analysis is included in the TMK quarterly and annual ORSA process. Through the effective management of emerging risks TMK is able to identify external trends and threats, 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, TMK will readily capitalise on identified opportunities in this area.

Reputational risk

This 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 TMK's strong brand is becoming more significant. Loss of confidence from customers, regulators or capital providers could cause long term harm to the business.

In light of this, all staff are made aware of their responsibilities to clients and other stakeholders. Reputational risk is included as a specific category in the Company's risk register and forms part of the regular risk assessment process, facilitated by the Risk Management team. It is reported on a quarterly basis as part of the ORSA process to the Executive Risk & Capital Committee and the Risk. Capital & Compliance Committee.

Strategic risk

Strategic risk refers to the risk associated with the achievement of TMK's strategic objectives. A key element of strategic risk is the risk of making poor business decisions in the context of the internal and external market environment in which TMK operates.

Strategic risk is managed via the Board which is ultimately responsible for setting and monitoring the Company's strategic direction. As part of the Company's governance structure, various committees of the Board discuss and challenge the businesses strategy. The Risk Management team facilitates TMK's risk assessment process, including identification, assessment and mitigation of strategic risks. Reporting on these risks is included in the quarterly ORSA process to the Executive Risk & Capital Committee and the Risk, Capital & Compliance Committee.

Syndicate 308 Run-off risk

This is the risk that TMK fails to manage the run-off of Syndicate 308 efficiently and effectively, in the best interests of all Members and not to the detriment of policyholders. The various risks associated with the run-off include the reputational risk of putting a syndicate into run-off (in terms of potential policyholder concerns, the negative impact it may have on relationships with brokers and coverholders, and the potential for the run-off to be perceived adversely within the wider market), regulatory risk and the impact it may have from a resourcing perspective in terms of the potential for distraction from business as usual activities. These risks require careful management and are a key priority for management.

It is clearly stated in the initial run-off plan that the run-off will be managed for all Members in accordance with Lloyd's requirements and with full regard to TMK's duties and obligations as a Managing Agent. TMK is managing the run-off in line with existing TMK policies and procedures and Lloyd's Minimum Standards. A Syndicate Run-Off Committee has been established to oversee the management of the run-off. Reporting on the risks associated with the run-off will also be considered as part of the ORSA process and reported to the Executive Risk & Capital Committee and the Risk, Capital & Compliance Committee.

Political risk

This is the risk that political decisions, events or conditions will result in losses. Politics affect everything from taxes to interest rates and political events can heavily impact the structure of a business. The current lack of clarity over Brexit continues to create uncertainty for the insurance industry. The main implication of Brexit for TMK is the loss of 'passporting rights' which allow us to conduct cross-border business throughout the European Economic Area (EEA). Through 2018 we revised our internal operating model to successfully link our syndicates with the newly-created Lloyd's Brussels Subsidiary (LBS) in order to continue to provide products and services to clients with EEA risks. The work required is complete and our new model is now operational. We commenced writing business via LBS in the first quarter of 2019. We continue to monitor developments of Brexit very closely due to the remaining unknown economic and political implications.

By order of the Board

F J Molloy
Company Secretary
5 June 2019

Group directors' report for the year ended 31 December 2018

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 2018. 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 Group strategic report.

Dividends

The directors did not pay a dividend for the year ended 31 December 2018 (2017: £nil).

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 37. In particular TMK's exposure to credit risk and liquidity risk is separately disclosed in the note.

Political donations

The Company made no donations for political purposes (2017: £nil).

Post balance sheet events

Please see Note 41 to the consolidated financial statements for all details on post balance sheet events.

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 2018 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

FJMolloy

F J Molloy
Company Secretary
5 June 2019

Independent auditors' report to the members of Tokio Marine Kiln Group Limited

Report on the audit of the group financial statements

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 2018 and of its loss 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.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Consolidated statement of financial position as at 31 December 2018; the Consolidated income statement and the Consolidated statement of other comprehensive income, the Consolidated statement of cash flows, and the Consolidated statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Group strategic report and Group directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Group strategic report and Group directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Group strategic report and Group directors' report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and its environment obtained in the course of the audit, we did not identify any material misstatements in the Group strategic report and Group directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 13, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

Other required reporting

Companies Act 2006 exception reporting

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
- certain disclosures of directors' remuneration specified by law are not made.

We have no exceptions to report arising from this responsibility.

Other matter

We have reported separately on the parent company financial statements of Tokio Marine Kiln Group Limited for the year ended 31 December 2018.

Marcus Hine

Marcus Hine (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

5 June 2019

Consolidated income statement
for the year ended 31 December 2018

	Note	**2018** £'000	2017 £'000
Gross written premiums	3	**302,288**	286,472
Ceded premiums		**(110,694)**	(109,516)
Net written premiums	3	**191,594**	176,956
Change in the provision for unearned premiums	3	**(6,199)**	(31,084)
Net insurance premium		**185,395**	145,872
Investment return from underwriting assets	4	**472**	2,765
Investment return from non-underwriting assets	4	**1,204**	3,630
Fees and commission income	5	**184,575**	123,112
Other income	6	**1,276**	2,314
Net income		**372,922**	277,693
Insurance claims and loss adjustment expenses	7	**(188,412)**	(141,775)
Insurance claims and loss adjustment expenses - reinsurers' share	7	**65,253**	42,352
Net insurance benefits and claims		**(123,159)**	(99,423)
Net operating expenses	8	**(82,076)**	(66,944)
Corporate and administrative expenses	8	**(190,638)**	(114,056)
Expenses		**(395,873)**	(280,423)
Results of operating activities		**(22,951)**	(2,730)
Finance costs	12	**(1,286)**	(770)
Gains/(losses) arising from foreign exchange	13	**2,387**	(894)
Share of profit of joint ventures		**3,926**	7,968
Share of profit of associated companies		**55**	119
(Loss)/profit on ordinary activities before taxation		**(17,869)**	3,693
Income tax expense	14	**(183)**	(1,856)
(Loss)/Profit for the year attributable to the equity shareholder		**(18,052)**	1,837

The notes on pages 21 to 76 are an integral part of these financial statements.

Consolidated statement of other comprehensive income for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
(Loss)/profit for the year		**(18,052)**	1,837
Other comprehensive income/(loss)			
Re-measurements on post-employment benefit surplus	34	**135**	811
Tax on items taken to equity		**(26)**	(153)
Exchange differences on retranslation of foreign operations		**302**	(5,920)
Other comprehensive income/(loss) for the year, net of tax		**411**	(5,263)
Loss for the year		**(17,641)**	(3,425)

Consolidated statement of changes in equity For the year ended 31 December 2018

	Called up share capital £'000	Share Premium £'000	Merger Reserve £'000	Other Reserves (restated) £'000	Retained earnings (restated) £'000	Total £'000
As at 1 January 2017	1,010	64,990	75,575	20,377	201,952	363,904
Profit for the year	-	-	-	-	1,837	1,837
Re-measurements on post-employment benefit surplus	-	-	-	-	811	811
Tax on items taken to equity	-	-	-	-	(153)	(153)
Exchange differences on retranslation of foreign operations	-	-	-	(5,920)	-	(5,920)
As at 31 December 2017	1,010	64,990	75,575	14,457	204,447	360,479
Profit for the year	-	-	-	-	**(18,052)**	**(18,052)**
Re-measurements on post-employment benefit surplus	-	-	-	-	**135**	**135**
Tax on items taken to equity	-	-	-	-	**(26)**	**(26)**
Exchange differences on retranslation of foreign operations	-	-	-	**302**	-	**302**
As at 31 December 2018	**1,010**	**64,990**	**75,575**	**14,759**	**186,504**	**342,838**

The 2017 consolidated statement of changes in equity has been restated. Cumulative currency translation differences, which had previously been included in 'retained earnings', are now shown separately in 'other reserves'. This has no impact on the profit/(loss) for the year.

The notes on pages 21 to 76 are an integral part of these financial statements.

Consolidated statement of financial position as at 31 December 2018

	Note	**2018** **£'000**	2017 £'000
Assets			
Property, plant and equipment	15	**14,252**	15,879
Intangible assets	16	**108,096**	17,831
Investment in joint ventures	18	**43,312**	68,881
Investments in associated undertakings	19	**570**	2,531
Retirement benefit surplus	34	**11,075**	8,648
Deferred tax asset	20	**5,393**	7,334
Deferred acquisition costs	21	**19,893**	18,166
Prepayments and accrued income	22	**26,440**	40,012
Reinsurance assets	30	**144,445**	124,090
Insurance receivables	23	**153,272**	106,706
Other assets	24	**34,937**	38,191
Current taxes		**10,327**	14,754
Financial investments	25	**279,584**	293,724
Cash and cash equivalents	26	**321,002**	309,645
Total assets		**1,172,598**	1,066,392
Equity and liabilities			
Called up share capital	27	**1,010**	1,010
Share premium		**64,990**	64,990
Merger reserve		**75,575**	75,575
Other reserves (restated)		**14,759**	14,457
Retained earnings (restated)		**186,504**	204,447
Total equity		**342,838**	360,479
Liabilities			
Retirement benefit obligation - reimbursement	34	**9,263**	7,233
Deferred tax liabilities	20	**19,548**	8,907
Provisions	29	**10,666**	10,807
Insurance contract liabilities	30	**439,002**	384,307
Insurance payables	32	**233,539**	176,848
Other liabilities	33	**110,825**	111,800
Current taxes		**6,917**	5,994
Financial liabilities	25	**-**	17
Total liabilities		**829,760**	705,914
Total equity and liabilities		**1,172,598**	1,066,392

The notes on pages 21 to 76 are an integral part of these financial statements.

The financial statements on pages 17 to 76 were approved by the Board of directors on 5 June 2019 and were signed on its behalf by:

R Patel

Chief Financial Officer

C A S Franks

Chief Executive Officer

Consolidated statement of cash flows for the year ended 31 December 2018

	Note	**2018 £'000**	2017 £'000
Cash flows from operating activities excluding interest income	36	**6,252**	88,334
Cash flows from investing activities			
Purchase of intangible assets		**(2,232)**	(2,864)
Purchase of property, plant and equipment		**(1,613)**	(474)
Interest and dividends received		**4,926**	6,264
Acquisition of subsidiaries		**(464)**	-
Net (purchases)/sales of investments		**(4,238)**	13,924
Fair value losses		**1,148**	1,128
Cash (used in)/generated from investing activities		**(2,473)**	17,978
Cash flows from financing activities			
Fees on banking facilities		**(1,286)**	(770)
Dividend paid to shareholder		**-**	-
Cash used in financing activities		**(1,286)**	(770)
Net increase in cash and cash equivalents and bank overdrafts		**2,493**	105,542
Effect of exchange rate changes on cash and cash equivalents		**8,864**	(4,747)
Net cash and cash equivalents at beginning of year		**309,645**	208,850
Net cash and cash equivalents and bank overdrafts at end of year	26	**321,002**	309,645

The notes on pages 21 to 76 are an integral part of these financial statements.

