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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 8-K/A**  
(Amendment No. 1)

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**CURRENT REPORT**  
Pursuant to Section 13 OR 15(d)  
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) March 22, 2019

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**RenaissanceRe Holdings Ltd.**  
(Exact name of registrant as specified in its charter)

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**Bermuda**  
(State or other jurisdiction  
of incorporation)

**001-14428**  
(Commission  
File Number)

**98-014-1974**  
(IRS Employer  
Identification No.)

**Renaissance House**  
**12 Crow Lane**  
**Pembroke, HM19 Bermuda**  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (441) 295-4513

**Not Applicable**  
(Former name or former address, if changed since last report)

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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter). Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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## Explanatory Note

On March 22, 2019, RenaissanceRe Holdings Ltd. (the “Company”) filed a Current Report on Form 8-K with the Securities and Exchange Commission (the “Original 8-K”), which reported that on March 22, 2019, the Company and RenaissanceRe Specialty Holdings (UK) Limited (the “Buyer”) completed the acquisition of Tokio Millennium Re AG (“TMR AG”), Tokio Millennium Re (UK) Limited (“TMR UK”) and their subsidiaries (collectively, the “TMR Group Entities”) (the “TMR Stock Purchase”), pursuant to the Stock Purchase Agreement, dated October 30, 2018 (the “Purchase Agreement”), by and among the Company, Tokio Marine & Nichido Fire Insurance Co. Ltd. and Tokio Marine Holdings, Inc. This amendment to the Original 8-K (the “8-K Amendment”) is being filed for the purpose of satisfying the Company’s undertaking to file the historical financial statements required by Item 9.01 of Form 8-K. This 8-K Amendment should be read in conjunction with the Original 8-K. Except as set forth herein, no modifications have been made to information contained in the Original 8-K, and the Company has not updated any information therein to reflect events that have occurred since the date of the Original 8-K.

### Item 9.01. Financial Statements and Exhibits.

#### (a) Financial Statements of Business Acquired

The audited consolidated financial statements of Tokio Millennium Re AG and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statement of comprehensive income, statement of changes in shareholder’s equity, and statement of cash flows for the years then ended, are filed herewith as Exhibit 99.1 to this 8-K Amendment and are incorporated herein by reference. The audited financial statements of Tokio Millennium Re (UK) Limited, which comprise the statement of financial position as at December 31, 2018 and 2017, and the related statements of comprehensive income, changes in equity and cash flows for the years then ended, are filed herewith as Exhibit 99.2 to this 8-K Amendment and are incorporated herein by reference.

#### (d) Exhibits

| <u>Exhibit</u> | <u>Description</u>  |
|----------------|---|
| 23.1           | <a href="#"><u>Consent of PricewaterhouseCoopers AG, Independent Auditors of Tokio Millennium Re AG.</u></a>  |
| 23.2           | <a href="#"><u>Consent of PricewaterhouseCoopers LLP, Independent Auditors of Tokio Millennium Re (UK) Limited.</u></a>   |
| 99.1           | <a href="#"><u>Audited consolidated financial statements of Tokio Millennium Re AG and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statement of comprehensive income, statement of changes in shareholder’s equity, and statement of cash flows for the years then ended.</u></a> |

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99.2 [Audited financial statements of Tokio Millennium Re \(UK\) Limited, which comprise the statement of financial position as at December 31, 2018 and 2017, and the related statements of comprehensive income, changes in equity and cash flows for the years then ended.](#)

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**SIGNATURES**

Pursuant to the requirement of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

**RENAISSANCERE HOLDINGS LTD.**

Date: March 26, 2019

By: /s/ Stephen H. Weinstein

Name: Stephen H. Weinstein

Title: Senior Vice President, Group General Counsel and Corporate Secretary



## CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statements (Post-Effective Amendment No. 1 to the Form S-3 No. 333-219675; Form S-3 Nos. 333-206233, 333-167485, 333-143585, 333-117318 and 333-103424) of RenaissanceRe Holdings Ltd.
- (2) Registration Statement (Post-Effective Amendment No. 1 to the Form S-3 No. 333-219675) of RenRe North America Holdings Inc.
- (3) Registration Statement (Post-Effective Amendment No. 1 to the Form S-3 No. 333-219675) of RenaissanceRe Finance Inc.
- (4) Registration Statement (Post-Effective Amendment No. 1 to the Form S-3 No. 333-219675) of RenaissanceRe Capital Trust II.
- (5) Registration Statement (Form S-8 No. 333-211398) pertaining to the RenaissanceRe Holdings Ltd. 2016 Long-Term Incentive Plan.
- (6) Registration Statement (Form S-8 No. 333-211398) pertaining to the RenaissanceRe Holdings Ltd. 2016 Long-Term Incentive Plan.
- (7) Registration Statement (Form S-8 No. 333-167394) pertaining to the RenaissanceRe Holdings Ltd. 2010 Employee Stock Purchase Plan and the 2010 Performance-Based Equity Incentive Plan.
- (8) Registration Statement (Form S-8 No. 333-90758) pertaining to the RenaissanceRe Holdings Ltd. Amended and Restated Non-Employee Director Stock Plan and the RenaissanceRe Holdings Ltd. 2001 Stock Incentive Plan.
- (9) Registration Statement (Form S-8 No. 333-68282) pertaining to the RenaissanceRe Holdings Ltd. Second Amended and Restated 1993 Stock Incentive Plan and the RenaissanceRe Holdings Ltd. 2001 Stock Incentive Plan.

of our report dated March 14, 2019 relating to the financial statements of Tokio Millennium Re AG, which appears in this Current Report on Form 8-K.

/s/ PricewaterhouseCoopers AG  
Zurich, Switzerland  
March 25, 2019

## CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statements (Post-Effective Amendment No. 1 to the Form S-3 No. 333-219675; Form S-3 Nos. 333-206233, 333-167485, 333-143585, 333-117318 and 333-103424) of RenaissanceRe Holdings Ltd.
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- (8) Registration Statement (Form S-8 No. 333-90758) pertaining to the RenaissanceRe Holdings Ltd. Amended and Restated Non-Employee Director Stock Plan and the RenaissanceRe Holdings Ltd. 2001 Stock Incentive Plan.
- (9) Registration Statement (Form S-8 No. 333-68282) pertaining to the RenaissanceRe Holdings Ltd. Second Amended and Restated 1993 Stock Incentive Plan and the RenaissanceRe Holdings Ltd. 2001 Stock Incentive Plan.

of our report dated March 22, 2019 relating to the financial statements of Tokio Millennium Re (UK) Limited, which appears in this Current Report on Form 8-K.

/s/ PricewaterhouseCoopers LLP  
London, United Kingdom  
March 25, 2019



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### ***Report of Independent Auditors***

To the Board of Directors of Tokio Millennium Re AG

We have audited the accompanying consolidated financial statements of Tokio Millennium Re AG and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of 31 December 2018 and 2017, and the related consolidated statement of comprehensive income, statement of changes in shareholder's equity, and statement of cash flows for the years then ended.

### ***Board of Directors' and Management's Responsibility for the Consolidated Financial Statements***

The Board of Directors and management are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of Tokio Millennium Re AG and its subsidiaries as of 31 December 2018 and 2017 and the results of their operations and their cash flows for the years then ended in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

/s/ PricewaterhouseCoopers AG

Zürich, Switzerland  
14 March 2019

Enclosure: Consolidated balance sheet, statement of comprehensive income, statement of changes in shareholder's equity, and statement of cash flows

# Consolidated Financial Statements

With Independent Auditor's  
Report Thereon

Years ended 31 December 2018 and 2017



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Consolidated Balance Sheet

31 December 2018 and 2017

(Expressed in thousands of United States Dollars)

|   | Note   | 2018             | 2017             |
|---|--------|------------------|------------------|
| <b>Assets</b>   |        |                  |                  |
| Cash and cash equivalents                                 | 5      | 399,193          | 229,380          |
| Funds withheld  | 6      | 92,081           | 107,563          |
| Investments   | 7, 8   | 2,433,357        | 2,583,273        |
| Accrued interest receivable                               | 11     | 16,885           | 17,100           |
| Premiums receivable                                       | 11     | 1,007,498        | 970,853          |
| Derivative balances receivable                            | 11     | 30,284           | 35,661           |
| Deposit assets  | 11, 12 | 117,531          | 348,444          |
| Prepaid reinsurance premiums                              |        | 166,317          | 87,270           |
| Fair value of derivative assets                           | 8      | 47,169           | 69,729           |
| Outstanding losses recoverable from reinsurers            | 11, 17 | 526,622          | 230,177          |
| Deferred acquisition expenses                             | 13     | 321,325          | 333,556          |
| Unearned profit commission                                |        | 3,925            | 2,275            |
| Current tax asset   |        | 603              | 1,110            |
| Deferred tax asset  | 14     | 13               | 7,017            |
| Property and equipment                                    | 15     | 7,354            | 8,385            |
| Intangible assets   | 16     | 6,896            | 8,767            |
| Other assets  | 11     | 10,291           | 19,283           |
| <b>Total assets</b>                                       |        | <b>5,187,344</b> | <b>5,059,843</b> |
| <b>Liabilities</b>  |        |                  |                  |
| Outstanding losses and loss expenses                      | 17, 18 | 2,193,904        | 1,786,723        |
| Liability for collateral held on behalf of counterparties | 10, 18 | 3,280            | 159,721          |
| Reinsurance balances payable                              | 18     | 238,075          | 140,212          |
| Derivative balances payable                               | 18     | 54,797           | 73,028           |
| Deposit liabilities                                       | 12, 18 | 117,531          | 348,444          |
| Payable for investments purchased                         | 18     | 639              | 5,235            |
| Unearned premiums   | 17     | 1,217,690        | 1,261,200        |
| Fair value of derivative liabilities                      | 8, 18  | 25,169           | 37,687           |
| Deferred commission income                                | 13     | 21,821           | 13,187           |
| Accounts payable and accrued expenses                     | 18     | 42,314           | 32,724           |
| Retirement benefit obligation                             | 20     | 3,887            | 4,347            |
| Deferred fee income                                       |        | 2,506            | 5,216            |
| Current tax liability                                     |        | 6,911            | 1,539            |
| Deferred tax liability                                    | 14     | 1,577            | —                |
| <b>Total liabilities</b>                                  |        | <b>3,930,101</b> | <b>3,869,263</b> |
| <b>Shareholder's equity</b>                               |        |                  |                  |
| Share capital   | 21     | 250,000          | 250,000          |
| Contributed surplus                                       | 21     | 400,000          | 400,000          |
| Retained earnings   |        | 670,781          | 556,194          |
| Accumulated other comprehensive loss                      |        | (63,538)         | (15,614)         |
| <b>Total shareholder's equity</b>                         |        | <b>1,257,243</b> | <b>1,190,580</b> |
| <b>Total liabilities and shareholder's equity</b>         |        | <b>5,187,344</b> | <b>5,059,843</b> |

See accompanying notes to consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 5 March 2019.

They were signed on its behalf.

By: \_\_\_\_\_ Director \_\_\_\_\_ Director

Consolidated Statement of Comprehensive Income

Years ended 31 December 2018 and 2017

(Expressed in thousands of United States Dollars)

|                                       | Note | 2018           | 2017             |
|---------------------------------------|------|----------------|------------------|
| Revenue                               |      |                |                  |
| Reinsurance premiums assumed          | 4    | 1,626,174      | 1,606,499        |
| Change in unearned premiums           |      | 7,548          | 17,743           |
| Reinsurance premiums earned – assumed |      | 1,633,722      | 1,624,242        |
| Reinsurance premiums ceded            | 22   | 446,895        | 304,916          |
| Change in prepaid reinsurance         |      | (80,071)       | (28,007)         |
| Reinsurance premiums earned – ceded   |      | 366,824        | 276,909          |
| Net premiums earned                   |      | 1,266,898      | 1,347,333        |
| Other underwriting income             |      | 3,323          | 7,324            |
| Total operating income                |      | 1,270,221      | 1,354,657        |
| Net investment income                 | 7    | 78,139         | 68,812           |
| Total revenue                         |      | 1,348,360      | 1,423,469        |
| Expenses                              |      |                |                  |
| Loss and loss expenses incurred       |      | 1,393,916      | 1,484,382        |
| Losses recoverable from reinsurers    |      | (650,889)      | (379,974)        |
| Net loss and loss expenses incurred   | 17   | 743,027        | 1,104,408        |
| Acquisition expenses                  | 23   | 334,713        | 348,292          |
| Profit commission                     |      | 6,376          | 4,856            |
| Net derivative expense                | 9    | 7,383          | 4,279            |
| Other underwriting expenses           |      | 994            | 371              |
| General and administrative expenses   | 24   | 125,829        | 110,120          |
| Net foreign exchange (gains) losses   |      | (6,102)        | 12,892           |
| Total expenses                        |      | 1,212,220      | 1,585,218        |
| Profit (loss) before tax              |      | 136,140        | (161,749)        |
| Tax (expense) benefit                 | 14   | (11,188)       | 2,816            |
| <b>Profit (loss) after tax</b>        |      | <b>124,952</b> | <b>(158,933)</b> |



Consolidated Statement of Comprehensive Income (continued)

Years ended 31 December 2018 and 2017

(Expressed in thousands of United States Dollars)

|  | 2018          | 2017             |
|--|---------------|------------------|
| Other comprehensive income (loss)                              |               |                  |
| <i>Items that are or may be reclassified to profit or loss</i> |               |                  |
| Net change in unrealised (losses) gains on investments         | (38,067)      | 21,087           |
| Net change in tax reserve for unrealised gains on investments  | (32)          | 32               |
| Change in foreign currency translation adjustment              | (10,623)      | 7,473            |
| Sub-total  | (48,722)      | 28,592           |
| <i>Item that will not be reclassified to profit or loss</i>    |               |                  |
| Change in retirement benefit obligation                        | 798           | 164              |
| Other comprehensive income, net of tax                         | (47,924)      | 28,756           |
| <b>Total comprehensive income (loss)</b>                       | <b>77,028</b> | <b>(130,177)</b> |

See accompanying notes to consolidated financial statements

Consolidated Statement of Changes in Shareholder's Equity

Years ended 31 December 2018 and 2017

(Expressed in thousands of United States Dollars)

|                                 | Share<br>capital | Contributed<br>surplus | Retained<br>earnings | Unrealised<br>(loss) gain on<br>investments | Tax reserve<br>on unrealised<br>investment<br>gains | Foreign<br>currency<br>translation<br>reserve | Retirement<br>benefit<br>obligation | Accumulated<br>other<br>comprehensive<br>loss | Total            |
|---------------------------------|------------------|------------------------|----------------------|---|---|---|-------------------------------------|---|------------------|
| <b>Balance 1 January 2017</b>   | <b>250,000</b>   | <b>400,000</b>         | <b>715,127</b>       | <b>(12,516)</b>                             | <b>—</b>  | <b>(27,952)</b>                               | <b>(3,902)</b>                      | <b>(44,370)</b>                               | <b>1,320,757</b> |
| Loss                            | —                | —                      | (158,933)            | —   | —   | —   | —                                   | —   | (158,933)        |
| Other comprehensive income      | —                | —                      | —                    | 21,087                                      | 32  | 7,473   | 164                                 | 28,756  | 28,756           |
| Dividends                       | —                | —                      | —                    | —   | —   | —   | —                                   | —   | —                |
| <b>Balance 31 December 2017</b> | <b>250,000</b>   | <b>400,000</b>         | <b>556,194</b>       | <b>8,571</b>                                | <b>32</b>   | <b>(20,479)</b>                               | <b>(3,738)</b>                      | <b>(15,614)</b>                               | <b>1,190,580</b> |
| Profit                          | —                | —                      | 124,952              | —   | —   | —   | —                                   | —   | 124,952          |
| Other comprehensive income      | —                | —                      | —                    | (38,067)                                    | (32)  | (10,623)                                      | 798                                 | (47,924)                                      | (47,924)         |
| Dividends                       | —                | —                      | (10,365)             | —   | —   | —   | —                                   | —   | (10,365)         |
| <b>Balance 31 December 2018</b> | <b>250,000</b>   | <b>400,000</b>         | <b>670,781</b>       | <b>(29,496)</b>                             | <b>—</b>  | <b>(31,102)</b>                               | <b>(2,940)</b>                      | <b>(63,538)</b>                               | <b>1,257,243</b> |

See accompanying notes to consolidated financial statements

Consolidated Statement of Cash Flows

Years ended 31 December 2018 and 2017

(Expressed in thousands of United States Dollars)

|   | Note | 2018         | 2017           |
|---|------|--------------|----------------|
| Cash flows from operating activities                        |      |              |                |
| Profit (loss) before tax                                    |      | 136,140      | (161,749)      |
| Adjustments for:  |      |              |                |
| Depreciation of property and equipment                      | 15   | 1,877        | 2,836          |
| Amortisation of intangible assets                           | 16   | 5,131        | 5,379          |
| Amortisation of investments                                 |      | 1,575        | 2,603          |
| Interest income   |      | (91,074)     | (80,441)       |
| Net realised gains on sale of investments                   | 7    | (265)        | (2,225)        |
| Net impairment and other investment losses                  |      | 469          | 1,326          |
| Net change in unrealised losses (gains) on other securities | 7    | 46           | (317)          |
| Other non-cash movements                                    |      | (1,621)      | (3,983)        |
| Change in:  |      |              |                |
| Funds withheld  |      | 15,482       | (35,795)       |
| Premiums receivable   |      | (36,645)     | (114,083)      |
| Derivative balances receivable                              |      | 5,377        | (35,661)       |
| Deposit assets  | 12   | 230,913      | 45,379         |
| Prepaid reinsurance premiums                                |      | (79,047)     | (29,086)       |
| Fair value of derivative assets                             |      | 22,560       | (65,769)       |
| Outstanding losses recoverable from reinsurers              |      | (296,445)    | (165,202)      |
| Deferred acquisition expenses                               |      | 12,231       | 26,278         |
| Unearned profit commission                                  |      | (1,650)      | 489            |
| Other assets  |      | 12,901       | (4,251)        |
| Outstanding losses and loss expenses                        |      | 407,181      | 672,064        |
| Liability for collateral held on behalf of counterparties   |      | (152,774)    | (40,096)       |
| Reinsurance balances payable                                |      | 97,863       | 47,833         |
| Derivative balances payable                                 |      | (18,231)     | 72,245         |
| Deposit liabilities   | 12   | (230,913)    | (45,379)       |
| Unearned premiums   |      | (43,510)     | 24,149         |
| Fair value of derivative liabilities                        |      | (12,518)     | 33,679         |
| Deferred commission income                                  |      | 8,634        | 7,122          |
| Accounts payable and accrued expenses                       |      | 9,590        | (2,882)        |
| Deferred fee income   |      | (2,710)      | 1,557          |
| Cash provided by operating activities                       |      | 567          | 156,020        |
| Income taxes paid   |      | (902)        | (1,872)        |
| <b>Net cash (used in) provided by operating activities</b>  |      | <b>(335)</b> | <b>154,148</b> |

Consolidated Statement of Cash Flows (continued)

Years ended 31 December 2018 and 2017

(Expressed in thousands of United States Dollars)

|  | 2018            | 2017             |
|--|-----------------|------------------|
| Cash flows from investing activities                         |                 |                  |
| Interest received  | 91,289          | 77,492           |
| Purchase of investments                                      | (888,388)       | (1,111,859)      |
| Proceeds on sales and maturities of investments              | 984,473         | 824,427          |
| Purchase of property and equipment                           | (846)           | (1,648)          |
| Purchase of intangible assets                                | (3,260)         | (4,984)          |
| <b>Net cash provided by (used in) investing activities</b>   | <b>183,268</b>  | <b>(216,572)</b> |
| Cash flows from financing activities                         |                 |                  |
| Interest paid  | —               | (360)            |
| Dividends paid   | (10,365)        | —                |
| Settlement of note payable                                   | —               | (25,000)         |
| <b>Net cash used in financing activities</b>                 | <b>(10,365)</b> | <b>(25,360)</b>  |
| Net increase (decrease) in cash and cash equivalents         | 172,568         | (87,784)         |
| Foreign exchange (losses) gains on cash and cash equivalents | (2,755)         | 3,389            |
| Cash and cash equivalents at beginning of year               | 229,380         | 313,775          |
| <b>Cash and cash equivalents at end of year</b>              | <b>399,193</b>  | <b>229,380</b>   |

See accompanying notes to consolidated financial statements

**1. General**

Tokio Millennium Re AG (the 'Company' or 'TMR'), formerly known as Tokio Millennium Re Ltd., is a Swiss-based reinsurance company and is licensed and regulated by the Swiss Financial Market Supervisory Authority ('FINMA'). TMR's registered office is located at Beethovenstrasse 33, 8002 Zurich, Switzerland. The Company is a wholly owned subsidiary of Tokio Marine and Nichido Fire Insurance Co., Ltd. The ultimate parent company is Tokio Marine Holdings, Inc., a company incorporated in Japan.

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

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

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

A branch in the United Kingdom ('TMRUK') was formed on 17 September 2014. TMR received authorisation from the Prudential Regulation Authority ('PRA') to operate as a branch in the United Kingdom on 8 April 2015. TMRUK commenced writing business on 1 July 2015, which included the new and renewal business formerly written by TMR's affiliate, Tokio Millennium Re (U.K.) Ltd.

**1. General (continued)**

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

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

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

Tokio Millennium Agency Ltd. ('TMA'), a wholly owned subsidiary of the Company, was incorporated in Bermuda on 28 May 2003, with an initial share capital of USD 12,000. Its primary activity was to facilitate risk swap agreements between Tokio Marine and Nichido Fire Insurance Co., Ltd. and other insurance companies for which it received agency fees. In 2012, TMA was renamed Tokio Solution Management Ltd. ('TSM'). The Bermuda Monetary Authority ('BMA') issued a licence to TSM to conduct business as an insurance management company on 24 August 2012.

TSM manages and facilitates transactions through Shima Reinsurance Ltd. ('Shima Re') or other third party vehicles. In addition, TSM facilitates clients' fronting and leveraging agreements and also provides professional claims and loss reserving services.

**1. General (continued)**

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

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

**2. Basis of preparation**

**(a) Statement of compliance**

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

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

**(b) Basis of measurement**

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

**(c) Use of estimates and judgments**

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

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

**3. Summary of significant accounting policies**

**(a) Basis of consolidation**

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

**3. Summary of significant accounting policies (continued)**

(b) Insurance contracts

**Classification**

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

**Reinsurance premiums assumed and acquisition costs**

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

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

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

Premiums for retroactive exposures in reinsurance contracts are earned at the inception of the contract, as all of the underlying loss events covered by these exposures occurred in the past. Any underwriting profit at inception related to retroactive exposures in a reinsurance contract is deferred and recognised over the estimated future payout of the outstanding losses and loss expenses. Any underwriting loss at inception related to retroactive exposures in a reinsurance contract is recognised immediately.

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

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

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

**Reinsurance premiums ceded**

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

Premiums payable to agents and brokers are recognised when due.



**3. Summary of significant accounting policies (continued)**

**(b) Insurance contracts (continued)**

**Outstanding losses and loss expenses**

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

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

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

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

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

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

**Liability adequacy tests**

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

**3. Summary of significant accounting policies (continued)**

(c) Financial instruments

**Cash and cash equivalents**

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

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

**Funds withheld**

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

**Investments**

The Company's investments comprise short term investments and investments in fixed interest, equity and other securities and catastrophe bonds. The classification is determined at the time of initial purchase. Purchases and sales of investments are recognised at fair value on the trade date. Transaction costs are treated in accordance with the investment classification.

The cost of investments is adjusted for amortisation of premiums and discounts. Realised gains and losses on investments are recognised in net investment income using the specific identification method (as securities are purchased by lot). Interest income on investments is accrued to the consolidated balance sheet date.

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

The Company, together with its investment managers, reviews investments on an individual security basis for evidence of impairment. This is performed on a quarterly basis as part of the financial close process. Impairment losses are recognised when there is objective evidence that the Company will be unable to collect all amounts due according to contractual terms of the individual security.

An available for sale debt security is impaired if there is objective evidence that a loss event has occurred after initial recognition of the security and up to the relevant consolidated balance sheet date, and that loss event has negatively affected the estimated future cash flows, i.e., amounts due according to the contractual terms of the security are not considered collectible. Impairment losses on available for sale debt securities are recognised by reclassifying the losses from accumulated other comprehensive income to the consolidated statement of comprehensive income. The amount reclassified is the difference between the amortised cost and the current fair value, less any impairment loss previously recognised in profit or loss. If the fair value of an impaired available for sale debt security subsequently increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit or loss; otherwise it is reversed through other comprehensive income.

**3. Summary of significant accounting policies (continued)**

(c) Financial instruments (continued)

**Investments (continued)**

An available for sale equity security is considered to be impaired if there is objective evidence that the cost may not be recovered. Objective evidence that the cost may not be recovered, in addition to qualitative impairment criteria, includes a significant or prolonged decline in the fair value below cost. If an available for sale equity security is impaired, any further declines in the fair value at subsequent reporting dates are recognised as impairments. Therefore, at each reporting period, for an equity security that was determined to be impaired, additional impairments are recognised for the difference between the fair value and the original cost basis, less any previously recognised impairment. Reversals of impairments of available for sale equity securities are not recorded through the income statement but recycled out of other comprehensive income when sold.

The identification of impairment is an inherently uncertain process involving various assumptions and factors, including the financial condition of the counterparty, expected future cash flows, observable market prices, etc. Estimates and assumptions are based on management's judgment and other information available prior to the issuance of the consolidated financial statements. Significantly different results can occur as circumstances change and additional information becomes known.

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

*Short term investments*

Short term investments represent bank deposits and investments in money market funds with an original term of greater than 90 days but less than one year. The carrying value reported in the consolidated balance sheet for these short term investments approximates their fair value due to the short term nature of the investments.

*Fixed interest securities – available for sale*

This consists of debt securities which are classified as available for sale and are carried at fair value, with any unrealised gains and losses (difference between amortised cost and fair value), with the exception of currency valuation differences, included in accumulated other comprehensive income as a separate component of equity. The amortisation and currency valuation differences are included in profit or loss.

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

*Investments in catastrophe bonds – available for sale*

The Company's investments in catastrophe bonds are classified as available for sale and are carried at fair value, with any unrealised gains and losses (difference between amortised cost and fair value), with the exception of currency valuation differences, included in accumulated other comprehensive income as a separate component of equity. The amortisation and currency valuation differences are included in profit or loss.

**3. Summary of significant accounting policies (continued)**

(c) Financial instruments (continued)

**Investments (continued)**

*Equity securities – available for sale*

The Company's equity securities are classified as available for sale and are carried at fair value, with any unrealised gains and losses (including currency valuation differences), included in accumulated other comprehensive income as a separate component of equity.

*Other securities – fair value through profit and loss*

Other securities consist of investments in investment funds organised as limited partnerships, investments in funds organised as limited liability companies and investment in an absolute return fund. These are designated at fair value through profit or loss from the date of acquisition.

*Derivative financial instruments*

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

*Receivables*

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

*Impairment of financial assets*

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

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

### 3. Summary of significant accounting policies (continued)

#### (d) Deposit assets and liabilities

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

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

#### (e) Property and equipment

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

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

#### (f) Intangible assets

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

#### (g) Impairment of non-financial assets

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

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

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

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

**3. Summary of significant accounting policies (continued)**

(g) Impairment of non-financial assets (continued)

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

(h) Bad debt provision

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

(i) Translation of foreign currencies

The consolidated financial statements of the Company are presented in U.S. Dollars.

Foreign currency transactions are recorded in the functional currency for each entity using the exchange rates prevailing at the dates of the transactions, or at the average rate for the period when this is a reasonable approximation. Monetary assets and liabilities denominated in foreign currencies are translated at period end exchange rates. The resulting exchange differences on translation are recorded in profit or loss.

Non-monetary assets and liabilities carried at historical cost denominated in a foreign currency are translated at historic rates. Non-monetary assets and liabilities carried at fair value denominated in a foreign currency are translated at the exchange rate at the date the estimated fair value was determined, with resulting exchange differences recorded in accumulated other comprehensive income in shareholder's equity.

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

(j) Leases

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

(k) Long term incentive compensation plan

In 2008, the Board approved a compensation program for employees. In the first quarter of 2016, the Compensation and Nominations Committee of the Board approved an amendment to the compensation program that changed the metric used to calculate the value of awards. Under the amended long term incentive compensation plan, the value of awards is based on the difference between the actual profit and target profit over the performance period. The accounting for the compensation program is in accordance with IAS 19, *Employee Benefits*.

**3. Summary of significant accounting policies (continued)**

**(l) Taxation**

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

The Company recognises a tax benefit relating to uncertain tax positions only where the position is probable to be sustained assuming examination by tax authorities. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

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

**(m) Retirement benefit obligation**

**Defined contribution plans**

TMR has defined contribution plans where the Company pays fixed contributions into a separate entity from which post-employment and other benefits are paid. The Company has no legal or constructive obligation to pay further contributions if the plan does not hold sufficient assets to pay employees the benefits relating to employee service in the current and prior periods. Payments to the defined contribution plans are recognised as an expense when employees have rendered services entitling them to the contributions. This is generally in the year of contribution. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

**Defined benefit plan**

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

**3. Summary of significant accounting policies (continued)**

*Accounting standards and amendments issued but not yet adopted*

Accounting standards issued and amendments to published standards that are not yet effective up to the date of issuance of the Company's consolidated financial statements are listed below.

