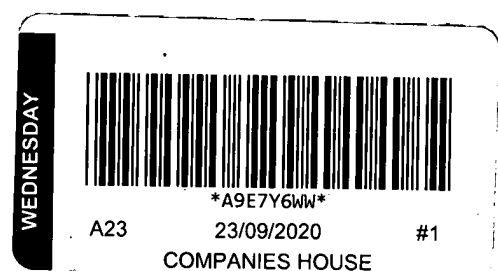


Tokio Marine Kiln Insurance Services Limited

**Annual Report and
Financial Statements
For the year ended 31 December 2019**

Registered office
20 Fenchurch Street
London
EC3M 3BY

Registered Number 05121836



Strategic report for the year ended 31 December 2019

The directors of Tokio Marine Kiln Insurance Services Limited (the Company) present their strategic report together with the audited financial statements for the year ended 31 December 2019. The Company is a private limited company incorporated, domiciled and registered in the United Kingdom.

Principal activities

The Company acts as a service company for Tokio Marine Kiln Group Limited (TMKGL), other fellow subsidiaries of TMKGL (the TMK Group), Tokio Marine Underwriting Limited (TMUL) and the managed syndicates (managed by Tokio Marine Kiln Syndicates Limited), providing administrative services and settling expenses on behalf of those entities and being reimbursed on a cost plus basis. The Company also holds the contracts of employment for the UK employees.

From 1 January 2017 the Company established Partner Services, an in-house processing capability to process select inwards coverholder and outwards reinsurance business written by the TMK Group managed syndicates through Xchanging. Partner Services charges a commission for this activity.

Results and performance

The key financial performance indicators for the year are as follows:

	2019 £'000	2018 £'000	change %
Turnover	145,682	143,101	2
Profit on ordinary activities before tax	4,115	2,934	40

Turnover comprises predominantly the recharge of group managed expenses; this has increased due to the increase in the TMK Group expense base. In addition, there are now IT costs which are being recharged £1.8m (2018: nil) to Tokio Marine Europe S.A. a fellow subsidiary of Tokio Marine Holdings, Inc. (TMH).

The profit before tax for the financial year is £4.1m (2018: £2.9m). The net asset position at 31 December 2019 is £10.6m (2018: £7.8m).

The profit before tax comprises recharges to fellow Tokio Marine Holdings, Inc. Group companies and income from the in-house processing service. This has increased as a result of increased turnover compared to the prior year.

Future developments

The Company will continue to act as a service company for TMKGL, TMUL and other fellow subsidiaries of the ultimate parent company for the foreseeable future. It will also continue to provide in-house processing capability as part of Partner Services.

The COVID-19 pandemic is impacting the operational activities of the Company. However, the directors consider the negative implications on operations to be low. All staff who work for the Company have been asked to work from home until further notice. This follows a successful stress test of our business continuity practices on 13 March 2020, which has shown that the Company can continue to operate remotely. The pandemic has not had a material effect on the credit risk of balances due from other group companies, this is because these companies have surplus financial assets and sufficient liquidity to settle balances when due.

Principal risks and uncertainties

The principal risks and uncertainties facing the Company are; operational risk, credit risk and political risk.

Operational Risk

The risk that errors caused by people, processes or systems result in financial loss. TMK seeks to manage this risk at a group level through the use of a comprehensive risk register and a regular review system with departmental heads responsible for identifying, assessing, and controlling operational risks effectively. The TMK Group has a strong risk reporting and governance system in place to ensure effective risk management.

Credit Risk

The risk of loss if another party fails to meet its financial obligations, including failure to meet them in a timely manner. The Company is mainly exposed to credit risk from the other Group Companies in respect of charges for services provided. As the group companies are managed centrally, the financial positions of all entities are monitored closely by the Finance team to ensure that payments are made when they are due. There is also a small exposure to non-TMK entities for processing services provided through the "partner services" business unit.

Political Risk

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 the UK exit from the European Union continues to create uncertainty for the insurance industry.