Notes to the consolidated financial statements for the year ended 31 December 2018

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 2018 were approved on 5 June 2019.

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 pound sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated.

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	**2018** **£'000**	2017 £'000
Total income		**372,922**	277,693
Total expenses		**(397,159)**	(281,193)
Gains/(losses) arising from foreign exchange	13	**2,387**	(894)
Share of profit of joint venture	18	**3,926**	7,968
Share of profit of associated companies	19	**55**	119
(Loss)/profit on ordinary activities before taxation		**(17,869)**	3,693
Income tax expense	14	**(183)**	(1,856)
(Loss)/profit after tax attributable to the equity shareholder		**(18,052)**	1,837

1.3 Changes in accounting policies

There are no changes to accounting policies.

1.4 New standards, amendments and interpretations

The Group has adopted the following amendments to standards with a date of initial application of 1 January 2018:

IFRS 15 Revenue from contracts with customers in May 2014, the IASB issues IFRS 15, Revenue from Contracts with Customers. IFRS 15 supersedes IAS 18, IAS 11 and a number of revenue-related interpretations. The Group adopted IFRS 15 using the cumulative effect method on the required effective date. As a result, the Group did not restate the comparative period presented.

Under IFRS 15, revenue is recognised when (or as) the Group satisfies a performance obligation by transferring a service to the customer. Furthermore, revenue is recognised for these contracts to the extent that it is highly probable that a significant reversal in revenue recognised will not occur. The guidance also changes the accounting for certain contract costs and revises the criteria for determining if an entity is acting as a principal or agent in certain arrangements.

IFRS 15 did not have a significant effect on the consolidated financial statements of the Group.

A number of new standards are effective for annual periods beginning after 1 January 2019 and have not been applied in preparing these consolidated financial statements.

IFRS 9 Financial instruments issued by the IASB in July 2014, fully replaces IAS 39 and provides a new approach on how to classify financial instruments based on their cash flow characteristics and the business model under which they are managed. Furthermore, the standard introduces a new forward-looking impairment model for debt instruments and provides new rules for hedge accounting.

The amendments to IFRS 4, Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts, issued in September 2016, allow entities that issue insurance contracts within the scope of IFRS 4 to defer the implementation of IFRS 9 until 1 January 2021 under certain circumstances. It is to be noted that the IASB has recently proposed to defer the IFRS 9 effective date for such entities in scope by another year until 2022.

In order to qualify for the temporary exemption, an entity has to prove that its activities are predominantly connected to insurance as of 31 December 2015. Under the amended IFRS 4, this condition is met if the insurer carries significant liabilities arising from contracts within the scope of IFRS 4. Significant insurance-related liabilities are given, among others, if the percentage of the total carrying amount of liabilities connected with insurance relative to the total carrying amount of all liabilities is greater than 90 %. A reassessment at a subsequent annual reporting date is required if, and only if, there was a change in the entity's activities during the annual period that ended on that date.

As of 31 December 2015, the Group qualifies for the exemption to apply the deferral approach because the carrying amount of its liabilities (£731m) arising from insurance activity was less than 90% but greater than 80%. The Group does not engage in any significant activity unconnected with insurance. The liabilities not deriving from insurance activity amounts to £128m. These are predominantly related to tax liability and bonus accruals. Other income arising from non-insurance contracts is circa 20% of the Gross Written Premium deriving from running the related party syndicates. No change in the activities of the TMK Group occurred subsequently that would have required a reassessment.

The following table provides an overview of the fair values as of 31 December 2018 and the amounts of change in the fair values during the reporting period separately for financial assets that meet the SPPI criterion (i.e. financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI)) on the principal amount outstanding, excluding any financial asset that is managed and whose performance is evaluated on a fair value basis and all other financial assets:

31 December 2018

	SPPI		All other financial assets	
	FV	**Change in FV**	**FV**	**Change in FV**
Government securities	**66,217**	**(374)**	**-**	**-**
Debt securities	**93,351**	**(721)**	**9,918**	**(102)**
Term deposits	**4,892**	**-**	**-**	**-**
Bond fund	**65,951**	**(1,023)**	**-**	**-**
Loan fund	**-**	**-**	**13,445**	**1,433**
Unlisted equity	**-**	**-**	**16,148**	**-**
Convertible loan note	**-**	**-**	**2,807**	**-**
Derivatives	**-**	**-**	**84**	**84**
Total	**230,411**	**(2,118)**	**42,402**	**1,415**

IFRS 16 Leases replaces the current lease accounting standard, IAS 17. IFRS 16 eliminates the classification of leases as either operating or finance leases for lessees. Instead, lessees will be required to recognise both a right-of-use asset and a lease liability on balance sheet for all leases. The standard has not yet been applied and will apply to reporting periods beginning on or after 1 January 2019.

The Group has undertaken an assessment of its existing leasing arrangements in light of the new accounting rules in IFRS 16. The Group will take the modified retrospective transition approach where prior year comparative figures will not be restated and the cumulative effect of the change in accounting policy will be recognised as an adjustment to opening equity. The lease liability will be measured at the present value of remaining lease commitments, discounted using rates as at the date of transition. The right-of-use asset will be measured at an amount equal to the lease liability at the date of transition.

The Group will apply several practical expedients as permitted by the standard. The Group will not reassess whether an existing contract is, or contains, a lease on transition. The Group will apply the standard to all contracts previously identified as leases in accordance with IAS 17 and will apply the IFRS 16 definition of a lease to all contracts entered into after the date of transition. The Group will apply a single discount rate to its sole portfolio of property leases. The Group's incremental borrowing rate will be used as the discount rate, which is calculated as the average of each operating lease's applicable discount rate weighted by the remaining aggregate payments on that lease. The applicable discount rates are estimated by using the Group's unsecured borrowing rates and making adjustments to the rate to determine a secured borrowing rate. Any leases that are low value or short term will be expensed on a straight-line basis to the income statement in accordance with IFRS 16.

IFRS 17 Insurance contracts was issued in May 2017 by the IASB and has the effect of fundamentally changing the statutory reporting requirements of insurance entities. IFRS 17 replaces the existing insurance contracts accounting standard, IFRS 4, and is effective for annual periods beginning on or after 1 January 2022, with early application permitted. The EU is yet to endorse IFRS 17. The operational and reporting impact on the business from adopting IFRS 17 is still being assessed by the Group.

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 2018. 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 or when entities of the Group act as underwriting agent on behalf of third parties. Profit commissions are calculated by reference to the agency agreement and in particular to the underwriting year result. Profit commission is recognised on accrual basis principle using an earnings historical pattern. A certain degree of constraint is applied to consider the likelihood of potential revenue reversal.

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 pound 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 comprises claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported (IBNR) 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 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 as a percentage of the gross claims reserves held at the balance sheet date.

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 10) 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 in equal amount instalments, with the first instalment charged to the financial year in which the profit is made. Future amounts payable yet to accrue 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 20. 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.

Other intangibles

'Other' intangibles predominantly consists of vendor relationships – Lloyd's (£32.7m), WNC trademarks (£5m) and client relationships (£12.7m). Vendor relationships – Lloyd's is measured at cost less impairment, whilst the remaining other intangibles are amortised, using the straight line method, over their useful economic life. The life of each of the assets are reviewed based upon contractual or experience expectations. 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

Only TMKI 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 with 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* acquisition. 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 it has been transferred and the Group has also substantially transferred 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. These investments are 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 in the income statement.

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 ventures

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 shareholders and interim dividends when they are paid.

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	Pipeline premium is based on underwriters' estimated written premium and statistical analysis of historical pipeline development patterns. The pipeline premium included within gross written premium is £51.2m (2017: £40.0m), of that £21.5m is unearned at 31 December 2018 (2017: £17.6m).
Earned premium	The earning of premiums is based primarily on time apportionment, with an adjustment for the risk profile of certain classes of business.
Deferred tax	Deferred tax is recognised in respect of all timing differences that have originated but have not reversed at the balance sheet date. Such differences may result in an obligation to pay more tax in the future or may result in a right to pay less tax in the future. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws as enacted or substantially enacted at the balance sheet date. It is recognised in the income statement account for the period and is measured on a non-discounted basis. Deferred tax assets are recognised to the extent that it is more likely than not that they will be recovered. Unrelieved UK tax losses may be recognised as deferred tax assets only to the extent that the directors consider it probable that such losses can be utilised against other future taxable profits and against the reversal of deferred tax liabilities.
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 is determined by using valuation techniques.
Pension Liabilities	A full description is set out in note 34 under principal actuarial assumptions.

3. Net insurance premium

	Note	**2018 £'000**	2017 £'000
Gross premium revenue			
Gross written premiums	30	**302,288**	286,472
Reinsurers' share of gross written premiums	30	**(110,694)**	(109,516)
Total net written premiums	30	**191,594**	176,956
Change in the provision for unearned premiums			
Gross change in unearned premium provision		**(4,852)**	(36,834)
Reinsurers' share of change in unearned premium provision		**(1,347)**	5,750
Total net change in the provision for unearned premiums		**(6,199)**	(31,084)
Total net insurance premium revenue	30	**185,395**	145,872

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

4. Investment Return

	2018 £'000	2017 £'000
Interest on investments and cash	**3,534**	3,291
Net fair value losses on underwriting investments	**(3,062)**	(526)
Investment income from underwriting assets	**472**	2,765
Interest on investments and cash	**1,392**	2,972
Net fair value (losses)/gains on non-underwriting investments	**(188)**	658
Investment income from non-underwriting assets	**1,204**	3,630
Total investment income	**1,676**	6,395

	2018 £'000	2017 £'000
Financial Assets at fair value through profit or loss (designated upon initial recognition)		
Net fair value (losses)/gains	**(3,250)**	132
Interest income	**1,679**	3,610
Financial Assets at cost		
Interest Income	**1,956**	1,891
Cash and cash equivalents interest income	**1,291**	762
Total investment income	**1,676**	6,395

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

	Rate of return		Investment Income	
	2018	2017	**2018**	2017
	%	%	**£'000**	£'000
Funds at Lloyd's: Fixed interest and cash	**0.6**	0.2	**-**	-
Corporate investments	**0.4**	1.4	**1,676**	6,395
Total investment income	**0.4**	1.4	**1,676**	6,395

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	
	2018	2017
	%	%
Sterling	**0.5**	1.0
US dollar	**0.5**	1.7
Canadian dollar	**0.8**	0.1
Euros	**0.1**	2.2
Blended rate of return	**0.4**	1.4

5. Fees and commission income

	2018	2017
	£'000	£'000
Agency fees receivable from non-group capital providers	**11,405**	11,578
Profit commission on closing YOA	**11,461**	18,328
Profit commission on other YOA	**61,839**	7,638
Recharges to non-group capital providers	**99,870**	85,568
Total fees and commission income	**184,575**	123,112

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

The increase in profit commission is as a result of the additional profit commission earned following the acquisition of WNC Holding Company, LP.