**IFRS 17, Insurance contracts**

In May 2017, the IASB finished its long-standing project to develop an accounting standard on insurance contracts and published IFRS 17. IFRS 17 replaces IFRS 4, which currently permits a wide variety of practises in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts, reinsurance contracts and investment contracts with discretionary participation features.

IFRS 17 is effective for annual periods beginning on or after 1 January 2022, with earlier application permitted if IFRS 15, *Revenue from Contracts with Customers*, and IFRS 9, *Financial Instruments*, are also applied. TMR plans to adopt the standard on its effective date. The standard requires entities to retrospectively apply IFRS 17 unless impracticable. At transition date, TMR will need to: (a) identify, recognise and measure each group of insurance contracts as if IFRS 17 had always applied; (b) derecognise any existing balances that would not exist had IFRS 17 always applied; and (c) recognise any resulting net difference in equity.

The adoption of IFRS 17 will bring forth significant changes regarding the Company's measurement and disclosure of reinsurance contracts both in terms of liability measurement and profit recognition. TMR has completed a preliminary impact analysis in 2017 and a wider project was established involving all concerned functions within the Company in 2018.

**IFRS 9, Financial instruments**

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial assets and liabilities, including a new expected credit loss model for calculating impairment of financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The amendments to IFRS 4 (Applying IFRS 9, *Financial Instruments* with IFRS 4, *Insurance contracts*) issued in 2016 allow entities that issue insurance contracts within the scope of IFRS 4 to defer the implementation of IFRS 9 until 1 January 2021.

To qualify for the temporary exemption, an entity has to prove that its activities are predominantly connected with insurance. Per the amendment, an entity's activities are predominantly connected with insurance if the entity's carrying amount of its liabilities arising from contracts within the scope of IFRS 4 is significant and if the carrying amount of liabilities connected with insurance represents more than 90% of the total carrying amount of all its liabilities as at 31 December 2015. If this predominance ratio would be between 80% and 90%, a more detailed analysis would be required. In case if, and only if, there was a significant change in the entity's activities during the annual periods that ended after 31 December 2015, a reassessment whether the entity's activities remain to be predominantly connected with insurance is required.



31 December 2018 and 2017

(Expressed in thousands of United States Dollars)

**3. Summary of significant accounting policies (continued)***Accounting standards and amendments issued but not yet adopted (continued)*

The Company applies the temporary exemption from IFRS as the carrying amount of its liabilities arising from contracts within the scope of IFRS 4 represented more than 90% of the total carrying amount of the liabilities as at 31 December 2015. No significant changes in the activities of the Company were noted subsequent to 31 December 2015 which would require a reassessment.

Details on the fair value as at 31 December 2018 and the amount of change in the fair value during the reporting period, separately for financial assets eligible for amortised cost or fair value through other comprehensive income measurement under IFRS 9 and for financial assets mandatorily measured at fair value through income under IFRS 9 are provided below:

|                                    | Financial assets with SPPI* cash flows        |                  | Financial assets held for trading             |                |
|------------------------------------|---|------------------|---|----------------|
|                                    | Fair value change during the reporting period | Fair value       | Fair value change during the reporting period | Fair value     |
| <i>As at 31 December 2018</i>      |   |                  |   |                |
| U.S. treasuries                    | (403)   | 111,591          | —   | —              |
| Non-U.S. government                | 1,321   | 154,821          | —   | —              |
| Corporate                          | (13,720)                                      | 954,802          | (477)   | 3,051          |
| Agency residential mortgage-backed | (3,843)                                       | 212,169          | —   | —              |
| Commercial mortgage-backed         | —   | —                | (1,401)                                       | 21,678         |
| Asset-backed                       | (309)   | 108,141          | —   | —              |
| Collateralised debt obligations    | —   | —                | (11,237)                                      | 235,904        |
| Municipals                         | (7,206)                                       | 325,128          | —   | —              |
| Equity securities                  | —   | —                | (1,425)                                       | 2,723          |
| Other                              | —   | —                | (45)  | 48,570         |
| <b>Total</b>                       | <b>(24,160)</b>                               | <b>1,866,652</b> | <b>(14,585)</b>                               | <b>311,926</b> |

\* SPPI – Solely payment of principal and interest

Details on the credit risk exposures for financial assets that are eligible for amortised cost or at fair value through other comprehensive income measurement under IFRS 9 are provided below; applying IAS 39, all instruments are carried at fair value:

| <i>As at 31 December 2018</i> | U.S. treasuries | Non-U.S. government | Corporate      | Agency residential mortgage backed | Asset-backed   | Municipals     | Total            |
|-------------------------------|-----------------|---------------------|----------------|------------------------------------|----------------|----------------|------------------|
|                               |                 |                     |                |                                    |                |                |                  |
| AAA                           | —               | 25,479              | 47,187         | —                                  | 108,141        | 37,948         | 218,755          |
| AA                            | 111,591         | 129,342             | 101,777        | 212,169                            | —              | 169,253        | 724,132          |
| A                             | —               | —                   | 431,827        | —                                  | —              | 74,197         | 506,024          |
| BBB                           | —               | —                   | 309,890        | —                                  | —              | 33,825         | 343,715          |
| Non-investment grade          | —               | —                   | 62,203         | —                                  | —              | 1,607          | 63,810           |
| Not rated                     | —               | —                   | 1,918          | —                                  | —              | 8,298          | 10,216           |
| <b>Total</b>                  | <b>111,591</b>  | <b>154,821</b>      | <b>954,802</b> | <b>212,169</b>                     | <b>108,141</b> | <b>325,128</b> | <b>1,866,652</b> |

**3. Summary of significant accounting policies (continued)**

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

**Amendment to IFRS 9, Financial instruments, on prepayment features with negative compensation**

This amendment, published in October 2017, confirms that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument, which may be a change in practise from IAS 39, *Financial Instruments: Recognition and Measurement*.

The amendment is effective for annual periods beginning on or after 1 January 2019, that is, one year later than the effective date of IFRS 9. As mentioned above, the Company has opted to defer the application of IFRS 9 until annual periods beginning on or after 1 January 2021 (the 'deferral approach') in order to align with the IFRS 17 implementation.

**IFRS 16, Leases**

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The Company will apply the standard from its mandatory adoption date of 1 January 2019. The Company intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

The Company has set up a project team which has reviewed all of the group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Company's operating leases.

As at the reporting date, the Company has non-cancellable operating lease commitments of USD 6.7 million. Refer to Note 26 - Commitments. The Company also holds other lease commitments, approximately USD 0.4 million relates to short-term leases and USD 0.1 million to low value leases which will both be recognised on a straight-line basis as expense in profit or loss.

For the remaining lease commitments, the Company expects to recognise right-of-use assets of approximately USD 8.0 million on 1 January 2019, lease liabilities of USD 8.0 million (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018). There will be USD nil impact to net assets.

**3. Summary of significant accounting policies (continued)**

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

**IFRS 16, Leases (continued)**

The Company expects that net profit after tax will decrease by approximately USD 0.1 million in 2019 as a result of adopting the new rules.

Cash flows from operating activities will increase and cash flows from financing activities will decrease by approximately USD 0.3 million, as repayment of the principal portion of the lease liabilities will be classified as cash used in financing activities.

**Annual improvements to IFRSs 2015–2017 cycle**

In December 2017, the IASB published its annual amendments to IFRSs and the related bases for conclusions and guidance. The IASB uses the annual improvements process to make necessary, but non-urgent, amendments to IFRSs that will not be included as part of a major project. These amendments affect one standard, namely:

- IAS 12, *Income taxes*, clarified that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where past transactions or events that generated distributable profits were recognised.

This amendment will have no impact on the Company's consolidated financial statements.

**Amendments to IAS 19, Employee benefits, on clarifying how to account for defined benefit plan amendments, curtailments and settlements**

The amendments to IAS 19 clarify the accounting for defined benefit plan amendments, curtailments and settlements. These amendments confirm that entities must:

- calculate the current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement by using the updated assumptions from the date of the change;
- any reduction in a surplus should be recognised immediately in profit or loss either as part of past service cost, or as a gain or loss on settlement; in other words, a reduction in a surplus must be recognised in profit or loss even if that surplus was not previously recognised because of the impact of the asset ceiling; and
- separately recognise any changes in the asset ceiling through other comprehensive income.

These amendments are effective for annual periods beginning on or after 1 January 2019 and are not expected to have an impact on the Company's results.

#### 4. Risk disclosures

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

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

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

The oversight of the Company's risk management program is provided by the Board of Directors and senior management, assisted by the RMC.

In the course of the Company's risk identification, assessment, control, monitoring and reporting process, it has identified and categorised all of its risks into the following categories:

- underwriting risk including premium risk, catastrophe risk and reserve risk;
- market risk including interest rate risk, foreign exchange risk, revaluation risk, equity price risk and credit spread risk;
- credit risk;
- liquidity risk;
- operational risk; and
- strategic risk.

##### (a) Underwriting risk

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

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

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

**4. Risk disclosures (continued)****(a) Underwriting risk (continued)**

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

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

**Premium risk**

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

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

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

| Geographic area of risk insured | 2018                               |              | 2017                               |              |
|---------------------------------|------------------------------------|--------------|------------------------------------|--------------|
|                                 | Reinsurance<br>premiums<br>assumed | %            | Reinsurance<br>premiums<br>assumed | %            |
| North America                   | 1,037,120                          | 63.8         | 1,093,226                          | 68.1         |
| Europe                          | 267,431                            | 16.4         | 249,746                            | 15.5         |
| Worldwide                       | 216,431                            | 13.3         | 200,940                            | 12.5         |
| Australasia                     | 69,602                             | 4.3          | 34,872                             | 2.2          |
| Asia                            | 31,445                             | 1.9          | 24,738                             | 1.5          |
| Other                           | 4,145                              | 0.3          | 2,977                              | 0.2          |
| <b>Total</b>                    | <b>1,626,174</b>                   | <b>100.0</b> | <b>1,606,499</b>                   | <b>100.0</b> |

**4. Risk disclosures (continued)**

## (a) Underwriting risk (continued)

**Premium risk (continued)**

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

| Line of business     | 2018                         | %            | 2017                         | %            |
|----------------------|------------------------------|--------------|------------------------------|--------------|
|                      | Reinsurance premiums assumed |              | Reinsurance premiums assumed |              |
| Property catastrophe | 505,987                      | 31.1         | 389,750                      | 24.2         |
| Property             | 280,244                      | 17.2         | 232,385                      | 14.5         |
| Casualty             | 600,530                      | 37.0         | 673,168                      | 41.9         |
| Specialty            | 118,527                      | 7.3          | 118,375                      | 7.4          |
| Multi-line           | 120,886                      | 7.4          | 192,821                      | 12.0         |
| <b>Total</b>         | <b>1,626,174</b>             | <b>100.0</b> | <b>1,606,499</b>             | <b>100.0</b> |

**Catastrophe risk**

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

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

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

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

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

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

**4. Risk disclosures (continued)**

(a) Underwriting risk (continued)

**Reserve risk**

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

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

TMR has focused on short-tailed property lines of business in the past but now has increased its appetite for longer-tailed casualty and specialty lines of business. The proportion of medium and long-tailed lines of business underwritten by the Company continues to create a shift towards a greater proportion of reserving risk in the risk profile. TMR's risk limits are not defined separately for catastrophe risk, non-catastrophe premium risk and reserve risk, but are defined for insurance risk as a whole.

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

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

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*(Expressed in thousands of United States Dollars)***4. Risk disclosures (continued)****(a) Underwriting risk (continued)****Reserve risk (continued)**

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

| <b>Estimate of gross ultimate liability</b> | <b>2009</b> | <b>2010</b> | <b>2011</b> | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>2016</b> | <b>2017</b> | <b>2018</b> | <b>Total</b> |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|
| At end of accident year                     | 43,975      | 191,957     | 515,356     | 324,587     | 306,172     | 431,405     | 559,407     | 757,851     | 1,460,884   | 1,253,529   |              |
| One year later                              | 46,829      | 206,494     | 529,491     | 318,895     | 306,962     | 428,287     | 547,292     | 810,380     | 1,589,371   |             |              |
| Two years later                             | 45,644      | 213,431     | 504,483     | 317,360     | 296,375     | 415,797     | 552,533     | 815,223     |             |             |              |
| Three years later                           | 45,104      | 222,238     | 523,370     | 308,435     | 286,511     | 416,688     | 561,639     |             |             |             |              |
| Four years later                            | 48,962      | 231,680     | 517,826     | 304,045     | 289,770     | 410,519     |             |             |             |             |              |
| Five years later                            | 46,231      | 223,342     | 515,669     | 301,445     | 287,100     |             |             |             |             |             |              |
| Six years later                             | 46,105      | 224,789     | 516,812     | 299,060     |             |             |             |             |             |             |              |
| Seven years later                           | 45,925      | 225,378     | 506,532     |             |             |             |             |             |             |             |              |
| Eight years later                           | 44,076      | 207,227     |             |             |             |             |             |             |             |             |              |
| Nine years later                            | 44,076      |             |             |             |             |             |             |             |             |             |              |
| Ultimate liability 2009–2018                | 44,076      | 207,227     | 506,532     | 299,060     | 287,100     | 410,519     | 561,639     | 815,223     | 1,589,371   | 1,253,529   | 5,974,276    |
| Ultimate liability pre-2009                 |             |             |             |             |             |             |             |             |             |             | 441,504      |
|   |             |             |             |             |             |             |             |             |             |             | 6,415,780    |
| Paid – 2009–2018                            | (43,856)    | (193,907)   | (494,867)   | (267,121)   | (245,471)   | (344,919)   | (419,531)   | (541,474)   | (980,502)   | (249,053)   | (3,780,701)  |
| Paid – pre-2009                             |             |             |             |             |             |             |             |             |             |             | (441,175)    |
|   |             |             |             |             |             |             |             |             |             |             | (4,221,876)  |
| Gross liability as at 31 December 2018      |             |             |             |             |             |             |             |             |             |             | 2,193,904    |

  

| <b>Estimate of net ultimate liability</b> | <b>2009</b> | <b>2010</b> | <b>2011</b> | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>2016</b> | <b>2017</b> | <b>2018</b> | <b>Total</b> |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|
| At end of accident year                   | 31,810      | 170,263     | 377,402     | 254,757     | 305,924     | 386,508     | 552,426     | 728,211     | 1,089,634   | 803,297     |              |
| One year later                            | 38,565      | 169,950     | 389,664     | 251,442     | 306,438     | 383,075     | 539,716     | 766,254     | 1,022,658   |             |              |
| Two years later                           | 38,249      | 167,065     | 369,326     | 246,004     | 297,565     | 379,977     | 545,404     | 770,354     |             |             |              |
| Three years later                         | 38,064      | 181,156     | 389,245     | 242,263     | 287,695     | 380,562     | 554,506     |             |             |             |              |
| Four years later                          | 42,028      | 190,598     | 383,064     | 238,001     | 289,224     | 380,591     |             |             |             |             |              |
| Five years later                          | 39,312      | 183,547     | 380,907     | 237,004     | 286,548     |             |             |             |             |             |              |
| Six years later                           | 39,314      | 184,994     | 382,784     | 234,481     |             |             |             |             |             |             |              |
| Seven years later                         | 39,315      | 185,583     | 372,504     |             |             |             |             |             |             |             |              |
| Eight years later                         | 39,094      | 167,432     |             |             |             |             |             |             |             |             |              |
| Nine years later                          | 39,095      |             |             |             |             |             |             |             |             |             |              |
| Ultimate liability 2009–2018              | 39,095      | 167,432     | 372,504     | 234,481     | 286,548     | 380,591     | 554,506     | 770,354     | 1,022,658   | 803,297     | 4,631,466    |
| Ultimate liability pre-2010               |             |             |             |             |             |             |             |             |             |             | 389,090      |
|   |             |             |             |             |             |             |             |             |             |             | 5,020,556    |
| Paid – 2009–2018                          | (38,917)    | (151,143)   | (363,795)   | (204,607)   | (245,016)   | (343,933)   | (412,701)   | (516,390)   | (532,122)   | (155,759)   | (2,964,383)  |
| Paid – pre-2009                           |             |             |             |             |             |             |             |             |             |             | (388,891)    |
|   |             |             |             |             |             |             |             |             |             |             | (3,353,274)  |
| Net liability as at 31 December 2018      |             |             |             |             |             |             |             |             |             |             | 1,667,282    |



**4. Risk disclosures (continued)****(a) Underwriting risk (continued)****Reserve risk (continued)**

A summary of changes in outstanding losses and loss expenses for 2018 and 2017, including outstanding losses recoverable from reinsurers, is presented in Note 17 – Insurance liabilities.

The reserves established can be more or less than adequate to meet individual claims arising. The level of uncertainty varies significantly from class to class but can arise from inadequate case reserves for known large losses and catastrophes or from inadequate provision for IBNR. The Company believes that the loss reserves established are adequate; however, a 1% improvement/deterioration in the total estimated gross losses would have an impact on profit before tax of USD 21.9 million gain/loss (2017 – USD 17.9 million). There was no change to the Company's reserving methodology during the year.

**(b) Market risk**

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

**Interest rate risk**

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

Investment guidelines are established to manage this risk. These guidelines set parameters within which the external investment manager must operate. The guidelines are set by the Investment Committee. The Investment Guidelines specify the limitations on the maximum percentage of assets that can be invested in a single issuer or in a single asset class. There are also specific limitations on the maximum maturity for various classes of fixed interest securities and the minimum requirements of credit ratings. The Company reviews the composition, duration and asset allocation of its investment portfolio on a regular basis in order to respond to changes in interest rates and other market conditions. The Company also mitigates interest rate risk on the investment portfolio by establishing and monitoring duration ranges in its investment guidelines.

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

| <u>As at 31 December 2018</u>          | <u>Fair value</u> | <u>%</u>     |
|--|-------------------|--------------|
| U.S. treasuries                        | 111,591           | 5.2          |
| Non-U.S. government                    | 154,820           | 7.3          |
| Corporate                              | 957,854           | 45.0         |
| Agency residential mortgage-backed     | 212,169           | 10.0         |
| Commercial mortgage-backed             | 21,678            | 1.0          |
| Asset-backed                           | 108,141           | 5.1          |
| Collateralised debt obligations        | 235,904           | 11.1         |
| Municipals                             | 325,128           | 15.3         |
| <b>Total fixed interest securities</b> | <b>2,127,285</b>  | <b>100.0</b> |

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(Expressed in thousands of United States Dollars)

**4. Risk disclosures (continued)**

## (b) Market risk (continued)

**Interest rate risk (continued)**

| <u>As at 31 December 2017</u>          | <u>Fair value</u> | <u>%</u>     |
|--|-------------------|--------------|
| U.S. treasuries                        | 114,354           | 5.0          |
| Non-U.S. government                    | 115,222           | 5.1          |
| Corporate                              | 1,078,328         | 47.4         |
| Agency residential mortgage-backed     | 212,687           | 9.3          |
| Commercial mortgage-backed             | 58,676            | 2.6          |
| Asset-backed                           | 84,637            | 3.7          |
| Collateralised debt obligations        | 251,555           | 11.1         |
| Municipals                             | 360,285           | 15.8         |
| <b>Total fixed interest securities</b> | <b>2,275,744</b>  | <b>100.0</b> |

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

| <u>Immediate shift in yield (basis points)</u> | <u>2018</u> | <u>%</u> | <u>2017</u> | <u>%</u> |
|--|-------------|----------|-------------|----------|
| 100  | (81,027)    | (3.8)    | (71,748)    | (3.2)    |
| 75   | (61,001)    | (2.9)    | (53,883)    | (2.4)    |
| 50   | (40,809)    | (1.9)    | (35,953)    | (1.6)    |
| 25   | (20,469)    | (1.0)    | (17,971)    | (0.8)    |
| (25)   | 20,564      | 1.0      | 17,924      | 0.8      |
| (50)   | 41,194      | 1.9      | 35,551      | 1.6      |
| (75)   | 61,818      | 2.9      | 52,485      | 2.3      |
| (100)  | 81,589      | 3.8      | 68,785      | 3.0      |

The above shows the possible impact to unrealised gain (loss) on investments, a component of accumulated other comprehensive income.

The durations of the managed portfolios are as follows:

|                           | <u>2018</u> | <u>2017</u> |
|---------------------------|-------------|-------------|
| Fixed interest securities | 3.3         | 3.3         |

**Foreign exchange risk**

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

**4. Risk disclosures (continued)****(b) Market risk (continued)****Foreign exchange risk (continued)**

The Company hedges non-U.S. Dollar liabilities with non-U.S. Dollar assets to mitigate against this risk. The Company's assets and liabilities, categorised at their translated carrying amounts as at 31 December 2018, are as follows:

|   | USD              | AUD            | EUR            | NZD           | GBP            | Other          | Total            |
|---|------------------|----------------|----------------|---------------|----------------|----------------|------------------|
| <b>Assets</b>   |                  |                |                |               |                |                |                  |
| Cash and cash equivalents                                 | 179,448          | 24,231         | 82,344         | 42,882        | 31,195         | 39,093         | 399,193          |
| Funds withheld  | 77,598           | —              | 5,863          | —             | —              | 8,620          | 92,081           |
| Investments   | 2,002,852        | 136,051        | 44,212         | 2,748         | 247,494        | —              | 2,433,357        |
| Accrued interest receivable                               | 13,956           | 1,428          | —              | —             | 1,501          | —              | 16,885           |
| Premiums receivable                                       | 755,523          | 42,731         | 50,527         | 8,702         | 101,764        | 48,251         | 1,007,498        |
| Derivative balances receivable                            | 30,284           | —              | —              | —             | —              | —              | 30,284           |
| Deposit assets  | —                | —              | —              | —             | 117,531        | —              | 117,531          |
| Prepaid reinsurance premiums                              | 159,569          | 3,839          | 383            | 143           | 1,003          | 1,380          | 166,317          |
| Fair value of derivative assets                           | 45,760           | —              | —              | —             | —              | 1,409          | 47,169           |
| Outstanding losses recoverable from reinsurers            | 512,207          | 1,363          | 4,764          | 5,576         | 1,342          | 1,370          | 526,622          |
| Deferred acquisition expenses                             | 253,486          | 13,742         | 11,225         | 5,696         | 27,890         | 9,286          | 321,325          |
| Unearned profit commission                                | 3,837            | 66             | 5              | —             | —              | 17             | 3,925            |
| Current tax asset   | —                | 603            | —              | —             | —              | —              | 603              |
| Deferred tax asset  | —                | —              | —              | —             | 13             | —              | 13               |
| Property and equipment                                    | 5,462            | 66             | 1,365          | —             | 461            | —              | 7,354            |
| Intangible assets   | 6,708            | —              | 188            | —             | —              | —              | 6,896            |
| Other assets  | 5,203            | 49             | 682            | —             | 4,236          | 121            | 10,291           |
| <b>Total assets as at 31 December 2018</b>                | <b>4,051,893</b> | <b>224,169</b> | <b>201,558</b> | <b>65,747</b> | <b>534,430</b> | <b>109,547</b> | <b>5,187,344</b> |
| <b>Liabilities</b>  |                  |                |                |               |                |                |                  |
| Outstanding losses and loss expenses                      | 1,650,950        | 27,823         | 144,947        | 28,737        | 276,654        | 64,793         | 2,193,904        |
| Liability for collateral held on behalf of counterparties | 3,070            | 15             | —              | —             | —              | 195            | 3,280            |
| Reinsurance balances payable                              | 199,307          | 18,677         | 5,200          | 138           | 11,618         | 3,135          | 238,075          |
| Derivative balances payable                               | 51,618           | —              | —              | —             | —              | 3,179          | 54,797           |
| Deposit liabilities                                       | —                | —              | —              | —             | 117,531        | —              | 117,531          |
| Payable for investments purchased                         | 639              | —              | —              | —             | —              | —              | 639              |
| Unearned premiums   | 935,986          | 80,632         | 42,228         | 14,932        | 106,645        | 37,267         | 1,217,690        |
| Fair value of derivative liabilities                      | 23,534           | —              | —              | —             | —              | 1,635          | 25,169           |
| Deferred commission income                                | 21,099           | 340            | 67             | 25            | 114            | 176            | 21,821           |
| Accounts payable and accrued expenses                     | 30,597           | 4,761          | 4              | —             | 2,963          | 3,989          | 42,314           |
| Retirement benefit obligation                             | —                | —              | —              | —             | —              | 3,887          | 3,887            |
| Deferred fee income                                       | 1,227            | —              | —              | —             | 1,279          | —              | 2,506            |
| Current tax liability                                     | —                | —              | —              | —             | 6,911          | —              | 6,911            |
| Deferred tax liability                                    | —                | 85             | —              | —             | —              | 1,492          | 1,577            |
| <b>Total liabilities as at 31 December 2018</b>           | <b>2,918,027</b> | <b>132,333</b> | <b>192,446</b> | <b>43,832</b> | <b>523,715</b> | <b>119,748</b> | <b>3,930,101</b> |

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**4. Risk disclosures (continued)**

## (b) Market risk (continued)

**Foreign exchange risk (continued)**

The Company's assets and liabilities, categorised at their translated carrying amounts as at 31 December 2017, are as follows:

|   | USD              | AUD            | EUR            | NZD           | GBP            | Other          | Total            |
|---|------------------|----------------|----------------|---------------|----------------|----------------|------------------|
| <b>Assets</b>   |                  |                |                |               |                |                |                  |
| Cash and cash equivalents                                 | 22,734           | 16,533         | 73,632         | 45,470        | 36,425         | 34,586         | 229,380          |
| Funds withheld  | 85,688           | —              | 16,684         | —             | —              | 5,191          | 107,563          |
| Investments   | 2,143,932        | 147,015        | 117,034        | 2,842         | 172,450        | —              | 2,583,273        |
| Accrued interest receivable                               | 13,560           | 1,470          | 830            | —             | 1,240          | —              | 17,100           |
| Premiums receivable                                       | 712,625          | 27,957         | 52,672         | 8,988         | 125,544        | 43,067         | 970,853          |
| Derivative balances payable                               | 35,661           | —              | —              | —             | —              | —              | 35,661           |
| Deposit assets  | —                | —              | 223,305        | —             | 125,139        | —              | 348,444          |
| Prepaid reinsurance premiums                              | 81,120           | 4,012          | —              | 137           | 903            | 1,098          | 87,270           |
| Fair value of derivative assets                           | 66,700           | —              | —              | —             | —              | 3,029          | 69,729           |
| Outstanding losses recoverable from reinsurers            | 213,609          | 6,976          | 2,479          | 5,983         | 211            | 919            | 230,177          |
| Deferred acquisition expenses                             | 270,879          | 11,779         | 10,794         | 5,420         | 27,014         | 7,670          | 333,556          |
| Unearned profit commission                                | 792              | 1              | 98             | —             | 390            | 994            | 2,275            |
| Current tax asset   | 900              | —              | —              | —             | 210            | —              | 1,110            |
| Deferred tax asset  | 32               | 207            | —              | —             | 6,735          | 43             | 7,017            |
| Property and equipment                                    | 6,337            | 68             | 1,729          | —             | 251            | —              | 8,385            |
| Intangible assets   | 8,559            | —              | 208            | —             | —              | —              | 8,767            |
| Other assets  | 7,425            | 36             | 9,494          | —             | 1,042          | 1,286          | 19,283           |
| <b>Total assets as at 31 December 2017</b>                | <b>3,670,553</b> | <b>216,054</b> | <b>508,959</b> | <b>68,840</b> | <b>497,554</b> | <b>97,883</b>  | <b>5,059,843</b> |
| <b>Liabilities</b>  |                  |                |                |               |                |                |                  |
| Outstanding losses and loss expenses                      | 1,276,718        | 32,158         | 124,883        | 54,368        | 239,155        | 59,441         | 1,786,723        |
| Liability for collateral held on behalf of counterparties | 42,075           | 17             | 117,418        | —             | —              | 211            | 159,721          |
| Reinsurance balances payable                              | 115,748          | 14,072         | 2,784          | 145           | 5,681          | 1,782          | 140,212          |
| Derivative balances payable                               | 70,550           | —              | —              | —             | —              | 2,478          | 73,028           |
| Deposit liabilities                                       | —                | —              | 223,305        | —             | 125,139        | —              | 348,444          |
| Payable for investments purchased                         | 5,235            | —              | —              | —             | —              | —              | 5,235            |
| Unearned premiums   | 969,927          | 69,588         | 38,857         | 14,118        | 136,149        | 32,561         | 1,261,200        |
| Fair value of derivative liabilities                      | 35,093           | —              | —              | —             | —              | 2,594          | 37,687           |
| Deferred commission income                                | 12,480           | 377            | 35             | 24            | 124            | 147            | 13,187           |
| Accounts payable and accrued expenses                     | 25,576           | 3,224          | 4              | —             | 1,974          | 1,946          | 32,724           |
| Retirement benefit obligation                             | —                | —              | —              | —             | —              | 4,347          | 4,347            |
| Deferred fee income                                       | 3,099            | —              | —              | —             | 1,092          | 1,025          | 5,216            |
| Current tax liability                                     | —                | 1,539          | —              | —             | —              | —              | 1,539            |
| Deferred tax liability                                    | —                | —              | —              | —             | —              | —              | —                |
| <b>Total liabilities as at 31 December 2017</b>           | <b>2,556,501</b> | <b>120,975</b> | <b>507,286</b> | <b>68,655</b> | <b>509,314</b> | <b>106,532</b> | <b>3,869,263</b> |

**4. Risk disclosures (continued)**

(b) Market risk (continued)

**Foreign exchange risk (continued)**

As at 31 December 2018, the Company used closing rates of exchange for major currencies of: USD 1: AUD 1.42; USD 1: EUR 0.87; USD 1: NZD 1.49; and USD 1: GBP 0.79.