Section 172(1) of the Companies Act 2006

The directors are fully aware of their responsibilities to promote the success of the Company in accordance with s172 of the Companies Act and have acted in accordance with these responsibilities during the year. The Company strives to embody the TMK Group's core values of empowerment, fairness, innovation, excellence, inclusion and teamwork in everything it does, and these values reflect the way the Company works and behaves. Throughout the year, the Board considered the impact of key strategic and operational decisions on the Company's stakeholders and believe that all decisions made are to benefit the Company in the long term. There are regular TMKGL Board meetings with attendance of subject matter experts in tax and regulatory reporting and the Board consults with external advisors where necessary to maintain high standards of business. In addition, the Board outsource operations outside of our expertise (i.e. investment management) in order to help contribute to the success of the Company. The Board has identified that its key stakeholders are: TMK's workforce, regulators, suppliers, the environment and the wider community.

Workforce

Our people are fundamental to the long-term success of the Company and the strength and skill of our people is what sets us apart. Please see our 'Employee involvement' section above for further details on the employee engagement mechanisms that are currently in place in the Company.

Environment

Tokio Marine Kiln's business activities reflect the company's commitment to achieving sustainable business growth alongside the conservation of the global environment. The TMK Group is an active member of ClimateWise, the insurance industry initiative through which members aim to work together to respond to the myriad risks and opportunities of climate change.

Community

Tokio Marine Kiln is committed to its corporate social responsibilities and our employees are actively encouraged to make a difference, both to the society in which they live and to the wider global environment. We contribute to the local community by donating money, time, or resources to local

Tokio Marine Kiln Insurance Services Limited

Registered number: 05121836

causes. This can involve our employees volunteering at schools, homeless shelters, and acting as mentors to young people about to enter the world of work. For six years we have worked with Brokerage, an individual charity providing disadvantaged young people in London with work experience to facilitate placement into employment in London.

Regulators

Tokio Marine Kiln maintains a transparent relationship with its regulators. Ongoing exchange is valued, providing a means for open communication with UK regulators both at Board level and with business leaders. The Company takes its regulatory responsibilities seriously, with strong engagement on regulatory matters throughout.

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. We actively encourage our recruiting partners to provide a long list that is as diverse as possible including by reason of redundancy. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and the appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of a disabled person should be equal to that of a person who does not suffer from a disability.

Employee involvement

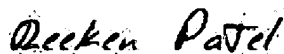
Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that views are taken into account when decisions are made that are likely to affect their interests. Through regular briefings, to all staff employees are aware of the financial and economic performance 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, special briefing lunches with Executives, a management forum, monthly town hall meetings, and the company intranet. There is also a site on the intranet which allows employees to anonymously post questions of Executive members, and there is a clear Whistleblowing policy and procedure in place covering both internal and external reporting points.

TMK's people are fundamental to the long-term success of the Company and the strength and skill of its people is what sets us apart.

Suppliers

The Company ensures strong working relationships with suppliers and endeavours to meet and accommodate supplier's terms at all times.

By order of the Board



R Patel

Director

14 July 2020

Directors' report for the year ended 31 December 2019

The directors of the Company present their report together with the audited financial statements for the year ended 31 December 2019.

Future developments

Future developments are discussed in the strategic report.

Dividends

The directors did not declare or pay a dividend for the year ended 31 December 2019 (2018: £nil).

Going concern

The directors expect that the Company has adequate resources to continue in operational existence. For this reason, we continue to adopt the going concern basis in preparing the financial statements.

Directors and Officers

The directors and officers of the Company throughout the year and up to the date of signing are listed below:

P M Culham (resigned 30 September 2019)
C A S Franks (resigned 31 December 2019)
B T Irick (appointed 26 November 2019)
A McNamara
R Patel
N I Hutton-Penman (appointed 26 November 2019)

F J Molloy (Company secretary)

Directors' and officers' liability insurance

Directors' and officers' liability insurance has been purchased by TMKGL in respect of all group companies. This was in force during the year and at the date of signing the financial statements.

Employees

The strategic report covers a summary of how the directors have engaged with employees and how they have had regard to employee interests.

Suppliers, customers and others

The strategic report covers a summary of how the directors have had regard to the need to foster the company's business relationships with suppliers, regulators, the community and the environment. The customers of the Company are fellow subsidiaries of TMKGL where business relationships are maintained through an aligned leadership structure and common strategic goals and TMH subsidiaries where there is common oversight and regular collaboration.