6. Other income

	2018	2017
	£'000	£'000
Interest income	**208**	58
Other	**1,068**	2,256
Total other income	**1,276**	2,314

Within Other is £525,758 (2017: £910,301) for dividends received from the Group's participation as a member in the Pool Re scheme and £171,658 of tax credits for research and development (2017: £332,751).

7. Net insurance claims and loss adjustment expenses

	Note	2018 £'000	2017 £'000
Gross claims paid			
Total gross claims paid	30	**143,383**	108,609
Reinsurers' share of gross claims paid	30	**(46,500)**	(37,518)
Total net claims paid	30	**96,883**	71,091
Gross change in insurance liabilities			
Gross change in outstanding claims		**45,029**	33,166
Reinsurers' share of change in outstanding claims		**(18,753)**	(4,834)
Total net change in insurance liabilities		**26,276**	28,332
Total net insurance claims incurred	30	**123,159**	99,423

8. Operating and administrative expenses

	2018 £'000	2017 £'000
Net operating expenses	**82,076**	66,944
Corporate and administrative expenses	**190,638**	114,056
Total operating and administrative expenses	**272,714**	181,000

	Note	2018 £'000	2017 £'000
Acquisition costs		**55,351**	50,676
Reinsurance commissions		**(18,927)**	(17,146)
Movement in deferred acquisition costs		**(1,727)**	(10,108)
Staff costs	9	**91,417**	68,043
Profit related bonus element	9	**4,285**	6,546
Profit commission	9	**4,660**	7,406
Auditors' remuneration	11	**1,351**	1,194
Depreciation charge	15	**2,982**	3,896
Amortisation charge	16	**6,312**	5,751
Other administrative expenses		**127,010**	64,742
Total operating and administrative expenses		**272,714**	181,000

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.

The increase in total operating and administrative expenses is driven by the acquisition of WNC Holding Company, LP which is now a fully consolidated subsidiary.

9. *Staff costs and other employee related costs*

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

	2018 £'000	2017 £'000
Salaries and bonuses	**83,858**	61,460
Social security costs	**7,559**	6,583
	91,417	68,043
Profit related bonus element	**4,285**	6,546
Profit commission	**4,660**	7,406
Total staff and other employee related costs	**100,362**	81,995

The average monthly number of persons employed by the Group during the year was 975; 735 non-underwriting and 240 underwriting staff (2017: 748; 488 non-underwriting and 260 underwriting staff). This increase is as a result of the additional staff employed from WNC Holding Company, LP.

Directors' emoluments

	2018 £'000	2017 £'000
Aggregate emoluments	**4,682**	5,480

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

	2018 £'000	2017 £'000
Fees and other emoluments:		
C A S Franks	**1,864**	1,962

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

10. 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 £6,507,869 (2017: £9,374,654). This comprises two components being the PRR amounts vested in the current year (i.e. unvested at the previous statement of financial position date) plus the element of the 2018 financial year's PRR computed as described above and chargeable to the current year.

As at the year-end date the amount of unvested PRR totals £8,272,321 (2017: £12,767,880). This is detailed below:

	2018 **£'000**	2017 £'000
Due April 2019	-	7,956
Due April 2020	**6,405**	2,588
Due April 2021	**711**	1,240
Due April 2022	**646**	984
Due April 2023	**510**	-
	8,272	12,768

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 2018 financial year will be made in April 2019 (2017 financial year offer acceptance: £318,961).

11. Auditors' remuneration

	2018 **£'000**	2017 £'000
Fees payable to the Company's auditors for the audit of the parent company and consolidated financial statements	**208**	143
Fees payable to the Company's auditors and its associates for other services:		
-The audit of the company's subsidiaries	**649**	551
-Audit related assurance services	**307**	303
-Tax advisory services	**4**	6
-All other services	**183**	191
Total auditors' remuneration	**1,351**	1,194

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.

12. Finance costs

	Note	2018 £'000	2017 £'000
Bank facility fees		**518**	755
Net cost of defined benefit pension scheme	34	**(38)**	(13)
Interest charges		**787**	-
Unwinding of discount on provisions		**19**	28
Total finance costs		**1,286**	770

13. Gains/(losses) arising from foreign exchange

Impact of foreign exchange related items	2018 £'000	2017 £'000
Income statement		
Net (losses)/gains on forward exchange hedges and option contracts	**(2,511)**	1,739
Recycling of foreign currency translations reserve on revaluation of previously held shares	**4,520**	-
Net gains/(losses) on transactions and translation of assets and liabilities at closing rates	**378**	(2,633)
Total foreign exchange gains/(losses) recognised in the consolidated income statement	**2,387**	(894)
Statement of other comprehensive income		
Recycling of foreign currency translations reserve on revaluation of previously held shares	**(4,520)**	-
Gains/(losses) on retranslation of foreign operations recognised in other comprehensive income	**4,822**	(5,920)
Total impact of foreign exchange on net assets	**2,689**	(6,814)

Exchange Rates

	31 December 2018	31 December 2017
Average		
US dollar	1.34	1.29
Canadian dollar	1.73	1.67
Euro	1.13	1.14
Closing		
US dollar	1.27	1.35
Canadian dollar	1.74	1.70
Euro	1.11	1.13

14. Income tax expense

Current year tax expense/(credit)	Note	2018 £'000	2017 £'000
Current Tax			
UK corporation tax on (losses)/profits		**(2,177)**	521
Overseas tax on profits		**2,772**	3,061
Adjustments in respect of prior years		**(707)**	(8,919)
Total current tax		**(112)**	(5,337)
Deferred Tax			
Charge of temporary differences		**355**	7,213
Effect of reduction of UK corporation tax rate from 20% to 19% in 2017 and to 17% in 2020		**(59)**	(20)
Total deferred tax	20	**295**	7,193
Income tax expense reported in the consolidated income statement		**183**	1,856

Deferred Tax	Note	2018 £'000	2017 £'000
Income tax expense reported in consolidated statement of comprehensive income	20	**26**	153

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

Reconciliation of total tax charge	2018 £'000	2017 £'000
(Loss)/profit on ordinary activities before taxation	**(17,869)**	3,693
(Loss)/profit on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK of 19% (2017: 19.25%)	**(3,395)**	711
Expenses permanently disallowable	**(151)**	(985)
Adjustments in respect of prior years	**1,058**	(537)
Effect of reductions in UK corporation tax rate	**(358)**	(20)
Overseas tax at rates different to UK	**3,029**	2,687
Total tax charge for the year	**183**	1,856

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 2018		**8,203**	**6,274**	**123**	**12,713**	**5,755**	**33,068**
WNC acquisition		**272**	**312**	**-**	**379**	**-**	**963**
Foreign exchange difference		**54**	**(34)**	**2**	**53**	**7**	**82**
Additions		**348**	**1,029**	**28**	**208**	**-**	**1,613**
Disposals		**(1,467)**	**(440)**	**(62)**	**(63)**	**-**	**(2,032)**
At 31 December 2018		**7,410**	**7,141**	**91**	**13,290**	**5,762**	**33,694**
Accumulated depreciation							
At 1 January 2018		**(6,757)**	**(5,065)**	**(66)**	**(4,187)**	**(1,114)**	**(17,189)**
WNC acquisition		**(138)**	**(252)**	**-**	**(303)**	**-**	**(693)**
Foreign exchange difference		**(25)**	**30**	**(1)**	**(39)**	**(7)**	**(42)**
Charge for the year	8	**(725)**	**(632)**	**(13)**	**(1,275)**	**(337)**	**(2,982)**
Disposals		**1,206**	**211**	**47**	**-**	**-**	**1,464**
At 31 December 2018		**(6,439)**	**(5,708)**	**(33)**	**(5,804)**	**(1,458)**	**(19,442)**
Net book value 31 December 2017		**1,446**	**1,209**	**57**	**8,526**	**4,641**	**15,879**
Net book value 31 December 2018		**971**	**1,433**	**59**	**7,486**	**4,304**	**14,252**

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 2017		8,162	5,909	143	12,845	5,746	32,805
Foreign exchange difference		(1)	(5)	6	22	(9)	13
Additions		43	378	35	-	18	474
Disposals		(1)	(8)	(61)	(154)	-	(224)
At 31 December 2017		8,203	6,274	123	12,713	5,755	33,068
Accumulated depreciation							
At 1 January 2017		(5,838)	(3,641)	(86)	(2,983)	(798)	(13,346)
Foreign exchange difference		5	6	(4)	(14)	9	2
Charge for the year	8	(924)	(1,438)	(19)	(1,190)	(325)	(3,896)
Disposals		-	8	43	-	-	51
At 31 December 2017		(6,757)	(5,065)	(66)	(4,187)	(1,114)	(17,189)
Net book value 31 December 2016		2,324	2,268	57	9,862	4,948	19,459
Net book value 31 December 2017		1,446	1,209	57	8,526	4,641	15,879