As at 31 December 2017, the Company used closing rates of exchange for major currencies of: USD 1: AUD 1.28; USD 1: EUR 0.83; USD 1: NZD 1.41; and USD 1: GBP 0.74.

The impact on net income of a proportional foreign exchange movement of 10% up and 10% down against the U.S. Dollar at the year end closing rates, applied on foreign currency net assets, would be an increase or decrease of USD 12.3 million (2017: USD 7.7 million). This analysis assumes that all other variables, in particular interest rates, remain constant and that the underlying valuation of assets and liabilities in their base currency is unchanged.

**Revaluation risk**

The Company is subject to revaluation risk as a result of the translation into the Company's U.S. Dollar reporting currency of the consolidated balance sheet of the Company's Swiss, Australian and United Kingdom operations, whose functional currencies are the Euro, Australian Dollar and Pound Sterling, respectively.

**Equity price risk**

TMR is exposed to equity price risk through its holdings of equity investments. The Company holds equity investments to diversify its investment portfolio and take advantage of expected long-term returns. Investment limits as set out in TMR's investment principles are used to manage and monitor these exposures. Equity investments are limited to a relatively small proportion of TMR's overall investment portfolio and the equity holdings involved are diversified over a number of companies.

Risks from changes in equity prices are normally associated with decreasing share prices and increasing equity price volatilities. As stock markets might also increase, opportunities may arise from equity investments.

As of 31 December 2018, TMR's equity investments, amounting to a fair value of USD 2.7 million (2017 – USD 27.3 million), would have lost USD 0.3 million (2017 – USD 2.7 million) in value assuming equity markets declined by 10%. A 10% upward movement is estimated to have an equal but opposite effect. This is the possible impact to unrealised gain/loss on investments, a component of accumulated other comprehensive income.

**Credit spread risk**

Our investment strategy acknowledges the risk of declining market values for our fixed interest securities due to the widening of credit spreads. Investment limits per portfolio as set out in TMR's investment principles are used to manage and monitor this risk. The advantage of being able to invest in long duration securities gives the Company the opportunity to invest in securities yielding spreads over the risk-free return and earning this additional yield component.

**4. Risk disclosures (continued)****(c) Credit risk**

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

Asset credit risk may arise from the unexpected default, or deterioration in the credit ratings, of the debtors or issuers of the financial instruments that TMR holds in its investment portfolio, which may cause them to lose value.

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

The table below presents an analysis of the Company's major exposures to counterparty credit risk, based on Standard & Poor's (S&P) or equivalent rating.

|                   | <u>Cash and cash equivalents</u> | <u>Funds withheld</u> | <u>Investments (1)</u> | <u>Premiums receivable</u> | <u>Deposit assets</u> | <u>Losses recoverable</u> | <u>Derivative assets (2)</u> |
|-------------------|----------------------------------|-----------------------|------------------------|----------------------------|-----------------------|---------------------------|------------------------------|
| <b>2018</b>       |                                  |                       |                        |                            |                       |                           |                              |
| AAA               | 124,645                          | —                     | 511,681                | —                          | —                     | —                         | —                            |
| AA+, AA, AA-      | 208,513                          | 39,153                | 802,967                | 182,434                    | —                     | —                         | —                            |
| A+, A, A-         | 66,035                           | 35,997                | 585,339                | 413,646                    | —                     | 39,704                    | —                            |
| BBB+, BBB, BBB-   | —                                | 1,624                 | 436,460                | 2,709                      | —                     | —                         | —                            |
| Other/Unknown (3) | —                                | 15,307                | 96,910                 | 408,709                    | 117,531               | 486,918                   | 77,453                       |
| <b>Total</b>      | <b>399,193</b>                   | <b>92,081</b>         | <b>2,433,357</b>       | <b>1,007,498</b>           | <b>117,531</b>        | <b>526,622</b>            | <b>77,453</b>                |
| <b>2017</b>       |                                  |                       |                        |                            |                       |                           |                              |
| AAA               | —                                | —                     | 418,632                | —                          | —                     | —                         | —                            |
| AA+, AA, AA-      | 164,827                          | 67,688                | 842,139                | 194,354                    | —                     | —                         | —                            |
| A+, A, A-         | 64,553                           | 26,413                | 574,768                | 387,414                    | —                     | 38,237                    | —                            |
| BBB+, BBB, BBB-   | —                                | 1,517                 | 463,585                | 5,859                      | —                     | —                         | —                            |
| Other/Unknown (3) | —                                | 11,945                | 284,149                | 383,226                    | 348,444               | 191,940                   | 105,390                      |
| <b>Total</b>      | <b>229,380</b>                   | <b>107,563</b>        | <b>2,583,273</b>       | <b>970,853</b>             | <b>348,444</b>        | <b>230,177</b>            | <b>105,390</b>               |

(1) Investments comprise of short term investments, fixed interest securities, equity securities and other securities

(2) Derivative assets comprise of derivative balances receivable and fair value of derivative assets

(3) Losses recoverable, deposit assets and derivative assets classified as 'Other/Unknown' are collateralised

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

|                                  | <u>2018</u>   | <u>2017</u>   |
|----------------------------------|---------------|---------------|
| Less than 90 days past due       | 26,711        | 17,487        |
| Between 91 and 180 days past due | 1,756         | 554           |
| Over 180 days past due           | 1,538         | 678           |
| <b>Total</b>                     | <b>30,005</b> | <b>18,719</b> |

Bad debt provision of USD 0.8 million was recorded as at 31 December 2018 (2017 – USD nil).

**4. Risk disclosures (continued)**

(c) Credit risk (continued)

TMR has a medium credit risk appetite and elects to take limited credit risk. TMR's investment portfolio is appropriately diversified to limit the amounts of credit exposure with respect to particular rating categories and any one issuer. The Investment Committee has established comprehensive guidelines for the Company's investment managers regarding the type, duration and quality of investments acceptable to TMR. The performance of investment managers is regularly reviewed to confirm adherence to these guidelines.

TMR is also exposed to various counterparty credit risks in the course of conducting its underwriting activities. For example, the Company may have a significant amount of premiums receivables held by its brokers, clients or retrocessionaires.

The Company may have posted funds or collateral with clients or other parties as required by the reinsurance contracts. It may have cash deposits in a number of banking institutions. A retrocessionaire may fail to meet its obligations under the retrocession contracts.

This type of credit risk is called counterparty credit risk, which is modelled as a set of frequency-severity distributions resulting from the scenario analyses conducted and maintained by the Enterprise Risk Management unit using TMR's risk register.

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

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

As at 31 December 2018, the Company's credit risk exposure in relation to losses recoverable from unrated counterparties to reinsurance ceded agreements is USD 486.9 million (2017 – USD 191.9 million), which is collateralised by letters of credit and assets held in trusts by the reinsurance counterparty for the benefit of the Company.

As at 31 December 2018, the Company's exposure to credit risk of the counterparties to catastrophe swap agreements is USD 77.5 million (2017 – USD 105.4 million), which is collateralised by letters of credit and assets held in trusts by the reinsurance counterparty for the benefit of the Company.

**4. Risk disclosures (continued)****(d) Liquidity risk**

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

TMR aims to keep liquidity risk as low as possible so that the Company will be able to meet its contractual obligations in a timely manner, even under stressed scenarios such as following a major catastrophic event. The Company maintains sufficient liquid assets, or assets that can be converted into cash at short notice and without any significant capital loss, to meet expected cash flow requirements. These liquid assets are regularly monitored using cash flow forecasting to ensure that surplus funds are invested to achieve a higher rate of return. The Company also monitors market changes and outlooks and reallocates assets as deemed necessary.

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

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

|  | 2018             | 2017             |
|--|------------------|------------------|
| Less than one year                     | 161,118          | 255,228          |
| Between one and two years              | 132,918          | 202,752          |
| Between two and three years            | 302,515          | 171,139          |
| Between three and four years           | 234,205          | 259,781          |
| Between four and five years            | 173,626          | 234,418          |
| Over five years                        | 219,883          | 184,586          |
| Agency residential mortgage-backed     | 212,169          | 212,687          |
| Commercial mortgage-backed             | 21,678           | 58,676           |
| Asset-backed securities                | 108,141          | 84,637           |
| Collateralised debt obligations        | 235,904          | 251,555          |
| Municipals                             | 325,128          | 360,285          |
| <b>Total fixed interest securities</b> | <b>2,127,285</b> | <b>2,275,744</b> |



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**4. Risk disclosures (continued)**

## (d) Liquidity risk (continued)

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

| <i>As at 31 December 2018</i>                             | Years until liability becomes due |                |                |                | Total            |
|---|-----------------------------------|----------------|----------------|----------------|------------------|
|   | Less than one                     | One to three   | Three to five  | Over five      |                  |
| Outstanding losses and loss expenses                      | 693,946                           | 744,210        | 351,223        | 404,525        | 2,193,904        |
| Liability for collateral held on behalf of counterparties | 3,280                             | —              | —              | —              | 3,280            |
| Reinsurance balances payable                              | 218,835                           | 19,240         | —              | —              | 238,075          |
| Derivative balances payable                               | 21,752                            | 33,045         | —              | —              | 54,797           |
| Deposit liabilities                                       | 4,407                             | 4,709          | 1,996          | 106,419        | 117,531          |
| Payable for investments purchased                         | 639                               | —              | —              | —              | 639              |
| Fair value of derivative liabilities                      | 11,507                            | 13,662         | —              | —              | 25,169           |
| Accounts payable and accrued expenses                     | 35,777                            | 4,998          | 1,355          | 184            | 42,314           |
| <b>Total</b>  | <b>990,143</b>                    | <b>819,864</b> | <b>354,574</b> | <b>511,128</b> | <b>2,675,709</b> |

| <i>As at 31 December 2017</i>                             | Years until liability becomes due |                |                |                | Total            |
|---|-----------------------------------|----------------|----------------|----------------|------------------|
|   | Less than one                     | One to three   | Three to five  | Over five      |                  |
| Outstanding losses and loss expenses                      | 531,318                           | 599,689        | 293,535        | 362,181        | 1,786,723        |
| Liability for collateral held on behalf of counterparties | 25,488                            | 27,624         | 11,851         | 94,758         | 159,721          |
| Reinsurance balances payable                              | 136,025                           | 4,187          | —              | —              | 140,212          |
| Derivative balances payable                               | 30,375                            | 38,546         | 4,107          | —              | 73,028           |
| Deposit liabilities                                       | 37,572                            | 47,540         | 20,061         | 243,271        | 348,444          |
| Payable for investments purchased                         | 5,235                             | —              | —              | —              | 5,235            |
| Fair value of derivative liabilities                      | 13,765                            | 19,778         | 4,144          | —              | 37,687           |
| Accounts payable and accrued expenses                     | 25,231                            | 5,973          | 1,160          | 360            | 32,724           |
| <b>Total</b>  | <b>805,009</b>                    | <b>743,337</b> | <b>334,858</b> | <b>700,570</b> | <b>2,583,774</b> |

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

**4. Risk disclosures (continued)**

**(e) Operational risk**

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

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

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

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

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

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

**(f) Strategic risk**

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

The following are examples of strategic risks facing the Company:

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

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

**4. Risk disclosures (continued)**

(f) Strategic risk (continued)

Strategic risk is especially important for TMR because it has optimised the risk profile of its business by growing those lines of business that help to diversify its concentration in catastrophe exposures. Although there is inherent risk in such strategic expansion into new lines and geographical areas, there are also many benefits. In setting TMR's appetite for this risk, both the risk and the benefits are taken into consideration.

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

New business will be evaluated periodically to determine whether or not it has met the strategic goals of the Company.

**Capital model**

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

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

**5. Cash and cash equivalents**

Cash and cash equivalents represent cash at bank of USD 399.2 million as at 31 December 2018 (2017 – USD 229.4 million).

**6. Funds withheld**

Funds withheld as at 31 December 2018 totalling USD 92.1 million (2017 – USD 107.6 million) represents funds furnished by the Company to its cedants and are largely held in trusts by trustees. The funds do not trigger any cash flows and cannot be realised by cedants without the Company's consent. In the event of default on such a deposit, the Company's reinsurance commitment would be reduced to the same extent.

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**7. Investments**

Investments comprise the following:

|   | 2018             | 2017             |
|---|------------------|------------------|
| Short term investments                                  | 254,779          | 252,574          |
| Fixed interest securities, available for sale           | 2,127,285        | 2,275,744        |
| Equity securities, available for sale                   | 2,723            | 27,300           |
| Other securities, at fair value through profit and loss | 48,570           | 27,655           |
| <b>Total</b>  | <b>2,433,357</b> | <b>2,583,273</b> |

## (a) Short term investments

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

|                    | 2018           | 2017           |
|--------------------|----------------|----------------|
| Money market funds | 193,396        | 185,576        |
| Fixed deposits     | 61,383         | 66,998         |
| <b>Total</b>       | <b>254,779</b> | <b>252,574</b> |

## (b) Fixed interest securities, available for sale

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

| <i>As at 31 December 2018</i>      | Amortised cost   | Unrealised gains | Unrealised losses | Fair value       |
|------------------------------------|------------------|------------------|-------------------|------------------|
| U.S. treasuries                    | 114,141          | 18               | (2,568)           | 111,591          |
| Non-U.S. government                | 153,577          | 1,279            | (36)              | 154,820          |
| Corporate                          | 969,424          | 1,054            | (12,624)          | 957,854          |
| Agency residential mortgage-backed | 220,017          | 134              | (7,982)           | 212,169          |
| Commercial mortgage-backed         | 23,146           | —                | (1,468)           | 21,678           |
| Asset-backed                       | 108,820          | 194              | (873)             | 108,141          |
| Collateralised debt obligations    | 243,223          | 725              | (8,044)           | 235,904          |
| Municipals                         | 324,694          | 3,615            | (3,181)           | 325,128          |
| <b>Total</b>                       | <b>2,157,042</b> | <b>7,019</b>     | <b>(36,776)</b>   | <b>2,127,285</b> |

  

| <i>As at 31 December 2017</i>      | Amortised cost   | Unrealised gains | Unrealised losses | Fair value       |
|------------------------------------|------------------|------------------|-------------------|------------------|
| U.S. treasuries                    | 116,501          | 69               | (2,216)           | 114,354          |
| Non-U.S. government                | 115,300          | 448              | (526)             | 115,222          |
| Corporate                          | 1,075,702        | 5,542            | (2,916)           | 1,078,328        |
| Agency residential mortgage-backed | 216,691          | 314              | (4,318)           | 212,687          |
| Commercial mortgage-backed         | 58,742           | 1,961            | (2,027)           | 58,676           |
| Asset-backed                       | 85,008           | 11               | (382)             | 84,637           |
| Collateralised debt obligations    | 247,636          | 3,927            | (8)               | 251,555          |
| Municipals                         | 352,646          | 8,825            | (1,186)           | 360,285          |
| <b>Total</b>                       | <b>2,268,226</b> | <b>21,097</b>    | <b>(13,579)</b>   | <b>2,275,744</b> |

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**7. Investments (continued)****(b) Fixed interest securities, available for sale (continued)**

Of the USD 2,275.7 million available for sale fixed interest securities as at 31 December 2017, USD 91.8 million relates to securities held by the Company for the purpose of funding future claim payments in relation to a loss portfolio transfer agreement ('LPTA'). As at 31 December 2017, the securities related to the LPTA consist of non-U.S. government securities of USD 30.7 million and corporate securities of USD 61.1 million. The net unrealised gain on the LPTA securities of USD 0.6 million at the end of the year 2017 has been offset against the corresponding liability for collateral held on behalf of counterparties. A Part VII transfer has been completed in November 2018 and related assets have been transferred. No assets in relation to the LPTA are included in the Company's consolidated balance sheet as of 31 December 2018. Also refer to Note 12 – Deposit contracts.

In the normal course of business, available for sale fixed interest securities and cash and cash equivalents with fair value of USD 140.5 million as at 31 December 2018 (2017 – USD 152.1 million), were deposited in trust for the benefit of ceding companies and credit institutions.

**(b) Fixed interest securities, available for sale**

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

| <u>As at 31 December 2018</u>      | <u>Amortised cost</u> | <u>Fair value</u> |
|------------------------------------|-----------------------|-------------------|
| Within one year                    | 161,444               | 161,118           |
| From one to five years             | 852,299               | 843,264           |
| From five to ten years             | 223,400               | 219,883           |
| Subtotal                           | 1,237,143             | 1,224,265         |
| Agency residential mortgage-backed | 220,017               | 212,169           |
| Commercial mortgage-backed         | 23,146                | 21,678            |
| Asset-backed                       | 108,820               | 108,141           |
| Collateralised debt obligations    | 243,223               | 235,904           |
| Municipals                         | 324,694               | 325,128           |
| <b>Total</b>                       | <b>2,157,043</b>      | <b>2,127,285</b>  |
| <u>As at 31 December 2017</u>      | <u>Amortised cost</u> | <u>Fair value</u> |
| Within one year                    | 255,195               | 255,228           |
| From one to five years             | 869,325               | 868,090           |
| From five to ten years             | 182,983               | 184,586           |
| Subtotal                           | 1,307,503             | 1,307,904         |
| Agency residential mortgage-backed | 216,691               | 212,687           |
| Commercial mortgage-backed         | 58,742                | 58,676            |
| Asset-backed                       | 85,008                | 84,637            |
| Collateralised debt obligations    | 247,636               | 251,555           |
| Municipals                         | 352,646               | 360,285           |
| <b>Total</b>                       | <b>2,268,226</b>      | <b>2,275,744</b>  |

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(Expressed in thousands of United States Dollars)

**7. Investments (continued)**

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

(iii) The Company's available for sale fixed interest securities carry a weighted average credit rating of A (2017 - A) as assigned by Standard &amp; Poor's (S&amp;P).

The rating profile of the Company's available for sale fixed interest securities, based on S&amp;P or equivalent rating, is shown in the table below.

|                        | 2018             | 2017             |
|------------------------|------------------|------------------|
| AAA                    | 352,720          | 319,563          |
| AA+, AA, AA-           | 724,135          | 710,796          |
| A+, A, A-              | 534,527          | 540,518          |
| BBB+, BBB, BBB-        | 436,460          | 463,585          |
| Below investment grade | 66,706           | 42,932           |
| Not rated              | 12,737           | 198,350          |
| <b>Total</b>           | <b>2,127,285</b> | <b>2,275,744</b> |

(c) Equity securities, available for sale

The acquisition cost, fair value and unrealised gains and losses of investments in available for sale equity securities are as follows:

| <i>As at 31 December 2018</i> | Acquisition cost | Unrealised gains | Unrealised losses | Fair value   |
|-------------------------------|------------------|------------------|-------------------|--------------|
| Common stock                  | 2,461            | 262              | —                 | 2,723        |
| Mutual funds                  | —                | —                | —                 | —            |
| Real estate investment trusts | —                | —                | —                 | —            |
| <b>Total</b>                  | <b>2,461</b>     | <b>262</b>       | <b>—</b>          | <b>2,723</b> |

  

| <i>As at 31 December 2017</i> | Acquisition cost | Unrealised gains | Unrealised losses | Fair value    |
|-------------------------------|------------------|------------------|-------------------|---------------|
| Common stock                  | 8,512            | 701              | (31)              | 9,182         |
| Mutual funds                  | 10,000           | 481              | —                 | 10,481        |
| Real estate investment trusts | 7,101            | 613              | (77)              | 7,637         |
| <b>Total</b>                  | <b>25,613</b>    | <b>1,795</b>     | <b>(108)</b>      | <b>27,300</b> |

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(Expressed in thousands of United States Dollars)

**7. Investments (continued)**

## (d) Other securities, at fair value through profit and loss

The acquisition cost, fair value and unrealised gains and losses of investments in other securities at fair value through profit and loss are as follows:

| <i>As at 31 December 2018</i> | Acquisition cost | Unrealised gains | Unrealised losses | Fair value    |
|-------------------------------|------------------|------------------|-------------------|---------------|
| <i>Investments in:</i>        |                  |                  |                   |               |
| Limited partnerships          | 11,261           | 1,676            | (139)             | 12,798        |
| Limited liability companies   | 1,689            | 257              | —                 | 1,946         |
| Absolute return fund          | 34,338           | —                | (512)             | 33,826        |
| <b>Total</b>                  | <b>47,288</b>    | <b>1,933</b>     | <b>(651)</b>      | <b>48,570</b> |

| <i>As at 31 December 2017</i> | Acquisition cost | Unrealised gains | Unrealised losses | Fair value    |
|-------------------------------|------------------|------------------|-------------------|---------------|
| <i>Investments in:</i>        |                  |                  |                   |               |
| Limited partnerships          | 12,634           | 1,367            | (294)             | 13,707        |
| Limited liability companies   | 1,689            | 170              | —                 | 1,859         |
| Absolute return fund          | 12,005           | 84               | —                 | 12,089        |
| <b>Total</b>                  | <b>26,328</b>    | <b>1,621</b>     | <b>(294)</b>      | <b>27,655</b> |

## (e) Components of investment income

The components of net investment income for the years ended 31 December 2018 and 2017 were as follows:

|                                 | Interest and dividends | Net realised gains (losses) | Net change in unrealised gains (losses) | Impairment losses | Net investment income |
|---------------------------------|------------------------|-----------------------------|---|-------------------|-----------------------|
| <i>31 December 2018</i>         |                        |                             |   |                   |                       |
| Cash and cash equivalents       | 1,543                  | —                           | —                                       | —                 | 1,543                 |
| Funds withheld                  | 1,064                  | —                           | —                                       | —                 | 1,064                 |
| Short term investments          | 3,303                  | —                           | —                                       | —                 | 3,303                 |
| Fixed interest securities – AFS | 78,341                 | (542)                       | —                                       | (301)             | 77,498                |
| Equity securities – AFS         | 2,383                  | 472                         | —                                       | (168)             | 2,687                 |
| Other securities – FVTPL        | —                      | 335                         | (46)                                    | —                 | 289                   |
| Sub-total                       | 86,634                 | 265                         | (46)                                    | (469)             | 86,384                |
| Investment management fees      |                        |                             |   |                   | (8,245)               |
| <b>Net investment income</b>    |                        |                             |   |                   | <b>78,139</b>         |

31 December 2018 and 2017

*(Expressed in thousands of United States Dollars)***7. Investments (continued)****(e) Components of investment income (continued)**

| <i>31 December 2017</i>         | <b>Interest and<br/>dividends</b> | <b>Net<br/>realised gains</b> | <b>Net change<br/>in unrealised<br/>gains</b> | <b>Impairment<br/>losses</b> | <b>Net<br/>investment<br/>income</b> |
|---------------------------------|-----------------------------------|-------------------------------|---|------------------------------|--------------------------------------|
| Cash and cash equivalents       | 1,034                             | —                             | —   | —                            | 1,034                                |
| Funds withheld                  | 1,469                             | —                             | —   | —                            | 1,469                                |
| Short term investments          | 2,311                             | —                             | —   | —                            | 2,311                                |
| Fixed interest securities – AFS | 68,578                            | 205                           | —   | (583)                        | 68,200                               |
| Catastrophe bonds               | 5                                 | —                             | —   | —                            | 5                                    |
| Equity securities – AFS         | 2,109                             | 1,298                         | —   | (743)                        | 2,664                                |
| Other securities – FVTPL        | —                                 | 722                           | 317   | —                            | 1,039                                |
| Sub-total                       | 75,506                            | 2,225                         | 317   | (1,326)                      | 76,722                               |
| Investment management fees      |                                   |                               |   |                              | (7,910)                              |
| <b>Net investment income</b>    |                                   |                               |   |                              | <b>68,812</b>                        |



## 8. Fair value measurements

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

The following are the levels within the fair value hierarchy:

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

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

31 December 2018 and 2017

(Expressed in thousands of United States Dollars)

**8. Fair value measurements (continued)**

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

| <i>As at 31 December 2018</i>      | <b>Total</b>     | <b>Quoted prices in<br/>active markets for<br/>identical assets<br/>(Level 1)</b> | <b>Other<br/>observable<br/>inputs<br/>(Level 2)</b> | <b>Unobservable<br/>inputs<br/>(Level 3)</b> |
|------------------------------------|------------------|---|--|--|
| Financial assets                   |                  |   |  |  |
| <i>Investments</i>                 |                  |   |  |  |
| Short term investments             | 254,779          | 254,779   | —  | —  |
| Fixed interest securities          |                  |   |  |  |
| U.S. treasuries                    | 111,591          | 111,591   | —  | —  |
| Non-U.S. government                | 154,820          | —   | 154,820  | —  |
| Corporate                          | 957,854          | —   | 814,936  | 142,918                                      |
| Agency residential mortgage-backed | 212,169          | —   | 212,169  | —  |
| Commercial mortgage-backed         | 21,678           | —   | 21,678   | —  |
| Asset-backed                       | 108,141          | —   | 108,141  | —  |
| Collateralised debt obligations    | 235,904          | —   | 225,090  | 10,814                                       |
| Municipals                         | 325,128          | —   | 322,189  | 2,939  |
| Equity securities                  | 2,723            | 2,703   | —  | 20   |
| Other securities                   | 48,570           | —   | 33,826   | 14,744                                       |
| Sub-total                          | 2,433,357        | 369,073   | 1,892,849  | 171,435                                      |
| Derivative assets                  | 47,169           | —   | —  | 47,169                                       |
| <b>Total</b>                       | <b>2,480,526</b> | <b>369,073</b>  | <b>1,892,849</b>                                     | <b>218,604</b>                               |
| Financial liabilities              |                  |   |  |  |
| Derivative liabilities             | (25,169)         | —   | —  | (25,169)                                     |
| <b>Total</b>                       | <b>2,455,357</b> | <b>369,073</b>  | <b>1,892,849</b>                                     | <b>193,435</b>                               |

31 December 2018 and 2017

(Expressed in thousands of United States Dollars)

**8. Fair value measurements (continued)**

| <i>As at 31 December 2017</i>      | <b>Total</b>     | <b>Quoted prices in<br/>active markets for<br/>identical assets<br/>(Level 1)</b> | <b>Other<br/>observable<br/>inputs<br/>(Level 2)</b> | <b>Unobservable<br/>inputs<br/>(Level 3)</b> |
|------------------------------------|------------------|---|--|--|
| <b>Financial assets</b>            |                  |   |  |  |
| <i>Investments</i>                 |                  |   |  |  |
| Short term investments             | 252,574          | 252,574   | —  | —  |
| Fixed interest securities          |                  |   |  |  |
| U.S. treasuries                    | 114,354          | 114,354   | —  | —  |
| Non-U.S. government                | 115,222          | —   | 115,222  | —  |
| Corporate                          | 1,078,328        | —   | 904,995  | 173,333                                      |
| Agency residential mortgage-backed | 212,687          | —   | 212,687  | —  |
| Commercial mortgage-backed         | 58,676           | —   | 58,676   | —  |
| Asset-backed                       | 84,637           | —   | 84,637   | —  |
| Collateralised debt obligations    | 251,555          | —   | 239,805  | 11,750                                       |
| Municipals                         | 360,285          | —   | 358,350  | 1,935  |
| Investments in catastrophe bonds   | 27,300           | 16,819  | —  | 10,481                                       |
| Equity securities                  | 27,655           | —   | 12,089   | 15,566                                       |
| Other securities                   | —                | —   | —  | —  |
| Sub-total                          | 2,583,273        | 383,747   | 1,986,461  | 213,065                                      |
| Derivative assets                  | 69,729           | —   | —  | 69,729                                       |
| <b>Total</b>                       | <b>2,653,002</b> | <b>383,747</b>  | <b>1,986,461</b>                                     | <b>282,794</b>                               |
| <b>Financial liabilities</b>       |                  |   |  |  |
| Derivative liabilities             | (37,687)         | —   | —  | (37,687)                                     |
| <b>Total</b>                       | <b>2,615,315</b> | <b>383,747</b>  | <b>1,986,461</b>                                     | <b>245,107</b>                               |

There were no transfers made between Levels 1, 2 and 3 of the fair value hierarchy in 2018 and 2017.

**Short term investments**

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

**8. Fair value measurements (continued)**

**Fixed interest securities**

Fixed interest securities are priced using pricing services, such as index providers and pricing vendors. The pricing vendors provide pricing for a high volume of liquid securities that are actively traded. For securities that do not trade on an exchange, the pricing services generally utilise market data and other observable inputs in pricing models to determine prices. Prices are generally verified using third party data. The techniques generally used to determine the fair value of our fixed interest securities are detailed below by asset class.

*U.S. treasuries*

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

*Non-U.S. government*

Fixed interest securities included in non-U.S. government are primarily priced by pricing vendors. When evaluating these securities, the vendor may gather information from market sources and integrate other observations from markets and sector news. Evaluations are updated by obtaining broker-dealer quotes and other market information including actual trades, when available. For securities in which trade volume is relatively high, the vendor may utilise data from active trades; as such, these are included as Level 1. For securities in which trade volume is low, the pricing vendor may also utilise data from more frequently traded securities with similar attributes. These are considered observable inputs; therefore, the fair value of such securities is classified as Level 2.