Financial risk management

It is the TMK Group's policy to confine its exposure to risk primarily to its core areas of expertise: the underwriting of specialist insurance and reinsurance risks (which are not taken directly to this entity). This approach means that the Company is at the cautious end of the spectrum in all areas of financial risk management. Therefore, the Company's principal financial risk is liquidity risk.

Liquidity risk is defined as the risk of the Company 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 the Company ensures that there is sufficient day-to-day cash to settle immediate liabilities.

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 financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors 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.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Appointment of independent auditors

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

By order of the Board

Ricken Patel

R Patel

Director

14 July 2020

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

Report on the audit of the financial statements

Opinion

In our opinion, Tokio Marine Kiln Insurance Services Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- 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 Statement of financial position as at 31 December 2019; the Income statement, the 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 company 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

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- 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 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.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

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 Strategic Report and 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.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 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 company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and 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 5, 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 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 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 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 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.



Matthew Nichols (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
14 July 2020

Tokio Marine Kiln Insurance Services Limited
Registered Number 05121836

Income statement

For the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Turnover		145,682	143,101
Administrative expenses		(141,606)	(140,215)
Operating profit	3	4,076	2,886
Interest receivable and other income	8	240	48
Finance costs	9	(201)	-
Profit before taxation		4,115	2,934
Tax on profit	10	(1,328)	(669)
Profit for the financial year		2,787	2,265

All activities are continuing. There is no other comprehensive income or loss attributable to the members of the Company (2018: £nil). Accordingly, a separate statement of comprehensive income has not been provided for the current or prior year.

Statement of changes in equity

For the year ended 31 December 2019

	Called-up share capital £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2018	-	5,567	5,567
Profit for the year	-	2,265	2,265
Balance as at 31 December 2018	-	7,832	7,832
Balance as at 1 January 2019	-	7,832	7,832
Profit for the year	-	2,787	2,787
Balance as at 31 December 2019	-	10,619	10,619

The notes on pages 11 to 24 form part of these financial statements.

Statement of financial position as at 31 December 2019

	Note	2019 £'000	2018 £'000
Fixed assets			
Intangible assets	11	6,438	5,812
Tangible assets	12	10,361	12,989
Right of use asset	12	37,779	-
Investments	13	-	-
Net investment in sub lease	14	8,013	-
		62,591	18,801
Current assets			
Debtors: Amounts falling due within one year			
Amounts owed by group undertakings		10,315	9,062
Other debtors	16	3,594	5,742
Prepayments and accrued income		4,652	11,036
		18,561	25,840
Deferred tax asset	17	2,803	3,496
		2,803	3,496
Cash at bank and in hand	18	22,905	13,502
		44,269	42,838
Creditors: amounts falling due within one year			
Amounts owed to group undertakings		(4,001)	(1,525)
Other creditors including taxation and social security	19	(3,660)	(7,641)
Lease liability	19	(3,283)	-
Accruals and deferred income	20	(27,126)	(37,545)
		(38,070)	(46,711)
Net current assets/liabilities		6,199	(3,873)
Total assets less current assets/liabilities		68,790	14,928
Creditors: amounts falling due after more than one year			
Lease liability	21	(51,993)	-
Provisions for liabilities	22	(6,178)	(7,096)
Net Assets		10,619	7,832

The notes on pages 11 to 24 form part of these financial statements.

Tokio Marine Kiln Insurance Services Limited
Registered Number 05121836

Statement of financial position as at 31 December 2019 (continued)

	Note	2019 £'000	2018 £'000
Capital and reserves			
Called up share capital	23	-	-
Retained earnings		10,619	7,832
Total shareholders' funds		10,619	7,832

The financial statements on pages 8 to 24 were approved by the board of directors on 14 July 2020 and were signed on its behalf by:

Reeken Patel

R Patel
Director

The notes on pages 11 to 24 form part of these financial statements.

Notes to the financial statements for the year ended 31 December 2019

Accounting policies

The principal accounting policies applied 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 Statement of compliance

The financial statements are prepared on the going concern basis and have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101).