16. Intangible assets

	Note	Computer Software £'000	Intangible assets under development £'000	Goodwill £'000	Other £'000	Total £'000
Cost						
At 1 January 2018		**46,564**	**997**	**10,667**	**-**	**58,228**
WNC acquisition		**1,545**	**-**	**42,563**	**53,218**	**97,326**
Foreign exchange difference		**145**	**-**	**223**	**4,143**	**4,511**
Additions		**-**	**2,232**	**-**	**-**	**2,232**
Disposals		**(531)**	**-**	**-**	**-**	**(531)**
Impairment		**-**	**-**	**(6,016)**	**-**	**(6,016)**
Completed projects		**1,097**	**(1,097)**	**-**	**-**	**-**
At 31 December 2018		**48,820**	**2,132**	**47,437**	**57,361**	**155,750**
Accumulated amortisation						
At 1 January 2018		**(40,397)**	**-**	**-**	**-**	**(40,397)**
WNC acquisition		**(1,260)**	**-**	**-**	**-**	**(1,260)**
Foreign exchange difference		**(118)**	**-**	**-**	**(116)**	**(234)**
Charge for the year	8	**(3,274)**	**-**	**-**	**(3,038)**	**(6,312)**
Disposals		**549**	**-**	**-**	**-**	**549**
At 31 December 2018		**(44,500)**	**-**	**-**	**(3,154)**	**(47,654)**
Net book value 31 December 2017		**6,167**	**997**	**10,667**	**-**	**17,831**
Net book value 31 December 2018		**4,320**	**2,132**	**47,437**	**54,207**	**108,096**

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

	Note	Computer Software £'000	Intangible assets under development £'000	Goodwill £'000	Renewal rights £'000	Total £'000
Cost						
At 1 January 2017		43,635	1,078	10,652	-	55,365
Foreign exchange difference		(16)	-	15	-	(1)
Additions		1,848	1,016	-	-	2,864
Disposals		-	-	-	-	-
Completed projects		1,097	(1,097)	-	-	-
At 31 December 2017		46,564	997	10,667	-	58,228
Accumulated amortisation						
At 1 January 2017		(34,662)	-	-	-	(34,662)
Foreign exchange difference		16	-	-	-	16
Charge for the year	8	(5,751)	-	-	-	(5,751)
Disposals		-	-	-	-	-
At 31 December 2017		(40,397)	-	-	-	(40,397)
Net book value 31 December 2016		8,973	1,078	10,652	-	20,703
Net book value 31 December 2017		6,167	997	10,667	-	17,831

'Other' intangibles predominantly consists of vendor relationships - Lloyd's (£32.7m), WNC trademarks (£5m) and client relationships (£12.7m).

An analysis of goodwill is shown below:

	2018 **£'000**	2017 £'000
Kiln Europe S.A.	-	5,337
Tokio Marine Kiln Hong Kong Limited	-	1,578
Tokio Marine Kiln Regional Underwriting Limited	**1,689**	3,752
WNC	**45,748**	-
	47,437	10,667

Goodwill

Goodwill is measured by reference to the original cost of the acquisition less any accumulated impairment charges. The Group assess whether there is an indication of impairment at the end of each reporting period if such indication exists an impairment test is carried out. Irrespective of whether there is an indication of impairment as required by IAS 36 para 10 (b) the goodwill is tested annually.

The impairment test is carried out for each cash generating unit (CGU) of the Group. The CGUs net asset value (NAV) is compared against its recoverable amount, which is defined as the higher of its fair value less the cost of disposal and its value in use (VIU). Each acquisition is assessed separately as a cash generating unit for impairment testing purposes.

The Group consider the VIU a reasonable proxy of the recoverable amount in particular when it appears impractical using observable input for the FV calculation. The VIU is the net present value of the future cash flow expected to be derived from the CGUs.

The calculation of VIU is based on 5 years profit projection and a terminal value thereafter. The terminal value is calculated by using the next year's budgeted result grown at long-term economic growth rate of the relevant country of operation and discounted by the Group weighted cost of capital (WACC). The WACC is calculated using the TMK Head Office Return on Capital plus the risk-free rate on a 10-year UK Government bond less the risk-free rate on a 10-year Japanese government bond. The Group WACC was calculated to be 8.45% (2017: 8.15%).

The impact of the Lloyd's Decile Review impacted the viability of certain service companies within the Group. This included the Group's Hong Kong office, an investment in a European coverholder (Ibex) and Tokio Marine Kliln Regional Underwriting Limited. The impairment charge as at 31 December 2018 amounted to £6.0m.

17. Business Combination

On 12 January 2018, the Group acquired the remaining 51% share of WNC in exchange of consideration of £29.3m. the acquisition strengthened the Group strategic plan in the USA. Prior to the acquisition, the Group owned a 49% interest in WNC's equity. As required by paragraph 42 of IFRS 3, the Group remeasured the fair value of the existing equity interest in WNC. As a result, an impairment loss of £3.0m has been recognised in the Income Statement as at 31 December 2018.

Details of the purchase consideration and net assets acquired are as follows:

Purchase consideration	2018 £'000
Consideration to Class B and C shareholders	11,493
Transaction bonus to WNC shareholders	4,944
Repayment of ING loan	12,909
Fair value of equity interest in WNC before the business combination	28,549
Total purchase consideration	57,895

Please note, these values have been converted at the acquisition date USD exchange rate of 1.3689.

The assets and liabilities recognised as a result of the acquisition are as follows:

	2018 £'000
Current assets	50,537
Fixed assets	557
Intangible assets	53,218
Other assets	182
Current liabilities	(52,002)
Loan notes - TMK	(18,594)
Interest payable	(7,173)
Deferred tax liability	(11,393)
Net identifiable assets acquired	15,332
Add: goodwill	42,563
Net assets acquired	57,895

The net outflow of cash to acquire the subsidiary is detailed below:

Outflow of cash to acquire subsidiary, net of cash acquired	2018 £'000
Cash consideration	29,346
Less: balances acquired:	-
Cash	28,882
Net outflow of cash	(464)

18. 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 owned a 49% equity interest and is using the equity accounting method as per IFRS 11.

On 12 January 2018, TMK purchased the remaining 51% share in the business, giving the TMK Group its first wholly owned operation in the US. It is therefore now consolidated as a fully owned subsidiary.

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% 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.

	NAS Insurance Services, LLC	**Total**
	£'000	**£'000**
At 1 January 2018	**36,744**	**36,744**
Share of profit	**4,031**	**4,031**
Other comprehensive expense	**2,707**	**2,707**
Dividend distributed	**(170)**	**(170)**
At 31 December 2018	**43,312**	**43,312**

	WNC Holding Company LP	NAS Insurance Services, LLC	2017
	£'000	£'000	£'000
At 1 January 2017	32,632	40,606	73,238
Share of profit	2,182	5,786	7,968
Other comprehensive income	(2,677)	(3,304)	(5,981)
Dividends distributed	-	(6,344)	(6,344)
At 31 December 2017	32,137	36,744	68,881

Statement of financial position

	NAS Insurance Services, LLC	2018	WNC Holding Company LP	NAS Insurance Services, LLC	2017
	£'000	**£'000**	£'000	£'000	£'000
Current assets	**58,118**	**58,118**	48,485	41,860	90,345
Non current assets	**22,519**	**22,519**	43,215	19,532	62,747
Total assets	**80,637**	**80,637**	91,700	61,392	153,092
Current liabilities	**(44,091)**	**(44,091)**	(49,471)	(34,946)	(84,417)
Non current liabilities	**(7,396)**	**(7,396)**	(45,869)	(7,255)	(53,124)
Net Assets	**29,150**	**29,150**	(3,640)	19,191	15,551

Statement of comprehensive income

	NAS Insurance Services, LLC	2018	WNC Holding Company LP	NAS Insurance Services, LLC	2017
	£'000	**£'000**	£'000	£'000	£'000
Revenue	**31,000**	**31,000**	27,113	33,230	60,343
Profit/(loss) for the year	**9,958**	**9,958**	5,133	(3,028)	2,105

Reconciliation of financial information

	NAS Insurance Services, LLC	2018	WNC Holding Company LP	NAS Insurance Services, LLC	2017
	£'000	**£'000**	£'000	£'000	£'000
Opening net assets 1 January	**19,191**	**19,161**	(8,773)	22,219	13,446
Profit/(loss) for the year	**8,226**	**8,226**	4,453	11,809	16,262
Other comprehensive income/(expense)	**1,903**	**1,903**	680	(8,493)	(7,813)
Dividend distributed	**(170)**	**(170)**	-	(6,344)	(6,344)
Closing net assets 31 December	**29,150**	**29,150**	(3,640)	19,191	15,551
Interest in Joint venture @ 49%	**14,283**	**14,283**	(1,784)	9,404	7,620
Goodwill	**29,029**	**29,029**	33,921	27,340	61,261
Closing net assets	**43,312**	**43,312**	32,137	36,744	68,881

19. 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.

	2018	2017
	£'000	£'000
Income Statement Group Share		
Revenue	**1,144**	1,433
Profit on ordinary activities	**55**	119
Profit reported in the income statement	**55**	119
Statement of financial position - Group Share		
Investments	**132**	150
Long term assets	**89**	2,130
Current assets	**873**	770
Total Assets	**1,094**	3,050
Current liabilities	**(505)**	(497)
Long term loan	**(19)**	(22)
Net assets	**570**	2,531

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

	2018	2017
	£'000	£'000
Balance at 1 January	**2,531**	2,331
Foreign Exchange	**(343)**	81
Impairment	**(1,387)**	-
Deferred profit elimination	**(286)**	-
Share of profit after tax arising in the year	**55**	119
Balance at 31 December	**570**	2,531

20. Deferred Taxation

	2018	2017
	£'000	£'000
Deferred tax asset	**5,393**	7,334
Deferred tax liability	**(19,548)**	(8,907)
Net liability	**(14,155)**	(1,573)

	Note	Capital Allowances	Expenses to be relieved in future periods	Income taxable in future periods	Deferred tax on acquisitions	Total
		£'000	**£'000**	**£'000**	**£'000**	**£'000**
Net (liability)/asset at 1 January 2017		3,709	6,391	(4,327)	-	5,773
Income statement charge	14	(897)	(1,825)	(4,471)	-	(7,193)
Statement of comprehensive income	14	-	-	(153)	-	(153)
Net (liability)/asset at 31 December 2017		**2,812**	**4,566**	**(8,951)**	**-**	**(1,573)**
Income statement charge	14	**(16)**	**(1,969)**	**1,690**	**-**	**(295)**
WNC acquisition		**-**	**-**	**-**	**(12,261)**	**(12,261)**
Statement of comprehensive income	14	**-**	**-**	**(26)**	**-**	**(26)**
Net (liability)/asset at 31 December 2018		**2,796**	**2,597**	**(7,287)**	**(12,261)**	**(14,155)**

	2018	2017
	£'000	£'000
Deferred tax to be realised within 12 months	**(660)**	155
Deferred tax to be realised after 12 months	**(13,495)**	(1,728)
Total deferred taxation	**(14,155)**	(1,573)

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 the release of the tax only claims equalisation reserve and other short timing differences.

