TOKIO MARINE
T M R

Tokio Millennium Re

ANNUAL REPORT
2013

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FINANCIAL HIGHLIGHTS

STANDARD & POOR'S **AA-**

A.M. BEST **A++ SUPERIOR**

* A.M. Best rating is assigned to Tokio Millennium Re AG and also applies to its Bermuda and Australia branches.


NET INCOME
US $140.0 MILLION
LOSS RATIO
47.8%
COMBINED RATIO
83.0%
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MESSAGE FROM THE CEO

Succeeding at building and operating a business is like excelling at a strategic board game such as checkers or chess or word games. Both require patience, perspective and the ability to keep an eye on the big picture, to plan for upcoming moves. Essentially, going for the win is about playing the whole board and keeping it open – and ready – for future opportunities.

That is precisely how we approach both our planning and our operations at Tokio Millennium Re (TMR), and the theme of our Annual Report for 2013 demonstrates just that. After several years of laying the foundation for the organisation's future development and growth, we have our feet firmly on the ground and spent 2013 "putting the pieces together".

The biggest piece that Tokio Millennium Re shifted into position was the Company's headquarters. In 2013, Tokio Millennium Re redomiciled its operations from Bermuda to Zurich, Switzerland and we are now a Swiss company: Tokio Millennium Re AG (TMR AG). This strategic move was undertaken to support two of our long term objectives: to take advantage of growth opportunities in both Europe and the United States.

We see great potential in the European market, but in the past, that potential has been difficult to capitalise on. Traditionally, European companies are very loyal to their reinsurers and prefer to give their business to those who are based in Europe. This is particularly true of small to mid-sized companies – Tokio Millennium Re's target market. The decision to move our headquarters to Switzerland supports our ongoing European marketing efforts. We strive to develop long term relationships with our clients, and believe that being closer to clients, with our head office in Europe, will enable us to do exactly that.

The second advantage Tokio Millennium Re gains by redomiciling to Zurich is the strong ties Switzerland has with other jurisdictions which allows flexibility when it comes to setting up offices in other locales. Our long term strategy includes expanding into the US market, and having our headquarters in Switzerland means we are able to set up a branch office in the US in a cost effective, capital efficient manner. We expect to establish Tokio Millennium Re's presence in the US in the first half of 2014.

While the process of redomiciling opens Tokio Millennium Re up to many future opportunities, moving these pieces of our organisation around did not come without challenges. For example, as part of the redomestication, we had to meet the regulatory guidelines of the Swiss Financial Market Supervisory Authority (FINMA) – which

are significantly stricter for company headquarters than for branch offices. Our team worked hard to respond to FINMA's requests and ensure that we successfully met all of its requirements for best practices in corporate governance and enterprise risk management, among others. Thanks to the perseverance and diligence of our team, we succeeded in obtaining FINMA's approval and strengthened our foothold in the European market. The redomestication also had an impact on our human resources, with Ed Jordan being appointed Head of Bermuda and Stephan Ruoff taking on the role of Group Chief Underwriting Officer and Head of Europe from Zurich.

Our sister company in the United Kingdom, Tokio Millennium Re (UK) Ltd. (TMRUK), also continued to evolve through 2013, and contributed to our overall strategy of "putting the pieces together" to advance our long term business plan. Part of this ongoing evolution involved the continued harmonisation of systems and processes between TMRUK and TMR AG – including our pricing, enterprise risk management, IT and human resources – so that we operate as one unified Group. In addition, TMRUK is now writing the non-group, third party business that was previously written by Tokio Marine Global Re Asia Ltd. This furthers our goal of geographic expansion by giving Tokio Millennium Re a critical presence in Asia – an area we haven't previously occupied, but one we've already identified for future potential growth.

In addition, 2013 marked the first full year of operations for Tokio Millennium Re's two wholly owned subsidiaries, Tokio Solution Management Ltd., an insurance management company, and Shima Reinsurance Ltd., a Bermuda domiciled segregated accounts company. These companies have played a vital role over the past year, enabling Tokio Millennium Re to participate more fully in the reinsurance market and to occupy space that isn't easily available to our competition. Industry conditions such as softening rates, increased capacity and, in particular, the influx of third party capital into the market, have put significant pressure on more traditional reinsurers. By leveraging the facilities and skill set of Tokio Solution, we were able to mitigate the impact of the entry of third party capital into the market by starting to become part of that market. And that is – and will continue to be – a very important piece of the overall Tokio Millennium Re picture.

In general, 2013 was a very good year from an underwriting perspective. It was a benign catastrophe year, with no major hurricanes or earthquakes, and despite the softening market and the low interest rate environment, Tokio Millennium Re managed to achieve a higher net income than in 2012 and exceeded the projections set out in our business plan.

We hope to continue on that path going forward. With the softening market, abundance of capacity and continued influx of third party capital, reinsurance is facing a tough year ahead. That said, we believe we have made the strategic moves and put the pieces together that will assure Tokio Millennium Re's ongoing success in the years ahead.

I'd like to extend my gratitude to all of the members of the Tokio Millennium Re team for their hard work, diligence and perseverance through this year of transition and change. Our people are our greatest resource and their ability to think creatively and strategically are indeed the most valuable piece of the Tokio Millennium Re organisation.

Tatsuhiko Hoshina
Group Chief Executive Officer


ZURICH
Abfahrt
Linie
S3 14.33 Stadelhofen Effretikon
S9 14.34 Altstetten Affoltern a/A
S 10 14.36 Selnau Triemli Uitikon Waldegg
S5 14.37 Oerlikon Oberglatt
S2 14.38 Enge Thalwil Pfäffikon SZ
14.38 Selnau Adliswil Langnau-G.
Stadelhofen Meilen Stäfa
Uster Wetzikon

Stephan Ruoff

Group Chief Underwriting Officer

Head of Europe

The redomestication of Tokio Millennium Re to Zurich had a significant impact on the Zurich office through most of 2013 and challenged available resources. We had to continue focusing on ensuring that all of our systems and processes are aligned with the Group standards. We received regulatory approval from the Swiss regulatory body (FINMA) in October and the Zurich office has been operating as the organisation's headquarters since then.

At the same time, our continental European portfolio grew significantly and we exceeded our business objectives. We discovered and entered new markets and continued to make further inroads into countries where we had already started writing business.

Another sign of our enhanced presence on the world reinsurance stage came in October at the annual reinsurance conference in Baden-Baden, Germany. During the conference, the "Intelligent Insurer" European Awards were announced, and Tokio Millennium Re was named the Best Reinsurer for Innovation (Europe) with GWP of less than $2 billion – a true testament to the hard work of the Zurich team over the past couple of years.

Our innovation is evident in a hail research project that TMR in Zurich initiated in 2013. This project is unique in the market and will result in a hail model that we anticipate will be very relevant to some major European insurance markets as of 2015.

Although 2013 was generally considered to be a benign catastrophe year worldwide, there were significant cat events in Europe. For instance, the most costly hail event ever recorded hit Germany. Even with this active cat year, the continental European portfolio met its profitability targets.

Despite European reinsurance markets being extremely competitive, we took all challenges head on, making sure we had all the pieces in place for ongoing growth and expansion. To that end, we've increased the size of our team, specifically on the business side – underwriting, actuarial and cat modelling. As a technical reinsurer, we must always live up to our promise of adding value, analysis and knowledge in these areas. We will also continue to penetrate the markets and increase our presence in continental Europe further, finding the right programmes and partners to strengthen our position in the year ahead.

A WORD FROM…

Edwin Jordan

Head of Bermuda

For the Bermuda office of Tokio Millennium Re, 2013 was a year of transition. As set out in detail in the Operating Report on page 16 of this report, for the first three quarters of the year, we were the head office of the organisation.

A large part of our focus in 2013, was devoted to the logistics of redomiciling from Bermuda to Zurich, including meeting the associated regulatory and compliance requirements. Once we obtained approval from the Swiss Financial Market Supervisory Authority (FINMA) and the head office moved to Zurich, the Bermuda office became a branch within the larger Group. Becoming a branch has allowed us to go back to basics and focus on underwriting and contributing to the growth of the Group as a whole.

It could also be said that 2013 was a transition year for the reinsurance industry. Third party capital made its presence known and at least indirectly caused a significant softening of catastrophe rates. The soft market spread to other lines where we experienced compressed margins. To that end, we are exploring opportunities that will help us overcome the challenges of the soft market environment, especially for our property and specialty cat book, as well as trying to incorporate more third party capital into our business, leveraging the capabilities of Tokio Solution Management Ltd.

A WORD FROM…

Takayuki Sumi

Chief Executive Officer

Tokio Millennium Re (UK) Ltd.

In 2013, Tokio Millennium Re (UK) Ltd. (TMRUK) continued to execute our strategy from 2012, with a focus on new business growth, further diversification and ongoing integration with the Tokio Millennium Group. I am pleased to report that through the year, we succeeded in bringing those pieces of our operations together.

Our underwriting team had the full year to prepare for renewals and that enabled us to pursue some strategic initiatives which led to good results. For instance, we began marketing our fledgling marine business. Our offering was well received and had a very successful first full year of operations.

In addition, TMRUK explored a number of geographic diversification opportunities. We made our solid foray into the Asian market, as we took over the third party reinsurance business from our sister company in Malaysia. This restructuring by our parent company has created a significant business opportunity for TMRUK. Although the Asian market can be challenging, our parent company has a good reputation and brand recognition in the arena, and is known as a long term and stable partner – qualities that are appreciated and respected by Asian clients. We aim to undertake further analysis of the Asian market through 2014 with the goal of strengthening our presence there and attracting new, high quality business.

We extended our marketing efforts to additional countries in the EMEA – Bahrain, Kuwait and the United Arab Emirates. Chronic overcapacity in this part of the world often makes it challenging to find new business, however, we were well received by the prospects we met and are looking to make a positive start in 2014.

We also held meetings with potential clients in Israel in an effort to penetrate that market, and believe that we are making good progress there – particularly in the areas of property surplus, casualty and motor. We are confident that our marketing initiatives from 2013 will bear fruit in 2014.

From an operations perspective, our results for 2013 were very impressive, exceeding the business plan with underwriting net income contributing to much of this performance. On the expense side, we succeeded in containing our costs and achieved greater reductions than our targets.

We had some new talent join our team in the IT and risk management areas, and their addition has become a valuable asset to our continued integration with the systems and processes of the Tokio Millennium Group.

One of the major changes to our operations in 2013 was the formation of an internal claims team. We now process all of our treaty claims in-house and have expanded the team to include a claims manager and two claims handlers. We continue to outsource our direct and facultative claims, but plan to bring those in-house through 2014. A recent survey of claims brokers revealed that service has "improved" or "significantly improved" since we made the shift to our internal team.

Our outlook for the year ahead remains positive as all of the pieces of our long term strategy continue to fall into place. We will work on strengthening our presence and attracting new business in Asia and the EMEA, as well as growing our casualty business, and developing our marine business further. In closing, I would like to convey my thanks and appreciation to our clients and brokers, business partners and employees for their ongoing dedication and support.

A WORD FROM…

Russell Brooke
Managing Director
Australia Branch

2013 has been another good year for the Australia Branch of Tokio Millennium Re (TMRA). We continued to build a balanced and diversified portfolio, expanding on the strategically positioned foundations we have established since we opened the office in Sydney in 2011.

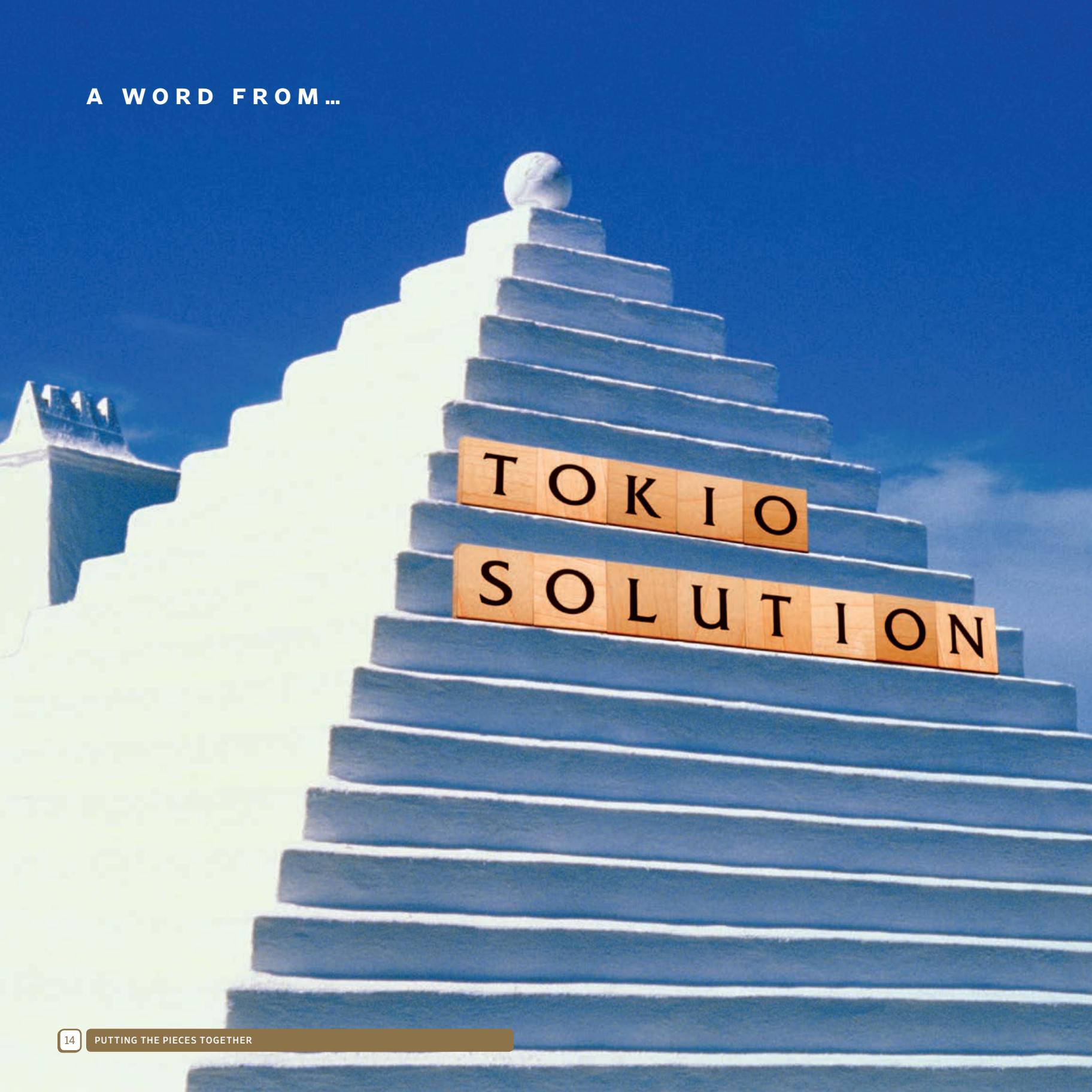
We experienced tremendous growth in our first full year of business in 2012. During 2013, we strived to remain consistent and focused as we continued to work on strengthening our client relationships and responding to market opportunities as they arose.