*Corporate*

Corporate securities primarily include fixed rate corporate bonds and floating rate notes. The Company's corporate fixed interest securities are primarily priced by pricing vendors. When evaluating these securities, the vendor may gather information from market sources regarding the issuer of the security and obtain credit data, as well as other observations from markets and sector news. Evaluations are updated by obtaining broker-dealer quotes and other market information including actual trades, when available. The pricing vendor may also consider the specific terms and conditions of the securities, including any specific features that may influence risk. These are considered observable inputs; therefore, the fair value of such securities are classified as Level 2.

The Company's corporate securities also include private placements and mortgage loans, for which there is limited observable input on which to measure fair value, which are classified as Level 3. The fair value of these private placements is estimated to be equal to their amortised cost.

**8. Fair value measurements (continued)**

**Fixed interest securities (continued)**

*Residential ('RMBS') and commercial mortgage-backed ('CMBS') securities*

The vendor uses various valuation techniques and pricing models to measure the fair value of its investments in RMBS and CMBS, including option-adjusted spread models, volatility-driven multi-dimensional single cash flow stream models and matrix correlation to comparable securities. RMBS include U.S. agency securities and collateralised mortgage obligations. Inputs utilised in connection with the valuation techniques include monthly payment and performance information, including prepayments, default severity, delinquencies, market indices and the amounts of the tranches in the particular structure which are senior or subordinate, as applicable, to the tranche represented by the Company's investment. Valuations may also be corroborated by daily active market quotes. As of 31 December 2018, 100% (2017 – 100%) of the Company's investment in mortgage-backed securities are valued using observable inputs and therefore are categorised as Level 2 of the fair value hierarchy.

*Asset-backed*

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

*Collateralised debt obligations*

Collateralised debt obligations consist of collateralised loans. The pricing vendor's valuation techniques utilise non-binding broker quotes as the key input for a majority of the portfolio. As such inputs are generally unobservable, these collateralised debt obligations are categorised as Level 3 of the fair value hierarchy. For the remaining securities, valuation is determined utilising observable inputs including monthly payment information, prepayment data, default severity and delinquencies. These securities are categorised as Level 2 of the fair value hierarchy.

*Municipals*

These include bonds or notes issued by U.S. municipalities. Inputs utilised include recently executed transactions and other market data, spreads, benchmark curves including treasury and other benchmarks, trustee reports, material event notices, new issue data and issuer financial statements. These inputs are generally observable, and as such, these securities are categorised as Level 2 of the fair value hierarchy. The remaining securities are valued using non-binding broker quotes that rely on unobservable inputs, and thus these securities are categorised as Level 3 of the fair value hierarchy.

**8. Fair value measurements (continued)**

**Equity securities**

This is comprised of common stock, mutual funds and real estate investment trusts. Equities are generally included as Level 1 in the fair value hierarchy as prices are obtained from market exchanges in active markets. Investments in mutual funds, where the fair value of the fund is estimated to be the net asset value reported by the fund administrator at the balance sheet date, are classified as Level 3.

**Other securities**

Other securities consist of investments in investment funds organised as limited partnerships, investment in funds organised as limited liability companies, real estate investments held by limited liability companies and investments in absolute return fund.

For private equity investments, since quoted market prices are not available, the transaction price is used as the best estimate of fair value at inception. When evidence is believed to support a change to the carrying value from the transaction price, adjustments are made to reflect expected exit values. Ongoing valuation reviews are based on assessments of each underlying investment and the inputs utilised in these reviews include, among other things, the evaluation of financing and sale transactions with third parties, expected cash flows, material events and market-based information. These investments are categorised as Level 3 of the fair value hierarchy.

For investments in funds organised as limited liability companies, the funds' financial statements constitute the key valuation input. The value calculated using the equity method of accounting with respect to the investment in this limited liability company was reflective of the fair market value of such investments, and therefore such investments are categorised as Level 3 of the fair value hierarchy.

For investments in absolute return fund, the fund's exposure in general is related to fixed income securities and fixed income related securities issued by, or giving exposure to, governments, government agencies, companies and supranationals. The fund publishes a daily price on the most common financial information providers. As such, the Company considers its investment in absolute return fund as Level 2 of the fair value hierarchy.

31 December 2018 and 2017

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**8. Fair value measurements (continued)****Fair value of derivative assets and liabilities**

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

The following tables provide reconciliations for Level 3 assets measured at fair value on a recurring basis for the years ended 31 December 2018 and 2017:

| <i>As at 31 December 2018</i>   | <b>2017</b>    | <b>Net gains<br/>(losses)<br/>included in<br/>earnings</b> | <b>Net unrealised<br/>gains (losses)<br/>included in other<br/>comprehensive<br/>income</b> | <b>Purchases</b> | <b>Sales</b>     | <b>Transfers<br/>out of<br/>Level 3</b> | <b>2018</b>    |
|---------------------------------|----------------|--|---|------------------|------------------|---|----------------|
| <b>Financial assets</b>         |                |  |   |                  |                  |   |                |
| Corporate                       | 173,333        | 646  | (17)  | 52,708           | (83,752)         | —                                       | 142,918        |
| Collateralised debt obligations | 11,750         | —  | (936)   | —                | —                | —                                       | 10,814         |
| Municipals                      | 1,935          | —  | 18  | 986              | —                | —                                       | 2,939          |
| Equity securities               | 10,481         | (75)   | (462)   | —                | (9,924)          | —                                       | 20             |
| Other securities                | 15,566         | 335  | 551   | 802              | (2,510)          | —                                       | 14,744         |
| <b>Derivative assets</b>        | <b>69,729</b>  | <b>(25,148)</b>  | <b>—</b>  | <b>2,588</b>     | <b>—</b>         | <b>—</b>                                | <b>47,169</b>  |
| <b>Sub-total</b>                | <b>282,794</b> | <b>(24,242)</b>  | <b>(846)</b>  | <b>57,084</b>    | <b>(96,186)</b>  | <b>—</b>                                | <b>218,604</b> |
| <b>Financial liabilities</b>    |                |  |   |                  |                  |   |                |
| Derivative liabilities          | (37,687)       | 17,765   | —   | —                | (5,247)          | —                                       | (25,169)       |
| <b>Total</b>                    | <b>245,107</b> | <b>(6,477)</b>   | <b>(846)</b>  | <b>57,084</b>    | <b>(101,433)</b> | <b>—</b>                                | <b>193,435</b> |

**8. Fair value measurements (continued)****Fair value of derivative assets and liabilities (continued)**

| <i>As at 31 December 2017</i>   | 2016           | Net gains<br>(losses)<br>included in<br>earnings | Net unrealised<br>gains (losses)<br>included in other<br>comprehensive<br>income | Purchases      | Sales           | Transfers<br>out of<br>Level 3 | 2017           |
|---------------------------------|----------------|--|--|----------------|-----------------|--------------------------------|----------------|
| Financial assets                |                |  |  |                |                 |                                |                |
| Corporate                       | 159,798        | 1,009  | —  | 40,258         | (27,732)        | —                              | 173,333        |
| Commercial mortgage-backed      | 2,197          | 385  | (214)  | —              | (2,368)         | —                              | —              |
| Collateralised debt obligations | —              | —  | —  | 11,750         | —               | —                              | 11,750         |
| Municipals                      | 1,963          | —  | (28)   | —              | —               | —                              | 1,935          |
| Equity securities               | 10,375         | —  | 106  | —              | —               | —                              | 10,481         |
| Other securities                | 16,311         | 955  | —  | 1,093          | (2,793)         | —                              | 15,566         |
| Derivative assets               | 3,960          | (23,751)   | —  | 89,520         | —               | —                              | 69,729         |
| Sub-total                       | 194,604        | (21,402)   | (136)  | 142,621        | (32,893)        | —                              | 282,794        |
| Financial liabilities           |                |  |  |                |                 |                                |                |
| Derivative liabilities          | (4,008)        | 19,472   | —  | —              | (53,151)        | —                              | (37,687)       |
| <b>Total</b>                    | <b>190,596</b> | <b>(1,930)</b>                                   | <b>(136)</b>   | <b>142,621</b> | <b>(86,044)</b> | <b>—</b>                       | <b>245,107</b> |

Net gains (losses) on investments and on derivative assets and liabilities are included in net investment income and net derivative income, respectively, in the consolidated statement of comprehensive income.

*Investments included in Level 3*

As at 31 December 2018, investments included in Level 3 amounted to USD 171.4 million (2017 – USD 213.1 million).

If models are used to measure financial assets and liabilities included in Level 3 under which the adoption of alternative inputs lead to a material change in fair value, IFRS 13 requires disclosure of the effects of these alternative assumptions.

Equity securities and other securities classified as Level 3 are mainly priced based on the (adjusted) net asset value method. The key unobservable input is net asset value, which is provided by the respective fund manager. Since the Company has limited insight into the specific inputs used by the fund managers in estimating fair value, the effects of using alternative inputs within the meaning of IFRS 13 cannot be reasonably established.

Mortgage loans and private placements are valued at amortised cost, which reasonably approximate fair value for these securities. The key unobservable input for fair value measurement would be a risk adjusted interest rate benchmark (market interest rate for the same tenor and the respective credit risk). The application of alternative inputs and assumptions has no material effect on the consolidated financial statements.

Commercial mortgage-backed securities and collateralised debt obligations classified as Level 3 are mainly priced based on the income approach by brokers and traders. The primary unobservable input used in the discounted cash flow method is a risk-adjusted interest rate benchmark. A significant yield increase of this benchmark in isolation could result in a decreased fair value, while a significant yield decrease could result in an increased fair value.



**8. Fair value measurements (continued)**

*Investments included in Level 3 (continued)*

However, a simplified 10% stress of this main non-market observable input has no material impact to the fair value as at 31 December 2018 and 2017.

*Derivative assets and liabilities included in Level 3*

As at 31 December 2018, derivative assets comprise unearned derivative expense of USD 47.2 million (2017 – USD 69.7 million).

As at 31 December 2018, derivative liabilities comprise unearned derivative income of USD 25.2 million (2017 – USD 37.7 million).

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

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

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

**Other assets and liabilities**

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

Thus, the total fair value amounts cannot be aggregated to determine the underlying economic value of the Company.

**9. Net derivative expense or income**

Net derivative expense consists of catastrophe swap derivative premiums expensed of USD 7.4 million (2017 – USD 4.3 million net derivative income).

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

**10. Collateral held on behalf of counterparties**

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

**11. Reinsurance and other assets**

|  | 2018             | 2017             |
|--|------------------|------------------|
| Premiums receivable                            | 1,007,498        | 970,853          |
| Derivative balances receivable                 | 30,284           | 35,661           |
| Deposit assets                                 | 117,531          | 348,444          |
| Accrued interest receivable                    | 16,885           | 17,100           |
| Outstanding losses recoverable from reinsurers | 526,622          | 230,177          |
| Other assets                                   | 10,291           | 19,283           |
| <b>Total</b>                                   | <b>1,709,111</b> | <b>1,621,518</b> |

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

|                     | 2018             | 2017             |
|---------------------|------------------|------------------|
| Current portion     | 1,169,344        | 1,017,636        |
| Non-current portion | 539,767          | 603,882          |
| <b>Total</b>        | <b>1,709,111</b> | <b>1,621,518</b> |

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

**12. Deposit contracts**

Effective 1 July 2014, Tokio Millennium Re AG – Bermuda branch ('TMRB') entered into a loss portfolio transfer agreement ('first LPTA'). TMRB accepted, on a fully collateralised basis, the liability of a loss portfolio with an aggregate limit capped at EUR 366.0 million. Through a quota share retrocession agreement, TMRB retroceded 100% of its liability to another party. TMRB is compensated through a ceding commission as a percentage of the initial aggregate limit, which is earned from the first LPTA effective date to expected contract termination date. The collateral for the first LPTA consisted of short term investments and available for sale fixed interest securities which were included in the Company's consolidated balance sheet as of 31 December 2017. A Part VII transfer has been completed in November 2018 and related assets and liabilities have been transferred. No assets and liabilities in relation to the first LPTA are included in the Company's consolidated balance sheet as of 31 December 2018.

Effective 30 June 2016, TMRB entered into three loss portfolio transfer agreements ('second LPTA'). TMRB accepted, on a fully collateralised basis, the liability of a loss portfolio with an aggregate limit capped at GBP 202.8 million. Through three retrocession agreements, TMRB retroceded 100% of its liability to another party. TMRB is compensated through a ceding commission as a percentage of the initial aggregate limit, which is earned from the second LPTA effective date to expected contract termination date. The collateral assets for the second LPTA are held in trusts by the counterparty for the benefit of the Company. For consolidation purposes, it was determined that the Company does not have sufficient control over the assets held in the trust accounts; therefore, these assets are not included in the consolidated balance sheet. The trust accounts had a total cash balance of USD 4.1 million as of 31 December 2018 (2017 – USD 117.2 million).

**13. Deferred acquisition expenses and deferred commission income**

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

|                   | <u>Gross</u>   | <u>Ceded</u>    | <u>Other</u>   | <u>Net</u>     |
|-------------------|----------------|-----------------|----------------|----------------|
| <b>2018</b>       |                |                 |                |                |
| As at 1 January   | 333,556        | (13,187)        | (4,327)        | 316,042        |
| Expense deferred  | 378,524        | (56,673)        | 819            | 322,670        |
| Amortisation      | (382,643)      | 47,930          | —              | (334,713)      |
| Other             | (8,112)        | 109             | —              | (8,003)        |
| As at 31 December | <u>321,325</u> | <u>(21,821)</u> | <u>(3,508)</u> | <u>295,996</u> |
| <b>2017</b>       |                |                 |                |                |
| As at 1 January   | 359,834        | (6,065)         | (4,229)        | 349,540        |
| Expense deferred  | 342,967        | (38,440)        | (98)           | 304,429        |
| Amortisation      | (379,501)      | 31,209          | —              | (348,292)      |
| Other             | 10,256         | 109             | —              | 10,365         |
| As at 31 December | <u>333,556</u> | <u>(13,187)</u> | <u>(4,327)</u> | <u>316,042</u> |

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

|                     | <u>2018</u>    | <u>2017</u>    |
|---------------------|----------------|----------------|
| Current portion     | 221,238        | 232,055        |
| Non-current portion | 74,758         | 83,987         |
| <b>Total</b>        | <u>295,996</u> | <u>316,042</u> |

**14. Taxation**

The Swiss operation is subject to Swiss cantonal and federal taxes of 21.15% (2017: 21.15%). The Company has branches that operate in Australia, the United States and the United Kingdom, which are subject to income taxes at statutory rates of 30% (2017: 30%), 21% (2017: 35%) and 19% (2017: 19%), respectively.

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

Reductions in the United Kingdom's corporate tax rate from 20% to 19% (effective from 1 April 2017) and 17% (effective from 1 April 2020) were substantively enacted in 2015 and 2016, respectively.

The United States federal tax reform was enacted in December 2017, and as such, the federal corporate income tax rate was reduced from the existing rate of 35% to 21% with effect from 1 January 2018.

**14. Taxation (continued)***Income tax*

The Swiss standard rate of tax is 21.15% (2017: 21.15%), whereas the tax expense for the year ended 31 December 2018 as a percentage of profit before tax is 8.2% (2017: 1.74% tax benefit as a percentage of loss before tax). The reasons for this difference are explained below:

|   | <u>2018</u>          | <u>2017</u>           |
|---|----------------------|-----------------------|
| Profit (loss) before tax  | 136,140              | (161,749)             |
| Tax calculated at the standard corporation tax rate applicable in Switzerland: 21.15%<br>(2017: 21.15%) | 28,794               | (34,210)              |
| Non-taxable (income) loss   | (18,758)             | 2,425                 |
| Tax rate differences on foreign branches  | (694)                | (15,101)              |
| Deferred tax adjustment in respect of prior years   | (52)                 | 372                   |
| Tax rate change adjustment  | (772)                | 17,770                |
| Tax losses for which no deferred tax asset is recognised  | 3,266                | 26,112                |
| Utilisation of tax losses previously unrecognised for deferred tax                                      | (1,450)              | —                     |
| Other   | 854                  | (184)                 |
| <b>Total tax expense (benefit)</b>  | <b><u>11,188</u></b> | <b><u>(2,816)</u></b> |

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

|  | <u>2018</u>          | <u>2017</u>           |
|--|----------------------|-----------------------|
| Corporation tax charge for the year                  | 9,266                | 2,162                 |
| Adjustments in respect of prior year corporation tax | —                    | (352)                 |
| Deferred tax charge (credit) for the year            | 3,346                | (5,647)               |
| Adjustments in respect of prior year deferred tax    | (652)                | 207                   |
| Tax rate change adjustment                           | (772)                | 814                   |
| <b>Total tax expense (benefit)</b>                   | <b><u>11,188</u></b> | <b><u>(2,816)</u></b> |

*Deferred tax*

|   | <u>2018</u>           | <u>2017</u>         |
|---|-----------------------|---------------------|
| Deferred tax asset                              | 13                    | 7,017               |
| Deferred tax liability                          | (1,577)               | —                   |
| <b>Total net deferred tax (liability) asset</b> | <b><u>(1,564)</u></b> | <b><u>7,017</u></b> |

**14. Taxation (continued)***Deferred tax (continued)*

The Company's deferred tax asset results from an operating loss carry forward and IFRS versus tax basis accounting differences. The deferred tax asset of USD 13 thousand as at 31 December 2018 (2017 – USD 7.0 million) has been recognised as the Company expects the business to produce taxable profits in future periods against which the tax losses can be offset.

TMR's U.S. branch did not recognise any deferred tax asset from its net operating loss carry forward as at 31 December 2018 and 2017 due to the uncertainty regarding its recoverability.

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

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

| <i>As at 31 December</i>                     | <b>2017</b>  | <b>Income<br/>statement<br/>(charge) credit</b> | <b>Transfer<br/>from<br/>equity</b> | <b>Group relief</b> | <b>Foreign<br/>currency<br/>translation</b> | <b>2018</b>    |
|--|--------------|---|-------------------------------------|---------------------|---|----------------|
| Outstanding losses and loss expense          | —            | —   | —                                   | —                   | —   | —              |
| Unearned premiums                            | —            | —   | —                                   | —                   | —   | —              |
| Deferred acquisition expenses                | 1,032        | 83  | —                                   | —                   | (110)                                       | 1,005          |
| Accounts payable and accrued expenses        | 380          | 300   | —                                   | —                   | (36)  | 644            |
| Operating losses                             | 10,041       | (1,424)   | —                                   | (6,701)             | (125)                                       | 1,791          |
| Retirement benefit obligation                | 154          | 52  | —                                   | —                   | (9)   | 197            |
| Other  | 628          | (555)   | —                                   | —                   | 23  | 96             |
| Total deferred tax assets                    | 12,235       | (1,544)   | —                                   | (6,701)             | (257)                                       | 3,733          |
| Investment assets                            | (14)         | 205   | (31)                                | —                   | 2   | 162            |
| Premiums receivable                          | (233)        | (86)  | —                                   | —                   | 14  | (305)          |
| Outstanding losses and loss expense          | (5,000)      | (344)   | —                                   | —                   | 327   | (5,017)        |
| Deferred acquisition expenses                | —            | —   | —                                   | —                   | —   | —              |
| Other  | 29           | (153)   | —                                   | —                   | (13)  | (137)          |
| Total deferred tax liabilities               | (5,218)      | (378)   | (31)                                | —                   | 330   | (5,297)        |
| <b>Net deferred tax assets (liabilities)</b> | <b>7,017</b> | <b>(1,922)</b>                                  | <b>(31)</b>                         | <b>(6,701)</b>      | <b>73</b>                                   | <b>(1,564)</b> |

The group relief relates to TMRUK, where it had surrendered its 2017 taxable loss to profitable U.K. companies within the Tokio Marine Group.

The Tokio Marine Group includes U.K. companies which are part of a tax group for certain aspects of the U.K. tax legislation. One of these aspects relates to group relief in which operating losses can be surrendered to claimant companies within the same tax group.

31 December 2018 and 2017

(Expressed in thousands of United States Dollars)

**15. Property and equipment**

Property and equipment as at 31 December 2018 comprise:

|                                 | <b>Computer<br/>equipment</b> | <b>Fixtures<br/>and fittings</b> | <b>Leasehold<br/>improvements</b> | <b>Motor<br/>vehicles</b> | <b>Office<br/>equipment</b> | <b>Total</b>  |
|---------------------------------|-------------------------------|----------------------------------|-----------------------------------|---------------------------|-----------------------------|---------------|
| <b>Cost</b>                     |                               |                                  |                                   |                           |                             |               |
| As at 1 January 2018            | 9,022                         | 3,782                            | 13,721                            | 84                        | 5                           | 26,614        |
| Additions                       | 932                           | (2)                              | (81)                              | (2)                       | —                           | 847           |
| Disposals                       | (1,224)                       | (791)                            | —                                 | —                         | —                           | (2,015)       |
| As at 31 December 2018          | <u>8,730</u>                  | <u>2,989</u>                     | <u>13,640</u>                     | <u>82</u>                 | <u>5</u>                    | <u>25,446</u> |
| <b>Accumulated depreciation</b> |                               |                                  |                                   |                           |                             |               |
| As at 1 January 2018            | 8,122                         | 2,965                            | 7,093                             | 47                        | 2                           | 18,229        |
| Charge for the year             | 497                           | 313                              | 1,055                             | 12                        | —                           | 1,877         |
| Disposals                       | (1,223)                       | (791)                            | —                                 | —                         | —                           | (2,014)       |
| As at 31 December 2018          | <u>7,396</u>                  | <u>2,487</u>                     | <u>8,148</u>                      | <u>59</u>                 | <u>2</u>                    | <u>18,092</u> |
| <b>Net book value</b>           |                               |                                  |                                   |                           |                             |               |
| As at 31 December 2018          | <u>1,334</u>                  | <u>502</u>                       | <u>5,492</u>                      | <u>23</u>                 | <u>3</u>                    | <u>7,354</u>  |
| As at 1 January 2018            | <u>900</u>                    | <u>817</u>                       | <u>6,628</u>                      | <u>37</u>                 | <u>3</u>                    | <u>8,385</u>  |

Property and equipment as at 31 December 2017 comprise:

|                                 | <b>Computer<br/>equipment</b> | <b>Fixtures<br/>and fittings</b> | <b>Leasehold<br/>improvements</b> | <b>Motor<br/>vehicles</b> | <b>Office<br/>equipment</b> | <b>Total</b>  |
|---------------------------------|-------------------------------|----------------------------------|-----------------------------------|---------------------------|-----------------------------|---------------|
| <b>Cost</b>                     |                               |                                  |                                   |                           |                             |               |
| As at 1 January 2017            | 10,664                        | 3,589                            | 13,133                            | 127                       | 20                          | 27,533        |
| Additions                       | 836                           | 193                              | 588                               | 33                        | 2                           | 1,652         |
| Disposals                       | (2,478)                       | —                                | —                                 | (76)                      | (17)                        | (2,571)       |
| As at 31 December 2017          | <u>9,022</u>                  | <u>3,782</u>                     | <u>13,721</u>                     | <u>84</u>                 | <u>5</u>                    | <u>26,614</u> |
| <b>Accumulated depreciation</b> |                               |                                  |                                   |                           |                             |               |
| As at 1 January 2017            | 9,586                         | 2,598                            | 5,646                             | 112                       | 18                          | 17,960        |
| Charge for the year             | 1,011                         | 367                              | 1,447                             | 10                        | 1                           | 2,836         |
| Disposals                       | (2,475)                       | —                                | —                                 | (75)                      | (17)                        | (2,567)       |
| As at 31 December 2017          | <u>8,122</u>                  | <u>2,965</u>                     | <u>7,093</u>                      | <u>47</u>                 | <u>2</u>                    | <u>18,229</u> |
| <b>Net book value</b>           |                               |                                  |                                   |                           |                             |               |
| As at 31 December 2017          | <u>900</u>                    | <u>817</u>                       | <u>6,628</u>                      | <u>37</u>                 | <u>3</u>                    | <u>8,385</u>  |
| As at 1 January 2017            | <u>1,078</u>                  | <u>991</u>                       | <u>7,487</u>                      | <u>15</u>                 | <u>2</u>                    | <u>9,573</u>  |

**16. Intangible assets**

Intangible assets as at 31 December 2018 comprise:

|                          | <u>Computer software</u> |
|--------------------------|--------------------------|
| Cost                     |                          |
| As at 1 January 2018     | 44,651                   |
| Additions                | 3,260                    |
| Disposals                | (2,879)                  |
| As at 31 December 2018   | <u>45,032</u>            |
| Accumulated amortisation |                          |
| As at 1 January 2018     | 35,884                   |
| Charge for the year      | 5,131                    |
| Disposals                | (2,879)                  |
| As at 31 December 2018   | <u>38,136</u>            |
| Net book value           |                          |
| As at 31 December 2018   | <u>6,896</u>             |
| As at 1 January 2018     | <u>8,767</u>             |

Intangible assets as at 31 December 2017 comprise:

|                          | <u>Computer software</u> |
|--------------------------|--------------------------|
| Cost                     |                          |
| As at 1 January 2017     | 39,669                   |
| Additions                | 5,003                    |
| Disposals                | (21)                     |
| As at 31 December 2017   | <u>44,651</u>            |
| Accumulated amortisation |                          |
| As at 1 January 2017     | 30,507                   |
| Charge for the year      | 5,379                    |
| Disposals                | (2)                      |
| As at 31 December 2017   | <u>35,884</u>            |
| Net book value           |                          |
| As at 31 December 2017   | <u>8,767</u>             |
| As at 1 January 2017     | <u>9,162</u>             |

31 December 2018 and 2017

*(Expressed in thousands of United States Dollars)***17. Insurance liabilities**

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

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

|  | Outstanding<br>Losses and loss<br>expenses | Outstanding losses<br>recoverable from<br>reinsurers | Net              |
|--|--|--|------------------|
| <b>As at 31 December 2016</b>                        | <b>1,114,659</b>                           | <b>(64,975)</b>                                      | <b>1,049,684</b> |
| Incurring losses related to:                         |  |  |                  |
| Current year   | 1,419,319                                  | (371,250)  | 1,048,069        |
| Prior years  | 65,063                                     | (8,724)  | 56,339           |
| Adverse development cover                            | —  | (2,274)  | (2,274)          |
| Loss portfolio transfer                              | (1,698)                                    | —  | (1,698)          |
| Net effect of foreign currency exchange rate changes | 36,559                                     | (949)  | 35,610           |
| Total incurred                                       | 1,519,243                                  | (383,197)  | 1,136,046        |
| Paid losses related to:                              |  |  |                  |
| Current year   | 479,143                                    | (215,910)  | 263,233          |
| Prior years  | 368,036                                    | (2,085)  | 365,951          |
| Total paid   | 847,179                                    | (217,995)  | 629,184          |
| <b>As at 31 December 2017</b>                        | <b>1,786,723</b>                           | <b>(230,177)</b>                                     | <b>1,556,546</b> |
| Incurring losses related to:                         |  |  |                  |
| Current year   | 1,253,529                                  | (450,232)  | 803,297          |
| Prior years  | 140,387                                    | (200,657)  | (60,270)         |
| Adverse development cover                            | —  | 6,234  | 6,234            |
| Loss portfolio transfer                              | (10,481)                                   | —  | (10,481)         |
| Net effect of foreign currency exchange rate changes | (31,447)                                   | (679)  | (32,126)         |
| Total incurred                                       | 1,351,988                                  | (645,334)  | 706,654          |
| Paid losses related to:                              |  |  |                  |
| Current year   | 249,053                                    | (93,294)   | 155,759          |
| Prior years  | 695,754                                    | (255,595)  | 440,159          |
| Total paid   | 944,807                                    | (348,889)  | 595,918          |
| <b>As at 31 December 2018</b>                        | <b>2,193,904</b>                           | <b>(526,622)</b>                                     | <b>1,667,282</b> |



**17. Insurance liabilities (continued)****(a) Outstanding losses and loss expenses and losses recoverable from reinsurers (continued)**

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

|              | <u>Outstanding losses<br/>and loss expenses</u> | <u>Outstanding losses<br/>recoverable from reinsurers</u> | <u>Net</u>       |
|--------------|---|---|------------------|
| <b>2018</b>  |   |   |                  |
| Current      | 693,946   | (279,368)   | 414,578          |
| Non-current  | 1,499,958                                       | (247,254)   | 1,252,704        |
| <b>Total</b> | <b>2,193,904</b>                                | <b>(526,622)</b>  | <b>1,667,282</b> |
| <b>2017</b>  |   |   |                  |
| Current      | 531,318   | (100,200)   | 431,118          |
| Non-current  | 1,255,405                                       | (129,977)   | 1,125,428        |
| <b>Total</b> | <b>1,786,723</b>                                | <b>(230,177)</b>  | <b>1,556,546</b> |

During 2018, the Company incurred net losses of USD 743.0 million (2017 – USD 1,104.4 million), which mostly relate to attritional losses on proportional and non-catastrophe excess of loss property and casualty contracts. In addition, USD 75.7 million was related to net incurred losses from 2018 major catastrophe events, which mostly consisted of USD 28.1 million on 2018 California wildfire losses, USD 11.2 million on hurricane Michael and USD 25.8 million losses recorded on 2018 aggregate treaties.