The deferred tax liability on acquisition relates to the January 2018 transaction where TMK purchased the remaining 51% of the US-based coverholder WNC Insurance Holding Corporation.

The deferred tax balances have been re-measured during the year to reflect the reductions in the UK corporation tax rate to 17% on 1 April 2020. These reductions in rate have resulted in a credit to the profit and loss account of £59,000 (2017: credit of £20,000).

21. Deferred acquisition costs

	2018 £'000	2017 £'000
At 1 January	**18,166**	8,058
Cost deferred during the year	**5,979**	10,662
Charge for the year	**(4,252)**	(554)
At 31 December	**19,893**	18,166

All deferred acquisition costs are considered current.

22. Prepayments and accrued income

	2018 £'000	2017 £'000
Prepayments	**12,513**	8,692
Accrued interest	**1,029**	220
Accrued profit commission	**12,898**	31,100
Total prepayments and accrued income	**26,440**	40,012

	2018 £'000	2017 £'000
Current prepayments and accrued income	**26,243**	38,772
Non current prepayments and accrued income	**197**	1,240
Total prepayments and accrued income	**26,440**	40,012

23. Insurance receivables

	2018 £'000	2017 £'000
Due from agents, brokers and intermediaries	**114,305**	83,220
Due from reinsurers	**38,967**	23,486
Total insurance receivables	**153,272**	106,706

	2018 £'000	2017 £'000
Current insurance receivables	**73,930**	48,035
Non-current insurance receivables	**79,342**	58,671
Total insurance receivables	**153,272**	106,706

24. Other assets

	2018 £'000	2017 £'000
IPT Recoverable	**1,013**	856
Amounts owed by related party	**16,504**	28,593
Other receivables	**17,420**	8,742
Total other assets	**34,937**	38,191

	2018 £'000	2017 £'000
Current other assets	**33,616**	25,935
Non-current other assets	**1,321**	12,256
Total other assets	**34,937**	38,191

25. 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 currency derivatives. These have been valued at fair value using quoted prices in an active market. Term deposits are also classified as level 1.
- Level 2 financial instruments are less regularly traded government agency bonds, supranational bonds, corporate bonds and currency derivatives. These fair values have been derived from quoted prices.
- The fair values for level 3 financial instruments are generally derived from inputs that are not based on observable market data. Level 3 securities consist of a position in a private corporate loan fund, two unlisted equity investments and a convertible loan note.

		2018 £'000		
	Level 1	**Level 2**	**Level 3**	**Total**
Financial investment assets				
Debt securities:				
Government securities	**66,217**	-	-	**66,217**
Debt securities	-	**103,268**	-	**103,268**
Term deposits	-	**4,892**	-	**4,892**
Bond Fund	-	**65,951**	-	**65,951**
Loan Fund	-	-	**13,445**	**13,445**
Derivatives	**84**	-	-	**84**
Unlisted equity	-	-	**16,148**	**16,148**
Convertible loan note	-	-	**2,807**	**2,807**
Total financial investment assets at fair value through the income statement - designated upon initial recognition	**66,301**	**174,111**	**32,400**	**272,812**
Loan notes at amortised cost	-	-	-	**6,772**
Total financial investment assets	**66,301**	**174,111**	**32,400**	**279,584**

	2018 £'000 Level 1	Level 2	Level 3	Total
Financial investment liabilities				
Derivatives	-	-	-	-
Total financial investment liabilities at fair value through the income statement - designated upon initial recognition	-	-	-	-

	2017 £'000 Level 1	Level 2	Level 3	Total
Financial investment assets				
Debt securities:				
Government securities	57,171	-	-	57,171
Debt securities	-	109,511	-	109,511
Term deposits	9,921	-	-	9,921
Bond Fund	-	68,836	-	68,836
Loan Fund	-	-	16,177	16,177
Derivatives	-	-	-	-
Total financial investment assets at fair value through the income statement - designated upon initial recognition	67,092	178,347	16,177	261,616
Loan notes at amortised cost	-	-	-	32,108
Total financial investment assets	67,092	178,347	16,177	293,724

	2017 £'000 Level 1	Level 2	Level 3	Total
Financial investment liabilities				
Derivatives	17	-	-	17
Total financial investment liabilities at fair value through the income statement - designated upon initial recognition	17	-	-	17

Level 3 financial instruments

	2018 £'000	2017 £'000
Financial investment assets		
Opening balance	**16,177**	17,015
Sales during the year	**(6,175)**	(7,098)
Purchases during the year	**21,805**	4,827
Gains recognised in the income statement	**592**	1,433
Closing balance	**32,399**	16,177

Financial investments include corporate investments held by Group entities.

	2018 £'000	2017 £'000
Corporate investments		
Debt securities and other fixed income securities	**103,268**	109,511
Government securities	**66,217**	57,171
Foreign exchange	**84**	-
Term deposits	**4,892**	9,921
Bond Fund	**65,951**	68,836
Loan fund	**13,445**	16,177
Unlisted equity	**16,148**	-
Convertible loan note	**2,807**	-
At fair value	**272,812**	261,616
Loan notes at amortised cost	**6,772**	32,108
Total Financial investment assets at 31 December 2018	**279,584**	293,724

	2018 £'000	2017 £'000
Current financial investment assets	**130,933**	139,511
Non-current financial investments	**148,651**	154,213
Total financial investments	**279,584**	293,724

A more detailed analysis of the maturity of investments is disclosed in note 37.

26. Cash and cash equivalents

	2018 £'000	2017 £'000
Cash at bank and in hand	**138,083**	118,741
Short-term bank deposits	**182,919**	190,904
Total cash and cash equivalents	**321,002**	309,645

All deposits are subject to an average variable interest rate of 0.87% per annum (2017: 0.54%) and have an average maturity of six days (2017: one days). The carrying amounts disclosed above reasonably approximate fair values at year end.

27. Called up share capital

	2018 £'000	2017 £'000
Allotted Ordinary shares and fully paid:		
As at 1 January 101,000,000 (2017: 101,000,000) at 1p each	**1,010**	1,010
As at 31 December 101,000,000 (2017: 101,000,000) at 1p each	**1,010**	1,010

All issued shares are fully paid.

28. Dividends

Declared and paid during the year	**2018 £'000**	2017 £'000
Interim dividends paid during the year (2017:nil)	-	-

29. Provisions

Land and buildings

5th Floor, 20 Fenchurch Street:

A provision of £108,134 remained as at 31 December 2017 to cover the partial sub-let of the 5th Floor, 20 Fenchurch Street, for which the remaining term of the lease is thirteen years. During 2018, £2,987 was released and there was a £3,173 unwind of the discount. £67,419 of the provision was utilised in 2018, bringing the balance to £40,900. An additional provision of £2.9m onerous lease has been provided for in accordance with IAS 37. This is calculated as the present value of unavoidable costs, net of the expected benefits under the contract.

60 Gracechurch Street:

Tokio Marine Europe Limited (TMEL) 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 TMEL vacated the property and is liable for the remaining annual rental charge of £953,018. A provision of £280,695 remained as at 31 December 2017 to cover the sub-let of the building. During 2018, £389,305 was additionally provided bringing the closing balance to £670,000.

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 £670,000 has been created to cover the dilapidations on the lease at 60 Gracechurch Street. This lease expires on 28 September 2021.

Other

Syndicate 308, managed by TMKS, wrote 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 has been working with all parties to resolve the situation. During 2016 a provision of £2,037,903 was recognised to cover potential regulatory sanctions and future professional fees. During 2017, £1,202,916 was utilised of this provision bringing the closing balance to £834,987 During 2018, a further £367,676 was utilised, bringing the closing balance to £467,311. The remaining other provisions are recognised to cover the best estimate of certain potential legal disputes and professional fees imposed on the Company.

In the course of conducting its business the Company enters into commercial contracts and agreements which may from time to time result in it becoming involved in actual or threatened litigation. Where there is an actual or probable material exposure this is provided for, and in the case of a possible material exposure disclosed in the financial statements.

	Land and buildings	Dilapidations	Other	Total
	£'000	£'000	£'000	£'000
At 1 January 2017	600	5,921	3,557	10,078
Utilised during the year	(285)	-	(2,131)	(2,416)
Provided during the year	2	-	3,369	3,371
Unwinding of discounting	28	-	(254)	(226)
At 31 December 2017	**345**	**5,921**	**4,541**	**10,807**
Utilised during the year	**(126)**	**-**	**(3,837)**	**(3,963)**
Provided during the year	**2,955**	**389**	**472**	**3,817**
Unwinding of discounting	**19**	**-**	**(14)**	**5**
At 31 December 2018	**3,193**	**6,310**	**1,163**	**10,666**

30. Insurance contract assets and liabilities

Insurance contract assets and liabilities may be analysed as follows:

	2018			2017		
	Insurance contract liabilities	**Reinsurance assets**	**Net**	Insurance contract liabilities	Reinsurance assets	Net
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Provision for reported claims	**246,281**	**(102,687)**	**143,594**	182,926	(65,335)	117,591
Provision for claims incurred but not reported (IBNR)	**92,606**	**(20,249)**	**72,357**	106,118	(35,898)	70,220
Total claims reported and IBNR provision	**338,887**	**(122,936)**	**215,951**	289,044	(101,233)	187,811
Provision for unearned premiums	**100,115**	**(21,509)**	**78,606**	95,263	(22,857)	72,406
Total insurance contract liabilities	**439,002**	**(144,445)**	**294,557**	384,307	(124,090)	260,217

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

		2018			2017		
	Note	**Insurance contract liabilities**	**Reinsurance assets**	**Net**	Insurance contract liabilities	Reinsurance assets	Net
		£'000	**£'000**	**£'000**	£'000	£'000	£'000
At 1 January		**289,044**	**(101,233)**	**187,811**	254,479	(97,144)	157,335
Claims incurred during the year		**188,412**	**(65,253)**	**123,159**	141,775	(42,352)	99,423
Claims paid during the year	7	**(143,383)**	**46,500**	**(96,883)**	(108,609)	37,518	(71,091)
Foreign exchange adjustments		**4,814**	**(2,950)**	**1,864**	1,399	745	2,144
At 31 December		**338,887**	**(122,936)**	**215,951**	289,044	(101,233)	187,811