Historically, the Australian/New Zealand portfolio was geared towards property catastrophe, which at one time accounted for approximately 90 percent of the book of business. Recognising the importance of diversification, TMRA reduced the property cat portion of our portfolio to only 30 percent of gross premiums written. As we have implemented our diversification strategy, we have grown our casualty and specialty lines which now account for 50 percent of our premium volume. The remaining 20 percent of our premium volume is derived from our "transformer" business as we continue to support Tokio Millennium Re's subsidiary, Tokio Solution Management Ltd. (Tokio Solution). Transactions are fronted by TMRA and ceded to Tokio Solution clients allowing investors to trade in this non-correlated asset class efficiently and easily. This process ultimately provides our reinsurance customers with ease of access to capital markets capacity.

We are encouraged by the amount of potential business we saw in 2013 and continue to direct our efforts on deepening our core relationships with insurance and bank customers in Australia and New Zealand. The ever changing regulatory environment did offer TMRA some new opportunities as our clients were obliged to purchase more horizontal catastrophe coverage. We took full advantage of our locality to be a provider of choice.

2014 will not be without its challenges as recent favourable underwriting results swell existing capital and attract new capacity into the market. This makes writing new business, or even retaining existing programmes, more challenging than ever. Moving forward in this increasingly competitive market, we will endeavour to work even harder to remain relevant and provide value to our clients. By staying responsive and continuing to use a smart approach to the capacity we can provide, we are confident that the Australia Branch of Tokio Millennium Re will play an important role in the future growth of the Group.

A WORD FROM…



Kathleen Faries

Chief Executive Officer

Tokio Solution Management Ltd.

Throughout 2013, Tokio Solution Management Ltd. (Tokio Solution) was very busy putting all of the necessary pieces in place to be the premiere full service market facilitator for third party capital – an ambitious but attainable goal.

Since 2013 marked our first full year of operation, we focused our efforts on rebranding under the Tokio Solution name and carving out a strategic position in the market. We invested time in educating our existing and prospective clients about the additional services and value Tokio Solution could now provide being licensed as an Insurance Manager and through Shima Reinsurance Ltd. (Shima Re), our Bermuda domiciled segregated accounts company.

Launching Shima Re, our new subsidiary and transformer, was extremely challenging as we had to ensure all the system securities were in place to firewall off our clients' non-fronted direct transactions from Tokio Millennium Re's own business.

Other pieces were also put into place throughout the year so that Tokio Solution could begin delivering on our stated mandate and take advantage of opportunities in the marketplace. We put into place the necessary components to set up and manage reinsurance vehicles that are specific to a client, and not owned by Tokio Millennium Re. We successfully developed a reinsurance vehicle for one of our largest clients in 2013 and are now managing that reinsurance vehicle.

Another major objective for Tokio Solution in 2013 was building a cost efficient private catastrophe bond platform. We accomplished this in the final quarter of 2013. Tokio Tensai™ is a Shima Re facility that gives Tokio Solution the ability to cede risk to investors through a private catastrophe bond offering, settled through the Depository Trust & Clearing Corporation (DTC).

Tokio Solution's service offering includes fronted and leverage products which need to be managed by an experienced and professional team. The regulatory environment for both reinsurance and third party capital management also needs to be monitored carefully. Thankfully, we are fortunate to have a team of highly experienced reinsurance professionals who add value to the Tokio Solution offering every step of the way. Together, these pieces laid the groundwork necessary for Tokio Solution to capitalise on future opportunities.

The outlook for 2014 is promising. With the progress we made in 2013, we can now focus on bringing clients onboard, ramping up our direct collateralised client management, issuing more Tokio Tensai™ notes from our platform and expanding our fronting and leverage facilities. We have assembled a great team and have the necessary platforms and pieces in place to successfully manage all aspects of our third party capital clients' reinsurance activities as well as Tokio Millennium Re's plans for third party capital engagement in the future.

OPERATING REPORT

From an operating perspective, the past year was a particularly busy but productive one for Tokio Millennium Re, as the majority of our efforts were devoted to aligning all the different elements required for the successful redomestication of the Company from Bermuda to Zurich, Switzerland.

The biggest pieces of the redomestication were submitting the application form including the Swiss Solvency Test (SST) report for 2013 to the Swiss Financial Market Supervisory Authority (FINMA) and complying with the requirements of FINMA in order to obtain our licence. Moving our head office to Switzerland means that we are now regulated by FINMA which has an established reputation. Obtaining our licence required not only having appropriate policies and processes in place for conducting reinsurance business (especially on underwriting, governance and risk management), but also having detailed documentation that meets the expectations of FINMA. In order to become a Swiss company, we modified our management structure as well. The redomestication was a complicated and challenging process requiring a lot of work and liaising with regulators. It involved a great deal of work for our team in Bermuda in particular, our enterprise risk management and compliance experts. Our team rose to the challenge and made an extraordinary effort to achieve this major accomplishment. The change of domicile was finalised in October 2013.

We also dedicated a lot of time in 2013 to the set up of a branch in the United States. This is another essential step towards TMR's long term strategy to expand its business both geographically and through broader product offerings and to put our feet on the ground in the US where the majority of TMR's business originates. The TMR US branch is scheduled to be in operation in the second quarter of 2014, and much of the groundwork was undertaken throughout 2013. We have already submitted the application for the branch and also established TMR Management, Inc., the management company of the branch in Stamford, CT.

In addition to diversifying our organisation geographically, creating new markets has always been part of TMR's original mandate. In 2013, we continued our support of the expansion and growth of the collateralised reinsurance market through our subsidiaries, Tokio Solution Management Ltd. (Tokio Solution) and Shima Reinsurance Ltd. (Shima Re).

The TMR management, recognising that an advanced and sound business architecture will be critically important for TMR to be successful in the future, also spent a great deal of effort in 2013 improving our business framework, including the IT systems across the organisation. We continue to align and integrate our operations by reviewing and revising our underwriting, pricing, risk management and finance processes and systems. Throughout 2013, Tokio Millennium Re started to put in place a very capital efficient global operating structure. By moving our head office from Bermuda to Switzerland, laying the groundwork for the opening of a branch in the US in 2014 and continuing the integration of our operations around the world, we are becoming a truly global company. We are on track to achieve TMR Group's long term business plan, "TMR 22", for further expansion, growth and diversity.

We intend to continue on this path by exploring new territories, such as Asia and Latin America, coping with challenging reinsurance market conditions by focusing on our value proposition, and taking full advantage of our two strategic subsidiaries, Tokio Solution and Shima Re.

FINANCIAL SUMMARY – TOKIO MILLENNIUM RE AG

Our financial results reflect another successful year for Tokio Millennium Re. As outlined in the financial statements that follow, our net income, combined ratio and return on average shareholder's equity outpaced both last year's results and our business plan objectives. We grew our premium base nicely, as we continued our efforts to rebalance and diversify our portfolio by expanding the non-catastrophe side of our business.

We closed out the year with net income of $140.0 million compared to $123.6 million in 2012. This equates to a combined ratio of 83.0% and a return on average shareholder's equity of 11.6%.

Gross written premium for 2013 was $897.2 million, compared to $829.3 million for 2012, equating to an 8% increase year on year. Delivering on our diversification strategy, our top line growth in 2013 was driven by our non-catastrophe book, which includes US excess casualty, non-standard auto and specialty casualty. In addition, our geographic diversification through our continental Europe and Australia operations aided our top line growth.

Net incurred losses for the year (net of catastrophe swap derivative recoveries) were $304.2 million, compared to $253.5 million for the prior year. Notwithstanding a number of tragic natural disasters that impacted the globe in 2013, Tokio Millennium Re experienced a relatively benign year from a catastrophe loss perspective. Our Group was affected modestly by the weather related events in Europe and flooding in Australia, and we experienced adverse development on previously reported North American crop losses from 2012. Consistent with our top line growth, the majority of the losses in 2013 relate to our loss pick for longer tail lines of business.

Investment income for 2013 was $34.3 million, compared to $34.7 million for 2012. The average book yield on managed assets was a solid 2.1%. Once again, the year was challenging because of the interest rate environment in the US. We made an incremental change to our investment philosophy by marginally increasing our appetite for credit risk, which will help alleviate this challenge going forward. That said, our minimum rating is still above investment grade, with a weighted average credit rating of AA- for the fixed income bond portfolio.

Administrative expenses for the year were $78.2 million, compared to $68.8 million for the prior year, equating to a 14% increase year on year. The increase relates to our continued investment in people and infrastructure in order to expand our global platform and increase our product range. As this strategy matures, we expect to see a slowdown in the growth of expenses experienced in recent years.

From a capital perspective, we ended the year with shareholder's equity of $1.3 billion. This leaves us well positioned to execute our growth strategy in 2014.

We achieved these results in what continues to be a challenging environment for the reinsurance industry. The market experienced further softening as increased capacity forced reinsurance rates down, while at the same time interest rates remained at historically low levels. It is often said that the better companies distinguish themselves in these conditions. At Tokio Millennium Re, we believe our analytical and technical approach to risk selection will prove us to be among those better companies.

CORPORATE SOCIAL RESPONSIBILTY

At Tokio Millennium Re, giving back to the communities where we work and live has always been a top priority and something we don't take lightly. We consider our charitable giving initiatives to be an essential piece of our overall corporate mandate.

Tokio Millennium Re's Bermuda Branch has long been dedicated to supporting charitable organisations and initiatives on-island that benefit youth, sports and education. We see a general need in Bermuda for more educational and community support for the Island's youth, and aim to back those organisations and agencies that fill in the gaps by encouraging recreational activities, creating educational opportunities and building community support systems. However, our efforts extend far beyond simply writing a cheque; over time, charitable giving has become a relationship building endeavour and an important part of the Tokio culture that has been embraced by our employees.

> *"We recognise the various educational and community challenges that the youth of Bermuda are facing and it is our ambition to help combat this problem by supporting registered charities that are creating healthy opportunities for youth and families."*
>
> Tatsuhiko Hoshina, Group CEO, Tokio Millennium Re AG

For the past three years, employees from the Bermuda Branch have taken part in the Give Back Games — an afternoon of beach games where local companies battle it out to win money for the charities they've chosen to represent. The Games include events such as the Frisbee relay, a sandcastle competition, an ocean kayak race and three-legged races. In 2013, we once again represented The Reading Clinic, an organisation that helps children overcome learning disabilities. Though competitive and eager to stretch our winning streak to a third year in a row, Tokio did not top the podium. However, we are already looking forward to the 2014 Games since this raises thousands of dollars for worthy charities.

> *"With your charitable help, our students in the reading programme will have increasing opportunities to succeed in the community. ... Thank you for your most kind contribution towards giving children with learning differences the gift of educational empowerment."*
>
> C. Julie Dunstan, Executive Director, The Reading Clinic

Another event that captured the hearts and enthusiasm of Tokio Millennium Re employees was the Donations Committee's 2013 Holiday Cheer Initiative. This year, the committee partnered with

The Centre on Philanthropy to bring festive spirit to some of the Island's elderly. While the original intent was to simply write holiday cards for the 41 residents at Lefroy House Care Community, the committee decided to also purchase gifts for the residents, based on wish lists they provided. The items they asked for included a touching assortment of cravings, everything from socks and body lotion to easy-to-read Spanish books and a goldfish in a bowl. The TMR "elves" who delivered the gifts were described as "true treasures in the eyes of the elders at Lefroy House Care Community."

The first TMR Global Day of Giving also took place in 2013, where staff spent the day working at a local charity, donating their time and effort. The Day of Giving initiative has become a popular element of Tokio Millennium Re's charitable giving program, one which benefits the employees as much as the organisations they visit. In 2013, staff from the Bermuda Branch spent the day at three local charities. At The Reading Clinic, they painted the library and found out more about learning difficulties people face in our society. Other employees took on demolition work at Casemates Barracks, the old jail, with the aim to restore it to its former glory as an old, historic building. Another group of Tokio representatives helped with gardening and conservation work at WindReach, an organisation that supports the needs of people living with physical and intellectual disabilities. Tokio Millennium Re has been a long time sponsor of WindReach's Adaptive Sports Program and staff members gained valuable insight into the difference our support makes.

> *"It is only through generous gestures and belief in our mission that we are able to offer recreational, therapeutic and educational opportunities to help those in our community who face physical and intellectual challenges."*
>
> Theresa Hall, Development Director, WindReach Bermuda

At the end of the year, we were honoured and humbled to have our charitable giving efforts recognised by Caron Bermuda, an organisation offering addiction treatment services which Tokio Millennium Re has supported for several years. Tokio Millennium Re was presented with the Caron Bermuda Community Leadership Award in November, an annual award which celebrates community activism and leadership in fighting the battle against addiction, and one which we were very proud to accept.

> *"This leadership award provides the opportunity to acknowledge an organisation with a proven track record of investment in our community."*
>
> Gita Blakeney Saltus, Regional Vice President, Caron Bermuda

Employees from Tokio Millennium Re (UK) Ltd. celebrated their first Day of Giving by also donating their time at three local charities. One group of staff painted a women's hospice while another spent the day planting trees in a nearby woodland. A third team donated their time to raising money for a local food bank and sorting the food at the organisation's facility – a particularly humbling experience. These were all charities the staff suggested and they complemented the year-round charitable giving initiatives that the London office undertook in 2013, which included supporting organisations as varied as the British Red Cross, Age Concern, the Wonder Foundation, Keech Hospice Care and Sussex Junior Chess. The ultimate goal is to support not only local and global charitable organisations, but also to be good corporate citizens and support employees' achievements by acknowledging those causes that are important to them.

Charitable giving has always been one of our corporate responsibilities which we undertake as a way of giving back to our communities. Quite simply, it is a vital piece of the whole that makes us Tokio Millennium Re.


FINANCIALS
TOKIO MILLENNIUM REAG

INDEPENDENT AUDITORS' REPORT

To the Board of Directors – Tokio Millennium Re AG

We have audited the accompanying consolidated financial statements of Tokio Millennium Re AG ("the Company"), which comprise the consolidated balance sheet, consolidated statement of comprehensive income, consolidated statement of changes in shareholder's equity, consolidated statement of cash flows, and notes (pages 28 to 72), for the year ended 31 December 2013.

Board of Director's Responsibility

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS). This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and 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 the auditor's 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 the internal control system relevant to the entity'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 entity's internal control system.