The preparation of financial statements in conformity with FRS 101 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 Company is a wholly owned subsidiary of Tokio Marine Kiln Group Limited and of its ultimate parent company, Tokio Marine Holdings, Inc. It is included in the consolidated financial statements of Tokio Marine Holdings, Inc., which are publicly available. It is compliant with all of the conditions outlined within the Companies Act 2006 – Section 401.

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

1.2 Exemptions for qualifying entities under FRS 101

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 ultimate 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 ultimate parent company's consolidated financial statements will include the Company's related party disclosures;
- the preparation of financial instruments disclosures on the basis that the ultimate parent company's consolidated financial statements will include the Company's financial instruments disclosures;
- the preparation of capital management disclosures on the basis that the ultimate parent company's consolidated financial statements will include the Company's capital management disclosures;
- the preparation of a lessee maturity analysis table;
- the presentation of comparative information in respect of tangible assets; and
- the presentation of comparative information in respect of intangible assets.

1.3 Principal accounting policies

The principal accounting policies applied 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.

a. Turnover

Turnover is predominantly derived from business conducted in the UK and comprises recharges to fellow Tokio Marine Holdings, Inc. group participants. These recharges are recognised as the services are provided. A 7% mark-up has been charged on the indirect expenses. Furthermore, revenue is recognised

Notes to the financial statements for the year ended 31 December 2019

for these contracts to the extent that it is highly probable that a significant reversal in revenue recognised will not occur. Incremental costs to obtain a contract and costs to fulfil a contract are capitalised if considered recoverable and related to contracts longer than 1 year.

Income from the in-house processing service also forms part of the turnover which is earned in line with the binder it is attached to.

b. Intangible fixed assets

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 Company 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.

c. Tangible fixed assets

Tangible fixed assets 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 method over the expected useful lives of each category of asset as follows:

Computer hardware	3 - 4 years
Office furniture and equipment	4 - 6 years
Motor vehicles	4 - 5 years
Right of Use of Assets	The shorter between the assets' useful life and the term of the lease
Property (Internal structure)	10 years

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.

d. 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.

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 disclosed in Note 17. 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.

Notes to the financial statements for the year ended 31 December 2019

e. Performance Related Remuneration (PRR)

The Performance Related Remuneration (PRR), (see note 5) inclusive of employer's national insurance contributions, may be payable to staff based on TMKGL profitability and eligible staff fulfilling certain vesting criteria. It is recognised in the financial statements over the employment period to vesting, with the first instalment charged to the financial year in which the profit is made. Future amounts payable under PRR represent unvested bonus amounts. These amounts will vest and be recognised in future periods when certain future employment conditions are fulfilled.

f. Foreign currency translation

Functional and presentation currency

The financial statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency). These financial statements are presented in Sterling which is also the functional currency of the Company.

g. 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 statement of comprehensive income.

h Dividends payable

The Company recognises dividends as payable when they are approved by the Board.

i. 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.

J. Cash and cash equivalents

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

k. New standards, amendments and interpretations

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019, and have been applied in preparing the financial statements:

IFRS 16 Leases

IFRS 16 replaces the current lease accounting standard, IAS 17. The new standard 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 Company has applied IFRS 16 using the modified retrospective approach; therefore, any comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts previously identified as leases. Contracts that had not been identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

Notes to the financial statements for the year ended 31 December 2019

The Company has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets (e.g. tablets, personal computers, telephones, office furniture, copy and fax machines) as well as car leases as these are considered not to be material for Company. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Right-of-use assets are measured at cost including:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Please see Note 24 for the impact IFRS 16 had on the Company and the accounting policies adopted.

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

The Company 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:

Tangible fixed assets:	The annual depreciation charge for tangible fixed assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates and the physical condition of the assets. See note 12 for the carrying amount of the tangible fixed asset and note 1c for the useful economic lives for each class of assets.
Intangible fixed assets:	The annual amortisation charge for intangible fixed assets is sensitive to changes in the estimated useful economic lives. The useful economic lives are re-assessed annually. See note 11 for the carrying amount of the intangible fixed asset and note 1b for the useful economic lives for intangible fixed assets.