The provision for unearned premiums may be analysed as follows:

	Note	2018 **Insurance contract liabilities £'000**	**Reinsurance assets £'000**	**Net £'000**	2017 Insurance contract liabilities £'000	Reinsurance assets £'000	Net £'000
At 1 January		**95,263**	**(22,857)**	**72,406**	58,429	(17,107)	41,322
Premiums written in the year	3	**302,288**	**(110,694)**	**191,594**	286,472	(109,516)	176,956
Premiums earned during the year		**(297,436)**	**112,042**	**(185,394)**	(249,638)	103,766	(145,872)
At 31 December		**100,115**	**(21,509)**	**78,606**	95,263	(22,857)	72,406

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

31. 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 2018 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:	2012 & prior £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m
Year 1	2,150	367	151	201	145	174	219
Year 2	2,126	364	160	205	159	166	
Year 3	2,106	366	164	188	149		
Year 4	2,104	368	156	183			
Year 5	2,103	368	154				
Year 6	2,098	367					
Year 7	2,094						
Less:							
Claims paid	2,072	361	135	158	110	75	37
Future claims	-	-	-	-	1	5	60
Add:							
Management margin	1	-	1	2	2	6	8
Outstanding claims reserves	**26**	**7**	**20**	**26**	**40**	**91**	**129**
Total outstanding claims reserve	**339**						

Net of reinsurance			Underwriting Year				
Estimate of ultimate claims at end of:	2012 & prior £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m
Year 1	700	88	99	109	92	125	142
Year 2	685	77	102	110	96	124	
Year 3	682	80	106	106	88		
Year 4	689	80	103	101			
Year 5	688	80	101				
Year 6	683	78					
Year 7	681						
Less:							
Claims paid	669	75	90	84	66	54	26
Future claims	-	-	1	-	1	4	46
Add:							
Management margin	1	-	1	1	2	4	5
Outstanding claims reserves	**16**	**4**	**11**	**18**	**22**	**71**	**74**
Total outstanding claims reserve	**216**						

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 £3.4m more gross reserves and £2.2m more net reserves being reported. A decrease in gross and net outstanding claims reserves of 1% would result in £3.4m less gross reserves and £2.2m less net reserves being reported. The profit effect at the net level i.e. net of reinsurance, is £2.2m (profit after tax £1.5m).

32. Insurance payables

	2018 £'000	2017 £'000
Trade payables:		
Arising out of direct insurance operations	**147,538**	99,812
Arising out of reinsurance operations	**57,986**	43,849
Deposits from reinsurers	**28,015**	33,187
Total insurance payables	**233,539**	176,848

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

33. Other liabilities

	2018 £'000	2017 £'000
Accrued expenses and deferred income	**33,716**	23,652
Payable to third party names	**3,788**	9,358
Bonus accruals	**16,304**	24,027
Owed to related party	**38,180**	41,380
Owed to parent company	**166**	-
Other payables	**18,671**	13,383
Total other liabilities	**110,825**	111,800

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.

34. Pension benefit obligation

The Group provides a defined benefit (DB) 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 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 2018 calendar year is an amount of £1,513,000 (2017: £1,513,000) of which £248,000 (2017: £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 below.

Valuation of the defined benefit pension fund

	2018
Date of last formal funding valuation	31 December 2018
Assets at valuation date	£68.8 million
Funding liabilities at valuation date	£57.7 million
Surplus at valuation date	£11.1 million
Lump sum contributions per annum to remove the deficit	£1.5 million

Summary of the Group pension scheme

	31 December 2018 £'000	31 December 2017 £'000
Present value of assets	**68,766**	72,803
Present value of obligations	**(57,691)**	(64,155)
Gross surplus in the scheme	**11,075**	8,648
Of which is allocated to syndicates	**(9,263)**	(7,233)
Gross surplus attributable to the Group	**1,812**	1,415
Deferred tax charge	**(344)**	(269)
Net surplus attributable to the Group	**1,468**	1,146

Analysis of the amount recognised in the income statement

	Note	**31 December 2018 £'000**	31 December 2017 £'000
Interest on benefit obligation		**1,566**	1,786
Expected return on pension assets		**(1,801)**	(1,863)
100% impact		**(235)**	(77)
Third parties' share of finance costs		**197**	64
Group share included in finance costs	12	**(38)**	(13)

Analysis of the amounts recognised in the Statement of Comprehensive Income

	31 December 2018 £'000	31 December 2017 £'000
Re-measurements		
Actual return less expected return on scheme assets	**(4,300)**	2,535
Changes in assumptions underlying the present value of scheme liabilities	**3,788**	(281)
Experience gain arising on the scheme's liabilities	**1,335**	2,702
Re-measurements	**823**	4,956
Deferred tax	**(156)**	(942)
100% Net re-measurement	**667**	4,014
Re-measurements, 100% level	**823**	4,956
Third parties' share of actuarial (gain)/loss	**(688)**	(4,146)
Re-measurements, Group share	**135**	810
Deferred tax	**(27)**	(153)
Group share included in SOCI	**108**	657
Net cumulative actuarial losses, 100% level	**(4,109)**	(4,932)
Net cumulative actuarial losses, Group share	**(1,684)**	(1,820)

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 2018 £'000	31 December 2017 £'000
Change in present value of defined benefit obligation		
Opening defined benefit obligation	**64,155**	67,474
Interest on obligation	**1,566**	1,786
Change in demographic assumptions	**(450)**	(2,026)
Change in financial assumptions	**(3,338)**	2,307
Past service costs	**144**	-
Experience (gains)/losses	**(1,335)**	(2,702)
Benefits paid	**(3,051)**	(2,684)
Present value of plan liabilities at end of year	**57,691**	64,155
Change in fair value of plan assets		
Opening fair value of plan assets	**72,803**	69,576
Expected return on plan assets	**1,801**	1,863
Actuarial (loss)/gain on plan assets	**(4,300)**	2,535
Contributions by employer	**1,513**	1,513
Benefits paid	**(3,051)**	(2,684)
Fair value of plan assets at end of year	**68,766**	72,803
Retirement benefit asset	**11,075**	8,648
Related deferred tax liability	**(2,104)**	(1,643)
Net pension asset	**8,971**	7,005

Reconciliation of reimbursement obligation

	31 December 2018 **£'000**	31 December 2017 £'000
Opening reimbursement obligation at 1 January	**(7,233)**	(1,758)
Net movement in actuarial losses	**(688)**	(4,146)
Interest on obligation	**1,310**	1,485
Past service costs – vested benefits	**120**	-
Expected return on plan assets	**(1,506)**	(1,548)
Share of contributions paid by third parties	**(1,266)**	(1,266)
Closing reimbursement obligation at 31 December	**(9,263)**	(7,233)

Assets in the Plan and the Actual Rates of Return

	Actual rate of return		**Value at 31 December**	
	2018	2017	**2018**	2017
	%	%	**£'000**	£'000
Fixed interest bonds	**(3.93)**	6.32	**45,921**	42,039
Insured Pensions	**-**	-	**9,095**	9,655
Equities	**(3.38)**	13.52	**5,183**	11,109
Absolute Return	**(5.86)**	2.55	**8,477**	9,959
Cash	**0.00**	0.00	**90**	41
Total market value of assets			**68,766**	72,803

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 2018 (per annum) %	31 December 2017 (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:	**3.40**	3.50
Rate of revaluation of deferred pensions in excess of Guaranteed minimum pension	**5.00**	5.00
Discount rate	**2.80**	2.50
Inflation assumption	**3.40**	3.50

The post-retirement mortality assumptions adopted as at 31 December 2018 was S2NFA (2017: 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)	**2018**		2017	
	Currently aged 60	**Aged 60 in 20 years' time**	Currently aged 60	Aged 60 in 20 years' time
Male	**28.2**	**29.7**	28.3	29.8
Female	**30.2**	**31.8**	30.3	31.8

History of experience gains and losses

	2018 £'000	**2017 £'000**	**2016 £'000**	**2015 £'000**	**2014 £'000**
Present value of assets	68,766	72,803	69,576	61,766	63,745
Present value of liabilities	(57,691)	(64,155)	(67,474)	(56,147)	(62,635)
Surplus in plan	11,075	8,648	2,102	5,619	1,110
Difference between the expected and actual return on Scheme assets:					
Amount	(4,300)	2,535	5,935	(2,561)	6,122
Percentage of Scheme assets	(6%)	3%	9%	(4%)	10%
Experience gain/(loss) on Scheme liabilities:					
Amount	1,335	2,702	778	184	(330)
Percentage of present value of the Scheme liabilities	(2.3%)	(4.2%)	(1.2%)	(0.3%)	0.5%

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 and 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 with the latest triennial actuarial valuation now underway as at 1 July 2018.

The scheme's liabilities are backed by invested assets. As at 31 December 2018, these assets comprised approximately 77% in corporate bond funds (split broadly 65% in longer and 35% in shorter duration funds), 14% in a global equity fund and 9% 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 2018 the estimated duration of the Scheme's non-insured liabilities was approximately 20 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 2018 would, all else being equal, decrease/increase by approximately £1.4m.

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 £2.5m.