The Company experienced net favourable development of USD 60.3 million (2017 – USD 56.3 million adverse) attributable to prior years which primarily relate to reserve releases on the 2010 and 2011 New Zealand earthquakes (USD 29.0 million), favourable impact of the Ogden rate change on the TMRUK motor excess of loss portfolio (USD 15.7 million) and favourable reserve development from hurricanes Harvey, Irma and Maria (USD 10.5 million). The remaining development mostly related to proportional and non-catastrophe excess of loss property and casualty contracts.

During 2017, the Company incurred net losses of USD 1,104.4 million, which also mostly relate to attritional losses on proportional and non-catastrophe excess of loss property and casualty contracts. In addition, USD 76.6 million was related to net losses from hurricanes Harvey, Irma and Maria which occurred in the third quarter of 2017 and USD 34.5 million on California wildfire losses in the last quarter of 2017. There were also losses of USD 43.1 million recorded on aggregate treaties.

**17. Insurance liabilities (continued)****(a) Outstanding losses and loss expenses and losses recoverable from reinsurers (continued)**

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

**(b) Unearned premiums**

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

|                     | 2018             | 2017             |
|---------------------|------------------|------------------|
| Current portion     | 914,735          | 927,332          |
| Non-current portion | 302,955          | 333,868          |
| <b>Total</b>        | <b>1,217,690</b> | <b>1,261,200</b> |

**18. Reinsurance and other liabilities**

|   | 2018             | 2017             |
|---|------------------|------------------|
| Outstanding losses and loss expenses                      | 2,193,904        | 1,786,723        |
| Liability for collateral held on behalf of counterparties | 3,280            | 159,721          |
| Reinsurance balances payable                              | 238,075          | 140,212          |
| Derivative balances payable                               | 54,797           | 73,028           |
| Deposit liabilities                                       | 117,531          | 348,444          |
| Payable for investments purchased                         | 639              | 5,235            |
| Fair value of derivative liabilities                      | 25,169           | 37,687           |
| Accounts payable and accrued expenses                     | 42,314           | 32,724           |
| <b>Total</b>  | <b>2,675,709</b> | <b>2,583,774</b> |

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

|                     | 2018             | 2017             |
|---------------------|------------------|------------------|
| Current portion     | 990,143          | 805,009          |
| Non-current portion | 1,685,566        | 1,778,765        |
| <b>Total</b>        | <b>2,675,709</b> | <b>2,583,774</b> |

**19. Note payable**

The company issued a private catastrophe bond, 'Omamori', using a segregated account of Shima Re, which provides TMR with a source of fully collateralised second event retrocessional reinsurance protection against United States earthquakes and named storms. The Omamori catastrophe bond is a three-year deal which inceptioned on 17 January 2014. The transaction was facilitated by TSM as insurance manager of Shima Re. In accordance with IFRS 10, *Consolidated Financial Statements*, as TMR has control over the Omamori segregated account, it has been consolidated with the Company's financial statements. As a result of this transaction, a note payable of USD 25.0 million as of 31 December 2016 was recorded in the consolidated balance sheet. It paid a 5% annual coupon rate to noteholders, and as such, the related interest expense and payable were recorded in the consolidated financial statements. This matured and was settled in 2017.

**20. Retirement benefit obligation****(a) Defined benefit scheme**

The Company's Swiss operation offers a defined benefit pension plan to its employees. The plan offers mandatory benefits as prescribed by the Law on Occupational Benefits in Switzerland, as well as voluntary benefits. These mandatory benefits comprise guarantees regarding the level of interest paid annually on accrued pension savings, as well how the rates on these accrued savings are converted into a pension payment at the time of retirement. The Company and the members contribute a defined percentage of salary to the pension arrangement. Credit accumulation is granted on these contributions. At retirement, the accumulated contributions are converted into a pension. The liability shown relates solely to active members and disability pensioners since the responsibility for meeting old-age pensions in payment is irrevocably transferred to an insurance company. Independent actuarial reviews of the ongoing benefit obligations were undertaken as at 31 December 2018.

**20. Retirement benefit obligation (continued)**

## (a) Defined benefit scheme (continued)

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

|                                  | <b>2018 % pa</b> | <b>2017 % pa</b> |
|----------------------------------|------------------|------------------|
| Discount rate                    | 0.90             | 0.70             |
| Expected rate of salary increase | 1.00             | 1.00             |
| Interest credit rate             | 1.00             | 1.00             |
| Demographic assumptions          | BVG 2015 GT      | BVG 2015 GT      |

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

| <b>Assumption change</b>                      | <b>Defined benefit obligation</b> |
|---|-----------------------------------|
| (Increase)/decrease in discount rate by 0.25% | (17,988)/19,627                   |
| (Decrease)/increase in salary by 0.25%        | (18,972)/18,598                   |

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

|                         | <b>2018</b>  | <b>2017</b>  |
|-------------------------|--------------|--------------|
| Current service cost    | 1,175        | 1,165        |
| Interest cost           | 135          | 131          |
| Interest on plan assets | (104)        | (98)         |
| Past service cost       | (146)        | —            |
| Administration costs    | 30           | 31           |
| <b>Total</b>            | <b>1,090</b> | <b>1,229</b> |

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

|  | <b>2018</b>  | <b>2017</b>  |
|--|--------------|--------------|
| Present value of defined benefit obligations | 18,756       | 18,736       |
| Fair value of plan assets                    | (14,869)     | (14,389)     |
| <b>Retirement benefit obligation</b>         | <b>3,887</b> | <b>4,347</b> |

**20. Retirement benefit obligation (continued)****(a) Defined benefit scheme (continued)**

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

|   | <b>2018</b>   | <b>2017</b>   |
|---|---------------|---------------|
| As at 1 January                         | 18,736        | 17,460        |
| Current service cost                    | 1,175         | 1,165         |
| Interest cost                           | 135           | 131           |
| Contributions from plan participants    | 378           | 384           |
| Actuarial gain                          | (878)         | (919)         |
| Net transfers                           | (449)         | (310)         |
| Past service cost                       | (146)         | —             |
| Foreign currency translation adjustment | (195)         | 825           |
| <b>As at 31 December</b>                | <b>18,756</b> | <b>18,736</b> |

There were no actuarial gains or losses from changes in demographic assumptions. The actuarial gains in 2018 and 2017 were primarily driven by the change in financial assumptions.

The average duration of the defined benefit obligations was 17.5 years in 2018 (2017 – 17.4 years).

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

|  | <b>2018</b>   | <b>2017</b>   |
|--|---------------|---------------|
| Opening fair value of plan assets        | 14,389        | 12,963        |
| Interest income on plan assets           | 104           | 98            |
| Actuarial gain                           | (247)         | (211)         |
| Contributions from plan participants     | 378           | 384           |
| Employer contributions                   | 880           | 878           |
| Net transfers                            | (449)         | (310)         |
| Administration costs                     | (30)          | (31)          |
| Foreign currency translation adjustment  | (156)         | 618           |
| <b>Closing fair value of plan assets</b> | <b>14,869</b> | <b>14,389</b> |

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

The Company expects to make a contribution of USD 0.9 million (2017 – USD 0.9 million) to the defined benefit scheme during the next financial year.

**20. Retirement benefit obligation (continued)**

(b) Defined contribution plans

The Company operates defined contribution plans in its branches in Bermuda, Australia and the United Kingdom. The total contributions for the year ended 31 December 2018 amounted to USD 2.2 million (2017 – USD 2.0 million).

The Company also maintains a defined contribution plan for employees of its U.S. branch in accordance with Section 401(k) of the Internal Revenue Code. The total contribution for the year ended 31 December 2018 amounted to USD 0.2 million (2017 – USD 0.2 million).

**21. Share capital**

|  | 2018    | 2017    |
|--|---------|---------|
| Authorised, issued and fully paid, shares of CHF 0.91 (USD 1) par value each | 250,000 | 250,000 |
| Contributed surplus  | 400,000 | 400,000 |

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

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

**22. Ceded reinsurance**

The Company uses retrocessional agreements to reduce its exposure to risk of loss on reinsurance assumed. These agreements generally provide for recovery of a portion of losses and loss expenses from retrocessionaires. The Company remains liable to its cedants to the extent that the retrocessionaires do not meet their obligations under these agreements. Failure of reinsurers to honour their obligations could result in losses to the Company. The Company defines rated reinsurers as companies with a minimum S&P rating of A+ or A.M. Best rating of A and net assets of more than USD 500.0 million. The Company evaluates the financial condition of its rated reinsurers and monitors concentration of credit risk, on an ongoing basis, arising from similar geographic regions, activities or economic characteristics of the reinsurers in order to minimise its exposure to significant losses from rated reinsurer insolvencies. Provisions are made for amounts considered potentially uncollectible.

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

In addition to purchasing retrocessional cover, the Company also uses derivative instruments to cover certain assumed reinsurance risks. Refer to Note 2 – Basis of preparation and Note 8 – Fair value measurements.

**23. Acquisition expenses**

|   | <b>2018</b>    | <b>2017</b>    |
|---|----------------|----------------|
| Acquisition expenses                    | 321,851        | 304,527        |
| Change in deferred acquisition expenses | 12,862         | 43,765         |
| <b>Total</b>                            | <b>334,713</b> | <b>348,292</b> |

**24. General and administrative expenses**

General and administrative expenses consist of the following:

|  | <b>2018</b>    | <b>2017</b>    |
|--|----------------|----------------|
| Employee benefit expenses              | 69,685         | 58,667         |
| Depreciation of property and equipment | 1,877          | 2,836          |
| Amortisation of intangible assets      | 5,131          | 5,379          |
| Operating lease charges                | 3,492          | 3,416          |
| Other expenses                         | 45,644         | 39,822         |
| <b>Total</b>                           | <b>125,829</b> | <b>110,120</b> |

**25. Employee benefit expenses**

|   | <b>2018</b>   | <b>2017</b>   |
|---|---------------|---------------|
| Wages and salaries  | 38,943        | 36,889        |
| Long-term incentive compensation plan                             | 2,583         | 2,742         |
| Retirement benefit obligation costs – defined benefit scheme      | 1,090         | 1,229         |
| Retirement benefit obligation costs – defined contribution scheme | 2,440         | 2,247         |
| Bonus and other benefits  | 24,629        | 15,560        |
| <b>Total</b>  | <b>69,685</b> | <b>58,667</b> |

31 December 2018 and 2017

*(Expressed in thousands of United States Dollars)***26. Commitments**

- (a) The Company leases office space under operating leases which expire at various dates. The Company renews and enters into new leases in the ordinary course of business as required. Total rent expense with respect to these operating leases for the year ended 31 December 2018 was USD 3.5 million (2017 – USD 3.4 million).

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

| Year         |              |
|--------------|--------------|
| 2019         | 2,931        |
| 2020         | 2,261        |
| 2021         | 1,469        |
| 2022         | 68           |
| Later        | —            |
| <b>Total</b> | <b>6,729</b> |

- (b) The above lease agreements also include a maintenance commitment. Maintenance expense for the current year amounts to USD 0.6 million (2017 – USD 0.6 million), which has been included in general and administrative expenses.
- (c) Some lease agreements for office space provide an option to extend the lease beyond the expiration date.
- (d) Effective 27 March 2018, the Company entered into a Letter of Credit Facility Agreement ('Credit Suisse Facility') with Credit Suisse (Switzerland) Ltd. ('Credit Suisse'). The Credit Suisse Facility provided commitments from Credit Suisse in an aggregate amount of USD 100.0 million and provided for the issuance and renewal of letters of credit that are used to support the Company's reinsurance obligations.

As at 31 December 2018, the Credit Suisse Facility was not utilised.

Effective 14 May 2012, the Company entered into a Revolving Letter of Credit Facility Agreement ('Mizuho Facility') with Mizuho Corporate Bank Ltd. ('Mizuho Bank'). The Mizuho Facility provided commitments from Mizuho Bank in an aggregate amount of USD 300.0 million and provided for the issuance and renewal of letters of credit that are used to support the Company's reinsurance obligations. The Mizuho Facility was amended effective 21 January 2015 (the 'Amended Mizuho Facility Agreement'). Under the Amended Mizuho Facility Agreement, the Mizuho Facility was increased to USD 600.0 million and letters of credit can be issued in Australian Dollars. The termination date was amended effective 16 January 2016 and extended to 16 January 2017. A further amendment effective 16 January 2017 extended the commitment termination date to 16 January 2019.

The Mizuho Facility was amended effective 15 March 2018 and the amount decreased to USD 400.0 million. An additional amendment dated 16 January 2019 extended the termination date to 31 March 2019 on an uncommitted basis.

The Mizuho Facility contains representations, warranties and covenants customary for facilities of this type.

As at 31 December 2018, Mizuho Bank has issued letters of credit of USD 336.3 million (2017 – USD 513.0 million) in favour of ceding companies.



**26. Commitments (continued)**

Effective 27 October 2017, the Company entered into a Committed Revolving Standby Letter of Credit Agreement ('Mitsubishi Facility') with Bank of Tokyo-Mitsubishi UFJ – Düsseldorf Branch ('Mitsubishi Bank'). The Mitsubishi Facility provided commitments from Mitsubishi Bank in an aggregate amount of USD 300.0 million and provided for the issuance and renewal of letters of credit which are used to support the Company's reinsurance obligations.

As at 31 December 2018, Mitsubishi Bank has issued letters of credit of USD 259.5 million (2017 – USD 250.3 million) in favour of ceding companies.

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

The Barclays Facility was amended effective 12 September 2014. Under the terms of the amended agreement, the USD 100.0 million commitment remained unchanged and the commitment termination date was extended to 12 September 2017. Under the terms of the amended agreement, letters of credit can now be issued in alternative currencies other than U.S. Dollar. However, another amendment was made effective 23 June 2016, which excludes the Australian Dollar from the alternative currencies. The Barclays Facility matured in September 2017 and was not renewed.

**27. Related party disclosures***Transactions with affiliates*

The following transactions were conducted with related parties during the year and are based on arm's-length arrangements:

- (a) The Company assumed several reinsurance agreements from related parties under common control. The reinsurance premiums assumed under these agreements totalled USD 53.9 million (2017 – USD 38.1 million) with associated acquisition expenses of USD 4.5 million (2017 – USD 3.0 million) and net loss and loss expenses incurred of USD 23.7 million (2017 – USD 20.3 million). As at 31 December 2018, the consolidated balance sheet includes USD 32.1 million (2017 – USD 21.5 million), USD 30.2 million (2017 – USD 20.9 million) and USD 4.5 million (2017 – USD 2.2 million) of premiums receivable, unearned premium and deferred acquisition expenses, respectively.

In addition, the Company assumed a catastrophe swap derivative contract from a related party under common control during the year. The derivative premiums assumed under the agreement totalled USD 3.2 million (2017 – USD 6.4 million).

- (b) Effective 1 July 2015, Tokio Millennium Re AG – U.K. branch ('TMRUK') entered into a loss portfolio transfer agreement ('LPTA') with Tokio Marine Global Re Asia Ltd. ('TMG Re Asia') for a consideration of USD 43.8 million. Reserves (outstanding losses and loss expenses and unearned premiums) were transferred and recorded in TMRUK's balance sheet. The LPTA has been accounted for under insurance accounting.

As at 31 December 2018, the consolidated balance sheet includes USD 27.1 million of cash, USD 18.6 million of outstanding losses and loss expenses, USD 1.0 million of deferred fee income and USD 0.9 million of deferred expense reserve, in relation to this LPTA. The amortisation of deferred fee income and the deferred expense reserve is based on the expected claims payout pattern and settlement period.

As at 31 December 2017, the consolidated balance sheet includes USD 29.7 million of cash, USD 21.7 million of outstanding losses and loss expenses, USD 1.9 million of deferred fee income and USD 1.2 million of deferred expense reserve, in relation to this LPTA.

- (c) Effective 1 July 2015, the Company established an investment management agreement with a related party under common control. The Company incurred investment management fees of USD 4.0 million for the year ended 31 December 2018 (2017 – USD 3.9 million). The consolidated balance sheet includes USD 0.9 million of accounts payable and accrued expenses as at 31 December 2018 (2017 – USD 1.0 million).

*Key management personnel compensation*

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

|                                       | <u>2018</u>  | <u>2017</u>  |
|---------------------------------------|--------------|--------------|
| Wages and salaries                    | 2,866        | 2,438        |
| Long-term incentive compensation plan | 638          | 441          |
| Retirement benefit obligation costs   | 283          | 291          |
| Bonus and other benefits              | 1,639        | 1,144        |
| <b>Total</b>                          | <b>5,426</b> | <b>4,314</b> |

**28. Statutory requirements**

TMR is regulated by the Swiss Financial Market Supervisory Authority ('FINMA'), the Bermuda Monetary Authority ('BMA'), the Australian Prudential Regulation Authority ('APRA'), the New York State Department of Financial Services ('NYDFS'), the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').

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

(a) Switzerland

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

TMR is obligated to maintain a minimum level of capital based on the Swiss Code of Obligations and Insurance Supervision Act. In addition, the Company is required to perform a minimum solvency margin calculation based on the Swiss Solvency Test (SST) regulations as stipulated by the Insurance Supervision Act and the Insurance Supervision Ordinance. The SST is based on an economic view and required capital is derived from a combination of internal and standard models. The amount of dividends that TMR is permitted to distribute is restricted to freely distributable reserves which consist of retained earnings and the current year profit. The solvency and capital requirements must still be met following any distribution.

The Company calculated an SST ratio of 250% for SST 2018. The minimum ratio for the SST is set at 100%. TMR is expected to exceed the minimum ratios for the year ended 31 December 2018.

(b) Bermuda

Tokio Millennium Re AG – Bermuda branch ('TMRB') is regulated by the BMA and is registered under The Insurance Act 1978 (Bermuda), Amendments thereto and Related Regulations (the 'Insurance Act') as a Class 3B insurer. The Insurance Act and related Rules require companies to: i) prepare and file a statutory financial return on an annual basis; ii) maintain minimum levels of statutory capital and surplus; and iii) file a capital and solvency return. TMRB applied for and was granted exemptions and modifications to these requirements for the year ended 31 December 2017. TMRB applied for the same exemptions and modifications and fully expects to receive such for the year ended 31 December 2018.

TMRB is not required to hold localised assets.

**28. Statutory requirements (continued)**

(c) Australia

Tokio Millennium Re AG – Australia branch (“TMRA”) is regulated by APRA and is authorised to carry on insurance business under subsection 12(2) of the Insurance Act 1973. TMRA’s regulatory reporting is prepared in accordance with the Australian Accounting Standards and APRA Prudential Standards. TMRA have complied with the APRA requirements in both 2018 and 2017.

APRA Prudential Standards require the maintenance of net assets in Australia in excess of a calculated Prescribed Capital Amount (PCA). The net assets in Australia as at 31 December 2018 were USD 83.0 million (2017 – USD 99.0 million) and resulted in a surplus of USD 42.7 million (2017 – USD 60.7 million) above the PCA of USD 40.3 million (2017 – USD 38.3 million) estimated under the new Prudential Standards.

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

(d) United States

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

Minimum required statutory capital and surplus is based on the greater of the Risk Based Capital (RBC) level that would trigger regulatory action or minimum requirements per state insurance regulation. At both 31 December 2018 and 2017, TMRUS exceeded the minimum required statutory capital and surplus requirement and also exceeded the RBC minimum required level. TMRUS is required to maintain a minimum combined statutory surplus of USD 65.0 million. As of 31 December 2018, the statutory surplus was USD 270.6 million (2017: USD 231.2 million).

TMRUS as a US Branch does not pay ordinary dividends and would need approval from the New York State Department of Financial Services for any return of capital to TMRAG. As of 31 December 2018, TMRUS did not return any capital to TMRAG. Any return of capital in subsequent periods would need to be approved by the NYSDFS based on the financial condition of TMRUS.

**28. Statutory requirements (continued)**

(e) United Kingdom

Tokio Millennium Re AG – U.K. branch ('TMRUK') is authorised by the PRA, and regulated by both the PRA and FCA. As at 31 December 2018 and 2017, TMRUK was subject to the Solvency II regime. TMRUK applied for and has been granted a modification of the rules for the years ended 31 December 2018 and 2017.

TMRUK is not required to hold localised assets.

**29. Subsequent events**

The Company has completed its subsequent events evaluation for the period subsequent to the consolidated balance sheet date of 31 December 2018 through 5 March 2019, the date the consolidated financial statements were authorised for issue. There were no subsequent events that would warrant an adjustment to the consolidated financial statements.

On 30 October 2018, Tokio Marine and Nichido Fire Insurance Co., Ltd. ('TMNF') entered into a Stock Purchase Agreement with RenaissanceRe Holdings Ltd., a Bermuda exempted company limited by shares ('RenRe'), and Tokio Marine Holdings, Inc. ('TMHD'; solely for the purpose of certain sections thereto), as amended by Amendment No. 1 dated 5 November 2018 (as amended, the 'Stock Purchase Agreement'), which provides that, upon the terms and subject to the conditions set forth therein, at the closing of the transactions contemplated thereby (the 'Closing'), TMNF will sell to a subsidiary of RenRe Holdings (the 'Acquiring Entity'), and RenRe Holdings will cause the Acquiring Entity to purchase, all of TMNF's right, title and interest in and to: i) all of the shares of TMR; and ii) all of the ordinary shares of Tokio Millennium Re (UK) Limited, an English limited company that is an affiliate of TMR (the 'Proposed Acquisition'). As a result, following the Closing, TMR will become an indirect, wholly-owned subsidiary of RenRe Holdings.

Under the terms of the transaction, TMNF will receive 1.02x the tangible book value of TMR delivered to RenRe at closing. TMNF will receive consideration consisting of cash and RenRe common shares. The cash consideration will be funded through RenRe available funds and a pre-closing dividend from TMR.

In connection with the Proposed Acquisition, TMNF has agreed to provide RenRe a USD 500 million adverse development cover that will protect TMR's stated reserves at closing, including unearned premium reserves. In addition, TMHD and RenRe will enter a business cooperation agreement, which will enhance their business relationship and facilitate cooperation on a portion of the international reinsurance purchases of TMHD and its affiliates.

In line with the above, TMR declared a dividend to TMNF of USD 419.3 million on 28 February 2019, which will be paid prior to the Closing date.

The parties currently anticipate that the Proposed Acquisition will close during the first quarter of 2019, subject to receipt of applicable regulatory approvals.

Therefore, upon closing of the transaction, the risk appetite of the new shareholder may result in material changes in TMR's operations and premium levels.



[www.tokiomillennium.com](http://www.tokiomillennium.com)



## **TOKIO MILLENNIUM RE (UK) LIMITED**

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



## **ANNUAL REPORT**

FOR THE YEAR ENDED 31 DECEMBER 2018



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**TOKIO MILLENNIUM RE (UK) LIMITED**  
Financial Statements Report For The Year Ended 31 December 2018

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## **Report of Independent Auditors**

To the Board of Directors of Tokio Millennium Re (UK) Limited

We have audited the accompanying financial statements of Tokio Millennium Re (UK) Limited which comprise the statements of financial position as at 31 December 2018 and 2017, and the related statements of comprehensive income, changes in equity and cash flows for the years then ended, which as described in accounting policies section (a), have been prepared on the basis of accounting principles generally accepted in the United Kingdom.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in United Kingdom; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tokio Millennium Re (UK) Limited as of 31 December 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United Kingdom.

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***Basis of Accounting***

As discussed in statement of accounting policies section (a), the Company prepares its financial statements on the basis of accounting principles generally accepted in the United Kingdom, which differs from accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP  
London, United Kingdom  
22 March 2019

|  | Notes     | 2018<br>£000        | 2017<br>£000        |
|--|-----------|---------------------|---------------------|
| <b>EARNED PREMIUMS, NET OF REINSURANCE</b>                           |           |                     |                     |
| Premiums written   |           |                     |                     |
| Gross amount   | 2(a),2(b) | (8,216)             | (5,135)             |
| Reinsurers' share  |           | 77                  | (284)               |
|  |           | <u>(8,139)</u>      | <u>(5,419)</u>      |
| Change in the provision for unearned premiums                        |           |                     |                     |
| Gross amount   | 3         | 1,882               | 8,380               |
| Reinsurers' share  | 3         | (291)               | (321)               |
|  |           | <u>1,591</u>        | <u>8,059</u>        |
| Earned premiums, net of reinsurance                                  | 4         | <u>(6,548)</u>      | <u>2,640</u>        |
| <b>CLAIMS INCURRED, NET OF REINSURANCE</b>                           |           |                     |                     |
| Claims paid  |           |                     |                     |
| Gross amount   | 5         | (32,840)            | (54,782)            |
| Reinsurers' share  | 5         | 293                 | 866                 |
|  |           | <u>(32,547)</u>     | <u>(53,916)</u>     |
| Change in the provision for claims                                   |           |                     |                     |
| Gross amount   | 5,6(a)    | 42,713              | 58,871              |
| Reinsurers' share  | 5,6(a)    | 197                 | (4,355)             |
|  |           | <u>42,910</u>       | <u>54,516</u>       |
| Claims incurred, net of reinsurance                                  | 5         | <u>10,363</u>       | <u>600</u>          |
| Operating expenses, net of reinsurance                               |           |                     |                     |
| Gross amount   | 7         | (1,946)             | 2,618               |
| Reinsurers' share  | 7         | (314)               | 1,469               |
|  |           | <u>(2,260)</u>      | <u>4,087</u>        |
| <b>BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS</b>         | 2(a)      | <b>1,555</b>        | <b>7,327</b>        |
| <b>INVESTMENT RETURN</b>   |           |                     |                     |
| Investment income  | 8         | 6,551               | 6,083               |
| Realised loss on investments   |           | (3,880)             | (3,130)             |
| Unrealised loss on investments                                       |           | (671)               | (737)               |
| Investment expenses and charges                                      |           | (343)               | (523)               |
| Total investment return  |           | <u>1,657</u>        | <u>1,693</u>        |
| <b>OTHER INCOME AND CHARGES</b>                                      |           |                     |                     |
| Other income   | 9(a)      | 5                   | 205                 |
| Other charges  | 9(b)      | (579)               | (1,156)             |
|  |           | <u>(574)</u>        | <u>(951)</u>        |
| <b>OPERATING PROFIT AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAX</b> |           | <b>2,638</b>        | <b>8,069</b>        |
| Tax charge on profit on ordinary activities                          | 10(a)     | (492)               | (1,411)             |
| <b>PROFIT FOR THE FINANCIAL YEAR</b>                                 |           | <b><u>2,146</u></b> | <b><u>6,658</u></b> |



**STATEMENTS OF COMPREHENSIVE INCOME**  
**TOKIO MILLENNIUM RE (UK) LIMITED**

|  | Notes | 2018<br>£000        | 2017<br>£000        |
|--|-------|---------------------|---------------------|
| <b>PROFIT FOR THE FINANCIAL YEAR</b>           |       | <b>2,146</b>        | <b>6,658</b>        |
| <b>OTHER COMPREHENSIVE INCOME</b>              |       |                     |                     |
| Gain on revaluation of group undertaking       |       | —                   | 608                 |
| <b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b> |       | <b><u>2,146</u></b> | <b><u>7,266</u></b> |



**STATEMENTS OF FINANCIAL POSITION : ASSETS**  
**TOKIO MILLENNIUM RE (UK) LIMITED**

|  | Notes | 2018<br>£000          | 2017<br>£000          |
|--|-------|-----------------------|-----------------------|
| <b>INVESTMENTS</b>                                   |       |                       |                       |
| Other financial investments                          | 11    | 364,851               | 375,128               |
| Deposits with ceding undertakings                    | 12    | 1,336                 | 1,503                 |
|  |       | <u>366,187</u>        | <u>376,631</u>        |
| <b>REINSURERS' SHARE OF TECHNICAL PROVISIONS</b>     |       |                       |                       |
| Provision for unearned premiums                      | 3     | 31                    | 317                   |
| Claims outstanding                                   | 6(a)  | 1,948                 | 1,692                 |
|  |       | <u>1,979</u>          | <u>2,009</u>          |
| <b>DEBTORS</b>                                       |       |                       |                       |
| Debtors arising out of direct insurance operations   | 13    | 47                    | 47                    |
| Debtors arising out of reinsurance operations        | 14    | 5,783                 | 13,070                |
| Other debtors including taxation and social security | 15    | 11                    | 1,297                 |
|  |       | <u>5,841</u>          | <u>14,414</u>         |
| <b>OTHER ASSETS</b>                                  |       |                       |                       |
| Tangible assets                                      | 16    | —                     | 37                    |
| Cash at bank and in hand                             |       | 19,200                | 34,944                |
|  |       | <u>19,200</u>         | <u>34,981</u>         |
| <b>PREPAYMENTS AND ACCRUED INCOME</b>                |       |                       |                       |
| Accrued interest                                     |       | 2,161                 | 2,617                 |
| Deferred acquisition costs                           | 17    | 48                    | 554                   |
| Other prepayments and accrued income                 | 18    | 113                   | 260                   |
|  |       | <u>2,323</u>          | <u>3,431</u>          |
| <b>TOTAL ASSETS</b>                                  |       | <b><u>395,529</u></b> | <b><u>431,466</u></b> |