An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, 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 present fairly, in all material respects, the consolidated financial position of the Company as at 31 December 2013, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG AG

Patrick Scholz

Licensed Audit Expert
Auditor in Charge

10 March 2014

Bill Schiller

Licensed Audit Expert

CONSOLIDATED BALANCE SHEET

31 December 2013 and 2012

	Note	31/12/2013 US$'000	31/12/2012 US$'000	1/1/2012 US$'000
Assets				
Cash and cash equivalents	5	$ 127,225	$ 102,863	$ 247,875
Funds withheld	6	49,509	54,185	25,105
Short term investments	7, 8	286,830	278,345	121,545
Fixed interest securities, designated at fair value through profit and loss	7, 8	29,708	76,443	—
Fixed interest securities, available for sale	7, 8	1,251,795	1,081,099	932,275
Investments in catastrophe bonds, available for sale	7, 8	67,405	79,466	138,625
Accrued interest receivable	11	7,960	8,613	9,531
Premiums receivable	11	355,434	251,115	145,226
Prepaid reinsurance premiums		24,938	17,236	27,017
Fair value of derivative assets	8	14,039	11,499	44,485
Outstanding losses recoverable from reinsurers	11, 16	30,669	94,083	97,662
Deferred acquisition expenses	12	135,916	108,756	75,567
Unearned profit commission		4,757	6,397	539
Deferred tax asset	13	4,238	4,830	2,745
Property and equipment	14	12,707	11,237	8,306
Intangible assets	15	5,267	4,874	4,833
Other assets		5,411	5,561	4,871
Total assets		**$ 2,413,808**	**$ 2,196,602**	**$ 1,886,207**
Liabilities				
Outstanding losses and loss expenses	16, 17	$ 583,691	$ 537,381	$ 511,089
Liability for collateral held on behalf of counterparties	10, 17	22,878	21,772	260
Reinsurance balances payable	17	18,222	71,291	39,370
Unearned premiums	16	483,295	365,729	263,136
Fair value of derivative liabilities	8	10,665	4,432	6,592
Deferred commission income	12	1,838	1,756	2,376
Accounts payable and accrued expenses	17	18,018	15,042	11,034
Retirement benefit obligation	18	814	2,305	790
Deferred fee income		979	—	490
Provision for income tax		349	3,554	205
Total liabilities		**1,140,749**	**1,023,262**	**835,342**
Shareholder's equity				
Share capital	19	250,000	250,000	250,000
Contributed surplus	19	400,000	400,000	400,000
Retained earnings		632,537	492,511	368,954
Accumulated other comprehensive income		(9,478)	30,829	31,911
Total shareholder's equity		**1,273,059**	**1,173,340**	**1,050,865**
Total liabilities and shareholder's equity		**$ 2,413,808**	**$ 2,196,602**	**$ 1,886,207**

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Years ended 31 December 2013 and 2012

	Note	2013 US$'000	2012 US$'000
Revenue			
Reinsurance premiums assumed	4	$ 897,169	$ 829,253
Change in unearned premiums		(123,600)	(102,789)
Reinsurance premiums earned – assumed		773,569	726,464
Reinsurance premiums ceded	20	118,164	101,681
Change in prepaid reinsurance		(9,044)	9,724
Reinsurance premiums earned – ceded		109,120	111,405
Net premiums earned		664,449	615,059
Catastrophe bond income		3,489	7,629
Other underwriting income		814	—
Total operating income		668,752	622,688
Net investment income	7	34,272	34,680
Total revenue		**703,024**	**657,368**
Expenses			
Loss and loss expenses incurred		296,605	335,580
Losses recoverable from reinsurers		11,817	(79,781)
Net loss and loss expenses incurred	16	308,422	255,799
Acquisition expenses	21	146,244	173,953
Profit commission		10,210	3,885
Net derivative expense	9	17,461	23,814
Other underwriting expenses		—	2,495
General and administrative expenses	22, 23	78,158	68,814
Foreign exchange (gains) losses	22	(111)	3,284
Total expenses		**560,384**	**532,044**
Profit before tax		142,640	125,324
Tax expense	13	(2,614)	(1,767)
Profit		**$ 140,026**	**$ 123,557**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

Years ended 31 December 2013 and 2012

	2013 US$'000	2012 US$'000
Other comprehensive income (loss)		
Items that are or may be reclassified to profit or loss		
Net change in unrealised gains on available for sale fixed interest securities	$ (27,858)	$ (1,041)
Net change in unrealised gains on investments in catastrophe bonds	(286)	—
Change in foreign currency translation adjustment	(13,766)	1,184
	(41,910)	143
Item that will not be reclassified to profit or loss		
Change in retirement benefit obligation	1,603	(1,225)
Other comprehensive loss, net of tax	(40,307)	(1,082)
Total comprehensive income	**$ 99,719**	**$ 122,475**

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

Years ended 31 December 2013 and 2012

	Share capital US$'000	**Contributed surplus US$'000**	**Retained earnings US$'000**	Unrealised gain (loss) on investments US$'000	Foreign currency translation reserve US$'000	Retirement benefit obligation US$'000	**Accumulated other comprehensive income US$'000**	**Total US$'000**
Balance 1 January 2012	**$ 250,000**	**$ 400,000**	**$ 368,954**	$ 32,701	$ —	$ (790)	**$ 31,911**	**$1,050,865**
Profit	—	—	123,557	—	—	—	—	123,557
Other comprehensive income (loss)	—	—	—	(1,041)	1,184	(1,225)	(1,082)	(1,082)
Balance 31 December 2012	**$ 250,000**	**$ 400,000**	**$ 492,511**	$ 31,660	$ 1,184	$ (2,015)	**$ 30,829**	**$ 1,173,340**
Profit	—	—	140,026	—	—	—	—	140,026
Other comprehensive income (loss)	—	—	—	(28,144)	(13,766)	1,603	(40,307)	(40,307)
Balance 31 December 2013	**$ 250,000**	**$ 400,000**	**$ 632,537**	$ 3,516	$ (12,582)	$ (412)	**$ (9,478)**	**$ 1,273,059**

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

Years ended 31 December 2013 and 2012

	Note	2013 US$'000	2012 US$'000
Cash flows from operating activities			
Profit before tax		$ 142,640	$ 125,324
Adjustments for:			
Depreciation of property and equipment	14	2,716	2,145
Amortisation of intangible assets	15	3,439	3,455
Amortisation of available for sale fixed interest securities	7	6,951	5,613
Interest income		(41,750)	(40,961)
Gain on sale of available for sale fixed interest securities	7	(2,413)	(1,730)
Gain on sale of catastrophe bonds		—	(150)
Foreign exchange losses (gains) on cash and cash equivalents		3,802	(5,670)
Foreign exchange gains on catastrophe bonds		(659)	(1,435)
Net unrealised losses (gains) on fixed interest securities designated at fair value through profit and loss (FVTPL)		4,534	(497)
Retirement benefit cost		112	290
Change in:			
Funds withheld		4,676	(29,080)
Premiums receivable		(104,319)	(105,889)
Prepaid reinsurance premiums		(7,702)	9,781
Fair value of derivative assets		(2,540)	32,986
Outstanding losses recoverable from reinsurers		63,414	3,579
Deferred acquisition expenses		(27,160)	(33,189)
Unearned profit commission		1,640	(5,858)
Other assets		150	(690)
Outstanding losses and loss expenses		46,310	26,292
Liability for collateral held on behalf of counterparties		1,106	21,512
Reinsurance balances payable		(53,069)	31,921
Unearned premiums		117,566	102,593
Fair value of derivative liabilities		6,233	(2,160)
Deferred commission income		82	(620)
Accounts payable and accrued expenses		2,976	4,008
Deferred fee income		979	(490)
Cash provided by operating activities		169,714	141,080
Income taxes paid		(4,722)	(473)
Net cash provided by operating activities		**$ 164,992**	**$ 140,607**

CONSOLIDATED STATEMENT OF CASH FLOWS

Years ended 31 December 2013 and 2012

	2013 US$'000	2012 US$'000
Cash flows from investing activities		
Interest received	$ 42,403	$ 41,879
Purchase of short term investments	(230,127)	(236,730)
Proceeds on sales and maturities of short term investments	207,370	81,085
Purchase of fixed interest securities designated at FVTPL	(31,550)	(75,946)
Proceeds on maturity of fixed interest securities designated at FVTPL	73,752	—
Purchase of available for sale fixed interest securities	(459,261)	(416,085)
Proceeds on sales and maturities of available for sale fixed interest securities	256,171	262,336
Purchase of catastrophe bonds	(12,818)	(3,000)
Proceeds on maturities of catastrophe bonds	25,250	63,744
Purchase of property and equipment	(4,186)	(5,076)
Purchase of intangible assets	(3,832)	(3,496)
Net cash used in investing activities	**(136,828)**	**(291,289)**
Net increase (decrease) in cash and cash equivalents	28,164	(150,682)
Foreign exchange (losses) gains on cash and cash equivalents	(3,802)	5,670
Cash and cash equivalents at beginning of year	102,863	247,875
Cash and cash equivalents at end of year	**$ 127,225**	**$ 102,863**

See accompanying notes to consolidated financial statements

1. GENERAL

Tokio Millennium Re AG (the "Company" or "TMR AG"), 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 AG's registered office is located at Claridenstrasse 22, 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 AG 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 general liability, excess casualty, auto liability, workers' compensation, directors and officers, errors and omissions and medical malpractice.

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.

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.

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

TMR Management, Inc. ("TMI"), 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 $1,000 (authorised and issued shares of 1,000 at $1 per share). These shares have not been paid as at 31 December 2013. TMI had no transactions in 2013.

Tokio Millennium Agency Ltd. ("TMA"), a wholly-owned subsidiary of the Company, was incorporated in Bermuda on 6 June 2003, with an initial share capital of $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 to Tokio Solution Management Ltd. (Tokio Solution). The Bermuda Monetary Authority ("BMA") issued a license to Tokio Solution to conduct business as an insurance management company on 24 August, 2012.

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

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 Tokio Solution as its manager, Shima Re provides its clients with a platform to transform either fronted or direct reinsurance transactions.

2. BASIS OF PREPARATION AND ADOPTION OF IFRS

(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). These consolidated financial statements are the first published financial statements of the Company prepared in accordance with IFRS and IFRS 1, *First-time Adoption of International Financial Reporting Standards.*

Subject to certain transition elections and exceptions disclosed in Note 29, the Company has consistently applied the accounting policies used in the preparation of its opening IFRS balance sheet as at 1 January 2012 throughout all periods presented, as if these policies had always been in effect.

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 US GAAP.

(b) Basis of measurement

The consolidated financial statements are presented in United States 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.

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 16 – 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, Tokio Solution and Shima Re general account. A subsidiary is an entity that is controlled by TMR AG. TMR AG 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.

(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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Insurance contracts (continued)

Reinsurance premiums assumed and acquisition costs (continued)
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.

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 which 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 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, plus any investment income thereon. 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.

(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 receivables due to reinsurers from their clients in the amount of their contractually withheld cash deposits; they are recognised at acquisition cost (nominal amount). Appropriate allowance is made for credit risks.

Investments

The Company's investments comprise of short term investments and investments in fixed interest securities and catastrophe bonds. The classification is determined at the time of initial purchase and depends on the category of investment. Purchases and sales of investments are recognised at estimated fair value, including transaction costs, on the trade date and are subsequently carried at estimated fair value.

Short term investments and investments in catastrophe bonds are classified as available for sale and are carried at fair value, with any unrealised gains and losses included in accumulated other comprehensive income as a separate component of equity. 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.

The Company's fixed interest securities comprise United States dollar (USD) and New Zealand dollar (NZD) portfolios. The USD investment portfolio is classified as available for sale and the NZD investment portfolio is designated at fair value through profit and loss, on the consolidated balance sheet. The USD investment portfolio is carried at fair value, with any unrealised gains and losses included in accumulated other comprehensive income as a separate component of equity. The NZD investment portfolio was established in 2012 to hedge the Company's foreign exchange exposure to the NZD, in relation to its NZD outstanding losses and loss expenses arising from the 2010 and 2011 New Zealand earthquakes. The Company designated its NZD investment portfolio at fair value through profit and loss upon adoption of IFRS and as such, it is carried at fair value with any unrealised gains/losses 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. Fair value for catastrophe bonds is based on independent broker quotes.

The cost of investments is adjusted for amortisation of premiums and discounts. Realised gains and losses on investments are recognised in net income using the specific identification method. Interest income on short term investments, fixed interest securities and catastrophe bonds is accrued to the 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 comprehensive income in shareholder's equity and included in current period income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments (continued)

Investments (continued)

The Company reviews investments on an individual security basis at each period end for evidence of impairment. 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. In the case of fixed-interest securities, the main basis for establishing impairment is an indication of substantial financial difficulty on the part of the issuer, the current market situation or media reports on the issuer. Impairment losses on available for sale financial assets 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 acquisition cost (net of any principal repayment and amortisation) 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.

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

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) 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.

(d) 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

(e) 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.

(f) Impairment of assets

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

Non-financial assets
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;
- 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.

Impairment loss
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).

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so 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.

(g) Bad debt provision

The Company reviews receivables on a quarterly basis and 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. The Company had no provision for bad debts in 2013 or 2012.

(h) Translation of foreign currencies

The consolidated financial statements of the Company are presented in United States 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Translation of foreign currencies (continued)

The functional currency of the Bermuda branch is the United States dollar. The functional currencies of the Company's Swiss and Australian operations are the Euro and Australian dollar, respectively. In translating the financial results of those entities whose functional currency is other than the United States dollar reporting currency, assets and liabilities are converted into United States dollar 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 foreign currency translation adjustment, a separate component of accumulated other comprehensive income.

(i) 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.

(j) Long term incentive compensation plan

In 2008, the Board approved a compensation program for employees. The compensation program consists of accumulation units which are based on movements in the net asset value of the Company and are settled in cash once a cliff vesting service period has been rendered. The Company accounts for the compensation program in accordance with IFRS 2, *Share-based Payment*. As a liability award, the cost is remeasured at each reporting period until the settlement date. The cost of such services is recognised over the service period in the consolidated statement of comprehensive income. The grant date of the units is determined to be upon authorisation of the awards in accordance with the Company's governance structure.

(k) Taxation

The Switzerland based operating entity and Australia branch of the Company operate in jurisdictions where they are subject to taxation. Income taxes have been provided 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 not 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.

(l) Retirement benefit obligation

Payments to the defined benefit contribution plan are recognised as an expense when employees have rendered services entitling them to the contributions.

The Company has a defined benefit post retirement plan in relation to the Switzerland operation. The net retirement benefit obligation in relation to this plan is based on, among other things, assumptions of the discount rate, estimate 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 the plan amendment. The Company recognises the over funded or under funded 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.

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 financial statements are listed below. The Company intends to adopt these standards when they become effective.

IFRS 9, Financial instruments – IFRS 9 was issued in November 2009 and addresses classification and measurement of financial assets. IFRS 9 replaces the multiple category and measurement models in IAS 39, *Financial Instruments – Recognition and Measurement*, for financial assets with a new mixed measurement model having only two categories: amortised cost and fair value. The available-for-sale and held-to-maturity categories currently in IAS 39 are not included in IFRS 9. All equity investments in scope of IFRS 9 are to be measured at fair value in the consolidated balance sheet, with value changes recognised in profit or loss, except for those equity investments for which the entity has elected to report value changes in other comprehensive income. If an equity investment is not held for trading, an entity can make an irrevocable election at initial recognition to measure it at fair value through other comprehensive income (FVTOCI) with only dividend income recognised in profit or loss. Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income.

The new standard, the effective date of which has been deferred until 1 January 2017 at the earliest, may have an effect on the classification and measurement of the Company's financial assets. The Company is in the process of analysing the impact of this standard on its consolidated financial statements.

Amendments to IFRS 9, Financial instruments, regarding general hedge accounting – These amendments to IFRS 9, published in November 2013, bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements. The revised standard also establishes a more principles-based approach to hedge accounting and addresses inconsistencies and weaknesses in the current model in IAS 39. The effective date of these amendments has yet to be determined. These are not expected to have a material impact on the Company's results.