35. 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 100% 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	Holds an investment in an external 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
WNC Holdings, LP	US	A holding company to WNC 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

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: 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, 91436

36. Cash flows from operating activities excluding interest income

	2018	2017
	£'000	£'000
Net (loss)/profit on ordinary activities before taxation	**(17,869)**	3,693
Adjustments for:		
Depreciation and amortisation charge	**9,294**	9,820
Impairment of associate	**1,674**	-
Share of joint venture's result	**(4,031)**	(7,968)
Share of associated undertaking's result	**(55)**	(119)
Change in receivables (reinsurance assets, prepayments & accrued income, insurance receivables and other)	**(61,983)**	(30,360)
Change in payables (insurance contract liabilities, insurance payables and other)	**65,140**	129,199
Interest and dividends receivable	**(4,926)**	(6,264)
Interest payable	**1,286**	770
Tax recovered/(paid)	**17,722**	(10,437)
Net cash flows from operating activities	**6,252**	88,334

37. Risk management policies

Details of the TMK's risk management framework are given in the 'principal risks and uncertainties section' pages 7-11 of the Group 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 £342.8m (2017: £360.5m). TMKI is the main subsidiary with insurance activity and as such has a regulatory capital requirement as at 31 December 2018 of £124.1m. 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 2018

	Gross Claims Provision £'000	Reinsurance Claims Provision £'000	Net Claims Provision £'000
Marine and Transport	**24,935**	**(5,631)**	**19,304**
Aviation	**38,504**	**(38,504)**	**-**
Property and Liability	**272,018**	**(76,697)**	**195,321**
Reinsurance	**3,430**	**(2,104)**	**1,326**
Total	**338,887**	**(122,936)**	**215,951**

	Gross Claims Provision £'000	Reinsurance Claims Provision £'000	Net Claims Provision £'000
United Kingdom	**170,805**	**(59,928)**	**110,877**
Other Europe	**131,545**	**(46,272)**	**85,273**
NAFTA	**8,437**	**(618)**	**7,819**
Other countries	**28,100**	**(16,118)**	**11,982**
Total	**338,887**	**(122,936)**	**215,951**

As at 31 December 2017

	Gross Claims Provision £'000	Reinsurance Claims Provision £'000	Net Claims Provision £'000
Marine and Transport	24,780	(4,230)	20,550
Aviation	33,724	(33,724)	-
Property and Liability	227,589	(61,614)	165,975
Reinsurance	2,951	(1,665)	1,286
Total	289,044	(101,233)	187,811

	Gross Claims Provision £'000	Reinsurance Claims Provision £'000	Net Claims Provision £'000
United Kingdom	124,553	(38,942)	85,611
Other Europe	142,597	(46,079)	96,518
NAFTA	12,901	(12,901)	-
Other countries	8,993	(3,311)	5,682
Total	289,044	(101,233)	187,811

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 £1.9m 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 £1.0m. A decrease of 1% would result in £1.9m less premium being reported and an estimated £1.0m on reduction in net profit before tax.

Claims sensitivity analysis

The claims ratio for 2018 is 66.4% (2017: 68.2%). 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 £1.9m (2017: £1.5m), loss before tax increasing by £1.9m (2017: profit before tax reducing by £1.5m) and loss after tax increasing by £1.5m (2017 profit after tax reducing by: £1.2m).

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. The Board delegates day to day management of the Group operating companies to the Boards of directors of those entities, which in turn have 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, 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 2018

	AAA	AA	A	<A	NR	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Financial investments						
Other corporate investments	**26,723**	**88,073**	**34,716**	**8,175**	**121,897**	**279,584**
Cash and cash equivalents	**138,847**	**9,084**	**144,704**	**28,367**	**-**	**321,002**
Reinsurers' share of outstanding claims including reinsurers' IBNR	**110,108**	**6,441**	**656**	**4,253**	**1,478**	**122,936**
Reinsurance debtors	**20,085**	**6**	**-**	**188**	**532**	**20,811**
Total credit risk exposure	**295,763**	**103,604**	**180,076**	**40,983**	**123,907**	**744,333**

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 is an A rating. The remaining NR assets consist mostly of covered bonds and non-traded private loan funds & loan notes.

As at 31 December 2017

	AAA	AA	A	<A	NR	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Financial investments						
Other corporate investments	30,147	82,515	41,915	8,574	130,573	293,724
Cash and cash equivalents	118,485	7,664	178,752	4,744	-	309,645
Reinsurers' share of outstanding claims including reinsurers' IBNR	82,920	9,204	4,938	2,109	2,062	101,233
Reinsurance debtors	285	-	706	1,977	1,798	4,766
Total credit risk exposure	231,837	99,383	226,311	17,404	134,433	709,368

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

31 December 2018	**Fully performing**	**Past due**	**Impaired**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Insurance receivables	**134,892**	**22,054**	**(3,674)**	**153,272**
Cash and cash equivalents	**321,002**	**-**	**-**	**321,002**
Total	**455,894**	**22,054**	**(3,674)**	**474,274**

31 December 2017	Fully performing	Past due	Impaired	Total
	£'000	£'000	£'000	£'000
Insurance receivables	84,994	26,110	(4,398)	106,706
Cash and cash equivalents	309,645	-	-	309,645
Total	394,639	26,110	(4,398)	416,351

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 2018	**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	**64,441**	**41,909**	**11,959**	**4,627**	**122,936**
Financial investments	**130,935**	**48,544**	**65,720**	**34,385**	**279,584**
Insurance receivables	**73,930**	**79,342**	**-**	**-**	**153,272**
Other assets	**33,614**	**1,323**	**-**	**-**	**34,937**
Cash and cash equivalents	**321,002**	**-**	**-**	**-**	**321,002**
	623,922	**171,118**	**77,679**	**39,012**	**911,732**
Liabilities					
Gross outstanding claims including IBNR	**159,832**	**116,905**	**44,625**	**17,525**	**338,887**
Insurance payables	**233,539**	**-**	**-**	**-**	**233,539**
Other liabilities	**98,468**	**12,357**	**-**	**-**	**110,825**
	491,839	**129,262**	**44,625**	**17,525**	**683,251**

As at 31 December 2017	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	56,280	32,242	9,538	3,173	101,233
Financial investments	139,511	54,791	82,186	17,236	293,724
Insurance receivables	48,035	58,671	-	-	106,706
Other assets	25,935	12,256	-	-	38,191
Cash and cash equivalents	309,645	-	-	-	309,645
	579,406	157,960	91,724	20,409	849,499
Liabilities					
Gross outstanding claims including IBNR	146,581	95,133	33,566	13,764	289,044
Insurance payables	176,848	-	-	-	176,848
Other liabilities	94,901	16,900	-	-	111,801
	418,330	112,033	33,566	13,764	577,693

h) Foreign currency risk

The company platform, TMKI, is exposed to currency risk through its underwriting activities, primarily through its branch operations in Europe and the U.S. Kiln Pension Guarantee Limited (KPT) holds investment portfolios in Euros and both TMKI holds 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 pound sterling, but as the underlying profit is developed 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 2018		**Pound sterling**	**US dollar**	**Canadian dollar**	**Euro**	**Total**
	Note	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Assets						
Reinsurance assets	30	**43,422**	**39,968**	**(15)**	**61,070**	**144,445**
Financial investments at fair value through profit or loss	25	**191,144**	**27,268**	**-**	**61,172**	**279,584**
Insurance receivables	23	**55,685**	**42,465**	**110**	**55,013**	**153,273**
Other assets	24	**13,963**	**17,164**	**3**	**3,807**	**34,937**
Cash and cash equivalents	26	**157,372**	**130,727**	**552**	**32,351**	**321,002**
		461,586	**257,592**	**650**	**213,413**	**933,241**
Liabilities						
Insurance contract liabilities	30	**213,348**	**59,676**	**131**	**165,847**	**439,002**
Insurance payables	32	**60,593**	**138,462**	**5**	**34,479**	**233,539**
Other liabilities	33	**46,748**	**57,355**	**22**	**6,700**	**110,825**
		320,691	**255,493**	**158**	**207,026**	**783,366**
Net assets/liabilities		**140,895**	**2,099**	**492**	**6,387**	**149,875**

As at 31 December 2017	Note	Pound sterling £'000	US dollar £'000	Canadian dollar £'000	Euro £'000	Total £'000
			Sterling equivalent			
Assets						
Reinsurance assets	30	25,403	38,314	(9)	60,382	124,090
Financial investments at fair value through profit or loss	25	187,940	41,885	-	63,899	293,724
Insurance receivables	23	38,393	19,623	108	48,582	106,706
Other assets	24	33,799	2,975	3	1,414	38,191
Cash and cash equivalents	26	133,587	127,052	548	48,458	309,645
		419,122	229,849	650	222,735	872,356
Liabilities						
Insurance contract liabilities	30	158,202	51,532	195	174,378	384,307
Insurance payables	32	54,434	97,197	11	25,206	176,848
Other liabilities	33	63,256	43,373	23	5,149	111,801
		275,892	192,102	229	204,733	672,956
Net assets/liabilities		143,230	37,747	421	18,002	199,400

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 cent movement in the US dollar, Canadian dollar and Euro to pound sterling exchange rates.

	31 December 2018		31 December 2017	
	Impact on loss before tax £'000	**Impact on equity £'000**	Impact on loss before tax £'000	Impact on equity £'000
Net assets				
10 cent increase in USD	**(10,611)**	**(8,569)**	(8,165)	(6,593)
10 cent increase in CAD	**(32)**	**(26)**	(31)	(25)
10 cent increase in EUR	**(2,545)**	**(2,055)**	(3,974)	(3,209)
10 cent decrease in USD	**12,380**	**9,997**	9,471	7,648
10 cent decrease in CAD	**36**	**29**	35	28
10 cent decrease in EUR	**3,044**	**2,458**	4,745	3,832
Financial Instruments				
10 cent increase in USD	**(1,782)**	**(1,439)**	(3,988)	(3,220)
10 cent increase in CAD	**(27)**	**(22)**	(20)	(16)
10 cent increase in EUR	**3,579**	**2,890**	2,466	1,991
10 cent decrease in USD	**2,079**	**1,679**	4,626	3,735
10 cent decrease in CAD	**30**	**24**	22	18
10 cent decrease in EUR	**(4,280)**	**(3,456)**	(2,945)	(2,378)

i) Interest rate risk

Investment Return Risks:

The Group and its subsidiaries, Tokio Marine Kiln Insurance Limited, Kiln Underwriting Limited and Kiln Pension Guarantee Limited, 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 2018		31 December 2017	
	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	**(218)**	**(176)**	(664)	(536)
1% increase in the UK interest rates	**(3,494)**	**(2,821)**	(3,319)	(2,680)
1% increase in the Canadian interest rates	**55**	**44**	(60)	(49)
1% increase in the Euro interest rates	**328**	**265**	121	97
	(3,329)	**(2,688)**	(3,922)	(3,168)

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 2018, the Group has used external fund managers, 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 34. 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 year-end date. The reference interest rate used as at 31 December 2018, was 2.8% (2017: 2.50%), 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 2018

Corporate bonds	**No change in discount rate £'000**	**1% rise in discount rate £'000**	**1% fall in discount rate £'000**
Gross surplus	**11,075**	**19,308**	**162**
Net surplus after tax	**8,971**	**15,639**	**131**

As at 31 December 2017

Corporate bonds	No change in discount rate £'000	1% rise in discount rate £'000	1% fall in discount rate £'000
Gross surplus /(deficit)	**8,648**	**18,285**	**(4,265)**
Net surplus/(deficit) after tax	**7,005**	**14,811**	**(3,455)**

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.