**STATEMENTS OF FINANCIAL POSITION : LIABILITIES**  
**TOKIO MILLENNIUM RE (UK) LIMITED**

|  | Notes | 2018<br>£000   | 2017<br>£000   |
|--|-------|----------------|----------------|
| <b>CAPITAL AND RESERVES</b>                            |       |                |                |
| Called up share capital                                | 19    | 125,000        | 125,000        |
| Profit and loss account                                |       | 81,669         | 79,523         |
| Total equity   |       | 206,669        | 204,523        |
| <b>TECHNICAL PROVISIONS</b>                            |       |                |                |
| Provision for unearned premium                         | 3     | 766            | 2,604          |
| Claims outstanding                                     | 6(a)  | 180,016        | 219,665        |
|  |       | 180,782        | 222,269        |
| <b>PROVISIONS FOR OTHER RISKS AND CHARGES</b>          |       |                |                |
| Onerous lease  | 20    | —              | 335            |
| Provision for taxation                                 | 10(d) | 280            | 235            |
|  |       | 280            | 570            |
| <b>CREDITORS</b>                                       |       |                |                |
| Creditors arising out of insurance operations          |       | 7              | 7              |
| Creditors arising out of reinsurance operations        |       | 6,483          | 2,625          |
| Other creditors including taxation and social security | 21    | 670            | 404            |
|  |       | 7,160          | 3,036          |
| <b>ACCRUALS AND DEFERRED INCOME</b>                    |       |                |                |
| Reinsurers' share of deferred acquisition costs        | 17    | 2              | 21             |
| Other accruals and deferred income                     | 22    | 636            | 1,047          |
|  |       | 638            | 1,068          |
| <b>TOTAL EQUITY AND LIABILITIES</b>                    |       | <b>395,529</b> | <b>431,467</b> |

The consolidated financial statements on pages 4 to 44 were approved by the Board of Directors on 22 March 2019 and signed on its behalf by:

Mark Julian  
Chief Executive Officer



**STATEMENTS OF CHANGES IN EQUITY**  
**TOKIO MILLENNIUM RE (UK) LIMITED**

| 2018                 |                       |                             |                                 |                      |
|----------------------|-----------------------|-----------------------------|---------------------------------|----------------------|
|                      | Share capital<br>£000 | Revaluation reserve<br>£000 | Profit and loss account<br>£000 | Total equity<br>£000 |
| At beginning of year | 125,000               | —                           | 79,523                          | 204,523              |
| Profit after tax     | —                     | —                           | 2,146                           | 2,146                |
| At end of year       | <u>125,000</u>        | <u>—</u>                    | <u>81,669</u>                   | <u>206,668</u>       |

  

| 2017                                       |                       |                             |                                 |                      |
|--|-----------------------|-----------------------------|---------------------------------|----------------------|
|  | Share capital<br>£000 | Revaluation reserve<br>£000 | Profit and loss account<br>£000 | Total equity<br>£000 |
| At beginning of year                       | 125,000               | 1,561                       | 70,696                          | 197,257              |
| Profit after tax                           | —                     | —                           | 6,658                           | 6,658                |
| Revaluation gain on disposal of subsidiary | —                     | 608                         | —                               | 608                  |
| Disposal of subsidiary                     | —                     | (2,169)                     | 2,169                           | —                    |
| At end of year                             | <u>125,000</u>        | <u>—</u>                    | <u>79,523</u>                   | <u>204,523</u>       |



**STATEMENTS OF CASH FLOWS**  
**TOKIO MILLENNIUM RE (UK) LIMITED**  
Year Ended 31 December 2018

|   | 2018<br>£000    | 2017<br>£000    |
|---|-----------------|-----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                   |                 |                 |
| Operating profit and profit on ordinary activities before tax | 2,638           | 8,069           |
| Adjustments for:  |                 |                 |
| Depreciation of property and equipment                        | 37              | 148             |
| Amortisation of intangible assets                             | —               | 3               |
| Investment income   | (6,551)         | (6,083)         |
| Realised loss on investments                                  | 3,880           | 3,130           |
| Unrealised loss on investments                                | 671             | 737             |
| Foreign exchange gains on cash and cash equivalents           | (502)           | (419)           |
| Revaluation gain on disposal of subsidiary                    | —               | (608)           |
| Other foreign exchange gains                                  | (216)           | (62)            |
| Change in operational assets and liabilities                  |                 |                 |
| Debtors arising from operations                               | 7,184           | 9,157           |
| Deposits with ceding undertakings                             | 167             | 566             |
| Provision for unearned premiums                               | 287             | 345             |
| Claims outstanding from reinsurers                            | (256)           | 4,414           |
| Deferred acquisition costs                                    | 507             | 1,936           |
| Claims outstanding  | (39,649)        | (64,977)        |
| Creditors arising from operations                             | 3,961           | 1,974           |
| Provision for unearned premium                                | (1,838)         | (8,700)         |
| Reinsurers' share of deferred acquisition costs               | (19)            | (40)            |
| Other assets and liabilities                                  | (2,352)         | (1,778)         |
| <b>CASH USED IN OPERATING ACTIVITIES</b>                      | <b>(32,051)</b> | <b>(52,188)</b> |
| Income taxes refunded/(paid)                                  | 1,628           | (404)           |
| <b>NET CASH USED IN OPERATING ACTIVITIES</b>                  | <b>(30,423)</b> | <b>(52,592)</b> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                   |                 |                 |
| Investment income received                                    | 7,000           | 5,566           |
| Purchase of investments                                       | (296,261)       | (489,391)       |
| Proceeds on sales and maturities of investments               | 319,362         | 474,178         |
| Proceeds from sale of equity investment                       | —               | 3,291           |
| Purchase of property and equipment                            | —               | (21)            |
| Net cash (used in)/provided by investing activities           | 30,101          | (6,377)         |
| Net decrease in cash and cash equivalents                     | (322)           | (58,969)        |
| Foreign exchange gains on cash and cash equivalents           | 502             | 419             |
| Cash and cash equivalents at beginning of year                | 83,145          | 141,695         |
| <b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>       | <b>83,325</b>   | <b>83,145</b>   |
| Cash and cash equivalents consists of:                        |                 |                 |
| Cash at bank and in hand                                      | 19,200          | 34,944          |
| Short term deposits (included in current asset investments)   | 64,125          | 48,201          |
| <b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>       | <b>83,325</b>   | <b>83,145</b>   |



## STATEMENT OF ACCOUNTING POLICIES

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

**(a) Statement of compliance**

The consolidated financial statements have been prepared in accordance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, “The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland” (“FRS 102”), Financial Reporting Standard 103, “The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland for entities issuing insurance contracts” (“FRS 103”).

**(b) Basis of preparation**

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

**(c) Going concern**

Having assessed the principal risks, the directors considered it appropriate to adopt the going concern basis of accounting in preparing the consolidated financial statements.

**(d) Use of estimates and judgements**

The preparation of the consolidated financial statements in conformity with FRS 102 requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The most significant estimate made by management is in relation to claims outstanding. Estimates in relation to claims incurred are discussed in statement of accounting policy (i) - claims incurred and note 1 (c) - Underwriting Risk-reserve. Also refer to Note 6 (a) - Technical Provisions, claims outstanding.

**(e) Basis of accounting for underwriting activities**

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

**(f) Written, earned and unearned premiums**

***Premiums written***

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

Premiums written relate to business incepted during the financial period, together with any differences between booked premiums and those previously accrued on contracts which incepted in prior financial periods.

## STATEMENT OF ACCOUNTING POLICIES (continued)

Premium is initially recognised based on estimates of ultimate premiums. These estimates are judgemental and could result in misstatements of premium recorded in the financial statements. Adjustments to the amounts of premium are reflected in the consolidated financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

***Earned premiums***

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

***Unearned premium reserves (“UPR”)***

Premiums written not earned, are deferred within the Statement of Financial Position as unearned premium reserves (“UPR”). UPR are retranslated at closing rate and will be recognised as earned premiums in the Statement of Comprehensive Income - Technical Account in future financial periods’.

**(g) Claims incurred**

Claims incurred are recognised within the Statement of Comprehensive Income - Technical Account, with the gross and ceded amounts disclosed separately. Claims incurred comprise:

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

***Claims provisions and related reinsurance recoveries***

Claims provisions within the Statement of Financial Position comprise the following:

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

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

***Notified outstanding claims***

In estimating outstanding claims within the Statement of Financial Position, the Company considers the claim circumstances as reported, including any information available from loss adjusters.

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

***Incurred but not reported (“IBNR”) claims***

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

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

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

**STATEMENT OF ACCOUNTING POLICIES (continued)**

**(h) Claims incurred (continued)**

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

***Assumed treaty contracts***

These contracts currently comprise a mixed portfolio of Property, Liability, Accident/Health, Motor, Financial, Marine, Transport and Aggregate lines. The majority are short-to-medium tail in nature and there is generally not expected to be a significant delay between the occurrence of the claim and the claim being reported to the Company. Certain contracts have exposure to periodic payment orders and these are longer tail in nature where the claim payments are structured as annuities over an extended time horizon.

***Direct contracts, assumed facultative contracts***

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

***Reinsurance recoveries***

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

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

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

**(i) Unexpired risk provisions ("URP")**

Unexpired risk provisions ("URP") are established within the Statement of Financial Position for any deficiencies arising when unearned premium reserves ("UPR"), net of associated deferred acquisition costs ("DAC") are insufficient to meet expected claims and expenses after taking into account future investment return arising from investments supporting the URP and UPR. The expected claims are calculated based on information available at the Statement of Financial Position date.

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

**(j) Acquisition costs**

***Acquisition costs***

Acquisition costs within the Statement of Comprehensive Income-Technical Account represent both external commissions and internal expenses associated with acquiring insurance contracts written during the financial period. Acquisition costs are recognised in the financial period in which the related premiums are earned, with the gross and ceded amounts disclosed separately.

***Deferred acquisition costs ("DAC")***

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

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STATEMENT OF ACCOUNTING POLICIES (continued)

**(k) Financial instruments**

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

**Financial assets**

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

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

**Financial liabilities**

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

**Offsetting**

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

**(l) Investment return**

Investment return is recognised within the Statement of Comprehensive Income and comprises:

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

**Investment income**

Investment income comprises:

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

**Investment expenses, charges or interest**

These are recognised on an accruals basis.

**Movements in unrealised gains/(losses)**

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

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

**Realised gains/(losses)**

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

**(m) Other income**

Fee income arises from:

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

**STATEMENT OF ACCOUNTING POLICIES (continued)**

**(n) Foreign currency translations and settlements**

The Company's reporting and functional currency is GBP.

The Company operates in the three transactional currencies of GBP/EUR/USD. All non-GBP/EUR/USD transactions are translated into GBP/EUR/USD at the actual rates prevailing on the respective dates of the transactions. At each period end:

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

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

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

**(o) Operating leases**

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

**(p) Current and deferred taxation**

***Current tax***

Current tax is recognised in the Statement of Comprehensive Income-Non Technical Account and reflects:

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

***Deferred tax***

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

Provision is made for all material timing differences, including revaluations of investment gains/losses recognised within the Statement of Comprehensive Income—Non Technical Account. Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference. This provision is not discounted.

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

**(q) Pension costs**

The Company only operates a defined contribution pension scheme—a plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid, the Company has no further payment obligations. Contributions to the scheme are charged to the Statement of Comprehensive Income—Technical Account and represent the amounts payable during the current financial period. Contributions are accumulated and invested by an independent scheme manager across a portfolio of assets which are held separately from the Company's assets.

**(r) Tangible assets**

Tangible assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bringing the asset to its working condition for its intended use, dismantling and restoration costs and borrowing costs capitalised. The costs of tangible assets are capitalised on the Statement of Financial Position within the following categories, and depreciated on a straight line basis over the estimated useful lives stipulated below:

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

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

**(s) Distributions to equity shareholders**

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

**(t) Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.



## 1. RISK MANAGEMENT

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

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

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

The oversight of the Company's risk management function falls within the remit of the Risk Committee, a subcommittee of the Executive Committee which reports to the Board of Directors. The Risk Committee is charged with setting the orientation of the Company's business. It pays particular attention to business strategy, capital allocation, risk control framework and ensures these are implemented.

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

### ***Underwriting risk***

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

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

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

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

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

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

### ***Financial risk***

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

### ***Operational risk***

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

### ***Strategic risk***

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

## 1. RISK MANAGEMENT (continued)

### (a) Underwriting risk - premium

Premium risk is the risk that the premium to be earned over the next 12 month period from the in-force, new or renewal reinsurance contracts is insufficient to cover the claim costs, claim adjustment expenses as well as the acquisition costs to be incurred by those contracts over the same period.

Gross written premium of £(8,216) thousand (2017: £(5,135)) thousand relates to revisions in premium estimates primarily on Property and Marine.

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

| Geographic area of risk insured  | 2018                           |             | 2017                           |             |
|----------------------------------|--------------------------------|-------------|--------------------------------|-------------|
|                                  | Gross written premiums<br>£000 | %           | Gross written premiums<br>£000 | %           |
| Worldwide                        | (4,257)                        | 53%         | (2,987)                        | 58%         |
| Asia and Australia               | (2,170)                        | 27%         | (2,312)                        | 45%         |
| Africa and Middle East           | (685)                          | 8%          | (254)                          | 5%          |
| North, Central and South America | (736)                          | 9%          | (114)                          | 2%          |
| United Kingdom                   | (435)                          | 4%          | (13)                           | 1%          |
| Europe                           | 67                             | 1%          | 545                            | (11)%       |
|                                  | <u>(8,216)</u>                 | <u>100%</u> | <u>(5,135)</u>                 | <u>100%</u> |

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

| Line of business    | 2018                           |             | 2017                           |             |
|---------------------|--------------------------------|-------------|--------------------------------|-------------|
|                     | Gross written premiums<br>£000 | %           | Gross written premiums<br>£000 | %           |
| Property            | (4,048)                        | 49%         | (3,466)                        | 67%         |
| Financial Lines     | (101)                          | 1%          | (3,075)                        | 61%         |
| Transport           | (583)                          | 7%          | (354)                          | 7%          |
| Marine              | (2,017)                        | 25%         | (305)                          | 6%          |
| Accident and Health | (39)                           | 0%          | (25)                           | 0%          |
| Aggregate Cover     | (92)                           | 1%          | 9                              | (0)%        |
| Motor               | (305)                          | 4%          | 388                            | (8)%        |
| Liability           | (1,031)                        | 13%         | 1,693                          | (33)%       |
|                     | <u>(8,216)</u>                 | <u>100%</u> | <u>(5,135)</u>                 | <u>100%</u> |

### (b) Underwriting risk - catastrophe

Catastrophe risk is the risk that the premium to be earned over the next 12 month period from the catastrophe exposed reinsurance contracts (in-force, new or renewal) is insufficient to cover potential claim costs, claim adjustment expenses as well as the acquisition costs associated with those contracts that may originate from extreme or exceptional catastrophic events over the same period, such as but not limited to hurricanes, earthquakes, windstorms, landslides, and terrorist attacks.

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

The Company has made a series of strategic moves to diversify, spread and dilute its catastrophic exposures as well as optimise its underwriting portfolio through geographical diversification and by spreading risks across multiple lines of businesses.



## 1. RISK MANAGEMENT (continued)

### (c) Underwriting risk - reserve

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

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

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

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

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

The claims reserves established can be more or less than adequate to meet individual claims arising. The level of uncertainty varies significantly from class to class but can arise from inadequate reserves for known large losses and catastrophes, or from inadequate provision for unknown losses. The Company believes that the claims reserves established are adequate, however a 1% improvement/deterioration in the total estimated losses would have an impact on profit before tax of £1,800 thousand gain/loss (2017: £2,197 thousand).

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

|                       | 2018                    |             | 2017                    |             |
|-----------------------|-------------------------|-------------|-------------------------|-------------|
|                       | Claims reserves<br>£000 | %           | Claims reserves<br>£000 | %           |
| Gross claims reserves |                         |             |                         |             |
| Line of business      |                         |             |                         |             |
| Motor                 | 97,201                  | 53%         | 64,106                  | 42%         |
| Liability             | 36,053                  | 20%         | 39,693                  | 26%         |
| Property              | 19,113                  | 11%         | 22,213                  | 15%         |
| Financial Lines       | 17,156                  | 10%         | 14,644                  | 10%         |
| Marine                | 7,002                   | 4%          | 7,672                   | 5%          |
| Transport             | 2,195                   | 1%          | 2,484                   | 2%          |
| Aggregate Cover       | 810                     | 1%          | 1,015                   | 2%          |
| Accident and Health   | 486                     | 0%          | 377                     | 0%          |
|                       | <u>180,016</u>          | <u>100%</u> | <u>152,204</u>          | <u>100%</u> |

Lump sum payments in settlement of bodily injury claims that are decided by the UK courts are calculated in accordance with the Ogden Tables and discount rate. The Ogden discount rate is set by the Lord Chancellor and is applied when calculating the present value of future care costs and loss of earnings for claims settlement purposes. Following the announcement by the Ministry of Justice on 27 February 2017 to decrease the Ogden rate from 2.75% to -0.75%, balance sheet reserves were calculated using a rate of -0.75%. On 20 March 2018, the Government announced that it will introduce the Civil Liability Bill (the Bill), which includes provisions to amend the discount rate. In December 2018 the Bill became an Act of Parliament, meaning that a new Ogden discount rate will be set by the Lord Chancellor in 2019. Based upon this, there is certainty that there will be a change in the Ogden rate in 2019, but uncertainty remains around the amount and timing of the final rate. At December 2018, the claim reserves have been calculated using a discount rate of 0.00% (2017: - 0.75%) resulting in a release of £10.9 million, though the rate to be announced by the Lord Chancellor later this year may result in a different discount rate.

1. RISK MANAGEMENT (continued)

(c) Underwriting risk - reserve (continued)

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

2018

Gross ultimate liability estimates  
at end of financial years

|   | Underwriting years |              |              |              |              |              |
|---|--------------------|--------------|--------------|--------------|--------------|--------------|
|   | 2005<br>£000       | 2006<br>£000 | 2007<br>£000 | 2008<br>£000 | 2009<br>£000 | 2010<br>£000 |
| End of financial year 1                               | 17,474             | 11,230       | 19,639       | 43,205       | 29,520       | 44,369       |
| End of financial year 2                               | 25,287             | 27,944       | 54,944       | 58,392       | 53,457       | 61,896       |
| End of financial year 3                               | 22,947             | 40,886       | 54,431       | 61,402       | 52,591       | 53,030       |
| End of financial year 4                               | 24,896             | 35,449       | 53,777       | 64,093       | 50,098       | 50,859       |
| End of financial year 5                               | 23,325             | 35,595       | 60,522       | 69,561       | 51,286       | 50,525       |
| End of financial year 6                               | 22,505             | 31,542       | 64,342       | 68,261       | 50,873       | 50,385       |
| End of financial year 7                               | 22,317             | 32,675       | 65,825       | 65,796       | 50,763       | 50,046       |
| End of financial year 8                               | 22,497             | 32,163       | 61,899       | 63,182       | 52,632       | 47,510       |
| End of financial year 9                               | 22,674             | 30,774       | 60,106       | 64,609       | 51,597       | 47,401       |
| End of financial year 10                              | 22,584             | 30,556       | 60,519       | 65,011       | 52,577       |              |
| End of financial year 11                              | 22,534             | 30,501       | 59,525       | 64,992       |              |              |
| End of financial year 12                              | 22,158             | 30,398       | 59,591       |              |              |              |
| End of financial year 13                              | 22,537             | 30,813       |              |              |              |              |
| End of financial year 14                              | 22,443             |              |              |              |              |              |
| Ultimate liability                                    | 22,443             | 30,813       | 59,591       | 64,992       | 52,577       | 47,401       |
| Paid to-date  | (22,056)           | (29,837)     | (57,552)     | (61,721)     | (47,592)     | (44,749)     |
| Unpaid liability (excluding ULAE)                     | 387                | 976          | 2,039        | 3,271        | 4,985        | 2,652        |
| ULAE liability  | 8                  | 18           | 38           | 60           | 92           | 49           |
| Unpaid liability (including ULAE) at 31 December 2018 | 395                | 994          | 2,077        | 3,331        | 5,077        | 2,701        |

2018

Gross ultimate liability estimates  
at end of financial years

|   | Underwriting years |              |              |              |              |               |
|---|--------------------|--------------|--------------|--------------|--------------|---------------|
|   | 2011<br>£000       | 2012<br>£000 | 2013<br>£000 | 2014<br>£000 | 2015<br>£000 | Total<br>£000 |
| End of financial year 1                               | 35,481             | 35,314       | 40,679       | 58,555       | 76,746       |               |
| End of financial year 2                               | 52,632             | 53,808       | 80,172       | 109,511      | 132,391      |               |
| End of financial year 3                               | 45,713             | 51,991       | 86,084       | 120,341      | 129,323      |               |
| End of financial year 4                               | 43,929             | 52,238       | 96,091       | 122,936      | 131,572      |               |
| End of financial year 5                               | 43,911             | 65,248       | 96,227       | 119,993      |              |               |
| End of financial year 6                               | 44,158             | 60,954       | 90,958       |              |              |               |
| End of financial year 7                               | 43,478             | 60,789       |              |              |              |               |
| End of financial year 8                               | 41,889             |              |              |              |              |               |
| End of financial year 9                               |                    |              |              |              |              |               |
| End of financial year 10                              |                    |              |              |              |              |               |
| End of financial year 11                              |                    |              |              |              |              |               |
| End of financial year 12                              |                    |              |              |              |              |               |
| End of financial year 13                              |                    |              |              |              |              |               |
| End of financial year 14                              |                    |              |              |              |              |               |
| Ultimate liability                                    | 41,889             | 60,789       | 90,958       | 119,993      | 131,572      | 723,018       |
| Paid to-date  | (41,452)           | (45,796)     | (58,055)     | (65,610)     | (71,433)     | (545,853)     |
| Unpaid liability (excluding ULAE)                     | 437                | 14,993       | 32,903       | 54,383       | 60,139       | 177,165       |
| ULAE liability  | 8                  | 221          | 487          | 875          | 995          | 2,851         |
| Unpaid liability (including ULAE) at 31 December 2018 | 445                | 15,214       | 33,390       | 55,258       | 61,134       | 180,016       |

1. RISK MANAGEMENT (continued)

(c) Underwriting risk - reserve (continued)

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

| 2018<br>Net ultimate liability estimates<br>at end of financial years | Underwriting years |              |              |              |              |              |
|---|--------------------|--------------|--------------|--------------|--------------|--------------|
|   | 2005<br>£000       | 2006<br>£000 | 2007<br>£000 | 2008<br>£000 | 2009<br>£000 | 2010<br>£000 |
| End of financial year 1   | 12,511             | 11,230       | 19,639       | 43,205       | 29,520       | 44,369       |
| End of financial year 2   | 20,603             | 27,944       | 54,944       | 58,392       | 53,457       | 61,896       |
| End of financial year 3   | 19,815             | 40,886       | 54,431       | 61,402       | 52,591       | 53,030       |
| End of financial year 4   | 19,079             | 35,449       | 53,777       | 64,093       | 50,098       | 50,859       |
| End of financial year 5   | 18,866             | 35,595       | 60,522       | 69,561       | 51,286       | 50,525       |
| End of financial year 6   | 18,046             | 31,542       | 64,342       | 68,261       | 50,873       | 50,385       |
| End of financial year 7   | 17,858             | 32,675       | 65,825       | 65,796       | 50,763       | 50,046       |
| End of financial year 8   | 18,038             | 32,163       | 61,899       | 63,182       | 52,632       | 47,510       |
| End of financial year 9   | 18,215             | 30,774       | 60,106       | 64,609       | 51,597       | 47,401       |
| End of financial year 10  | 18,125             | 30,556       | 60,519       | 65,011       | 52,577       |              |
| End of financial year 11  | 18,075             | 30,501       | 59,525       | 64,992       |              |              |
| End of financial year 12  | 17,699             | 30,398       | 59,591       |              |              |              |
| End of financial year 13  | 18,078             | 30,813       |              |              |              |              |
| End of financial year 14  | 17,983             |              |              |              |              |              |
| Ultimate liability  | 17,983             | 30,813       | 59,591       | 64,992       | 52,577       | 47,401       |
| Paid to-date  | (17,596)           | (29,837)     | (57,552)     | (61,721)     | (47,592)     | (44,749)     |
| Unpaid liability (excluding ULAE)                                     | 387                | 976          | 2,039        | 3,271        | 4,985        | 2,652        |
| ULAE liability  | 8                  | 18           | 38           | 60           | 92           | 49           |
| Unpaid liability (including ULAE)                                     |                    |              |              |              |              |              |
| at 31 December 2018   | 395                | 994          | 2,077        | 3,331        | 5,077        | 2,701        |

| 2018<br>Net ultimate liability estimates<br>at end of financial years | Underwriting years |              |              |              |              |               |
|---|--------------------|--------------|--------------|--------------|--------------|---------------|
|   | 2011<br>£000       | 2012<br>£000 | 2013<br>£000 | 2014<br>£000 | 2015<br>£000 | Total<br>£000 |
| End of financial year 1   | 35,122             | 26,435       | 39,427       | 57,534       | 76,746       |               |
| End of financial year 2   | 52,632             | 44,156       | 78,742       | 105,555      | 132,391      |               |
| End of financial year 3   | 45,713             | 41,548       | 84,763       | 117,865      | 129,323      |               |
| End of financial year 4   | 43,929             | 42,996       | 94,522       | 119,024      | 131,572      |               |
| End of financial year 5   | 43,911             | 55,444       | 96,227       | 116,080      |              |               |
| End of financial year 6   | 44,158             | 51,887       | 90,958       |              |              |               |
| End of financial year 7   | 43,478             | 51,178       |              |              |              |               |
| End of financial year 8   | 41,889             |              |              |              |              |               |
| End of financial year 9   |                    |              |              |              |              |               |
| End of financial year 10  |                    |              |              |              |              |               |
| End of financial year 11  |                    |              |              |              |              |               |
| End of financial year 12  |                    |              |              |              |              |               |
| End of financial year 13  |                    |              |              |              |              |               |
| End of financial year 14  |                    |              |              |              |              |               |
| Ultimate liability  | 41,889             | 51,178       | 90,958       | 116,080      | 131,572      | 705,034       |
| Paid to-date  | (41,452)           | (38,049)     | (58,055)     | (61,779)     | (71,435)     | (529,817)     |
| Unpaid liability (excluding ULAE)                                     | 437                | 13,129       | 32,903       | 54,301       | 60,137       | 175,217       |
| ULAE liability  | 8                  | 221          | 487          | 875          | 995          | 2,851         |
| Unpaid liability (including ULAE)                                     |                    |              |              |              |              |               |
| at 31 December 2018   | 445                | 13,350       | 33,390       | 55,176       | 61,132       | 178,068       |

1. RISK MANAGEMENT (continued)

(c) Underwriting risk - reserve (continued)

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

| 2017<br>Gross ultimate liability estimates<br>at end of financial years | Underwriting years |              |              |              |              |              |
|---|--------------------|--------------|--------------|--------------|--------------|--------------|
|   | 2005<br>£000       | 2006<br>£000 | 2007<br>£000 | 2008<br>£000 | 2009<br>£000 | 2010<br>£000 |
| End of financial year 1   | 17,474             | 11,230       | 19,639       | 43,205       | 29,520       | 44,369       |
| End of financial year 2   | 25,287             | 27,944       | 54,944       | 58,392       | 53,457       | 61,896       |
| End of financial year 3   | 22,947             | 40,886       | 54,431       | 61,402       | 52,591       | 53,030       |
| End of financial year 4   | 24,896             | 35,449       | 53,777       | 64,093       | 50,098       | 50,859       |
| End of financial year 5   | 23,325             | 35,595       | 60,522       | 69,561       | 51,286       | 50,525       |
| End of financial year 6   | 22,505             | 31,542       | 64,342       | 68,261       | 50,873       | 50,385       |
| End of financial year 7   | 22,317             | 32,675       | 65,825       | 65,796       | 50,763       | 50,046       |
| End of financial year 8   | 22,497             | 32,163       | 61,899       | 63,182       | 52,632       | 47,510       |
| End of financial year 9   | 22,674             | 30,774       | 60,106       | 64,609       | 51,597       |              |
| End of financial year 10  | 22,584             | 30,556       | 60,519       | 65,011       |              |              |
| End of financial year 11  | 22,534             | 30,501       | 59,525       |              |              |              |
| End of financial year 12  | 22,158             | 30,398       |              |              |              |              |
| End of financial year 13  | 22,537             |              |              |              |              |              |
| Ultimate liability  | 22,537             | 30,398       | 59,525       | 65,011       | 51,597       | 47,510       |
| Paid to-date  | (21,945)           | (29,633)     | (57,447)     | (61,558)     | (47,541)     | (44,640)     |
| Unpaid liability (excluding ULAE)                                       | 592                | 765          | 2,078        | 3,453        | 4,056        | 2,870        |
| ULAE liability  | 11                 | 14           | 38           | 64           | 75           | 53           |
| Unpaid liability (including ULAE)<br>at 31 December 2017                | 603                | 779          | 2,116        | 3,517        | 4,131        | 2,923        |

| 2017<br>Gross ultimate liability estimates<br>at end of financial years | Underwriting years |              |              |              |              |               |
|---|--------------------|--------------|--------------|--------------|--------------|---------------|
|   | 2011<br>£000       | 2012<br>£000 | 2013<br>£000 | 2014<br>£000 | 2015<br>£000 | Total<br>£000 |
| End of financial year 1   | 35,481             | 35,314       | 40,679       | 58,555       | 76,746       |               |
| End of financial year 2   | 52,632             | 53,808       | 80,172       | 109,511      | 132,391      |               |
| End of financial year 3   | 45,713             | 51,991       | 86,084       | 120,341      | 129,323      |               |
| End of financial year 4   | 43,929             | 52,238       | 96,091       | 122,936      |              |               |
| End of financial year 5   | 43,911             | 65,248       | 96,227       |              |              |               |
| End of financial year 6   | 44,158             | 60,954       |              |              |              |               |
| End of financial year 7   | 43,478             |              |              |              |              |               |
| End of financial year 8   |                    |              |              |              |              |               |
| End of financial year 9   |                    |              |              |              |              |               |
| End of financial year 10  |                    |              |              |              |              |               |
| End of financial year 11  |                    |              |              |              |              |               |
| End of financial year 12  |                    |              |              |              |              |               |
| End of financial year 13  |                    |              |              |              |              |               |
| Ultimate liability  | 43,478             | 60,954       | 96,227       | 122,936      | 129,323      | 729,496       |
| Paid to-date  | (41,183)           | (42,804)     | (50,551)     | (57,702)     | (58,066)     | (513,070)     |
| Unpaid liability (excluding ULAE)                                       | 2,295              | 18,150       | 45,676       | 65,234       | 71,257       | 216,426       |
| ULAE liability  | 42                 | 222          | 624          | 980          | 1,116        | 3,239         |
| Unpaid liability (including ULAE)<br>at 31 December 2017                | 2,337              | 18,372       | 46,300       | 66,214       | 72,373       | 219,665       |