3. Operating profit

	Note	2019	2018
		£'000	£'000
Operating profit is stated after recharge:			
Staff costs	4	64,799	61,557
Auditors' remuneration	6	34	13
Depreciation of tangible fixed assets	12	2,436	2,857
Depreciation of right of use asset	12	3,272	-
Amortisation of intangible assets	11	2,138	3,381
Operating lease rentals – office space		-	2,463
Loss on disposal of fixed assets	12	(63)	(1,956)

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Notes to the financial statements for the year ended 31 December 2019

The operating lease rental was for the rental of its offices at 20 Fenchurch Street, London. However, these are now treated differently following the adoption of IFRS 16. Please see Note 24 for details.

4. Staff costs and other employee related costs.

Particulars of employees (including directors) are as set out below.

	2019	2018
	£'000	£'000
Staff costs for the year amounted to:		
Wages and salaries	58,400	55,575
Social security costs	6,399	5,982
	64,799	61,557

The average monthly number of employees employed during the year was 639; 479 administration and 160 underwriting staff (2018: 761, 521 administration and 240 underwriting).

Many of the employees work predominantly on the affairs of Tokio Marine Kiln Syndicates Limited. Of the staff costs reported above, £9,399,203 (2018: £11,435,060) is directly attributable to group syndicates and has been recharged to them.

Directors' emoluments

	2019	2018
	£'000	£'000
Aggregate emoluments	2,407	4,682

The remuneration figure for the highest paid director, which was recharged to TMKGL and its subsidiaries, was £482,334 (2018: £1,864,000).

5. 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 note 1.3 e) is calculated as a proportion of the TMKGL profit achieved in the period. 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 £3,777,648 (2018: £6,507,869). This comprises two components being the PRR amounts vested in the current period (i.e. unvested at the previous statement of financial position date) plus the element of the 2019 financial year's PRR computed as described above and chargeable to the current period.

As at the year end date the amount of unvested PRR totals £17,710,302 (2018: £8,272,321). This is detailed below:

	2019	2018
	£'000	£'000
Due April 2020	-	6,405
Due April 2021	16,444	711
Due April 2022	728	646
Due April 2023	253	510
Due April 2024	285	-
	17,710	8,272

Notes to the financial statements for the year ended 31 December 2019**Kiln Incentive Plan**

If invited by the TMKGL 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. The 2018 financial year was the final year the KIP was awarded (2018 financial year offer acceptance: £163,335).

6. Auditors' remuneration

	2019	2018
	£'000	£'000
Statutory audit of Tokio Marine Kiln Insurance Services Limited	<u>34</u>	<u>13</u>

The Company has not incurred any non-audit fees during the year.

7. Directors' remuneration

All the directors are remunerated by the Company for their services to the TMK Group as a whole. They are not remunerated directly for their services as directors of the Company and the amount of time spent performing their duties are incidental to their role across the TMK Group. This is consistent with prior years. Please see note 4 above for total director's emoluments within the TMK Group and other group company accounts for details of the highest paid directors at those companies.

8. Interest receivable and other income

	2019	2018
	£'000	£'000
Bank interest	94	48
Lease investment income	<u>146</u>	<u>-</u>
	<u>240</u>	<u>48</u>

9. Finance costs

	2019	2018
	£'000	£'000
Finance costs	<u>(201)</u>	<u>-</u>
	<u>(201)</u>	<u>-</u>

Interest payable is related to unwinding of the discounted lease liability.

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Notes to the financial statements for the year ended 31 December 2019

10. Tax on profit

a. Analysis of charge in current year

	2019	2018
	£'000	£'000
Current Tax:		
UK Corporation tax on profit for the year	761	136
Adjustments in respect of prior years	(126)	(143)
Total current tax	<u>635</u>	<u>(7)</u>
Deferred Tax:		
Origination and reversal of timing differences	264	755
Adjustments in respect of prior years	361	38
Effect of reductions in corporation tax rate to 17% on 1 April 2020	68	(117)
Total deferred tax (note 17)	<u>693</u>	<u>676</u>
Tax on profit	<u>1,328</u>	<u>669</u>

b. Factors affecting the current tax charge

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the Company.