Amendment to IAS 32, Financial instruments, Presentation, on offsetting financial assets and liabilities – This amendment to IAS 32, published in December 2011, clarifies the requirements for offsetting financial instruments and is applicable for accounting periods beginning on or after 1 January 2014. The amendment does not change the current offsetting model in IAS 32 but clarifies that the right of set-off must be available today (i.e., not contingent on a future event). It also must be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency and bankruptcy. This amendment is not expected to have a material impact on the Company's financial statements, although additional disclosures may be required.

Amendments to IAS 36, Impairment of assets, on recoverable amount disclosures for non-financial asset – These amendments to IAS 36, published in May 2013, address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. These amendments require disclosure of the recoverable amount of an asset when an impairment loss has been recognised and reversed and how such fair value less costs of disposal has been measured. These amendments are applicable for accounting periods beginning on or after 1 January 2014 and are not expected to have a material impact on the Company's financial statements, although additional disclosures may be required.

Amendments to IAS 39, Financial instruments: Recognition and measurement, on novation of derivatives and hedge accounting – These amendments to IAS 39, published in June 2013, allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. This relief has been introduced as a response to legislative changes across many jurisdictions that would lead to a widespread novation of over-the-counter derivatives. These legislative changes were prompted by a G20 commitment to improve transparency and regulatory oversight of over-the-counter derivatives in an internationally consistent and non-discriminatory way. Similar relief will be included in IFRS 9, *Financial Instruments*. These amendments are applicable for accounting periods beginning on or after 1 January 2014 and are expected to have no impact on the Company's financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Amendments to IAS 19, Employee benefits, regarding defined benefit plans – These amendments to IAS 19, published in November 2013, apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. These amendments are applicable for accounting periods beginning on or after 1 July 2014 and are not expected to have a material impact on the Company's results, although additional disclosures may be required.

Annual improvements to IFRSs 2010 – 2012 Cycle – In December 2013, the IASB issued 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 seven standards, namely: IFRS 2, *Share-based payment*; IFRS 3, *Business combinations*; IFRS 8, *Operating segments*; IFRS 13, *Fair value measurement*; IAS 16, *Property, plant and equipment*; IFRS 9, *Financial instruments*; and IAS 39 – *Financial instruments – Recognition and measurement.* The amendments primarily remove inconsistencies and clarify wording. The amendments are effective for annual periods beginning on or after 1 July 2014 and will have no material impact on the Company's financial statements.

Annual improvements to IFRSs 2011 – 2013 Cycle – In December 2013, the IASB issued 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 four standards, namely: IFRS 1, *First time adoption*; IFRS 3, *Business combinations*; IFRS 13, *Fair value measurement*; and IAS 40, *Investment property.* The amendments primarily remove inconsistencies and clarify wording. The amendments are effective for annual periods beginning on or after 1 July 2014 and will have no material impact on the Company's financial statements.

4. RISK DISCLOSURES

The Company, through its Enterprise Risk Management Unit (ERM), Risk Management Working Group 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 AG'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;
- 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 who are assisted by the RMC. The Board is charged with setting the orientation of TMR AG's business. It pays particular attention to business strategy, capital allocation, risk control framework and ensures that they are implemented.

The Company is exposed to risks from several sources. These include underwriting risk, market 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 AG is in the business of taking underwriting risk and therefore has a high appetite for underwriting risk. TMR AG's risk limits are defined in the TMR AG Risk Appetite and Risk Tolerance/Limit Policy for underwriting risk and reserve risk combined.

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.

As a part of the risk control strategy and governance at TMR AG, all contracts must be reviewed and approved by an Underwriting Committee before they can be bound.

The Company employs experienced catastrophe analysts and modelers, 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 next twelve-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.

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 AG. 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:

	2013		2012	
	Reinsurance premiums assumed US$'000	Percentage of total	Reinsurance premiums assumed US$'000	Percentage of total
Geographic area of risk insured				
North America	$ 687,201	76.6%	$ 673,275	81.2%
Europe	103,931	11.6%	69,029	8.3%
Australasia	50,128	5.6%	39,706	4.8%
Worldwide	46,324	5.2%	40,288	4.9%
Other	9,585	1.0%	6,955	0.8%
Total	$ 897,169	100.0%	$ 829,253	100.0%

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

	2013		2012	
	Reinsurance premiums assumed US$'000	Percentage of total	Reinsurance premiums assumed US$'000	Percentage of total
Line of business				
Property	$ 471,791	52.6%	$ 497,699	60.0%
Casualty	271,741	30.3%	181,195	21.9%
Specialty	133,576	14.9%	19,008	2.3%
Multi line	20,061	2.2%	131,351	15.8%
Total	$ 897,169	100.0%	$ 829,253	100.0%

4. RISK DISCLOSURES (continued)

A. Underwriting risk (continued)

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 costs 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, its potential to affect numerous contracts simultaneously and inflict significant erosion of TMR AG's capital.

The core of TMR AG's book of business continues to be property catastrophe reinsurance. Therefore, TMR AG 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 catastrophic 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 AG's total risk. TMR AG's catastrophe exposures are managed by limiting the amount of exposure in any one geographic zone.

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

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 AG has focused on short-tail property lines of business and has some appetite for longer-tail casualty and specialty lines of business. TMR AG'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 AG'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 quarterly 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 Chief Executive Officer to review the sufficiency of the estimated loss reserves and to appraise the adequacy and effectiveness of the loss reserving practices of TMR AG. The Reserve Committee is comprised of the Chief Executive Officer (CEO), Chief Risk Officer (CRO), Chief Operations and Compliance Officer (COO), Chief Financial Officer (CFO), Claims unit leader and the reserving actuaries.

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

Estimate of gross ultimate liability

		2009 US$'000	2010 US$'000	2011 US$'000	2012 US$'000	2013 US$'000	Total US$'000
At end of accident year	$	43,975	191,957	515,356	324,587	306,172	
One year later		46,829	206,494	529,491	318,895		
Two years later		45,644	213,431	504,483			
Three years later		45,104	222,238				
Four years later		48,962					
Ultimate liability 2009 – 2013		48,962	222,238	504,483	318,895	306,172	1,400,750
Ultimate liability pre-2009							452,606
							1,853,356
Payments made 2009 – 2013		(44,396)	(131,637)	(402,050)	(207,465)	(47,191)	(832,739)
Payments made pre-2009							(436,926)
							(1,269,665)
Gross liability as at 31 December 2013	$						583,691

Estimate of net ultimate liability

		2009 US$'000	2010 US$'000	2011 US$'000	2012 US$'000	2013 US$'000	Total US$'000
At end of accident year	$	31,810	170,263	377,402	254,575	305,924	
One year later		38,565	169,950	389,664	251,442		
Two years later		38,249	167,065	369,326			
Three years later		38,064	181,156				
Four years later		42,028					
Ultimate liability 2009 – 2013		42,028	181,156	369,326	251,442	305,924	1,149,876
Ultimate liability pre-2009							400,178
							1,550,054
Payments made 2009 – 2013		(37,700)	(99,360)	(278,013)	(149,926)	(47,191)	(612,190)
Payments made pre-2009							(384,842)
							(997,032)
Net liability as at 31 December 2013	$						553,022

A summary of changes in outstanding losses and loss expenses for 2013 and 2012, including outstanding losses recoverable from reinsurers, is presented in Note 16.

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 losses would have an impact on profit before tax of $5.8 million gain/loss (2012 – $5.4 million). There was no change to the Company's reserving methodology during the year.

4. RISK DISCLOSURES (continued)

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 AG's investment portfolio or a change of market risk factors that affect the value of such assets. TMR AG has identified interest rate risk, foreign exchange risk and revaluation 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 AG's investment portfolio. TMR AG cannot control the former but it can control the latter.

The Company manages interest rate risk by primarily investing in short-duration financial assets and cash and cash equivalents.

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 investment mix of the fixed interest portfolios is as follows:

As at 31 December 2013		Fair value US$'000	Percentage of portfolio
US Treasuries	$	284,319	22.2%
US government agencies		26,302	2.1%
Non-US government		29,708	2.3%
Corporate		600,435	46.8%
Agency mortgage-backed		219,619	17.1%
Asset-backed		121,120	9.5%
Total fixed interest securities	$	1,281,503	100.0%

As at 31 December 2012		Fair value US$'000	Percentage of portfolio
US Treasuries	$	324,130	28.0%
US government agencies		48,023	4.2%
Non-US government		76,443	6.6%
Corporate		358,064	30.9%
Agency mortgage-backed		251,996	21.8%
Asset-backed		98,886	8.5%
Total fixed interest securities	$	1,157,542	100.0%

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

Immediate shift in yield (basis points)	2013 US$'000	%	2012 US$'000	%
100	$ (36,824)	(2.9)	$ (32,049)	(2.8)
75	(27,739)	(2.2)	(24,123)	(2.1)
50	(18,566)	(1.5)	(15,775)	(1.4)
25	(9,314)	(0.7)	(7,847)	(0.7)
(25)	6,603	0.5	5,531	0.5
(50)	12,254	1.0	7,842	0.7
(75)	17,272	1.4	9,464	0.8
(100)	21,675	1.7	10,380	0.9

The durations of the managed portfolios are as follows:

	2013	2012
Fixed interest securities	2.92	2.66

Foreign exchange risk

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

4. RISK DISCLOSURES (continued)

B. Market risk (continued)

Foreign exchange risk (continued)

The Company hedges non-United States dollar liabilities with non-United States dollar assets to mitigate against this risk. The Company's assets and liabilities, categorised at their translated carrying amounts as at 31 December 2013, are as follows:

Assets	US$ US$'000	AU$ US$'000	Euro US$'000	NZ$ US$'000	Other US$'000	Total US$'000
Cash and cash equivalents	$ 35,404	$ 7,119	$ 25,423	$ 51,667	$ 7,612	$ 127,225
Funds withheld	21,790	—	3,388	24,331	—	49,509
Short term investments	177,515	109,315	—	—	—	286,830
Fixed interest securities, designated at fair value through profit and loss	—	—	—	29,708	—	29,708
Fixed interest securities, available for sale	1,251,795	—	—	—	—	1,251,795
Investments in catastrophe bonds, available for sale	49,221	—	18,184	—	—	67,405
Accrued interest receivable	6,525	926	140	369	—	7,960
Premiums receivable	290,973	15,878	45,316	482	2,785	355,434
Prepaid reinsurance premiums	24,243	615	—	—	80	24,938
Fair value of derivative assets	14,039	—	—	—	—	14,039
Outstanding losses recoverable from reinsurers	30,082	336	—	—	251	30,669
Deferred acquisition expenses	127,469	5,782	1,655	42	968	135,916
Unearned profit commission	4,314	433	10	—	—	4,757
Deferred tax asset	—	476	—	—	3,762	4,238
Property and equipment	10,698	123	1,886	—	—	12,707
Intangible assets	5,071	—	196	—	—	5,267
Other assets	5,328	21	62	—	—	5,411
Total assets as at 31 December 2013	$2,054,467	$ 141,024	$ 96,260	$ 106,599	$ 15,458	$2,413,808

Liabilities	US$ US$'000	AU$ US$'000	Euro US$'000	NZ$ US$'000	Other US$'000	Total US$'000
Outstanding losses and loss expenses	$ 387,055	$ 18,589	$ 39,913	$ 132,641	$ 5,493	$ 583,691
Liability for collateral held on behalf of counterparties	22,846	32	—	—	—	22,878
Reinsurance balances payable	17,405	—	688	48	81	18,222
Unearned premiums	411,713	37,999	24,630	371	8,582	483,295
Fair value of derivative liabilities	10,665	—	—	—	—	10,665
Deferred commission income	1,564	262	—	—	12	1,838
Accounts payable and accrued expenses	13,197	2,279	—	—	2,542	18,018
Retirement benefit obligation	—	—	—	—	814	814
Deferred fee income	979	—	—	—	—	979
Provision for income tax	—	349	—	—	—	349
Total liabilities as at 31 December 2013	$ 865,424	$ 59,510	$ 65,231	$ 133,060	$ 17,524	$1,140,749

The Company's assets and liabilities, categorised at their translated carrying amounts as at 31 December 2012, are as follows:

Assets	US$ US$'000	AU$ US$'000	Euro US$'000	NZ$ US$'000	Other US$'000	Total US$'000
Cash and cash equivalents	$ 9,815	$ 10,936	$ 12,744	$ 65,891	$ 3,477	$ 102,863
Funds withheld	19,946	—	1,761	32,478	—	54,185
Short term investments	176,183	102,162	—	—	—	278,345
Fixed interest securities, designated at fair value through profit and loss	—	—	—	76,443	—	76,443
Fixed interest securities, available for sale	1,081,099		—	—	—	1,081,099
Investments in catastrophe bonds, available for sale	66,023	—	13,443	—	—	79,466
Accrued interest receivable	5,991	1,543	12	1,067	—	8,613
Premiums receivable	205,217	25,508	12,551	299	7,540	251,115
Prepaid reinsurance premiums	15,222	1,514	—	201	299	17,236
Fair value of derivative assets	11,489	—	—	—	10	11,499
Outstanding losses recoverable from reinsurers	84,305	698	8,465	—	615	94,083
Deferred acquisition expenses	94,211	7,802	3,306	43	3,394	108,756
Unearned profit commission	5,775	221	192	2	207	6,397
Deferred tax asset	—	264	—	—	4,566	4,830
Property and equipment	8,944	73	2,220	—	—	11,237
Intangible assets	4,866	—	8	—	—	4,874
Other assets	5,525	34	2	—	—	5,561
Total assets as at 31 December 2012	$ 1,794,611	$ 150,755	$ 54,704	$ 176,424	$ 20,108	$2,196,602

Liabilities	US$ US$'000	AU$ US$'000	Euro US$'000	NZ$ US$'000	Other US$'000	Total US$'000
Outstanding losses and loss expenses	$ 286,676	$ 9,087	$ 24,298	$ 214,132	$ 3,188	$ 537,381
Liability for collateral held on behalf of counterparties	16,759	41	4,972	—	—	21,772
Reinsurance balances payable	59,770	10,853	—	268	400	71,291
Unearned premiums	305,651	37,723	10,889	419	11,047	365,729
Fair value of derivative liabilities	4,432	—	—	—	—	4,432
Deferred commission income	1,429	249	—	30	48	1,756
Accounts payable and accrued expenses	10,476	2,856	—	—	1,710	15,042
Retirement benefit obligation	—	—	—	—	2,305	2,305
Provision for income tax	—	3,554	—	—	—	3,554
Total liabilities as at 31 December 2012	$ 685,193	$ 64,363	$ 40,159	$ 214,849	$ 18,698	$1,023,262

4. RISK DISCLOSURES (continued)

B. Market risk (continued)

Foreign exchange risk (continued)

As at 31 December 2013, the Company used closing rates of exchange for major currencies of: US$ 1: AU$ 1.12; US$ 1: Euro 0.72; and US$ 1: NZ$ 1.22.

The impact on net income of a proportional foreign exchange movement of 10% up and 10% down against the United States dollar at the year end closing rates, applied on foreign currency net assets, would be an increase or decrease of $8.4 million (2012: $6.4 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 United States dollar reporting currency of the consolidated balance sheet of the Company's Swiss and Australian operations, whose functional currencies are the Euro and the Australian dollar, respectively.