# 1. RISK MANAGEMENT (continued)

## (c) Underwriting risk - reserve (continued)

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

| 2017<br>Net ultimate liability estimates<br>at end of financial years | Underwriting years |              |              |              |              |              |
|---|--------------------|--------------|--------------|--------------|--------------|--------------|
|   | 2005<br>£000       | 2006<br>£000 | 2007<br>£000 | 2008<br>£000 | 2009<br>£000 | 2010<br>£000 |
| End of financial year 1   | 12,511             | 11,230       | 19,639       | 43,205       | 29,520       | 44,369       |
| End of financial year 2   | 20,603             | 27,944       | 54,944       | 58,392       | 53,457       | 61,896       |
| End of financial year 3   | 19,815             | 40,886       | 54,431       | 61,402       | 52,591       | 53,030       |
| End of financial year 4   | 19,079             | 35,449       | 53,777       | 64,093       | 50,098       | 50,859       |
| End of financial year 5   | 18,866             | 35,595       | 60,522       | 69,561       | 51,286       | 50,525       |
| End of financial year 6   | 18,046             | 31,542       | 64,342       | 68,261       | 50,873       | 50,385       |
| End of financial year 7   | 17,858             | 32,675       | 65,825       | 65,796       | 50,763       | 50,046       |
| End of financial year 8   | 18,038             | 32,163       | 61,899       | 63,182       | 52,632       | 47,510       |
| End of financial year 9   | 18,215             | 30,774       | 60,106       | 64,609       | 51,597       |              |
| End of financial year 10  | 18,125             | 30,556       | 60,519       | 65,011       |              |              |
| End of financial year 11  | 18,075             | 30,501       | 59,525       |              |              |              |
| End of financial year 12  | 17,699             | 30,398       |              |              |              |              |
| End of financial year 13  | 18,078             |              |              |              |              |              |
| Ultimate liability  | 18,078             | 30,398       | 59,525       | 65,011       | 51,597       | 47,510       |
| Paid to-date  | (17,486)           | (29,633)     | (57,447)     | (61,558)     | (47,541)     | (44,640)     |
| Unpaid liability (excluding ULAE)                                     | 592                | 765          | 2,078        | 3,453        | 4,056        | 2,870        |
| ULAE liability  | 11                 | 14           | 38           | 64           | 75           | 53           |
| Unpaid liability (including ULAE)<br>at 31 December 2017              | 603                | 779          | 2,116        | 3,517        | 4,131        | 2,923        |

| 2017<br>Net ultimate liability estimates<br>at end of financial years | Underwriting years |              |              |              |              |               |
|---|--------------------|--------------|--------------|--------------|--------------|---------------|
|   | 2011<br>£000       | 2012<br>£000 | 2013<br>£000 | 2014<br>£000 | 2015<br>£000 | Total<br>£000 |
| End of financial year 1   | 35,122             | 26,435       | 39,427       | 57,534       | 76,746       |               |
| End of financial year 2   | 52,632             | 44,156       | 78,742       | 105,555      | 132,391      |               |
| End of financial year 3   | 45,713             | 41,548       | 84,763       | 117,865      | 129,323      |               |
| End of financial year 4   | 43,929             | 42,996       | 94,522       | 119,024      |              |               |
| End of financial year 5   | 43,911             | 55,444       | 96,227       |              |              |               |
| End of financial year 6   | 44,158             | 51,887       |              |              |              |               |
| End of financial year 7   | 43,478             |              |              |              |              |               |
| End of financial year 8   |                    |              |              |              |              |               |
| End of financial year 9   |                    |              |              |              |              |               |
| End of financial year 10  |                    |              |              |              |              |               |
| End of financial year 11  |                    |              |              |              |              |               |
| End of financial year 12  |                    |              |              |              |              |               |
| End of financial year 13  |                    |              |              |              |              |               |
| Ultimate liability  | 43,478             | 51,887       | 96,227       | 119,024      | 129,323      | 712,058       |
| Paid to-date  | (41,183)           | (35,301)     | (50,551)     | (53,919)     | (58,065)     | (497,324)     |
| Unpaid liability (excluding ULAE)                                     | 2,295              | 16,586       | 45,676       | 65,105       | 71,258       | 214,734       |
| ULAE liability  | 42                 | 222          | 624          | 980          | 1,116        | 3,239         |
| Unpaid liability (including ULAE)<br>at 31 December 2017              | 2,337              | 16,808       | 46,300       | 66,085       | 72,374       | 217,973       |

# 1. RISK MANAGEMENT (continued)

## (d) Financial risk - interest

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

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

Investment guidelines are established to manage this risk. These guidelines set parameters within which the external investment managers must operate. The guidelines are approved by the Audit Committee which is a sub-committee of the Board of Directors. The investment guidelines specify the limitations on the maximum percentage of assets that can be invested in a single issuer or in a single asset class. There are also specific limitations on the maximum maturity for various asset classes and minimum requirements of credit ratings.

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

|                            | 2018                |            |                     |           |                     |             |
|----------------------------|---------------------|------------|---------------------|-----------|---------------------|-------------|
|                            | Fixed Rate          |            | Floating Rate       |           | Total               |             |
|                            | Fair values<br>£000 | %          | Fair values<br>£000 | %         | Fair values<br>£000 | %           |
| Debt securities            |                     |            |                     |           |                     |             |
| UK government              | 137,515             | 46%        | —                   | 0%        | 137,515             | 46%         |
| Non-UK government          | 1,880               | 1%         | —                   | 0%        | 1,880               | 1%          |
| Non-UK government agencies | 19,073              | 6%         | 314                 | 0%        | 19,387              | 6%          |
| Supranational              | 19,676              | 7%         | 392                 | 0%        | 20,068              | 7%          |
| Corporate                  | 78,605              | 26%        | 25,025              | 8%        | 103,630             | 34%         |
| Government backed          | 17,852              | 6%         | 394                 | 0%        | 18,246              | 6%          |
|                            | <u>274,601</u>      | <u>92%</u> | <u>26,125</u>       | <u>8%</u> | <u>300,727</u>      | <u>100%</u> |

|                            | 2017                |            |                     |           |                     |             |
|----------------------------|---------------------|------------|---------------------|-----------|---------------------|-------------|
|                            | Fixed Rate          |            | Floating Rate       |           | Total               |             |
|                            | Fair values<br>£000 | %          | Fair values<br>£000 | %         | Fair values<br>£000 | %           |
| Debt securities            |                     |            |                     |           |                     |             |
| UK government              | 167,865             | 51%        | —                   | 0%        | 167,865             | 51%         |
| Non-UK government          | 3,485               | 1%         | 2,591               | 1%        | 6,076               | 2%          |
| UK Government agencies     | 1,465               | 0%         | —                   | 0%        | 1,465               | 0%          |
| Non-UK government agencies | 17,617              | 6%         | 703                 | 0%        | 18,320              | 6%          |
| Supranational              | 21,376              | 7%         | 739                 | 0%        | 22,115              | 7%          |
| Corporate                  | 63,173              | 19%        | 21,922              | 7%        | 85,095              | 26%         |
| Government backed          | 25,991              | 8%         | —                   | 0%        | 25,991              | 8%          |
|                            | <u>300,972</u>      | <u>92%</u> | <u>25,955</u>       | <u>8%</u> | <u>326,927</u>      | <u>100%</u> |

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

|                                 | 2018                   |        | 2017                   |        |
|---------------------------------|------------------------|--------|------------------------|--------|
|                                 | Fair Value<br>Movement |        | Fair Value<br>Movement |        |
|                                 | £000                   | %      | £000                   | %      |
| Shifts in market interest rates |                        |        |                        |        |
| 100 basis points                | (7,145)                | (2.4%) | (7,257)                | (2.2%) |
| 75 basis points                 | (5,405)                | (1.8%) | (5,490)                | (1.7%) |
| 50 basis points                 | (3,635)                | (1.2%) | (3,692)                | (1.1%) |
| 25 basis points                 | (1,833)                | (0.6%) | (1,862)                | (0.6%) |
| (25) basis points               | 1,867                  | 0.6%   | 1,897                  | 0.6%   |
| (50) basis points               | 3,769                  | 1.3%   | 3,828                  | 1.2%   |
| (75) basis points               | 5,707                  | 1.9%   | 5,797                  | 1.8%   |
| (100) basis points              | 7,682                  | 2.6%   | 7,804                  | 2.4%   |

1. RISK MANAGEMENT (continued)

(e) Financial risk - foreign exchange

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

The Company's USD and EUR - denominated assets and liabilities, translated into their carrying GBP amounts at these exchange rates of GBP 1 : USD 1.2760 : EUR 1.1127 (2017: GBP 1 : USD 1.3521 : EUR 1.1259) are as follows.

|                   | 2018                         |                              |                              |               |
|-------------------|------------------------------|------------------------------|------------------------------|---------------|
|                   | GBP<br>denominations<br>£000 | USD<br>denominations<br>£000 | EUR<br>denominations<br>£000 | Total<br>£000 |
| Total assets      | 335,341                      | 44,727                       | 15,461                       | 395,529       |
| Total liabilities | 123,120                      | 51,105                       | 14,635                       | 188,860       |
| Total equity      | 212,221                      | (6,378)                      | 826                          | 206,669       |

  

|                   | 2017                         |                              |                              |               |
|-------------------|------------------------------|------------------------------|------------------------------|---------------|
|                   | GBP<br>denominations<br>£000 | USD<br>denominations<br>£000 | EUR<br>denominations<br>£000 | Total<br>£000 |
| Total assets      | 349,164                      | 62,792                       | 19,510                       | 431,466       |
| Total liabilities | 159,584                      | 52,374                       | 14,985                       | 226,943       |
| Total equity      | 189,580                      | 10,418                       | 4,525                        | 204,523       |

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

|  | 2018                                 |                                      |                                 |
|--|--------------------------------------|--------------------------------------|---------------------------------|
|  | USD<br>denominated<br>equity<br>£000 | EUR<br>denominated<br>equity<br>£000 | Total in/<br>(de)crease<br>£000 |
| Shifts in foreign exchange rates against GBP |                                      |                                      |                                 |
| 10% weaker                                   | 580                                  | (75)                                 | 505                             |
| 10% stronger                                 | (709)                                | 92                                   | (617)                           |

  

|  | 2017                                 |                                      |                                 |
|--|--------------------------------------|--------------------------------------|---------------------------------|
|  | USD<br>denominated<br>equity<br>£000 | EUR<br>denominated<br>equity<br>£000 | Total in/<br>(de)crease<br>£000 |
| Shifts in foreign exchange rates against GBP |                                      |                                      |                                 |
| 10% weaker                                   | (947)                                | (411)                                | (1,358)                         |
| 10% stronger                                 | 1,158                                | 503                                  | 1,661                           |

# 1. RISK MANAGEMENT (continued)

## (f) Financial risk - credit

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

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

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

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

|                                 | 2018<br>£000 | 2017<br>£000  |
|---------------------------------|--------------|---------------|
| Less than 3 months overdue      | 5,794        | 13,244        |
| Between 4 and 12 months overdue | 156          | 775           |
| Between 1 and 2 years overdue   | 113          | 329           |
| Beyond 2 years overdue          | 568          | 550           |
| Doubtful debt provision         | (801)        | (1,782)       |
|                                 | <u>5,830</u> | <u>13,116</u> |

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

|           | 2018                    |  |   |                                     |  |                |
|-----------|-------------------------|--|---|-------------------------------------|--|----------------|
|           | Debt securities<br>£000 | Participations<br>in investment<br>pools<br>£000 | Deposits<br>with credit<br>institutions<br>£000 | Cash at bank<br>and in hand<br>£000 | Debtors arising<br>out of in/<br>reinsurance<br>operations<br>£000 | Total<br>£000  |
| AAA       | 166,809                 | 58,247   | —   | —                                   | —  | 225,056        |
| AA+       | 11,408                  | —  | —   | —                                   | —  | 11,408         |
| AA        | 27,501                  | —  | —   | —                                   | —  | 27,501         |
| AA-       | 22,300                  | —  | —   | 5,297                               | —  | 27,597         |
| A+        | 18,266                  | —  | —   | 84                                  | 4,364  | 22,714         |
| A         | 18,663                  | —  | 3,919   | 175                                 | 54   | 22,811         |
| A-        | 16,304                  | —  | 1,959   | 13,644                              | —  | 31,907         |
| BBB+      | 8,424                   | —  | —   | —                                   | —  | 8,424          |
| BBB       | 11,051                  | —  | —   | —                                   | —  | 11,051         |
| Not rated | —                       | —  | —   | —                                   | 2,213  | 2,213          |
|           | <u>300,726</u>          | <u>58,247</u>                                    | <u>5,878</u>                                    | <u>19,200</u>                       | <u>6,631</u>   | <u>390,682</u> |



1. RISK MANAGEMENT (continued)

(f) Financial risk - credit (continued)

|           | 2017                    |  |   |                                     |   |                |
|-----------|-------------------------|--|---|-------------------------------------|---|----------------|
|           | Debt securities<br>£000 | Participations<br>in investment<br>pools<br>£000 | Deposits with<br>credit<br>institutions<br>£000 | Cash at bank<br>and in hand<br>£000 | Debtors arising<br>out of<br>in/reinsurance<br>operations<br>£000 | Total<br>£000  |
| AAA       | 67,012                  | 18,674   | —   | —                                   | 2   | 85,688         |
| AA+       | 11,950                  | —  | —   | —                                   | 548   | 12,498         |
| AA        | 170,788                 | —  | —   | —                                   | 18  | 170,806        |
| AA-       | 15,669                  | —  | —   | 19,641                              | 53  | 35,363         |
| A+        | 18,875                  | —  | —   | 1,575                               | 3,606   | 24,056         |
| A         | 22,716                  | —  | 25,829  | 243                                 | 328   | 49,116         |
| A-        | 7,735                   | —  | 3,698   | 13,485                              | 4   | 24,922         |
| BBB+      | 4,851                   | —  | —   | —                                   | —   | 4,851          |
| BBB       | 7,331                   | —  | —   | —                                   | 21  | 7,352          |
| Not rated | —                       | —  | —   | —                                   | 10,319  | 10,319         |
|           | <u>326,927</u>          | <u>18,674</u>                                    | <u>29,527</u>                                   | <u>34,944</u>                       | <u>14,899</u>   | <u>424,971</u> |

Debtors arising out of in/reinsurance operations

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

## 1. RISK MANAGEMENT (continued)

### (g) Financial risk - liquidity

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

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

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

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

|                                    | 2018             |                   |                   |                   |                |
|------------------------------------|------------------|-------------------|-------------------|-------------------|----------------|
|                                    | 0-1 year<br>£000 | 2-3 years<br>£000 | 4-5 years<br>£000 | > 5 years<br>£000 | Total<br>£000  |
| Listed debt securities             | 95,967           | 94,236            | 78,546            | 31,977            | 300,726        |
| Participations in investment pools | 58,247           | —                 | —                 | —                 | 58,247         |
| Deposits with credit institutions  | 5,878            | —                 | —                 | —                 | 5,878          |
| Cash at bank and in hand           | 19,200           | —                 | —                 | —                 | 19,200         |
|                                    | <u>179,292</u>   | <u>94,236</u>     | <u>78,546</u>     | <u>31,977</u>     | <u>384,051</u> |

  

|                                    | 2017             |                   |                   |                   |                |
|------------------------------------|------------------|-------------------|-------------------|-------------------|----------------|
|                                    | 0-1 year<br>£000 | 2-3 years<br>£000 | 4-5 years<br>£000 | > 5 years<br>£000 | Total<br>£000  |
| Listed debt securities             | 120,120          | 93,644            | 81,208            | 31,955            | 326,927        |
| Participations in investment pools | 18,674           | —                 | —                 | —                 | 18,674         |
| Deposits with credit institutions  | 29,527           | —                 | —                 | —                 | 29,527         |
| Cash at bank and in hand           | 34,944           | —                 | —                 | —                 | 34,944         |
|                                    | <u>203,265</u>   | <u>93,644</u>     | <u>81,208</u>     | <u>31,955</u>     | <u>410,072</u> |

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

|  | 2018             |                   |                   |                   |                |
|--|------------------|-------------------|-------------------|-------------------|----------------|
|  | 0-1 year<br>£000 | 2-3 years<br>£000 | 4-5 years<br>£000 | > 5 years<br>£000 | Total<br>£000  |
| Outstanding claims reserves                  | 44,897           | 39,538            | 21,546            | 19,347            | 125,328        |
| Claims incurred but not reported reserves    | 18,571           | 16,353            | 8,911             | 8,002             | 51,837         |
| Unallocated loss adjustment expense reserves | 1,022            | 899               | 490               | 440               | 2,851          |
|  | <u>64,490</u>    | <u>56,790</u>     | <u>30,947</u>     | <u>27,789</u>     | <u>180,016</u> |

  

|  | 2017             |                   |                   |                   |                |
|--|------------------|-------------------|-------------------|-------------------|----------------|
|  | 0-1 year<br>£000 | 2-3 years<br>£000 | 4-5 years<br>£000 | > 5 years<br>£000 | Total<br>£000  |
| Outstanding claims reserves                  | 38,089           | 48,239            | 27,048            | 26,081            | 139,457        |
| Claims incurred but not reported reserves    | 21,022           | 26,624            | 14,928            | 14,395            | 76,969         |
| Unallocated loss adjustment expense reserves | 885              | 1,120             | 628               | 606               | 3,239          |
|  | <u>59,996</u>    | <u>75,983</u>     | <u>42,604</u>     | <u>41,082</u>     | <u>219,665</u> |

**1. RISK MANAGEMENT (continued)**

**(h) Operational risk**

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

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

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

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

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

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

**(i) Strategic risk**

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

The following are examples of strategic risks facing the Company:

- Planning processes that are not fully integrated with internal financial indicators and external benchmarks, or are based on forecasts that are inherently optimistic.
- Deficiencies and weaknesses in understanding of regulatory requirements, and risk comprehension by claims handling staff.
- Failure of large information technology and infrastructure projects to achieve specified goals.

The responsibility for strategic risk control and mitigation rests with the Executive Committee, a sub-committee of the Board of Directors.

## 1. RISK MANAGEMENT (continued)

### (j) Capital management

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

The Company's objectives in managing its capital are:

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

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

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

- At 31 December 2018, under the Solvency II Directive (effective 1 January 2016) the estimated total capital available to meet the Solvency Capital Requirement (being the Own Funds) is £155.6 million with the estimated Solvency Capital Requirement at £81.5 million and the estimated total capital available to meet the Minimum Capital Requirement (being the Own Funds) is £155.6 million with the Minimum Capital Requirement at £25.0 million. The Company has complied with all externally imposed capital requirements throughout the year. The 31 December 2018 annual Solvency II returns are to be filed by 22 April 2019.

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

### (k) Fair value estimation

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

#### • Level 1

Valuations based on quoted prices in active markets. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these instruments does not entail a significant degree of judgment.

#### • Level 2

Valuations based on prices of recent transactions when no quoted active price is available for identical assets or liabilities that the Company has the ability to access. Reference is also made to quoted prices for similar assets and liabilities in active markets and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals, broker quotes and certain pricing indices.

1. RISK MANAGEMENT (continued)

(k) Fair value estimation (continued)

• Level 3

Valuations based on a valuation technique. These measurements include circumstances where there is little, if any, market activity for the asset or liability. In these cases, significant management assumptions can be used to establish management's best estimate of the assumptions used by other market participants in determining the fair value of the asset or liability.

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

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

|                                    | 2018            |                 |                 | Total<br>£000  |
|------------------------------------|-----------------|-----------------|-----------------|----------------|
|                                    | Level 1<br>£000 | Level 2<br>£000 | Level 3<br>£000 |                |
| Financial assets at fair value     |                 |                 |                 |                |
| Listed debt securities             |                 |                 |                 |                |
| UK government                      | 137,515         | —               | —               | 137,515        |
| Non-UK government                  | 1,880           | —               | —               | 1,880          |
| Non-UK government agencies         | 18,026          | 1,361           | —               | 19,387         |
| Supranational                      | 13,565          | 6,503           | —               | 20,068         |
| Corporate                          | 88,115          | 15,515          | —               | 103,630        |
| Government backed                  | 16,020          | 2,226           | —               | 18,246         |
| Participations in investment pools | 58,247          | —               | —               | 58,247         |
| Deposits with credit institutions  | 5,878           | —               | —               | 5,878          |
| Cash at bank and in hand           | 19,200          | —               | —               | 19,200         |
|                                    | <u>358,446</u>  | <u>25,605</u>   | <u>—</u>        | <u>384,051</u> |
|                                    |                 |                 |                 |                |
|                                    | 2017            |                 |                 | Total<br>£000  |
|                                    | Level 1<br>£000 | Level 2<br>£000 | Level 3<br>£000 |                |
| Financial assets at fair value     |                 |                 |                 |                |
| Listed debt securities             |                 |                 |                 |                |
| UK government                      | 167,865         | —               | —               | 167,865        |
| Non-UK government                  | 6,074           | —               | —               | 6,074          |
| Non-UK government agencies         | 15,579          | 4,206           | —               | 19,785         |
| Supranational                      | 15,613          | 6,502           | —               | 22,115         |
| Corporate                          | 67,383          | 17,713          | —               | 85,096         |
| Government backed                  | 23,487          | 2,505           | —               | 25,992         |
| Participations in investment pools | 18,674          | —               | —               | 18,674         |
| Deposits with credit institutions  | 29,527          | —               | —               | 29,527         |
| Cash at bank and in hand           | 34,944          | —               | —               | 34,944         |
|                                    | <u>379,146</u>  | <u>30,926</u>   | <u>—</u>        | <u>410,072</u> |

During the year, there were no transfers (2017: none) made from Levels 1 or 2 into Level 3, and vice versa, within the fair value hierarchy.

## 2. SEGMENTAL INFORMATION

### (a) Analyses by placing type

|   | 2018                           |                               |                               |                                  |                                      |                                       |
|---|--------------------------------|-------------------------------|-------------------------------|----------------------------------|--------------------------------------|---------------------------------------|
|   | Gross premiums written<br>£000 | Gross premiums earned<br>£000 | Gross claims incurred<br>£000 | Gross operating expenses<br>£000 | Reinsu-<br>rance<br>balances<br>£000 | Underwriting<br>profit/(loss)<br>£000 |
| Assumed treaty business                 |                                |                               |                               |                                  |                                      |                                       |
| Proportional reinsurance                | (6,942)                        | (5,381)                       | (3,965)                       | (1,775)                          | —                                    | (11,121)                              |
| Non-proportional reinsurance            | (1,202)                        | (1,171)                       | 14,455                        | (171)                            | —                                    | 13,113                                |
| Direct and assumed facultative business | (72)                           | 218                           | (617)                         | —                                | (38)                                 | (437)                                 |
|   | <u>(8,216)</u>                 | <u>(6,334)</u>                | <u>9,873</u>                  | <u>(1,946)</u>                   | <u>(38)</u>                          | <u>1,555</u>                          |
|   |                                |                               |                               |                                  |                                      |                                       |
|   | 2017                           |                               |                               |                                  |                                      |                                       |
|   | Gross premiums written<br>£000 | Gross premiums earned<br>£000 | Gross claims incurred<br>£000 | Gross operating expenses<br>£000 | Reinsu-<br>rance<br>balances<br>£000 | Underwriting<br>profit/(loss)<br>£000 |
| Assumed treaty business                 |                                |                               |                               |                                  |                                      |                                       |
| Proportional reinsurance                | (6,216)                        | 925                           | 5,106                         | 4,517                            | (2,724)                              | 7,824                                 |
| Non-proportional reinsurance            | 797                            | 1,715                         | (2,776)                       | (1,810)                          | —                                    | (2,871)                               |
| Direct and assumed facultative business | 284                            | 605                           | 1,759                         | (89)                             | 99                                   | 2,374                                 |
|   | <u>(5,135)</u>                 | <u>3,245</u>                  | <u>4,089</u>                  | <u>2,618</u>                     | <u>(2,625)</u>                       | <u>7,327</u>                          |

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

## 2. SEGMENTAL INFORMATION (continued)

### (b) Analyses by geographical area

| By destination                   | 2018                      |   |                | 2017                      |   |                |
|----------------------------------|---------------------------|---|----------------|---------------------------|---|----------------|
|                                  | Assumed<br>treaty<br>£000 | Direct/<br>assumed<br>facultative<br>£000 | Total<br>£000  | Assumed<br>treaty<br>£000 | Direct/<br>assumed<br>facultative<br>£000 | Total<br>£000  |
| Gross premiums written           |                           |   |                |                           |   |                |
| United Kingdom                   | (435)                     | —   | (435)          | (11)                      | (2)                                       | (13)           |
| North, Central and South America | (736)                     | —   | (736)          | (247)                     | 134                                       | (113)          |
| Europe                           | 5                         | 62  | 67             | 476                       | 69  | 545            |
| Worldwide                        | (4,262)                   | 5   | (4,257)        | (3,006)                   | 19  | (2,987)        |
| Africa and Middle East           | (545)                     | (140)                                     | (685)          | (318)                     | 64  | (254)          |
| Asia and Australia               | (2,171)                   | 1   | (2,170)        | (2,313)                   | —   | (2,313)        |
|                                  | <u>(8,144)</u>            | <u>(72)</u>                               | <u>(8,216)</u> | <u>(5,419)</u>            | <u>284</u>                                | <u>(5,135)</u> |

| By origin                | 2018                      |   |               | 2017                      |   |               |
|--------------------------|---------------------------|---|---------------|---------------------------|---|---------------|
|                          | Assumed<br>treaty<br>£000 | Direct/<br>assumed<br>facultative<br>£000 | Total<br>£000 | Assumed<br>treaty<br>£000 | Direct/<br>assumed<br>facultative<br>£000 | Total<br>£000 |
| United Kingdom           |                           |   |               |                           |   |               |
| Gross premiums written   | (8,144)                   | (72)                                      | (8,216)       | (5,419)                   | 284                                       | (5,135)       |
| Profit/(loss) before tax | 3,072                     | (434)                                     | 2,638         | 5,693                     | 2,376                                     | 8,069         |
| Profit/(loss) after tax  | 2,500                     | (354)                                     | 2,145         | 4,697                     | 1,961                                     | 6,658         |
| Net assets               | 199,486                   | 7,183                                     | 206,669       | 198,485                   | 6,038                                     | 204,523       |

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

## 3. PROVISION FOR UNEARNED PREMIUMS

|  | 2018<br>£000 | 2017<br>£000 |
|--|--------------|--------------|
| Gross  |              |              |
| At beginning of year   | 2,604        | 11,304       |
| Exchange gain/(loss) on retranslation of brought forward balances from last to this year closing rates | 110          | (440)        |
| Increase/(decrease) during year (refer Note 4)   | (1,882)      | (8,380)      |
| Exchange gain/(loss) on retranslation of in-year movement from average to closing rates                | (66)         | 120          |
| At end of year   | <u>766</u>   | <u>2,604</u> |
| Reinsurers' share  |              |              |
| At beginning of year   | 317          | 662          |
| Exchange gain/(loss) on retranslation of brought forward balances from last to this year closing rates | 12           | (28)         |
| Increase/(decrease) during year (refer Note 4)   | (291)        | (321)        |
| Exchange loss/(gain) on retranslation of in-year movement from average to closing rates                | (7)          | 4            |
| At end of year   | <u>31</u>    | <u>317</u>   |

#### 4. EARNED PREMIUMS, NET OF REINSURANCE

|  | 2018           |                     |                | 2017          |                     |              |
|--|----------------|---------------------|----------------|---------------|---------------------|--------------|
|  | Gross<br>£000  | Reinsurance<br>£000 | Net<br>£000    | Gross<br>£000 | Reinsurance<br>£000 | Net<br>£000  |
| Premiums written   | (8,216)        | 77                  | (8,139)        | (5,135)       | (284)               | (5,419)      |
| Change in the provision for unearned premiums (refer Note 3) | 1,882          | (291)               | 1,591          | 8,380         | (321)               | 8,059        |
| Earned premiums  | <u>(6,334)</u> | <u>(214)</u>        | <u>(6,548)</u> | <u>3,245</u>  | <u>(605)</u>        | <u>2,640</u> |