	2019	2018
	£'000	£'000
Profit before taxation	<u>4,115</u>	<u>2,934</u>
UK Corporation tax on profits for the year at 19% (2018: 19%)	782	588
Effects of:		
Expenses not deductible for tax purposes	279	343
Effect of reduction in corporation tax rate	67	(117)
Income not taxable	(36)	(10)
Adjustments in respect of prior years	235	(105)
Income tax charge for the year (note 10a)	<u>1,328</u>	<u>669</u>

c. Factors that may affect future tax charges

The rate of UK corporation tax will remain at 19% on 1 April 2019 and reduces to 17% on April 2020. The deferred tax balances have been measured using these rates. As a result of these changes, the deferred tax balances have been re-measured using these rates resulting in a debit to the income statement of £67,000 (2018: a credit of £117,000).

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11. Intangible assets

	Computer software	Intangible assets under development	Total
	£'000	£'000	£'000
Book Cost			
Cost at 1 January 2019	45,078	4,069	49,147
Additions	127	3,978	4,105
Disposals	(28,775)	(825)	(29,600)
Transfer Completed Projects	5,379	(5,565)	(186)
At 31 December 2019	21,809	1,657	23,466
Accumulated Amortisation			
At 1 January 2019	(43,335)	-	(43,335)
Charge for the year	(2,138)	-	(2,138)
Disposals	28,419	-	28,419
Transfer to tangibles fixed asset	26	-	26
At 31 December 2019	(17,028)	-	(17,028)
Net Book Value			
31 December 2019	4,781	1,657	6,438
31 December 2018	1,743	4,069	5,812

12. Tangible assets

	Office Furniture and Equipment	Computer Hardware	Long term Lease	Land & Buildings	Right of use asset	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Book Cost						
Cost at 1 January 2019	6,293	6,782	5,640	12,024	-	30,739
IFRS 16 adoption	-	-	-	-	41,051	41,051
Additions	14	105	-	-	-	119
Accruals	(24)	(343)	-	-	-	(367)
Disposals	(5,449)	(1,198)	-	-	-	(6,647)
Transfer from intangibles	-	144	-	-	-	144
At 31 December 2019	834	5,490	5,640	12,024	41,051	65,039
Accumulated Depreciation						
At 1 January 2019	(5,916)	(5,488)	(1,336)	(5,010)	-	(17,750)
Charge for the year	(231)	(681)	(322)	(1,202)	(3,272)	(5,708)
Disposals	5,392	1,192	-	-	-	6,584
Transfer from intangibles	-	(25)	-	-	-	(25)
At 31 December 2019	(755)	(5,002)	(1,658)	(6,212)	(3,272)	(16,899)
Net Book Value						
31 December 2019	79	488	3,982	5,812	37,779	48,140
31 December 2018	377	1,294	4,304	7,014	-	12,989

The right of use asset is related to 20 Fenchurch Street, Manchester and Birmingham offices.

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Notes to the financial statements for the year ended 31 December 2019

13. Fixed asset investments

Shares in group undertakings	2019 £	2018 £
Shares in group undertakings	-	1
	<u>-</u>	<u>1</u>

The Company had 1 voting share in Tokio Marine Kiln Europe S.A. with the remaining 2,499 held by Tokio Marine Kiln Group Limited. Tokio Marine Kiln Europe S.A is incorporated, and the registered address is Avenue du Luxembourg 35, 4020 Liège, Belgium. Its principal activity is as an insurance agent specialising in marine, hull and cargo, aviation and space business. On 26 November 2019, the Company sold its share of the Company.

In 2019, the Company received a dividend of £603 (2018: £Nil).

14. Net investment in sub lease

	2019 £'000	2018 £'000
IFRS 16 adoption	8,436	-
Interest income	146	-
Payments in	(569)	-
	<u>8,013</u>	<u>-</u>

This balance represents the net present value of lease payments not yet received by the Company in relation to the 5th Floor on 20 Fenchurch Street.

15. Lessor maturity analysis table

	2019 £'000	2018 £'000
Year 1	210	-
Year 2	992	-
Year 3	992	-
Year 4	992	-
Year 5	992	-
Over 5 years	4,764	-
Total undiscounted cash flows	<u>8,942</u>	<u>-</u>

The above table shows the undiscounted lease payments to be received on an annual basis for each of the first 5 years and a total of the amounts for the remaining years thereafter.