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 AG.

Asset credit risk may arise from the unexpected default, or deterioration in the credit ratings, of the debtors or issuers of the financial instruments (e.g. bonds, mortgage backed securities (MBS), asset backed securities (ABS)) that TMR AG 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 their rating.

2013

	Cash and cash equivalents US$'000	Funds withheld US$'000	Investments [1] US$'000	Premiums receivable US$'000	Losses recoverable US$'000	Derivative assets US$'000
AAA	$ —	$ —	$ 326,338	$ —	$ —	$ —
AA	73,451	28,214	799,826	6,335	—	—
A	53,774	16,815	292,480	227,684	—	—
BBB	—	3,164	149,689	2,387	—	—
Other/Unknown [2]	—	1,316	67,405	119,028	30,669	14,039
Total	$ 127,225	$ 49,509	$ 1,635,738	$ 355,434	$ 30,669	$ 14,039

2012

	Cash and cash equivalents US$'000	Funds withheld US$'000	Investments [1] US$'000	Premiums receivable US$'000	Losses recoverable US$'000	Derivative assets US$'000
AAA	$ —	$ —	$ 295,339	$ —	$ —	$ —
AA	36,367	36,961	910,095	8,044	15,000	—
A	66,496	14,492	202,156	100,391	3,000	—
BBB	—	2,682	28,297	3,284	—	—
Other/Unknown [2]	—	50	79,466	139,396	76,083	11,499
Total	$ 102,863	$ 54,185	$ 1,515,353	$ 251,115	$ 94,083	$ 11,499

(1) Investments comprise of short term investments, fixed interest securities and catastrophe bonds

(2) Losses recoverable and derivative assets classified as "other/unknown" are fully collateralised

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

		2013 US$'000		2012 US$'000
Less than 90 days past due	$	4,550	$	1,107
Between 91 and 180 days past due		370		97
Over 180 days past due		463		69
Total	$	5,383	$	1,273

TMR AG does not embrace significant credit risk and therefore invests in highly-rated bonds to limit the amounts of credit exposure with respect to particular rating categories and any one issuer.

TMR AG is also exposed to various counterparty credit risks in the course of conducting its underwriting activities. For example, it may have a significant amount of premiums receivables held by its brokers, clients or retrocessionaires. It 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 modeled as a set of frequency-severity distributions resulting from the scenario analyses conducted and maintained by the ERM unit using TMR AG's risk register.

To control and mitigate counterparty credit risk, the rules of the 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 AG transacts most of its reinsurance businesses 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 2013, the Company's credit risk exposure in relation to losses recoverable from unrated counterparties to reinsurance ceded agreements is $30.7 million (2012 – $76.1 million), which is fully collateralised by letters of credit and assets held in trusts by the reinsurance counterparty for the benefit of the Company.

As at 31 December 2013, the Company's exposure to credit risk of the counterparties to catastrophe swap agreements is $14.0 million (2012 – $11.5 million), which is fully collateralised by letters of credit and assets held in trusts by the reinsurance counterparty for the benefit of the Company.

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 price and with minimum loss of value.

TMR AG 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.

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.

TMR AG's investment policy puts the safety and liquidity of its invested assets before and above its pursuit of investment earnings. The Company holds a significant amount of its assets in cash, cash equivalents and other short term investments. In addition, its other investments are mainly composed of fixed interest securities such as US Treasury and agency bonds, high-rated corporate bonds, asset-backed securities and mortgage backed securities issued by US government-sponsored agencies. Almost all of these fixed interest securities are of high credit quality and most of them are also highly liquid and can be sold on the open market quickly with little or no impact on prices.

4. RISK DISCLOSURES (continued)

D. Liquidity risk (continued)

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

	2013 US$'000	2012 US$'000
Less than one year	$ 114,322	$ 134,438
Between one and two years	227,985	155,732
Between two and three years	209,194	170,996
Between three and four years	213,577	134,883
Between four and five years	116,914	188,506
Over five years	58,772	22,105
Asset backed and mortgage backed securities	340,739	350,882
Total fixed interest securities	$ 1,281,503	$ 1,157,542

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

	Years until liability becomes due				
As at 31 December 2013	Less than one US$'000	One to three US$'000	Three to five US$'000	Over five US$'000	Total US$'000
Outstanding losses and loss expenses	$ 192,663	$ 198,628	$ 80,885	$ 111,515	$ 583,691
Liability for collateral held on behalf of counterparties	22,878	—	—	—	22,878
Reinsurance balances payable	18,222	—	—	—	18,222
Fair value of derivative liabilities	10,665	—	—	—	10,665
Accounts payable and accrued expenses	17,171	697	150	—	18,018
Provision for income tax	349	—	—	—	349
Total	$ 261,948	$ 199,325	$ 81,035	$ 111,515	$ 653,823

	Years until liability becomes due				
As at 31 December 2012	Less than one US$'000	One to three US$'000	Three to five US$'000	Over five US$'000	Total US$'000
Outstanding losses and loss expenses	$ 184,182	$ 174,645	$ 87,034	$ 91,520	$ 537,381
Liability for collateral held on behalf of counterparties	21,772	—	—	—	21,772
Reinsurance balances payable	71,291	—	—	—	71,291
Fair value of derivative liabilities	4,432	—	—	—	4,432
Accounts payable and accrued expenses	14,426	288	328	—	15,042
Provision for income tax	3,554	—	—	—	3,554
Total	$ 299,657	$ 174,933	$ 87,362	$ 91,520	$ 653,472

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.

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;
- Loss of key officers or employees;
- System failure and business disruption;
- Execution errors;
- Employment practice liability; and
- Internal and external fraud.

Through the scenario analysis process, TMR AG 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 AG 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.

Strategic risk is especially important for TMR AG because it has aimed to improve and optimise the risk profile of its business by growing those lines of business which help to diversify its current concentration in catastrophe exposures. Therefore it has strong interest in growing its current book of business profitably and developing new lines of business or markets.

Although there is inherent risk in strategic expansion into new lines and geographical areas, there are also many benefits. In setting TMR AG's appetite for this risk, both the risk and the benefits are taken into consideration.

4. RISK DISCLOSURES (continued)

F. Strategic risk (continued)

TMR AG 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.

The responsibility of risk control and mitigation rests with the CEO, who is assisted by the CRO. New business will be evaluated periodically to determine whether or not it has met the strategic goals of the Company. Those that do not meet the strategic goals will be subject to review for remedial action or for possible exit. Such review can be initiated by the CEO or may be automatically triggered.

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 modeled by TMR AG's internal or third-party vendor models. The results are aggregated into a probability distribution of the Company's profit and 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

		2013 US$'000		2012 US$'000
Cash at bank	$	92,165	$	60,365
Short term fixed deposits		35,060		42,498
	$	127,225	$	102,863

Cash and cash equivalents represent cash at bank, short term fixed deposits and other short term highly liquid investments that are subject to insignificant risk of changes in fair value.

6. FUNDS WITHHELD

Funds withheld as at 31 December 2013 totaling $49.5 million (2012 – $54.2 million) represents funds furnished by the Company to its cedants and held in trust 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.

7. INVESTMENTS

(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:

		2013 US$'000		2012 US$'000
Money market funds	$	177,515	$	176,183
Long term fixed deposits		109,315		102,162
	$	286,830	$	278,345

(b) Fixed interest securities, designated at fair value through profit and loss

The Company's fixed interest securities designated at fair value through profit and loss relate to non-US government bonds, with rating of AA+ as assigned by Standard & Poor's and mature in 2015. These securities are measured at fair value with all changes from one accounting period to the next being recorded in the consolidated statement of comprehensive income.

The book value, fair value and unrealised gains and losses on fixed interest securities designated at fair value through profit and loss are as follows:

As at 31 December 2013	Amortised cost US$'000	Unrealised gains US$'000	Unrealised losses US$'000	Fair value US$'000
Non-US government	$ 30,879	$ —	$ (1,171)	$ 29,708

As at 31 December 2012	Amortised cost US$'000	Unrealised gains US$'000	Unrealised losses US$'000	Fair value US$'000
Non-US government	$ 74,638	$ 1,854	$ (49)	$ 76,443

(c) 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:

As at 31 December 2013	Amortised cost US$'000	Unrealised gains US$'000	Unrealised losses US$'000	Fair value US$'000
US Treasuries	$ 279,588	$ 6,601	$ (1,870)	$ 284,319
US government agencies	25,498	804	—	26,302
Corporate	598,499	4,945	(3,009)	600,435
Agency mortgage-backed	224,625	2,849	(7,855)	219,619
Asset-backed	121,032	452	(364)	121,120
	$ 1,249,242	$ 15,651	$ (13,098)	$ 1,251,795

As at 31 December 2012	Amortised cost US$'000	Unrealised gains US$'000	Unrealised losses US$'000	Fair value US$'000
US Treasuries	$ 309,144	$ 15,040	$ (54)	$ 324,130
US government agencies	46,134	1,889	—	48,023
Corporate	350,611	7,594	(141)	358,064
Agency mortgage-backed	246,695	5,438	(137)	251,996
Asset-backed	98,104	805	(23)	98,886
	$ 1,050,688	$ 30,766	$ (355)	$ 1,081,099

7. INVESTMENTS (continued)

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

In the normal course of business, available for sale fixed interest securities and cash and cash equivalents with fair value of $54.1 million as at 31 December 2013 (2012 – $160.4 million), were deposited in trust for the benefit of ceding companies and credit institutions.

(ii) The amortised cost and estimated fair value of available for sale fixed interest securities as at 31 December 2013, 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.

		Amortised cost		Fair value
		US$'000		US$'000
Within one year	$	112,504	$	114,323
From one to five years		730,243		737,964
From five to ten years		60,838		58,769
Subtotal		903,585		911,056
Agency mortgage-backed		224,625		219,619
Asset-backed		121,032		121,120
Total	$	1,249,242	$	1,251,795

(iii) The Company's available for sale fixed interest securities carry a weighted average credit rating of AA- as assigned by Standard & Poor's. The minimum credit rating of securities within the available for sale fixed interest securities portfolio is BBB-.

The rating profile of the Company's available for sale fixed interest securities is shown in the table below.

		2013		2012
		US$'000		US$'000
AAA	$	148,823	$	119,156
AA		660,803		731,490
A		292,480		202,156
BBB		149,689		28,297
Total	$	1,251,795	$	1,081,099

(d) Investments in catastrophe bonds, available for sale

The Company's investments in catastrophe bonds comprise of 13 bonds. All catastrophe bonds have credit ratings with Standard & Poor's ranging from BB+ to B-. Maturities on these bonds range from 2014 to 2017. The issuers of these securities have used the proceeds raised to collateralise certain catastrophe reinsurance obligations, mainly North American and European wind and earthquake risks. The investment in these securities is therefore at risk of loss, in whole or in part, if a covered catastrophe occurs.

The cost, fair value and unrealised gains and losses of investments in catastrophe bonds were as follows:

As at 31 December 2013	Cost US$'000	Unrealised gains US$'000	Unrealised losses US$'000	Fair value US$'000
Catastrophe bonds	$ 66,452	$ 953	$ —	$ 67,405

As at 31 December 2012	Cost US$'000	Unrealised gains US$'000	Unrealised losses US$'000	Fair value US$'000
Catastrophe bonds	$ 78,884	$ 1,057	$ (475)	$ 79,466

Unrealised losses on catastrophe bonds held in 2012 comprise an accumulation of relatively small unrealised losses on a security by security basis caused by general market movements and foreign currency translations rather than credit events. As at 31 December 2013 and 2012, the Company had no significant unrealised losses caused by other factors or circumstances, including issuer specific credit risks or due to exposures to catastrophe events.

(e) Components of investment income

The components of net investment income for the years ended 31 December 2013 and 2012 were as follows:

	2013 US$'000	2012 US$'000
Interest on available for sale fixed interest securities	$ 30,727	$ 29,332
Interest on fixed interest securities designated through profit and loss	2,992	1,855
Amortisation of available for sale fixed interest securities	(6,951)	(5,613)
Realised gains on available for sale fixed interest securities	2,413	1,730
Unrealised loss on fixed interest securities designated through profit and loss	(1,782)	(1,364)
Investment management fees	(1,158)	(1,034)
Subtotal	26,241	24,906
Interest on cash and cash equivalents	1,698	4,041
Interest on short term investments	4,549	4,565
Interest on funds withheld	1,784	1,168
Net investment income	$ 34,272	$ 34,680

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.

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

As at 31 December 2013	Total US$'000	Quoted prices in active markets for identical assets US$'000 (Level 1)	Other observable inputs US$'000 (Level 2)	Unobservable inputs US$'000 (Level 3)
Financial assets				
Short term investments	$ 286,830	$ 286,830	$ —	$ —
Fixed interest securities				
US Treasuries	284,319	284,319	—	—
US government agencies	26,302	—	26,302	—
Non-US government	29,708	—	29,708	—
Corporate	600,435	—	600,435	—
Agency mortgage-backed	219,619	—	219,619	—
Asset-backed	121,120	—	121,120	—
Investments in catastrophe bonds	67,405	—	67,405	—
Derivative assets	14,039	—	—	14,039
Total	1,649,777	571,149	1,064,589	14,039
Financial liabilities				
Derivative liabilities	(10,665)	—	—	(10,665)
Total	$ 1,639,112	$ 571,149	$ 1,064,589	$ 3,374

As at 31 December 2012	Total US$'000	Quoted prices in active markets for identical assets US$'000 (Level 1)	Other observable inputs US$'000 (Level 2)	Unobservable inputs US$'000 (Level 3)
Financial assets				
Short term investments	$ 278,345	$ 278,345	$ —	$ —
Fixed interest securities				
US Treasuries	324,130	324,130	—	—
US government agencies	48,023	—	48,023	—
Non-US government	76,443	—	76,443	—
Corporate	358,064	—	358,064	—
Agency mortgage-backed	251,996	—	251,996	—
Asset-backed	98,886	—	98,886	—
Investments in catastrophe bonds	79,466	—	79,466	—
Derivative assets	11,499	—	—	11,499
Total	1,526,852	602,475	912,878	11,499
Financial liabilities				
Derivative liabilities	(4,432)	—	—	(4,432)
Total	$ 1,522,420	$ 602,475	$ 912,878	$ 7,067

During the year, there were no transfers made between Levels 1, 2 and 3 of the fair value hierarchy.

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.

Fixed interest securities

Fixed interest securities included in Level 1 consist of the Company's investments in US Treasuries. Investments in fixed interest securities included in Level 2 consist of the Company's investments in US government agencies, non-US government, corporate, agency mortgage-backed and asset-backed securities. The Company's 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 Company considers these Level 2 inputs as they are corroborated with other externally obtained information. The techniques generally used to determine the fair value of our fixed interest securities are detailed below by asset class.

US 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 US Treasury fixed interest securities as Level 1.

8. FAIR VALUE MEASUREMENTS (continued)

Fixed interest securities (continued)

US government agencies – The issuers of the Company's agency fixed interest securities primarily consist of the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and other agencies' debentures. Fixed interest securities included in agencies 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 trade volumes, when available. These are considered observable inputs therefore, the fair value of the securities are classified as Level 2.

Non-US government – Fixed interest investments included in non-US 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 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 the securities are classified as Level 2.