#### 5. CLAIMS INCURRED, NET OF REINSURANCE

|  | 2018            |                     |                 | 2017            |                     |                 |
|--|-----------------|---------------------|-----------------|-----------------|---------------------|-----------------|
|  | Gross<br>£000   | Reinsurance<br>£000 | Net<br>£000     | Gross<br>£000   | Reinsurance<br>£000 | Net<br>£000     |
| Claims paid  |                 |                     |                 |                 |                     |                 |
| Claims and allocated loss adjustment expenses paid       | (32,782)        | 293                 | (32,489)        | (54,567)        | 866                 | (53,701)        |
| Unallocated loss adjustment expenses paid (refer Note 7) | (58)            | —                   | (58)            | (215)           | —                   | (215)           |
|  | <u>(32,840)</u> | <u>293</u>          | <u>(32,547)</u> | <u>(54,782)</u> | <u>866</u>          | <u>(53,916)</u> |
| Change in the provision for claims (refer Note 6(a))     |                 |                     |                 |                 |                     |                 |
| Outstanding claims reserve movement                      | 15,389          | 258                 | 15,647          | (13,781)        | (953)               | (14,734)        |
| Claims incurred but not reported reserve movement        | 26,881          | (61)                | 26,820          | 71,534          | (3,402)             | 68,132          |
| Unallocated loss adjustment expense reserve movement     | 443             | —                   | 443             | 1,118           | —                   | 1,118           |
|  | <u>42,713</u>   | <u>197</u>          | <u>42,910</u>   | <u>58,871</u>   | <u>(4,355)</u>      | <u>54,516</u>   |
| Claims incurred  | <u>9,873</u>    | <u>490</u>          | <u>10,363</u>   | <u>4,089</u>    | <u>(3,489)</u>      | <u>600</u>      |



## 6. TECHNICAL PROVISIONS

### (a) Claims outstanding

|   | 2018   |  |  |  |
|---|--|--|--|--|
|   | Out-<br>standing<br>claims<br>reserves<br>£000 | Claims<br>incurred but<br>not reported<br>reserves<br>£000 | Unallocated<br>loss<br>adjustment<br>expense<br>reserves<br>£000 | Total<br>claims<br>outstanding<br>£000   |
| <b>Gross</b>  |  |  |  |  |
| At beginning of year  | 139,457  | 76,969   | 3,239  | 219,665                                  |
| Exchange gain on retranslation of brought forward balances from last to this year closing rates | 1,258  | 1,874  | 57   | 3,189                                    |
| Increase/(decrease) during year (refer Note 5)  | (15,389)                                       | (26,881)   | (443)  | (42,713)                                 |
| Exchange loss on retranslation of in-year movement from average to closing rates                | 2  | (125)  | (2)  | (125)                                    |
| At end of year  | <u>125,328</u>                                 | <u>51,837</u>  | <u>2,851</u>   | <u>180,016</u>                           |
| <b>Reinsurers' share</b>  |  |  |  |  |
| At beginning of year  | 1,565  | 127  | —  | 1,692                                    |
| Exchange loss on retranslation of brought forward balances from last to this year closing rates | 49   | 5  | —  | 54                                       |
| Decrease during year (refer Note 5)   | 258  | (61)   | —  | 197                                      |
| Exchange gain on retranslation of in-year movement from average to closing rates                | 5  | —  | —  | 5  |
| At end of year  | <u>1,877</u>                                   | <u>71</u>  | <u>—</u>   | <u>1,948</u>                             |
|   |  |  |  |  |
|   | 2017   |  |  |  |
|   | Out-<br>standing<br>claims<br>reserves<br>£000 | Claims<br>incurred but<br>not reported<br>reserves<br>£000 | Unallocated<br>loss<br>adjustment<br>expense<br>reserves<br>£000 | Total<br>claims out-<br>standing<br>£000 |
| <b>Gross</b>  |  |  |  |  |
| At beginning of year  | 127,640  | 152,550  | 4,452  | 284,642                                  |
| Exchange loss on retranslation of brought forward balances from last to this year closing rates | (2,318)  | (5,285)  | (112)  | (7,715)                                  |
| Increase/(decrease) during year (refer Note 5)  | 13,781   | (71,534)   | (1,118)  | (58,871)                                 |
| Exchange gain on retranslation of in-year movement from average to closing rates                | 354  | 1,238  | 17   | 1,609                                    |
| At end of year  | <u>139,457</u>                                 | <u>76,969</u>  | <u>3,239</u>   | <u>219,665</u>                           |
| <b>Reinsurers' share</b>  |  |  |  |  |
| At beginning of year  | 2,562  | 3,544  | —  | 6,106                                    |
| Exchange loss on retranslation of brought forward balances from last to this year closing rates | (54)   | (26)   | —  | (80)                                     |
| Increase/(decrease) during year (refer Note 5)  | (953)  | (3,402)  | —  | (4,355)                                  |
| Exchange loss on retranslation of in-year movement from average to closing rates                | 10   | 11   | —  | 21                                       |
| At end of year  | <u>1,565</u>                                   | <u>127</u>   | <u>—</u>   | <u>1,692</u>                             |

## 6. TECHNICAL PROVISIONS (continued)

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

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

|   | 2018                           |                            |                      | 2017                           |                            |                      |
|---|--------------------------------|----------------------------|----------------------|--------------------------------|----------------------------|----------------------|
|   | Non-catastrophe losses<br>£000 | Catastrophe losses<br>£000 | Total losses<br>£000 | Non-catastrophe losses<br>£000 | Catastrophe losses<br>£000 | Total losses<br>£000 |
| Assumed treaty business                 |                                |                            |                      |                                |                            |                      |
| Proportional reinsurance                | (3,450)                        | —                          | (3,450)              | 8,890                          | —                          | 8,481                |
| Non-proportional reinsurance            | 14,297                         | —                          | 14,297               | (2,623)                        | —                          | (2,623)              |
| Direct and assumed facultative business | (554)                          | —                          | (554)                | —                              | —                          | —                    |
|   | <u>10,293</u>                  | <u>—</u>                   | <u>10,293</u>        | <u>5,859</u>                   | <u>—</u>                   | <u>5,859</u>         |

## 7. NET OPERATING EXPENSES

|   | 2018           |                     |                | 2017           |                     |                |
|---|----------------|---------------------|----------------|----------------|---------------------|----------------|
|   | Gross<br>£000  | Reinsurance<br>£000 | Net<br>£000    | Gross<br>£000  | Reinsurance<br>£000 | Net<br>£000    |
| Acquisition costs   |                |                     |                |                |                     |                |
| Acquisition costs   | (1,580)        | (48)                | (1,628)        | 5,491          | 16                  | 5,507          |
| Profit commissions  | 1,042          | (285)               | 757            | 3,287          | 1,416               | 4,703          |
| Change in deferred acquisition costs (refer Note 18)                    | (427)          | 19                  | (408)          | (1,750)        | 37                  | (1,713)        |
| Change in deferred profit commissions (refer Note 18)                   | (89)           | —                   | (89)           | (109)          | —                   | (109)          |
|   | <u>(1,054)</u> | <u>(314)</u>        | <u>(1,368)</u> | <u>6,919</u>   | <u>1,469</u>        | <u>8,388</u>   |
| Administrative expenses   |                |                     |                |                |                     |                |
| Gross administrative expenses   | (980)          | —                   | (980)          | (4,610)        | —                   | (4,610)        |
| Transferred to unallocated loss adjustment expenses paid (refer Note 5) | 58             | —                   | 58             | 215            | —                   | 215            |
| Transferred to investment expenses                                      | 30             | —                   | 30             | 94             | —                   | 94             |
| Transferred to acquisition costs  | —              | —                   | —              | —              | —                   | —              |
|   | <u>(892)</u>   | <u>—</u>            | <u>(892)</u>   | <u>(4,301)</u> | <u>—</u>            | <u>(4,301)</u> |
| Net operating expenses  | <u>(1,946)</u> | <u>(314)</u>        | <u>(2,260)</u> | <u>2,618</u>   | <u>1,469</u>        | <u>4,087</u>   |

## 8. INVESTMENT INCOME

|  | 2018<br>£000 | 2017<br>£000 |
|--|--------------|--------------|
| Income from debt securities  | 6,048        | 5,716        |
| Income from deposits with ceding undertakings and other deposits           | 3            | 6            |
| Income from deposits with credit institutions and cash at bank and in hand | 242          | 240          |
| Income from participations in investment pools                             | 258          | 121          |
|  | <u>6,551</u> | <u>6,083</u> |

## 9. OTHER INCOME AND OTHER CHARGES

### (a) Other Income

|                                    | 2018<br>£000 | 2017<br>£000 |
|------------------------------------|--------------|--------------|
| Rental income from sublease        | —            | 133          |
| Fee income from group undertakings | —            | 42           |
| Other income                       | 5            | 30           |
|                                    | <u>5</u>     | <u>205</u>   |

### (b) Other Charges

|                       | 2018<br>£000 | 2017<br>£000   |
|-----------------------|--------------|----------------|
| Foreign exchange loss | (579)        | (1,156)        |
|                       | <u>(579)</u> | <u>(1,156)</u> |

## 10. CORPORATION TAX

### (a) Tax charge on profit on ordinary activities

|   | 2018<br>£000 | 2017<br>£000   |
|---|--------------|----------------|
| United Kingdom corporation tax at 19% (2017: 19.25%)    |              |                |
| Current tax on income for the year                      | (447)        | (1,884)        |
| Adjustments in respect of previous financial years      | —            | 1,438          |
| Total current tax                                       | <u>(447)</u> | <u>(446)</u>   |
| United Kingdom deferred tax movements                   |              |                |
| Origination and reversal of timing differences          | (45)         | 330            |
| Adjustment in respect of previous financial years       | —            | (1,295)        |
| Total deferred tax movements (refer Note 10(d))         | <u>(45)</u>  | <u>(965)</u>   |
| Tax on profit on ordinary activities (refer Note 10(b)) | <u>(492)</u> | <u>(1,411)</u> |

## 10. CORPORATION TAX (continued)

### (b) Factors affecting tax charge for the year

The tax assessed on the profit on ordinary activities for the year is different than that resulting in applying the standard rate of corporation tax in the UK of 19% (2017: 19.25%). The differences are reconciled below:

|   | 2018<br>£000 | 2017<br>£000 |
|---|--------------|--------------|
| Profit on ordinary activities before tax  | 2,638        | 8,069        |
| Profit on ordinary activities before tax multiplied by the standard rate of corporation tax in the United Kingdom at 19% (2017: 19.25%) | (501)        | (1,553)      |
| Factors affecting charge:   |              |              |
| Expenses not deductible for tax purposes  | (1)          | (1)          |
| Differences in tax rates  | 10           | (1)          |
| Adjustment in respect of prior periods  | —            | 144          |
|   | 9            | 142          |
| Tax charge for the year (refer Note 10(a))  | (492)        | (1,411)      |

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

|  | 2018<br>£000 | 2017<br>£000 |
|--|--------------|--------------|
| Corporation tax in respect of current financial year | (447)        | (1,478)      |
| Corporation tax in respect of prior financial year   | (4)          | 1,219        |
| Corporation tax (creditor)/debtor (refer Note 22)    | (451)        | (259)        |

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

|   | At beginning of the year<br>£000 | Movement during the year - pure<br>£000 | 2018<br>Movement during the year - adjustment<br>£000 | Movement during the year - rate change<br>£000 | At end of the year<br>£000 |
|---|----------------------------------|---|---|--|----------------------------|
| Tangible fixed assets depreciation less/(greater) than capital allowances | 257                              | (45)                                    | —   | —  | 212                        |
| Prepaid/accrued items   | 2                                | —                                       | —   | —  | 2                          |
| Doubtful debt provision   | 333                              | (217)                                   | —   | —  | 116                        |
| Claims equalisation reserves:   | (827)                            | 217                                     | —   | —  | (610)                      |
|   | (235)                            | (45)                                    | —   | —  | (280)                      |

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

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

|   | At beginning<br>of the year<br>£000 | 2017   |  |   | At end of<br>the year<br>£000 |
|---|-------------------------------------|--|--|---|-------------------------------|
|   |                                     | Movement<br>during<br>the year<br>pure<br>£000 | Movement<br>during the<br>year -<br>adjustment<br>£000 | Movement<br>during the<br>year - rate<br>change<br>£000 |                               |
| Tangible fixed assets depreciation less/(greater) than capital allowances | 234                                 | (35)   | 58   | —   | 257                           |
| Prepaid/accrued items   | 5                                   | (3)  | —  | —   | 2                             |
| Doubtful debt provision   | 185                                 | 148  | —  | —   | 333                           |
| Claims equalisation reserves:   | (1,047)                             | 220  | —  | —   | (827)                         |
| Losses carried forward:   | 1,353                               | —  | (1,353)  | —   | —                             |
|   | <u>730</u>                          | <u>330</u>                                     | <u>(1,295)</u>   | <u>—</u>  | <u>(235)</u>                  |

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

11. OTHER FINANCIAL INVESTMENTS

|                                    | 2018<br>£000   | 2017<br>£000   |
|------------------------------------|----------------|----------------|
| Listed debt securities             | 300,726        | 326,927        |
| Participations in investment pools | 58,247         | 18,674         |
| Deposits with credit institutions  | 5,878          | 29,527         |
|                                    | <u>364,851</u> | <u>375,128</u> |

12. DEPOSITS WITH CEDING UNDERTAKINGS

|                       | 2018<br>£000 | 2017<br>£000 |
|-----------------------|--------------|--------------|
| Deposits with cedants | 1,336        | 1,503        |
|                       | <u>1,336</u> | <u>1,503</u> |

**13. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS**

|  | 2018<br>£000 | 2017<br>£000 |
|--|--------------|--------------|
| Amounts falling due within one year                |              |              |
| Amounts due from non-group undertakings            | 47           | 47           |
| Amounts due from intermediaries—group undertakings | —            | —            |
|  | <u>47</u>    | <u>47</u>    |

**14. DEBTORS ARISING OUT OF REINSURANCE OPERATIONS**

|   | 2018<br>£000 | 2017<br>£000  |
|---|--------------|---------------|
| Amounts falling due within one year     |              |               |
| Amounts due from non-group undertakings | 2,719        | 11,450        |
| Amounts due from group undertakings     | 3,064        | 1,620         |
|   | <u>5,783</u> | <u>13,070</u> |

**15. OTHER DEBTORS INCLUDING TAXATION AND SOCIAL SECURITY**

|  | 2018<br>£000 | 2017<br>£000 |
|--|--------------|--------------|
| Amounts falling due within one year              |              |              |
| UK corporation tax receivable (refer Note 10(c)) | —            | —            |
| Value added tax recoverable                      | 11           | 30           |
| Amounts due from group undertakings              | —            | 1,267        |
| Other debtors                                    | —            | —            |
|  | <u>11</u>    | <u>1,297</u> |

16. TANGIBLE ASSETS

|                                     | 2018                      |  |                                   |               |
|-------------------------------------|---------------------------|--|-----------------------------------|---------------|
|                                     | Computer hardware<br>£000 | Furniture/<br>fixtures/<br>and office<br>equipment<br>£000 | Leasehold<br>improvements<br>£000 | Total<br>£000 |
| <b>Book cost</b>                    |                           |  |                                   |               |
| At beginning of year                | 1,777                     | 235  | 801                               | 2,813         |
| At end of year                      | <u>1,777</u>              | <u>235</u>   | <u>801</u>                        | <u>2,813</u>  |
| <b>Accumulated depreciation</b>     |                           |  |                                   |               |
| At beginning of year                | 1,742                     | 233  | 801                               | 2,776         |
| Charge during year                  | 35                        | 2  | —                                 | 37            |
| Eliminated on disposals during year | —                         | —  | —                                 | —             |
| At end of year                      | <u>1,777</u>              | <u>235</u>   | <u>801</u>                        | <u>2,813</u>  |
| <b>Net book value</b>               |                           |  |                                   |               |
| At end of this year                 | —                         | —  | —                                 | —             |
| At end of last year                 | <u>35</u>                 | <u>2</u>   | <u>—</u>                          | <u>37</u>     |

The Company's tangible assets depreciation charge for the year ended 31 December 2017 was £148 thousand.

|                                     | 2017                      |  |                                   |               |
|-------------------------------------|---------------------------|--|-----------------------------------|---------------|
|                                     | Computer hardware<br>£000 | Furniture/<br>fixtures/<br>and office<br>equipment<br>£000 | Leasehold<br>improvements<br>£000 | Total<br>£000 |
| <b>Book cost</b>                    |                           |  |                                   |               |
| At beginning of year                | 1,756                     | 235  | 801                               | 2,792         |
| Additions during year               | 21                        | —  | —                                 | 21            |
| Disposals during year               | —                         | —  | —                                 | —             |
| At end of year                      | <u>1,777</u>              | <u>235</u>   | <u>801</u>                        | <u>2,813</u>  |
| <b>Accumulated depreciation</b>     |                           |  |                                   |               |
| At beginning of year                | 1,634                     | 226  | 768                               | 2,628         |
| Charge during year                  | 108                       | 7  | 33                                | 148           |
| Eliminated on disposals during year | —                         | —  | —                                 | —             |
| At end of year                      | <u>1,742</u>              | <u>233</u>   | <u>801</u>                        | <u>2,776</u>  |
| <b>Net book value</b>               |                           |  |                                   |               |
| At end of this year                 | 35                        | 2  | —                                 | 37            |
| At end of last year                 | <u>122</u>                | <u>9</u>   | <u>33</u>                         | <u>164</u>    |

The Company's tangible assets depreciation charge for the year ended 31 December 2016 was £385 thousand.

17. DEFERRED ACQUISITION COSTS

|  | 2018                               |                                     |  |
|--|------------------------------------|-------------------------------------|--|
|  | Deferred acquisition costs<br>£000 | Deferred profit commissions<br>£000 | Total deferred acquisition costs<br>£000 |
| <b>Gross</b>   |                                    |                                     |  |
| At beginning of year   | 497                                | 57                                  | 554                                      |
| Exchange (gain)/loss on retranslation of brought forward balances from last to this year closing rates | 26                                 | —                                   | 26                                       |
| Increase/(decrease) during year (refer Note 7)   | (427)                              | (87)                                | (514)                                    |
| Exchange (gain)/loss on retranslation of in-year movement from average to closing rates                | (16)                               | (2)                                 | (18)                                     |
| At end of year   | <u>80</u>                          | <u>(32)</u>                         | <u>48</u>                                |
| <b>Reinsurers' share</b>   |                                    |                                     |  |
| At beginning of year   | 21                                 | —                                   | 21                                       |
| Exchange (gain)/loss on retranslation of brought forward balances from last to this year closing rates | 1                                  | —                                   | 1  |
| Decrease during year (refer Note 7)  | (19)                               | —                                   | (19)                                     |
| Exchange (gain)/loss on retranslation of in-year movement from average to closing rates                | (1)                                | —                                   | (1)                                      |
| At end of year   | <u>2</u>                           | <u>—</u>                            | <u>2</u>                                 |
|  |                                    |                                     |  |
|  | 2017                               |                                     |  |
|  | Deferred acquisition costs<br>£000 | Deferred profit commissions<br>£000 | Total deferred acquisition costs<br>£000 |
| <b>Gross</b>   |                                    |                                     |  |
| At beginning of year   | 2,323                              | 167                                 | 2,490                                    |
| Exchange (gain)/loss on retranslation of brought forward balances from last to this year closing rates | (105)                              | (3)                                 | (108)                                    |
| Increase/(decrease) during year (refer Note 7)   | (1,750)                            | (109)                               | (1,859)                                  |
| Exchange (gain)/loss on retranslation of in-year movement from average to closing rates                | 29                                 | 2                                   | 31                                       |
| At end of year   | <u>497</u>                         | <u>57</u>                           | <u>554</u>                               |
| <b>Reinsurers' share</b>   |                                    |                                     |  |
| At beginning of year   | 61                                 | —                                   | 61                                       |
| Exchange (gain)/loss on retranslation of brought forward balances from last to this year closing rates | (4)                                | —                                   | (4)                                      |
| Decrease during year (refer Note 7)  | (37)                               | —                                   | (37)                                     |
| Exchange (gain)/loss on retranslation of in-year movement from average to closing rates                | 1                                  | —                                   | 1  |
| At end of year   | <u>21</u>                          | <u>—</u>                            | <u>21</u>                                |



## 18. OTHER PREPAYMENTS AND ACCRUED INCOME

|                        | 2018<br>£000 | 2017<br>£000 |
|------------------------|--------------|--------------|
| Prepaid other expenses | 113          | 260          |
|                        | <u>113</u>   | <u>260</u>   |

## 19. SHARE CAPITAL

|   | 2018<br>£000   | 2017<br>£000   |
|---|----------------|----------------|
| Allotted, called up and fully paid 125,000,000 ordinary shares of £1 each | 125,000        | 125,000        |
| Authorised 250,000,000 ordinary shares of £1 each                         | <u>250,000</u> | <u>250,000</u> |

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

## 20. ONEROUS LEASE

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

On 31 December 2014, the Company vacated this former office location and remained liable for the remaining rental charges until the lease expired. Accordingly, a provision had been recognised and this comprised of: anticipated dilapidation costs from expiry; net of utilities recovered from the sublease of the former office location.

|                      | 2018  |   |            |
|----------------------|---|---|------------|
|                      | Future rental income and utilities recovered £000 | Future rental charges and dilapidation costs £000 | Total £000 |
| At beginning of year | —   | 335   | 335        |
| Decrease during year | —   | (335)   | (335)      |
| At end of year       | <u>—</u>  | <u>—</u>  | <u>—</u>   |

  

|                                 | 2017  |   |            |
|---------------------------------|---|---|------------|
|                                 | Future rental income and utilities recovered £000 | Future rental charges and dilapidation costs £000 | Total £000 |
| At beginning of year            | (191)   | 324   | 133        |
| Increase/(decrease) during year | 191   | 11  | 202        |
| At end of year                  | <u>—</u>  | <u>335</u>  | <u>335</u> |

## 21. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

|   | 2018<br>£000 | 2017<br>£000 |
|---|--------------|--------------|
| Amounts falling due within one year           |              |              |
| Insurance premium tax payable                 | 3            | 3            |
| Employment tax payable                        | —            | 7            |
| UK corporation tax payable (refer Note 10(c)) | 451          | 259          |
| Other creditors—group undertakings            | 216          | 135          |
|   | <u>670</u>   | <u>404</u>   |

## 22. OTHER ACCRUALS AND DEFERRED INCOME

|                           | 2018<br>£000 | 2017<br>£000 |
|---------------------------|--------------|--------------|
| Accrued professional fees | 345          | 282          |
| Accrued outsourcing fees  | 49           | 151          |
| Accrued rent              | —            | 35           |
| Accrued other expenses    | 242          | 579          |
|                           | <u>636</u>   | <u>1,047</u> |

## 23. STAFF COSTS

### (a) Staff numbers

|  | 2018<br>Number | 2017<br>Number |
|--|----------------|----------------|
| Average number of employees (including directors) employed during the financial year |                |                |
| Underwriting   | 1              | 2              |
| Claims   | 1              | 1              |
| Risk   | 2              | 2              |
| Finance  | 3              | 3              |
| IT   | 1              | 2              |
| Administration, Human Resources and Compliance                                       | 1              | 1              |
| Management   | 5              | 5              |
|  | <u>14</u>      | <u>16</u>      |

### (b) Staff costs

|   | 2018<br>£000 | 2017<br>£000 |
|---|--------------|--------------|
| Aggregate payroll costs of employees (including directors) employed during the financial year |              |              |
| Wages and salaries  | 773          | 978          |
| Social security costs   | 87           | 88           |
| Other pension costs   | 46           | 61           |
|   | <u>906</u>   | <u>1,127</u> |

The pension costs above represent the Company's contributions to defined contribution pension schemes.

## 24. GUARANTEES, FINANCIAL COMMITMENTS AND CONTINGENT LIABILITIES

### (a) Guarantees

A credit facility with the Bank of Tokyo-Mitsubishi has been extended for USD 2,570 thousand, CAD 44 thousand, AUD 153 thousand and EUR 866 thousand at the end of the financial year (2017: USD 1,984 thousand, CAD 44 thousand and AUD 153 thousand) pursuant to the issuance of several letters of credit to policyholders/cedants in the United States of America, Canada and Australia.”

A credit facility with Mizuho Trust and Banking has been extended for USD 4,613 thousand at the end of the financial year (2017: USD 4,613 thousand) pursuant to the issuance of several letters of credit to policyholders/cedants in the United States of America.

### (b) Annual commitments

The Company has no annual commitments in respect of non-cancellable operating leases.

## 25. RELATED PARTY TRANSACTIONS AND BALANCES

|  | 2018                      | 2017                      |
|--|---------------------------|---------------------------|
|  | Balances                  | Balances                  |
|  | Net Debtor/<br>(Creditor) | Net Debtor/<br>(Creditor) |
|  | £000                      | £000                      |
| Wholly-owned by Tokio Marine Holdings Inc                      |                           |                           |
| Tokio Millennium Re AG   | (216)                     | (135)                     |
| Kiln Underwriting Limited                                      | (451)                     | 1,242                     |
| Tokio Marine Kiln Insurance Services Limited                   | —                         | 25                        |
| Syndicate 1880 managed by Tokio Marine Kiln Syndicates Limited | 530                       | 593                       |

  

|   | 2018                                     | 2017                                     |
|---|--|--|
|   | Transactions<br>Net Income/<br>(Expense) | Transactions<br>Net Income/<br>(Expense) |
|   | £000                                     | £000                                     |
| Partially-owned by Tokio Marine Holdings Inc                  |  |  |
| Syndicate 510 managed by Tokio Marine Kiln Syndicates Limited | 552                                      | 11,326                                   |

## 26. IMMEDIATE AND ULTIMATE PARENT UNDERTAKINGS

Tokio Marine & Nichido Fire Insurance Co. Ltd. (Japan) is the immediate parent. This company’s registered office is located at 2-1 Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8050, Japan.

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

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

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

## 27. EVENTS AFTER THE REPORTING PERIOD

The Company has completed its review of events after the Statement of Financial Position date of 31 December 2018 through 22 March 2019, the date the consolidated financial statements were authorised for issue. There were no events that would warrant an adjustment to the consolidated financial statements.

On 30 October 2018, RenaissanceRe Holdings Ltd. (“RenRe”) announced that it has entered into a definitive agreement with Tokio Marine Holdings, Inc. (“TMHD”) pursuant to which an affiliate of RenRe will acquire TMHD’s reinsurance platform, which includes Tokio Millennium Re AG and Tokio Millennium Re (UK) Limited (collectively, “TMR”). Under the terms of the transaction, TMHD will receive 1.02x the tangible book value of TMR delivered to RenRe at closing. If closing tangible book value is unchanged from June 30, 2018, Tokio Marine would receive approximately \$1.5 billion in total consideration, consisting of cash and RenRe common shares.

## 28. UK TO US GAAP RECONCILIATION

The Company prepares its financial statements in accordance with generally accepted accounting practice in the United Kingdom (‘UK GAAP’), which differ in certain respects from accounting principles generally accepted in the United States of America (‘US GAAP’). Reconciliations of profit for the financial year (or net income) and shareholders’ funds (or shareholders’ equity) as reported in the financial statements under UK GAAP and those under US GAAP are set out below:

|  | 2018                  |                      | 2017                  |                      |
|--|-----------------------|----------------------|-----------------------|----------------------|
|  | Profit & Loss<br>£000 | Total Equity<br>£000 | Profit & Loss<br>£000 | Total Equity<br>£000 |
| Results under UK GAAP                                    |                       |                      |                       |                      |
| Profit for the year                                      | 2,146                 | —                    | 6,658                 | —                    |
| Total equity   | —                     | 206,669              | —                     | 204,523              |
| US GAAP Reporting adjustments                            |                       |                      |                       |                      |
| Unearned premium (“UPR”) revaluation adjustment          | (197)                 | (75)                 | (917)                 | (367)                |
| Deferred acquisition cost (“DAC”) revaluation adjustment | 60                    | 9                    | 240                   | 85                   |
| Tax effect of US GAAP changes                            | 26                    | 12                   | 137                   | 57                   |
| Results under US GAAP                                    | 2,035                 | 206,615              | 6,118                 | 204,298              |

### Classification differences between UK and US GAAP

In addition to the differences between UK GAAP and US GAAP related to the recognition and measurement of transactions by the Company, there are also a number of differences in the manner in which items are classified in the profit and loss account and statement of financial position. These classification differences have no impact on net income, shareholders’ equity and statement of cash flows.

Under UK GAAP UPR and DAC are revalued at the prevailing closing foreign exchange rate. Under US GAAP nonmonetary items are recorded at the historic foreign exchange rate.

Under UK GAAP, the statement of financial position is presented in ascending order of liquidity, whereas under US GAAP assets are presented in descending order of liquidity. Also under UK GAAP, the statement of financial position is ordinarily analysed between net assets and total equity. Under US GAAP, the analysis is between total assets and total liabilities plus shareholder’s equity.

Under US GAAP, the analysis is between total assets and total liabilities plus shareholder’s equity. Under UK GAAP non-monetary items are revalued at the prevailing closing foreign exchange rate. Under US GAAP nonmonetary items are recorded at the historic foreign exchange rate.