It is the Operations Committee's responsibility to have oversight of the operation risks within the business; and ensure that the Group is operating in a controlled environment and within its appetite for operational risks.

n) Reputation 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 of the Company is aware of it fiduciary responsibilities to capital providers across each of its four syndicates and is careful to ensure equity between them.

38. Contingencies and commitments

a) Finance commitments

Letter of credit facility

KUL, a wholly owned subsidiary of Tokio Marine Kiln Group Limited held a $205,000,000 and £50,000,000 syndicated banking facility with The Bank of Tokyo-Mitsubishi UFJ Ltd. On 2 November 2018, these facilities were transferred to Tokio Marine Underwriting Limited. 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 2018 (2017: £nil).

The Group has the following operating lease obligations:

	2018 £'000	2017 £'000
Land and buildings		
Total future minimum lease payments:		
Within one year	**7,366**	6,132
Between one year and five years	**22,945**	21,165
Later than five years	**29,838**	34,141
	60,149	61,438

2018 operating lease costs totalling £6,370,642 (2017: £5,627,992) were charged to the income statement.

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

From the 1 January 2019 the TMKI continental lease obligations will be transferred to the newly formed Luxembourg operation, part of a group affiliate company, HCC International Insurance Company PLC ("HCCI"). See note 41 for further information on the transfer.

39. 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 38).

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

	2018 £'000	2017 £'000
Corporate expenses		
Expense recharges income	**1,522**	1,840
Interest on loans	**208**	58
Finance costs	**(179)**	(292)
	1,551	1,606
Technical transactions		
Written premiums accepted	**9,287**	12,105
Written premiums ceded	**(81,384)**	(72,849)
Recoveries received	**41,122**	33,615
	(30,975)	(27,129)
Balances outstanding at year end		
Corporate balances	**(21,079)**	(14,197)
Reinsurance balance	**61,338**	83,128
	40,259	68,931

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.

	2018 £'000	2017 £'000
Corporate expenses		
Profit commission received	**3,637**	5,266
Managing agency fee	**11,466**	11,591
Recharged expenses	**53,540**	47,008
	68,643	63,865
Balances outstanding at year end		
Corporate balances	**15,590**	18,958
	15,590	18,958

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 38.

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 £55,477 (2017: £119,012). At 31 December 2018 a balance of £6,250 was owed to the Group (2017: £6,250).

In 2014 the Group acquired a 49% holding in NAS Insurance Services, LLC. On 1 April 2019, the Group sold its interest to TMHCC. Further details can be found in Note 41.

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

	2018 £'000	2017 £'000
Total compensation of key management personnel (short term employee benefits)	**6,038**	10,445

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 2018 (2017: £nil). KS Underwriting LLP closed at the end of the 2018 Underwriting Year of Account.

40. 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.

41. Post balance sheet events

From 1 January 2019 the TMKI European business will be transferred to a newly formed company in Luxembourg, Tokio Marine Europe SA (TME), part of a group affiliate company, HCC International Insurance Company PLC ("HCCI"). The process has followed the Part VII transfer protocol in accordance with both UK and Luxembourg company law and has been approved by the Luxembourg regulator (Commissariat aux Assurances).

The policies underwritten by the following European branches: France, Germany, Spain, Italy, The Netherlands and Belgium, will be transferred to TME along with any reinsurance obligations and certain other assets and liabilities. At the same time there is a retrospective quota share reinsurance arrangement in place to cede the transferring business back to TMKI.

Investment assets equal to the net liabilities transferred by each company were contributed to TME after allowing for both the immediate impact of the retrospective quota shares and the accompanying ceding commission income.

The table below is the estimated book value of the net assets being transferred based on the values at 31 December 2018.

As at 31 December 2018	**2018** **£'000**
Provision for unearned premium	**(12,286)**
Claims outstanding	**(77,305)**
Creditors arising out of direct and reinsurance operations	**(29,417)**
Deferred policy acquisition costs	**651**
Debtors arising out of direct and reinsurance operations	**37,749**
Cash and investments	**80,609**
Value of Contribution in Kind	**1 share**

On 1 April 2019, the Group sold its interest in NAS Insurance Services, LLC to TMHCC for a total consideration of £44.7m. The investment in NAS was held via Kiln Underwriting (510) Limited and amounted to £43.4m.

NAS was accounted for as a joint venture and consolidated using the equity method.

Parent Company Financial Statements

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Independent auditors' report to the members of Tokio Marine Kiln Group Limited

Report on the audit of the parent company financial statements

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 2018;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Parent company statement of financial position as at 31 December 2018 and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the parent company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the parent company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Group strategic report and Group directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Group strategic report and Group directors' report
In our opinion, based on the work undertaken in the course of the audit, the information given in the Group strategic report and Group directors' report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the parent company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Group strategic report and Group directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements
As explained more fully in the Statement of directors' responsibilities set out on page 13, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the parent company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report
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.

Other required reporting

Companies Act 2006 exception reporting

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
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Other matter

We have reported separately on the group financial statements of Tokio Marine Kiln Group Limited for the year ended 31 December 2018.

Marcus Hine

Marcus Hine (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
5 June 2019

Parent company statement of financial position as at 31 December 2018

	Note	**2018** £'000	2017 £'000
Fixed Assets			
Shares in group undertakings	4	**120,554**	122,288
Investments			
Loans to group undertakings	6	**29,155**	29,441
Shares in associated undertakings		**400**	-
Convertible loan notes		**2,807**	-
		152,916	151,729
Current assets			
Debtors	7	**131,054**	89,741
Investments		**33,266**	458
Cash at bank and in hand		**9,396**	1,123
		173,716	91,322
Creditors: amounts falling due within one year	9	**(109,519)**	(22,739)
Net current assets		**64,197**	68,583
Total assets less current liabilities		**217,113**	220,312
Provisions	10	**(1,989)**	(1,062)
Net assets		**215,124**	219,250
Capital and reserves			
Called up share capital	11	**1,010**	1,010
Share premium	12	**64,990**	64,990
Retained earnings	12	**149,124**	153,250
Total shareholder's funds	12	**215,124**	219,250

The notes on pages 82 to 87 are an integral part of these financial statements.

The financial statements on pages 81 to 87 were approved by the Board of directors on 5 June 2019 and were signed on its behalf by:

R Patel

Chief Financial Officer

C A S Franks

Chief Executive Officer

Notes to the financial statements for the year ended 31 December 2018

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 loss after tax for the financial year was £4,126,399 (2017 loss: £4,245,003).

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

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018, and have been applied in preparing the financial statements:

IFRS 9 Financial instruments issued by the IASB in July 2014, fully replaces IAS 39 and provides a new approach on how to classify financial instruments based on their cash flow characteristics and the business model under which they are managed. Furthermore, the standard introduces a new forward-looking impairment model for debt instruments and provides new rules for hedge accounting. IFRS 9 did not have a significant effect on the financial statements of the Company.

IFRS 15 Revenue from contracts with customers in May 2014, the IASB issues IFRS 15, Revenue from Contracts with Customers. IFRS 15 supersedes IAS 18, IAS 11 and a number of revenue-related interpretations. The Company adopted IFRS 15 using the cumulative effect method on the required effective date. As a result, the Company did not restate the comparative period presented.

Under IFRS 15, revenue is recognised when (or as) the Company satisfies a performance obligation by transferring a service to the customer. Furthermore, revenue is recognised for these contracts to the extent that it is highly probable that a significant reversal in revenue recognised will not occur. The guidance also changes the accounting for certain contract costs and revises the criteria for determining if an entity is acting as a principal or agent in certain arrangements. IFRS 15 did not have a significant effect on the financial statements of 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 pound 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 measured 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 2018 (2017: 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. Auditors' remuneration

	2018 **£'000**	2017 £'000
Remuneration for audit services	**208**	143

4. Shares in group undertakings

	2018 **£'000**	2017 £'000
Shares in group undertakings	**120,554**	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 corporate member at Lloyd's	
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
WNC Holdings, LP	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

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: 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 group undertakings

	2018 **£'000**	2017 £'000
Loans to group undertakings	**29,155**	29,441

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). The balance at year end was $37m (£29.2m), (2017: $39.7m (£29.4m)).

7. Debtors

	2018 £'000	2017 £'000
Amounts owed by Group undertakings	**123,397**	85,708
Corporation tax	**763**	1,111
Deferred tax asset (note 8)	**-**	202
Other debtors	**-**	2,665
Financial assets at fair value through profit or loss	**6,805**	-
Prepayments and accrued income	**89**	55
	131,054	89,741

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 loan facility to Tokio Marine Underwriting Limited.

8. Deferred tax asset

	2018 £'000	2017 £'000
Deferred tax asset		
Expenses to be relieved in future periods	**-**	**202**
Deferred tax asset at 31 December	**-**	**202**
Net deferred tax asset		
At 1 January	**202**	**170**
Income statement tax (charge)/credit	**(202)**	**32**
At 31 December	**-**	**202**

The deferred tax balances have been re-measured during the year to reflect the reductions in the UK corporation tax rate to 17% on 1 April 2020.

9. Creditors: amounts falling due within one year

	2018 £'000	2017 £'000
Amounts due to group undertakings	**108,304**	21,524
Corporation tax payable	**1,215**	1,215
	109,519	22,739

10. Provisions

	2018 £'000	2017 £'000
At 1 January	**(1,062)**	(1,108)
Utilised during the year	**1,062**	46
provided during the year	**1,989**	-
At 31 December	**1,989**	(1,062)

Provisions

The provision of £1,062,000 is primarily in relation to a legal case with a former employee which was settled during the year. An additional provision of £2.0m onerous lease as acquired by IAS 37 has been provided for determined as the present value of the unavoidable costs, net of the expected benefits under the contract to cover the partial sub-let of the 5th Floor, 20 Fenchurch Street.

11. Called up share capital

	2018 **£'000**	2017 £'000
Ordinary shares: As at 1 January; 101,000,000 (2017: 101,000,000) at 1p each	**1,010**	1,010
As at 31 December; 101,000,000 (2017: 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 (2017: 101,000,000) at 1p each	**1,010**	1,010
As at 31 December; 101,000,000 (2017: 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 2018	**1,010**	**64,990**	**153,250**	**219,250**
Loss for the financial year	**-**	**-**	**(4,126)**	**(4,126)**
Balance at 31 December 2018	**1,010**	**64,990**	**149,124**	**215,124**

	Called up share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2017	1,010	64,990	157,495	223,495
Profit for the financial year	-	-	(4,245)	(4,245)
Balance at 31 December 2017	1,010	64,990	153,250	219,250

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.