Corporate – The issuers consist of well known corporate issuers with ratings ranging from BBB to AAA assigned by major rating agencies. The Company's corporate fixed interest securities are primarily priced by pricing vendors and are considered as Level 2. When evaluating these securities, the vendor may gather information from market sources regarding the issuer of the security, 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 which may influence risk. These are considered observable inputs therefore, the fair value of the securities are classified as Level 2.

Agency mortgage-backed – The issuers of the Company's agency mortgage-backed fixed interest securities primarily consist of the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Government National Mortgage Association and other agencies. The Company's agency mortgage-backed fixed interest securities are primarily priced by pricing vendors utilising daily inputs from the active TBA market which is extremely liquid, as well as the US Treasury market. The vendor inputs may also utilise additional information, such as the weighted average maturity, weighted average coupon and other pool level data which is provided by the sponsoring agency. Valuations may also be corroborated by daily active market quotes. These are considered observable inputs therefore, the fair value of the securities are classified as Level 2.

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 bid and offers, prepayment spreads which may be adjusted for the underlying collateral or current price data, the US Treasury curve, swap curve and TBA values as well as cash settlement.

Investments in catastrophe bonds

The Company's investments in catastrophe bonds are recorded at fair value based on quoted market prices, or when such prices are not available, by reference to published broker or underwriter bid and offer indications. As such, the Company considers its investments in catastrophe bonds as Level 2.

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 purely based on management's evaluation and are unobservable.

Below is a reconciliation of the beginning and ending balances of derivative assets and liabilities measured at fair value on a recurring basis using Level 3 inputs:

Fair value of derivative assets and liabilities	Derivative assets US$'000	Derivative liabilities US$'000	Net US$'000
As at 31 December 2011	$ 44,485	$ (6,592)	$ 37,893
Unrealised (losses) gains included in net derivative expense	(20,409)	8,750	(11,659)
Realised (losses) gains included in net derivative expense	(69,007)	23,736	(45,271)
Purchases	56,430	—	56,430
Sales	—	(30,326)	(30,326)
As at 31 December 2012	11,499	(4,432)	7,067
Unrealised (losses) gains included in net derivative expense	(14,190)	18,806	4,616
Realised (losses) gains included in net derivative expense	(35,523)	13,371	(22,152)
Purchases	52,253	—	52,253
Sales	—	(38,410)	(38,410)
As at 31 December 2013	$ 14,039	$ (10,665)	$ 3,374

As at 31 December 2013, derivative assets comprise of unearned derivative expense of $9.9 million (2012 – $11.5 million) and derivative recoverable of $4.1 million (2012 – $Nil).

As at 31 December 2013, derivative liabilities comprise of unearned derivative income of $10.7 million (2012 – $4.4 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 statement of financial position for these instruments approximate their fair values.

Other assets and liabilities
The fair value of funds withheld, accrued interest receivable, premiums receivable, other assets, reinsurance balances payable, accounts payable and accrued expenses approximates their carrying value due to their short term nature. 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

Net derivative expense consists of catastrophe swap derivative premiums expensed of $21.7 million (2012 – $26.1 million), offset by recoveries made under the Company's catastrophe swap derivatives of $4.2 million (2012 – $2.3 million).

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.

11. REINSURANCE AND OTHER ASSETS

	2013 US$'000	2012 US$'000
Premiums receivable	$ 355,434	$ 251,115
Accrued interest receivable	7,960	8,613
Outstanding losses recoverable from reinsurers	30,669	94,083
Other assets	5,411	5,561
	$ 399,474	$ 359,372

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

	2013	2012
Current portion	$ 355,146	$ 267,497
Non-current portion	44,328	91,875
	$ 399,474	$ 359,372

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

12. DEFERRED ACQUISITION EXPENSES AND DEFERRED COMMISSION INCOME

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

	2013				2012			
	Gross US$'000	Ceded US$'000	Other US$'000	Net US$'000	Gross US$'000	Ceded US$'000	Other US$'000	Net US$'000
As at 1 January	$ 108,756	$ (1,756)	$ (4)	$ 106,996	$ 75,567	$ (2,376)	$ (71)	$ 73,120
Expense deferred	183,128	(9,112)	(119)	173,897	216,839	(7,492)	(1,508)	207,839
Amortisation	(155,496)	9,317	(65)	(146,244)	(183,645)	8,117	1,575	(173,953)
Other	(472)	(287)	—	(759)	(5)	(5)	—	(10)
As at 31 December	$ 135,916	$ (1,838)	$ (188)	$ 133,890	$ 108,756	$ (1,756)	$ (4)	$ 106,996

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

	2013 US$'000	2012 US$'000
Current portion	$ 111,957	$ 73,519
Non-current portion	21,933	33,477
	$ 133,890	$ 106,996

13. TAXATION

Income tax

The following table presents a reconciliation of the expected expense for income taxes with the actual expense (benefit) for income taxes reported in the consolidated statement of comprehensive income. The pre-tax result is multiplied by the Company's tax rate in order to calculate the expected expense for income taxes.

Tokio Millennium Re AG (Switzerland)		**2013** US$'000		**2012** US$'000
Loss before income tax	$	(4,177)	$	(3,704)
Statutory tax rate		21.17%		21.17%
Expected benefit for income tax		(884)		(784)
Temporary differences		—		(637)
Tax expense (income) not attributable to the reporting year		1,555		(414)
Other		401		85
Actual expense (benefit) for income tax	$	1,072	$	(1,750)

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

		2013 US$'000		**2012** US$'000
Corporation tax charge for the year	$	483	$	—
Adjustments in respect of prior year corporation tax		1,820		(422)
Deferred tax credit for the year		(1,231)		(1,328)
Total tax charge (benefit)	$	1,072	$	(1,750)

Tokio Millennium Re AG, Australia Branch		**2013** US$'000		**2012** US$'000
Profit before income tax	$	5,349	$	11,848
Statutory tax rate		30%		30%
Expected expense for income tax		1,605		3,555
Non-deductible expenses		10		4
Tax income not attributable to the reporting year		—		(21)
Other		(73)		(21)
Actual expense for income tax	$	1,542	$	3,517

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

		2013 US$'000		**2012** US$'000
Corporation tax charge for the year	$	1,871	$	3,817
Adjustments in respect of prior year corporation tax		—		(21)
Deferred tax credit for the year		(329)		(279)
Total tax charge	$	1,542	$	3,517

13. TAXATION (continued)

Deferred tax

The Company's Switzerland and Australian operations are subject to income taxes at statutory rates of 21.17% and 30%, respectively. The Company's deferred tax asset results from an operating loss carry forward. No provision has been made for tax benefits which will not be realised as the Company believes that the full amount will be utilised against future taxable profits.

In accordance with IAS 12, to avoid the need for detailed scheduling of the timing of the reversal of each temporary difference, TMR AG 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 analysed by balance sheet headings and after appropriate netting are as follows:

As at 31 December	2012 US$'000	Income statement (charge)/credit US$'000	Foreign currency translation US$'000	2013 US$'000
Investment assets	$ (293)	$ (378)	$ —	$ (671)
Premiums receivable	810	265	—	1,075
Outstanding losses and loss expenses	886	3,226	—	4,112
Deferred acquisition expenses	246	148	—	394
Accounts payable and accrued expenses	170	(49)	—	121
Operating losses	3,233	1,312	—	4,545
Other	61	(53)	—	8
Foreign currency translation	—	—	(1,136)	(1,136)
Total deferred tax assets	$ 5,113	$ 4,471	$ (1,136)	$ 8,448
Premiums receivable	$ —	$ (330)	$ —	$ (330)
Outstanding losses and loss expense	(283)	(4,969)	—	(5,252)
Retirement benefit obligation	—	112	—	112
Other	—	(27)	—	(27)
Foreign currency translation	—	—	1,287	1,287
Total deferred tax liabilities	$ (283)	$ (5,214)	$ 1,287	$ (4,210)
Net deferred tax assets	$ 4,830	$ (743)	$ 151	$ 4,238

14. PROPERTY AND EQUIPMENT

Property and equipment as at 31 December 2013 comprise:

	Computer equipment US$'000	Fixtures and fittings US$'000	Leasehold improvements US$'000	Motor vehicles US$'000	Office equipment US$'000	Total US$'000
Cost						
As at 1 January 2013	$ 6,421	$ 2,287	$ 9,651	$ 129	$ 20	$ 18,508
Additions	1,850	466	1,870	—	—	4,186
Disposals	—	—	—	—	—	—
As at 31 December 2013	$ 8,271	$ 2,753	$ 11,521	$ 129	$ 20	$ 22,694
Accumulated depreciation						
As at 1 January 2013	$ 4,114	$ 1,235	$ 1,818	$ 90	$ 14	$ 7,271
Charge for the year	1,367	273	1,063	11	2	2,716
Disposals	—	—	—	—	—	—
As at 31 December 2013	$ 5,481	$ 1,508	$ 2,881	$ 101	$ 16	$ 9,987
Net book value						
As at 31 December 2013	$ 2,790	$ 1,245	$ 8,640	$ 28	$ 4	$ 12,707
As at 1 January 2013	$ 2,307	$ 1,052	$ 7,833	$ 39	$ 6	$ 11,237

Property and equipment at 31 December 2012 comprise:

	Computer equipment US$'000	Fixtures and fittings US$'000	Leasehold improvements US$'000	Motor vehicles US$'000	Office equipment US$'000	Total US$'000
Cost						
As at 1 January 2012	$ 4,599	$ 1,890	$ 6,789	$ 135	$ 19	$ 13,432
Additions	1,822	397	2,862	—	1	5,082
Disposals	—	—	—	(6)	—	(6)
As at 31 December 2012	$ 6,421	$ 2,287	$ 9,651	$ 129	$ 20	$ 18,508
Accumulated depreciation						
As at 1 January 2012	$ 3,041	$ 960	$ 1,036	$ 77	$ 12	$ 5,126
Charge for the year	1,073	275	782	19	2	2,151
Disposals	—	—	—	(6)	—	(6)
As at 31 December 2012	$ 4,114	$ 1,235	$ 1,818	$ 90	$ 14	$ 7,271
Net book value						
As at 31 December 2012	$ 2,307	$ 1,052	$ 7,833	$ 39	$ 6	$ 11,237
As at 1 January 2012	$ 1,558	$ 930	$ 5,753	$ 58	$ 7	$ 8,306

15. INTANGIBLE ASSETS

Intangible assets as at 31 December comprise:

		Computer software US$'000
Cost		
As at 1 January 2013	$	19,170
Additions		3,832
Disposals		—
As at 31 December 2013	$	23,002
Accumulated amortisation		
As at 1 January 2013	$	14,296
Charge for the year		3,439
Disposals		—
As at 31 December 2013	$	17,735
Net book value		
As at 31 December 2013	$	5,267
As at 1 January 2013	$	4,874

		Computer software US$'000
Cost		
As at 1 January 2012	$	15,674
Additions		3,496
Disposals		—
As at 31 December 2012	$	19,170
Accumulated amortisation		
As at 1 January 2012	$	10,841
Charge for the year		3,455
Disposals		—
As at 31 December 2012	$	14,296
Net book value		
As at 31 December 2012	$	4,874
As at 1 January 2012	$	4,833

16. 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 losses and loss expenses US$'000	Outstanding losses recoverable from reinsurers US$'000	Net US$'000
As at 31 December 2011	$ 511,089	$ (97,662)	$ 413,427
Incurred losses related to:			
Current year	324,587	(70,012)	254,575
Prior years	10,992	(9,768)	1,224
Loss assumed by novation	1,740	—	1,740
Net effect of foreign currency exchange rate changes	13,011	(1,579)	11,432
Total incurred	350,330	(81,359)	268,971
Paid losses related to:			
Current year	95,476	(20,000)	75,476
Prior years	228,562	(64,938)	163,624
Total paid	324,038	(84,938)	239,100
As at 31 December 2012	$ 537,381	$ (94,083)	$ 443,298
Incurred losses related to:			
Current year	306,172	(248)	305,924
Prior years	(9,567)	12,065	2,498
Loss recovery by novation	(2,018)	—	(2,018)
Net effect of foreign currency exchange rate changes	(5,681)	334	(5,347)
Total incurred	288,906	12,151	301,057
Paid losses related to:			
Current year	47,191	—	47,191
Prior years	195,405	(51,263)	144,142
Total paid	242,596	(51,263)	191,333
As at 31 December 2013	$ 583,691	$ (30,669)	$ 553,022

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

2013	Outstanding losses and loss expenses US$'000	Outstanding losses recoverable from reinsurers US$'000	Net US$'000
Current	$ 192,663	$ (13,135)	$ 179,528
Non-current	391,028	(17,534)	373,494
	$ 583,691	$ (30,669)	$ 553,022

16. INSURANCE LIABILITIES (continued)

2012	Outstanding losses and loss expenses US$'000	Outstanding losses recoverable from reinsurers US$'000	Net US$'000
Current	$ 184,182	$ (23,820)	$ 160,362
Non-current	353,199	(70,263)	282,936
	$ 537,381	$ (94,083)	$ 443,298

During 2013, the Company incurred net losses of $308.4 million (2012 – $255.8 million), of which $12.6 million related to adverse development on 2012 North American crop losses, $4.9 million related to the January 2013 Australian flood losses and $4.4 million related to the May 2013 European flood losses.

The remaining net losses in 2013 mostly relate to expected losses on proportional and non-catastrophe property and casualty contracts, as well as loss development from prior years.

The Company experienced net adverse development of $2.5 million (2012 – $1.2 million) attributable to prior years. Out of this total, $12.6 million is related to unfavorable development on the 2012 North American crop losses and $2.9 million is related to adverse development on the 2010 New Zealand earthquake, based on additional information received from a cedant during the year. Offsetting these were favorable development on Superstorm Sandy and 2012 US tornado losses of $7.5 million and $3.6 million, respectively, following receipt of updated loss information from cedants.

The Company assumed three retroactive contracts by way of a novation in 2011. During 2013, the Company experienced favorable development of $2.0 million (2012 – $1.7 million adverse development) attributable to these retroactive contracts. As at 31 December 2013, loss reserves of $2.3 million (2012 – $4.3 million) were recorded on the consolidated balance sheet.

During 2012, the Company incurred net losses of $255.8 million, of which $52.4 million related to North American crop losses, $7.7 million related to 2012 US tornadoes and $0.5 million related to Superstorm Sandy. As at 31 December 2012, the Company incurred gross losses of $26.3 million related to Superstorm Sandy and can recover a total of $25.8 million under reinsurance ceded agreements.

In 2012, the Company entered into $15 billion live catastrophe Superstorm Sandy industry loss warranties (ILW's). These ILW's protect the Company for property losses caused by Superstorm Sandy up to $20.5 million, excess of property reinsurance market losses of $15 billion as reported by the Property Claims Services (PCS). The reports obtained from PCS by the Company indicated that property market losses were approximately $18.75 billion. Based upon this industry estimate, the Company recorded the $20.5 million ILW recovery.

The remaining net losses in 2012 mostly related to expected losses on proportional and non-catastrophe property and casualty contracts, as well as loss development from prior years.