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16. Debtors

	2019	2018
	£'000	£'000
Amounts falling due within one year:		
Other debtors		
VAT recoverable	1,669	4,304
Other debtors	1,925	1,438
	<u>3,594</u>	<u>5,742</u>

There were no 'Other debtors' amounts falling due after more than one year for 2019 or 2018. Other debtors include £900,000 owed from Tokio Marine Europe S.A. (TME), as a result of IT service costs which are recharged to the entity.

17. Deferred Tax Asset

	2019	2018
	£'000	£'000
Balance at 1 January	3,496	4,172
Deferred tax (charge) in the income statement (note 10a)	(693)	(676)
Balance at 31 December	<u>2,803</u>	<u>3,496</u>
Deferred tax to be realised within 12 months	-	-
Deferred tax to be realised after 12 months	2,803	3,496
Balance at the end of the year	<u>2,803</u>	<u>3,496</u>

The deferred tax asset arising from expenses to be relieved in future years relates primarily to the fixed assets' accelerated capital allowance.

18. Cash at bank and in hand

	2019	2018
	£'000	£'000
Cash at bank and in hand	22,905	13,502
	<u>22,905</u>	<u>13,502</u>

19. Other creditors falling due within one year

	2019	2018
	£'000	£'000
Amounts falling due within one year:		
Other creditors including taxation and social security		
Other taxation and social security	1,646	2,276
Other creditors	2,014	5,365
	<u>3,660</u>	<u>7,641</u>
Lease liability	3,283	-
	<u>6,943</u>	<u>7,641</u>

Included with other creditors is unsigned premium and claims signings not paid out, which has arisen as part of the Company's in-house processing service. Creditors falling due within one year now also includes a lease liability following the adoption of IFRS 16. Please see Note 24 for further details.

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Notes to the financial statements for the year ended 31 December 2019

20. Accruals and deferred income

	2019	2018
	£'000	£'000
Accruals and deferred income	27,126	28,674
Rent payable	-	8,871
	27,126	37,545

Rent payable has now been derecognised following the adoption of IFRS 16.

21. Other creditors falling due after one year

	2019	2018
	£'000	£'000
Amounts falling due after one year:		
Lease liability	51,993	-
	51,993	-

This creditor has arisen following the adoption of IFRS 16. Please see Note 24 for further details.

22. Provisions for liabilities

	Land and Buildings	Dilapidations	Other	Total
	£'000	£'000	£'000	£'000
At 1 January 2018	(108)	(5,640)	(2,062)	(7,810)
Utilised during the year	67	-	-	67
Provided during the year	(966)	-	1,616	650
Unwinding of discounting	(3)	-	-	(3)
At 31 December 2018	(1,010)	(5,640)	(446)	(7,096)
IFRS 16 transfer	1,010	-	-	1,010
Provided during the year	-	(92)	-	(92)
Unwinding of discounting	-	-	-	-
At 31 December 2019	-	(5,732)	(446)	(6,178)

Land and buildings

A provision of £1m was in place as at 31 December 2018 to cover the partial sub-let of the 5th Floor, 20 Fenchurch Street, for which the remaining term of the lease is twelve years. Following the adoption of IFRS 16, this provision was transferred as part of the net investment in sub-lease. Please see Note 24 for further details.

Dilapidations

A provision of £5,640,000 was created in December 2014 to cover the dilapidations on the lease at 20 Fenchurch Street. During 2019, the dilapidations provision increased by £91,750, bringing the year end balance to £5,731,750. This lease expires on 6 October 2031.

Other provisions

In the course of conducting its business as a service company for TMK, 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. As at 31

Notes to the financial statements for the year ended 31 December 2019

December 2018 a provision of £446,000 was in place. This provision remains applicable, therefore as at 31 December 2019, there is a balance of £446,000.

23. Called up share capital

	2019 £	2018 £
Allotted and fully paid: 1 ordinary shares of £1 each	1	1

24. IFRS 16 First time adoption

The Company has applied IFRS 16 using the modified retrospective approach; therefore, any comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts previously identified as leases. Contracts that had not been identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

As a Lessee

As a lessee, the Company had previously classified leases as operating, or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for most leases.