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. In particular, the estimates for the New Zealand earthquakes and North American crop losses have been 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 foregoing estimate. 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:

		2013 US$'000		2012 US$'000
Current portion	$	389,172	$	272,310
Non-current portion		94,123		93,419
	$	483,295	$	365,729

17. REINSURANCE AND OTHER LIABILITIES

		2013 US$'000		2012 US$'000
Outstanding losses and loss expenses	$	583,691	$	537,381
Liability for collateral held on behalf of counterparties		22,878		21,772
Reinsurance balances payable		18,222		71,291
Fair value of derivative liabilities		10,665		4,432
Accounts payable and accrued expenses		18,018		15,042
Provision for income tax		349		3,554
	$	653,823	$	653,472

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

		2013 US$'000		2012 US$'000
Current portion	$	261,948	$	299,657
Non-current portion		391,875		353,815
	$	653,823	$	653,472

18. RETIREMENT BENEFIT OBLIGATION

(a) Defined benefit scheme

The Company's Switzerland operation entered into individual pension arrangements with specific employees. The Company and the members contribute a defined percentage of salary to the pension arrangement and a guaranteed rate of credited accumulation is granted on these contributions. At retirement, the accumulated contributions are converted to a pension at a fixed rate. Independent actuarial reviews of the ongoing benefit obligations were undertaken as at 31 December 2013.

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

	2013 % pa	2012 % pa
Discount rate	2.40	1.75
Expected return on plan assets	2.40	1.75
Expected rate of salary increase	2.60	2.60
Interest credit rate	1.75	1.75

18. RETIREMENT BENEFIT OBLIGATION (continued)

(a) Defined benefit scheme (continued)

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

Assumption change	Defined benefit obligation $
(Increase)/decrease in discount rate by 0.25%	(7,515)/8,172
(Decrease)/increase in salary by 0.25%	(7,892)/7,777

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

		2013 US$'000		2012 US$'000
Current service cost	$	578	$	668
Interest cost		139		94
Interest on plan assets		(101)		(111)
	$	616	$	651

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

		2013 US$'000		2012 US$'000
Present value of defined benefit obligations	$	7,834	$	7,738
Fair value of plan assets		(7,092)		(5,469)
Adjustment/foreign currency translation		72		36
Retirement benefit obligation	$	814	$	2,305

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

		2013 US$'000		2012 US$'000
As at 1 January	$	7,738	$	3,852
Current service cost		578		668
Interest cost		139		94
Contributions from plan participants		201		167
Actuarial (gain) loss		(1,664)		1,185
Benefits paid		680		1,672
Foreign currency translation adjustment		162		100
As at 31 December	$	7,834	$	7,738

There were no actuarial gains or losses from changes in demographic assumptions.

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

	2013 US$'000	2012 US$'000
Opening fair value of plan assets	$ 5,469	$ 3,062
Expected return on plan assets	101	111
Actuarial loss	(61)	(40)
Plan participant contributions	201	167
Employer contributions	539	379
Benefits paid	680	1,672
Foreign currency translation adjustment	163	118
Closing fair value of plan assets	$ 7,092	$ 5,469

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 $0.6 million (2012: $0.4 million) to the defined benefit scheme during the next financial year.

(b) Defined contribution plan

The Company operates a defined contribution plan in the Bermuda and Australia branches. The total contributions for the year ended 31 December 2013 amounted to $1.6 million (2012 – $1.3 million).

19. SHARE CAPITAL

	2013 US$'000	2012 US$'000
Authorised, issued and fully paid, shares of CHF 0.91 ($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 ($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.

20. 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 honor their obligations could result in losses to the Company. The Company defines rated reinsurers as companies with a minimum Standard & Poor's or A.M. Best rating of A-, and net assets of more than $100 million and where the retroceded amount is equal to or less than 10% of the reinsurer's net assets. 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 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 and Note 8.

21. ACQUISITION EXPENSES

		2013 US$'000		2012 US$'000
Acquisition expenses	$	173,897	$	207,839
Change in deferred acquisition expenses		(27,653)		(33,886)
	$	146,244	$	173,953

22. RESULTS OF OPERATING ACTIVITIES

Results of operating activities are stated after charging the following amounts:

		2013 US$'000		2012 US$'000
Depreciation of property and equipment	$	2,716	$	2,145
Amortisation of intangible assets		3,439		3,455
Operating lease charges		2,554		2,325
Foreign exchange (gains) losses		(111)		3,284

23. EMPLOYEE BENEFIT EXPENSES

		2013 US$'000		2012 US$'000
Wages and salaries	$	22,422	$	17,865
Long term incentive compensation plan		588		767
Retirement benefit obligation costs – defined benefit scheme		616		651
Retirement benefit obligation costs – defined contribution scheme		1,641		1,333
Bonus and other benefits		14,567		12,235
	$	39,834	$	32,851

24. 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 2013 was $2.7 million (2012 – $2.7 million).

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

Year		US$'000
2014	$	2,676
2015		2,365
2016		2,187
2017		994
2018		934
Later		991
Total	$	10,147

(b) The above lease agreements also include a maintenance commitment. Maintenance expense for the current year amounts to $0.8 million (2012 – $0.7 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 6 August 2010, the Company entered into a Revolving Letter of Credit Facility Agreement (Facility A) with Barclays Bank PLC (Barclays Bank). Facility A provides commitments from Barclays Bank in an aggregate amount of $100.0 million and provides for the issuance and renewal of letters of credit which are used to support the Company's reinsurance obligations. Facility A was renewed effective 19 December 2011 with an amended expiry date of 31 December 2014. The maturity of any letters of credit issued under Facility A will not extend beyond this expiry date. Under Facility A, the Company is required to pledge cash or eligible securities with collateral value (as determined as therein provided) that equals or exceeds 100% of the aggregate amount of its outstanding letters of credit. The unutilised portion of Facility A may be cancelled in whole or in part (if in part, in minimum amounts of $0.5 million) by the Company without penalty upon due written notice to Barclays Bank. Amounts so cancelled may not be reinstated. Facility A contains representations, warranties and covenants customary for facilities of this type. In addition to the customary covenants, the Company is required to maintain a financial strength rating of at least A- by A.M. Best and A by Standard & Poor's.

Effective 9 August 2011, the Company entered into a second Revolving Letter of Credit Facility Agreement (Facility B) with Barclays Bank. Facility B was renewed effective 14 May 2012 and provides commitments from Barclays Bank in an aggregate amount of Australian Dollar $1.0 million. Facility B provides for the issuance and renewal of letters of credit which are used to support the Company's reinsurance obligations. Facility B will expire on 31 December 2014 and the maturity of any new letters of credit issued under Facility B will not extend beyond this expiry date. Under Facility B, the Company is required to pledge certain cash amounts against the aggregate amount of its outstanding letters of credit. Facility B contains representations, warranties and covenants customary for facilities of this type.

As at 31 December 2013, Barclays Bank has issued letters of credit of $0.9 million (2012 – $84.4 million) in favour of ceding companies under Facility A and United States dollar equivalent of $0.7 million (2012 – $0.9 million) in favour of ceding companies under Facility B. The Company pledged as security $2.5 million (2012 – $101.2 million) of fixed interest securities and $0.1 million (2012 – $9.4 million) of cash to collateralise the letters of credit.

Effective 31 December 2011, the Company entered into a third Revolving Letter of Credit Facility Agreement (Facility C) with Barclays Bank. Facility C provided commitments from Barclays Bank in an aggregate amount of $35.0 million and provided for the issuance and renewal of letters of credit which were used to support the Company's reinsurance obligations. Facility C expired on 31 December 2012. Under Facility C, the Company was required to pledge certain cash amounts against the aggregate amount of its outstanding letters of credit. Facility C contained representations, warranties and covenants customary for facilities of this type.

24. COMMITMENTS (continued)

(d) continued

As at 31 December 2012, Barclays Bank had issued letters of credit of $35.0 million in favour of ceding companies under Facility C. The Company held as security in cash United States dollar equivalent of $42.4 million to collateralise the letters of credit.

Effective 14 May 2012, the Company entered into a Revolving Letter of Credit Facility Agreement (Facility D) with Mizuho Corporate Bank Ltd. (Mizuho Bank). Facility D provides commitments from Mizuho Bank in an aggregate amount of $300.0 million and provides for the issuance and renewal of letters of credit which are used to support the Company's reinsurance obligations. Facility D expires on 13 May 2014 and contains representations, warranties and covenants customary for facilities of this type.

As at 31 December 2013, Mizuho Bank has issued letters of credit of $263.6 million (2012 – $1.0 million) in favour of ceding companies under Facility D.

25. LONG TERM INCENTIVE COMPENSATION PLAN

The Company granted its accumulation units under its long term incentive compensation plan on 1 April of each calendar year from 2009 to 2013. The value of the units are based on movements in the net asset value of the Company and will be settled in cash four years from the date of issue if the fair value of units at that date exceeds the grant date fair value.

The units issued as at 31 December 2013 and grant date fair value per unit are summarised as follows:

Grant year	2013	2012	2011	2010
Units issued	3,294,279	1,128,799	697,186	440,713
Fair value per unit at grant date	$0.97	$1.24	$1.45	$3.14

In accordance with IFRS 2, the fair value of options granted is estimated using a pricing model with the following assumptions:

Grant year	2013	2012	2011	2010
Expected unit life	4 years	4 years	4 years	4 years
Expected volatility	17%	14%	12%	6%
Risk-free interest rate	0.7%	0.4%	0.2%	0.1%
Forfeiture rate	6.67%	10.42%	16.67%	25.71%

As at 31 December 2013, the fair value per unit discounted at the risk free rates are summarised as follows:

Grant year	2013	2012	2011	2010
Fair value per unit	$0.26	$1.43	($0.01)	$1.06

The table below shows the recognised and unrecognised expense for grant years 2013, 2012, 2011 and 2010:

Grant year	2013 US$'000	2012 US$'000	2011 US$'000	2010 US$'000
Expense during the year	$ 150	$ 369	$ (24)	$ 128
Unrecognised expense (to be recognised over remaining service period)	$ 651	$ 949	$ —	$ 26
Remaining service period (in months)	39	27	15	3

On 31 March 2013, accumulation units granted on 1 April 2009 were settled in cash. The total cash settlement awarded on 31 March 2013 was $0.5 million.

The activity during 2013 is summarised as follows:

Grant year	2013 Units	2012 Units	2011 Units	2010 Units	2009 Units
Outstanding at beginning of year	—	1,128,799	697,186	440,713	286,033
Granted	3,294,279	—	—	—	—
Exercised	—	—	—	—	(254,567)
Forfeited	(212,842)	(99,903)	(55,200)	(46,968)	(31,466)
Adjustment	—	122,528	—	—	—
Outstanding at end of year	3,081,437	1,151,424	641,986	393,745	—

26. RELATED PARTIES

During 2013, the Company assumed several reinsurance agreements from related parties under common control. The reinsurance premiums assumed under these agreements totalled $7.0 million (2012 – $8.0 million) with associated acquisition expenses of $0.4 million (2012 – $1.0 million) and net loss and loss expenses incurred of $4.8 million (2012 – $4.0 million). As at 31 December 2013, the consolidated balance sheet includes $2.1 million (2012 – $1.6 million), $1.0 million (2012 – $0.6 million) and $0.1 million (2012 – $0.1 million) of premiums receivable, unearned premium and deferred acquisition costs, respectively.

Key management personnel compensation

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

	2013 US$'000	2012 US$'000
Wages and salaries	$ 3,229	$ 3,131
Long term incentive compensation plan	314	129
Retirement benefit obligation costs	198	206
Bonus and other benefits	1,829	1,653
	$ 5,570	$ 5,119

27. STATUTORY REQUIREMENTS

TMR AG is supervised by the Swiss Financial Market Supervisory Authority (FINMA), the Bermuda Monetary Authority (BMA) and the Australian Prudential Regulation Authority (APRA).

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 operating entity are regulated by FINMA pursuant to the Insurance Supervisory Law. The Company's accounts are prepared in accordance with the Swiss Code of Obligations, the Insurance Supervisory Law and the Insurance Supervisory Ordinance.

TMR AG is obligated to maintain a minimum level of capital based on the Swiss Code of Obligations and Insurance Supervisory Law. In addition, the company will be required to perform a minimum solvency margin calculation based on the Solvency I and Swiss Solvency Test (SST) regulations as stipulated by the Insurance Supervisory Law. The SST is based on an economic view and required capital is derived from an internal capital model. The amount of dividends that TMR AG 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.

As the Company has only recently redomesticated to Switzerland, it has not yet finalised its solvency calculations under Swiss regulations. The Company met all its capital requirements at 31 December 2013.

27. STATUTORY REQUIREMENTS (continued)

(b) Bermuda

Tokio Millennium Re AG, Bermuda Branch (TMRB) is registered under The Insurance Act 1978 (Bermuda), Amendments thereto and Related Regulations (the Insurance Act) as a Class 3B insurer. Under the Insurance Act, the Company is required to annually prepare and file statutory and IFRS financial statements and a statutory financial return. The Insurance Act also requires the Company to maintain minimum levels of statutory capital and surplus. At 31 December 2013 and 2012, this amount was $117.1 million and $109.4 million, respectively. Actual statutory capital and surplus was $1,101.7 million and $1,035.6 million, respectively.

The Bermuda Statutory Capital Requirement (BSCR) is a risk-based capital model used to determine an enhanced capital requirement and target capital level (defined as 120% of the enhanced capital requirement) for Class 3B insurers.

The Insurance Act limits the maximum amount of annual dividends and distributions that may be paid by the Company in any year which would exceed 25% of its prior year statutory capital and surplus or reduce its prior year statutory capital by 15% or more, without the prior approval of the BMA. During 2013, the Company paid no annual dividend and made no distributions therefore no approval was required. Furthermore, the Company is not permitted to declare or pay a dividend, or make a distribution out of contributed surplus, if the realisable value of its assets would be less than the aggregate of its liabilities, issued share capital and share premium accounts.

The Company is also required to maintain a minimum liquidity ratio whereby the value of its relevant assets is not less than 75% of the amount of its relevant liabilities. Relevant assets include cash and cash equivalents, short term investments, catastrophe bonds, fixed interest securities, accrued interest receivable, premiums receivable, funds withheld and other assets. Certain categories of assets do not qualify as relevant assets under the statute. Relevant liabilities are outstanding losses and loss expenses, unearned premiums, deferred fee income, funds withheld ceded, accounts payable and accrued expenses, net of outstanding losses recoverable from reinsurers and prepaid reinsurance premiums.

As at 31 December 2013, the Company was required to maintain relevant assets of $817.0 million. At that date, relevant assets were $2,188.7 million and the minimum liquidity ratio was therefore met.

(c) Australia

Tokio Millennium Re AG, Australian Branch (TMRA) is authorised to carry on insurance business under subsection 12(l) of the Insurance Act 1973. TMRA is regulated by the Australian Prudential Regulation Authority (APRA) in accordance with the Insurance Act 1973 and APRA Prudential Standards. 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 2013 and 2012.

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 at 31 December 2013 were $87.1 million (2012 – $87.5 million) and resulted in a surplus of $47.7 million (2012 – $44.7 million) above the PCA of $39.3 million (2012 – $42.8 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 ICAAP, TMRA monitors its capital adequacy in order to ensure compliance with the relevant capital targets.