The Company has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets (e.g. tablets, personal computers, telephones, office furniture, copy and fax machines) as well as car leases as these are considered not to be material for Company. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Leases previously classified as operating leases under IAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments. Right-of-use assets were measured at an amount equal to the lease liability and adjusted by the amount of any prepaid or accrued lease payments. The Company used the following practical expedients when applying IFRS 16 to leases previously classified as operating lease under IAS 17:

- applied a single discount rate to a portfolio of leases with similar characteristics.
- adjusted the right-of-use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- used hindsight in determining the lease term, if the contract contains options to extend or terminate the lease.

As a Lessor

The Company was not required to make any adjustments on transition to IFRS 16 for leases for which it acts as a lessor, except for subleases. The Company accounted for its (sub)leases in accordance with IFRS 16 from the date of initial application. Under IFRS 16, the Company is required to assess the classification of subleases with reference to the right-of-use assets, not the underlying assets. On transition, the Company reassessed the classification of sublease contracts previously classified as

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operating leases under IAS 17. The Company applied IFRS 15 Revenue from Contracts with Customers to allocate consideration in the contracts to each lease and non-lease component if significant.

Impacts on financial statements

On transition to IFRS 16, the Company recognised an additional £41.1m of right-of-use assets in other assets and £49.1m of lease liabilities in other liabilities, recognising the difference against prepaid rent, deferred rent, and onerous contract provisions.

Impact on Balance Sheet**01.01.19****£**

Total assets before first application of IFRS 16	61,639
Right of use of assets	41,051
Total assets after first application of IFRS 16	102,690
Total liabilities before first application of IFRS 16	53,807
Rent accrual adjustment	(8,081)
Lease liabilities	49,131
Total liabilities after first application of IFRS 16 (excluding lease liability relating to sub leases)	94,857

Sub Leases**01.01.19****£**

Net investment in sub-leases	8,436
Lease liability onerous lease transfer	3,126
Lease liability	(11,562)
Net assets	-

IFRS 16 requires discounting the payments under a lease agreement at the contractual rate. In the absence of an explicit contractual rate an entity is required to determine the incremental rate of borrowing for that specific asset.

The construction of the appropriate incremental rate of borrowing involves considerable judgement. The incremental rate of borrowing applied to each lease was calculated as average return of corporate bonds with a composite rating between A1 to A3, adjusted by the "Option Adjusted Spread" versus government bond to obtain a proxy of a secured rate.

The TMK Group applies the same discount rate to all the leases irrespective of locations as all the leases are deemed to have similar characteristics. The discount rate used for borrowing was 1.95%.

Reconciliation of lease commitment to lease liabilities**2019****£**

Operating lease commitment at 31 December 2018	47,457
Increase of rate	7,473
Discounting using the incremental rate at 1 January	(5,799)
Lease liability under IFRS 16	49,131

The total cash outflow for leases during 2019 was £5,355,904.

Notes to the financial statements for the year ended 31 December 2019

25. Ultimate parent company and controlling party

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.

The immediate parent company is Tokio Marine Kiln Group Limited, which is incorporated and registered in the United Kingdom.

26. Post Balance Sheets Events

In December 2019, an infectious Coronavirus disease ("COVID-19") was identified in Wuhan, China. The World Health Organization declared the COVID-19 outbreak a public health emergency of international concern on 30 January 2020 and a pandemic on 11 March 2020. COVID-19 continues to be an ongoing global pandemic at the time of approval of these financial statements.

As noted in the future developments section of these financial statements, the Company generates income through charging management fees to TMUL and other fellow subsidiaries of the ultimate parent company. The directors consider the impact of COVID-19 on the credit risk of the balances receivable at the balance sheet date as negligible.

The pandemic is impacting the operational activities of the Company. However, the directors consider the negative implications on operations to be low. All staff who work for the Company have been asked to work from home until further notice. This follows a successful stress test of our business continuity practices on 13 March 2020, which has shown that the Company can continue to operate remotely.

There are no other post balance sheet events.