28. SUBSEQUENT EVENTS

The Company has completed its subsequent events evaluation for the period subsequent to the consolidated balance sheet date of 31 December 2013, through 10 March 2014, 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.

29. EXPLANATION OF TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

This is the first year that the Company has presented its financial statements in accordance with IFRS.

The effect of the Company's transition to IFRS is summarised in this note as follows:

(i) Transition elections;

(ii) Reconciliation of equity reported in accordance with US GAAP to IFRS at the date of transition to IFRS (1 January 2012) and the end of the latest period presented in accordance with US GAAP (31 December 2012);

(iii) Reconciliation of comprehensive income as previously reported under US GAAP to IFRS; and

(iv) Adjustments to the consolidated statement of cash flows.

(i) Transition election

IFRS 1 – First Time Adoption allows a first time adopter to reduce the foreign currency translation adjustment balance to zero as at the transition date. The Company has elected this exemption and thus has cleared the foreign currency translation account and charged the balance at transition date to retained earnings.

ii) Reconciliation of equity reported in accordance with US GAAP to IFRS

	31 December 2012 US$'000	1 January 2012 US$'000
Equity as reported under US GAAP	$ 1,173,340	$ 1,050,865
IFRS adjustments increase (decrease):		
Reclass of foreign currency translation adjustment to retained earnings	—	2,201
Reclass of foreign exchange gain (loss) to statement of comprehensive income	1,435	(2,103)
Retained earnings adjustments (net)	(1,435)	(98)
Equity as reported under IFRS	$ 1,173,340	$ 1,050,865

iii) Reconciliation of comprehensive income reported in accordance with US GAAP to IFRS

	31 December 2012 US$'000
Comprehensive income as reported under US GAAP	$ 122,475
Increase in net income for:	
Reclass of foreign exchange gain on investments in catastrophe bonds	1,435
Decrease in comprehensive income for:	
Reclass of foreign exchange gain on investments in catastrophe bonds	(1,435)
As reported under IFRS	$ 122,475

29. EXPLANATION OF TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (continued)

Notes:

a) Under US GAAP, Money Market Fund (MMF) investments were classified as cash and cash equivalents. Under IFRS, the MMF investments have been reclassified to short term investments as the funds do not qualify under the IAS 7, *Statement of Cash Flows* criterion which requires that all the investments in the fund qualify individually as cash and cash equivalents.

b) IFRS 1- *First Time Adoption* allows a first time adopter to reduce the cumulative translation differences to zero as at the transition date. TMR AG has elected this exemption and thus has cleared the cumulative translation account by debiting the account and crediting retained earnings.

c) IAS 38 *Intangible Assets* requires computer software to be disclosed in a separate line item as 'intangible asset'. Under US GAAP, computer software was included in capital assets.

(iv) Adjustments to the consolidated statement of cash flows

The transition from US GAAP to IFRS had no significant impact on cash flows generated by the Company.

HISTORICAL FINANCIAL DATA

31 December 2013, 2012, 2011, 2010 and 2009

Consolidated Balance Sheet

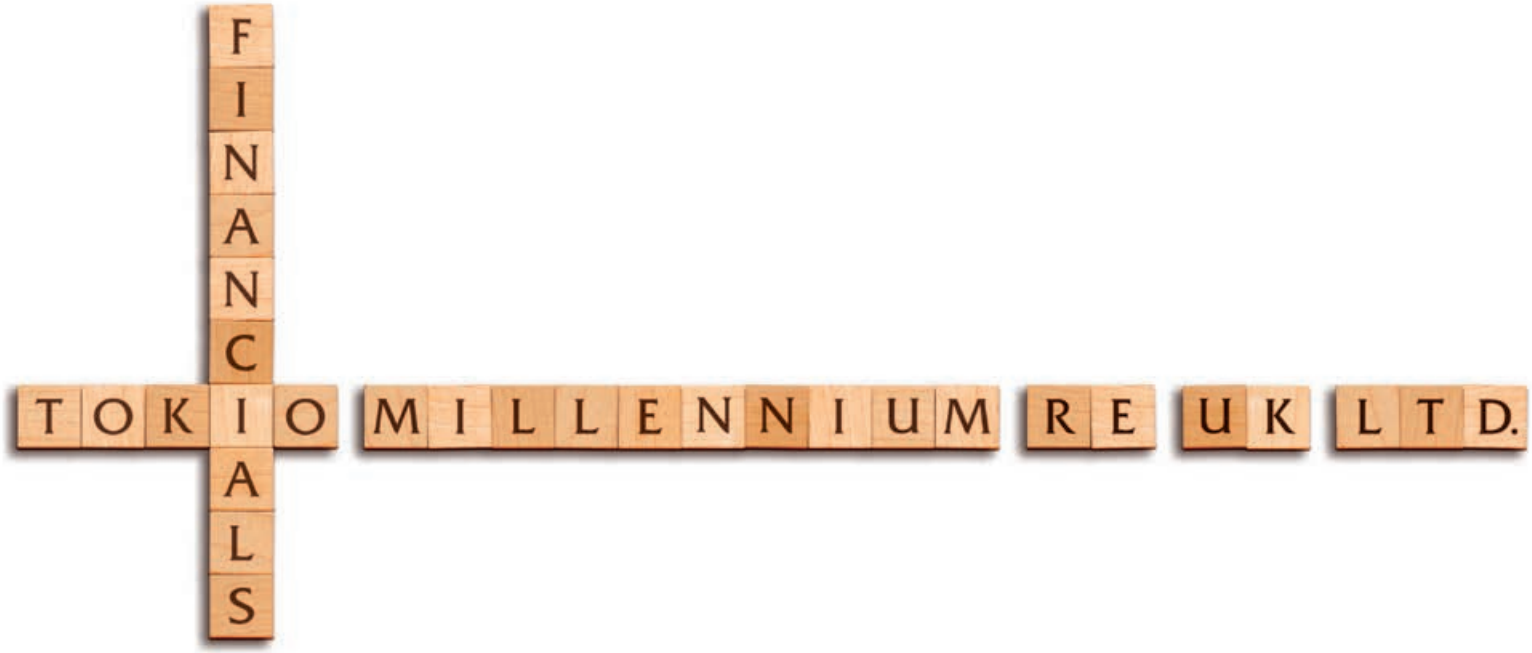
	2013 US$'000	2012 US$'000	2011 US$'000	2010 US$'000	2009 US$'000
Assets					
Cash and cash equivalents	$ 127,225	$ 102,863	$ 247,875	$ 137,759	$ 81,982
Funds withheld	49,509	54,185	25,105	24,308	21,592
Short term investments	286,830	278,345	121,545	59,510	100,000
Fixed interest securities, designated at fair value through profit and loss	29,708	76,443	—	—	—
Fixed interest securities, available for sale	1,251,795	1,081,099	932,275	1,021,262	991,791
Investments in catastrophe bonds, available for sale	67,405	79,466	138,625	120,545	81,889
Collateral held on behalf of counterparties	—	—	—	31,508	21,111
Premiums receivable	355,434	251,115	145,226	105,781	104,623
Outstanding losses recoverable from reinsurers	30,669	94,083	97,662	19,459	17,083
Deferred acquisition expenses	135,916	108,756	75,567	48,839	10,107
Other assets	79,317	70,247	102,327	76,570	71,029
Total assets	**$ 2,413,808**	**$ 2,196,602**	**$ 1,886,207**	**$ 1,645,541**	**$ 1,501,207**
Liabilities					
Outstanding losses and loss expenses	$ 583,691	$ 537,381	$ 511,089	$ 213,020	$ 84,412
Liability for collateral held on behalf of counterparties	22,878	21,772	260	32,615	22,611
Reinsurance balances payable	18,222	71,291	39,370	18,654	43,305
Unearned premiums	483,295	365,729	263,136	179,071	102,797
Other liabilities	32,663	27,089	21,487	14,538	6,579
Total liabilities	**1,140,749**	**1,023,262**	**835,342**	**457,898**	**259,704**
Shareholder's equity					
Share capital	250,000	250,000	250,000	250,000	250,000
Contributed surplus	400,000	400,000	400,000	400,000	400,000
Retained earnings	632,537	492,511	368,954	510,089	569,687
Accumulated other comprehensive income	(9,478)	30,829	31,911	27,554	21,816
Total shareholder's equity	**1,273,059**	**1,173,340**	**1,050,865**	**1,187,643**	**1,241,503**
Total liabilities and shareholder's equity	**$ 2,413,808**	**$ 2,196,602**	**$ 1,886,207**	**$ 1,645,541**	**$ 1,501,207**

HISTORICAL FINANCIAL DATA

31 December 2013, 2012, 2011, 2010 and 2009

Consolidated Statement of Comprehensive Income

	2013 US$'000	2012 US$'000	2011 US$'000	2010 US$'000	2009 US$'000
Revenue					
Net premiums written	$ 779,005	$ 727,572	$ 537,812	$ 418,327	$ 360,578
Net premiums earned	664,449	615,059	456,862	348,235	356,686
Other operating income	4,303	7,629	9,548	8,260	6,395
Total operating income	668,752	622,688	466,410	356,495	363,081
Net investment income	34,272	34,680	40,309	38,628	28,833
Total revenue	**703,024**	**657,368**	**506,719**	**395,123**	**391,914**
Expenses					
Net loss and loss expenses incurred	308,422	255,799	377,081	186,839	20,785
Acquisition expenses	146,244	173,953	126,021	59,037	53,633
General and administrative expenses	78,158	68,814	53,484	43,145	33,391
Net derivative expense	17,461	23,814	1,911	34,758	54,093
Other expenses	10,099	9,664	6,614	6,795	29,492
Total expenses	**560,384**	**532,044**	**565,111**	**330,574**	**191,394**
Profit (loss) before tax	**$ 142,640**	**$ 125,324**	**$ (58,392)**	**$ 64,549**	**$ 200,520**
Tax (expense) benefit	(2,614)	(1,767)	2,072	495	—
Net profit (loss)	**$ 140,026**	**$ 123,557**	**$ (56,320)**	**$ 65,044**	**$ 200,520**


FINANCIALS
TOKIO MILLENNIUM RE UK LTD.

STATEMENT ON STATUTORY ACCOUNTS OF TOKIO MILLENNIUM RE (UK) LIMITED

The subsequent pages in this document contain financial information excerpts from the statutory accounts of Tokio Millennium Re (UK) Limited for the year ended 31 December 2013.

This document does not constitute the statutory accounts of Tokio Millennium Re (UK) Limited within the meaning of Section 434 of the Companies Act 2006 in the United Kingdom.

The complete statutory accounts of Tokio Millennium Re (UK) Limited for the year ended 31 December 2013 are available from 10th Floor, 2 Minster Court, London EC3R 7BB, United Kingdom. These were approved by its Board of Directors on 11 March 2014.

The statutory accounts of Tokio Millennium Re (UK) Limited were delivered on 4 April 2014 to the Registrar of Companies at Companies House, Way, Cardiff CF14 3UZ, United Kingdom. Copies are also available from here.

The Independent Auditors' Report by PricewaterhouseCoopers LLP - of 7 More London Riverside, London SE1 2RT, United Kingdom – on the statutory accounts of Tokio Millennium Re (UK) Limited was unqualified, was not modified, did not contain an emphasis-of-matter paragraph, and did not contain any statement under Sections 498(2) and 498(3) of the Companies Act 2006 in the United Kingdom.

PROFIT AND LOSS

Tokio Millennium Re (UK) Limited | Year ended 31 December 2013

		Group		Company	
	Notes	**2013** £000	**2012** £000	**2013** £000	**2012** £000
Earned premiums, net of reinsurance					
Premiums written					
Continuing operations - other		123,456	97,312	123,456	97,312
Discontinued operations		2,783	1,262	2,783	1,262
Gross amount	1(a),1(b)	126,239	98,574	126,239	98,574
Reinsurers' share		(12,187)	(23,332)	(12,187)	(23,332)
		114,052	**75,242**	**114,052**	**75,242**
Change in the provision for unearned premiums					
Gross amount	22	(19,770)	(1,624)	(19,770)	(1,624)
Reinsurers' share	22	(3,115)	8,749	(3,115)	8,749
		(22,885)	**7,125**	**(22,885)**	**7,125**
Earned premiums, net of reinsurance	2	**91,167**	**82,367**	**91,167**	**82,367**
Claims incurred, net of reinsurance					
Claims paid					
Gross amount	3	(46,232)	(49,305)	(46,232)	(49,305)
Reinsurers' share	3	1,465	339	1,465	339
		(44,767)	**(48,966)**	**(44,767)**	**(48,966)**
Change in the provision for claims					
Gross amount	3,21(a)	(5,665)	(7,614)	(5,665)	(7,614)
Reinsurers' share	3,21(a)	603	8,240	603	8,240
		(5,062)	**626**	**(5,062)**	**626**
Claims incurred, net of reinsurance	3	**(49,829)**	**(48,340)**	**(49,829)**	**(48,340)**
Operating expenses, net of reinsurance					
Gross amount	4	(33,497)	(36,416)	(33,589)	(36,531)
Reinsurers' share	4	645	1,770	645	1,770
		(32,852)	**(34,646)**	**(32,944)**	**(34,761)**
Change in the equalisation provision	1(a),21(c)	**(1,302)**	**4,694**	**(1,302)**	**4,694**
Balance on the technical account for general business	1(a)	**7,184**	**4,075**	**7,092**	**3,960**
Investment return					
Investment income	8	6,239	6,835	6,237	6,829
Realised gain/(loss) on investments		(2,998)	(3,141)	(2,998)	(3,141)
Unrealised gain/(loss) on investments		(1,308)	1,095	(1,308)	1,095
Investment expenses and charges		(447)	(426)	(445)	(423)
Total investment return		**1,486**	**4,363**	**1,486**	**4,360**
Other income and charges					
Other income	9(a)	7,210	4,614	3,203	715
Other charges	9(b)	(4,805)	(3,602)	(954)	—
		2,405	**1,012**	**2,249**	**715**
Operating profit and profit on ordinary activities before tax					
Continuing operations - other	1(b),27(a)(b)	8,314	8,919	8,066	8,504
Discontinued operations	1(b),27(a)(b)	2,761	531	2,761	531
		11,075	**9,450**	**10,827**	**9,035**
Tax charge on profit on ordinary activities	10(a)	**(2,702)**	**(2,422)**	**(2,609)**	**(2,271)**
Profit for the financial year	1(b),20	**8,373**	**7,028**	**8,218**	**6,764**

See accompanying notes to consolidated financial statements

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Tokio Millennium Re (UK) Limited | Year ended 31 December 2013

		Group		Company	
	Notes	**2013** £000	**2012** £000	**2013** £000	**2012** £000
Profit for the financial year		8,373	7,028	8,218	6,764
Unrealised (loss)/gain on revaluation of group undertaking		—	—	105	160
Currency translation differences on brought forward balances	20	(1,158)	(4,230)	(1,158)	(4,230)
Currency translation differences on consolidation	20	(50)	(104)	—	—
Total recognised gains relating to the year		**7,165**	**2,694**	**7,165**	**2,694**

See accompanying notes to consolidated financial statements

BALANCE SHEET : ASSETS

Tokio Millennium Re (UK) Limited | Year ended 31 December 2013

		Group		Company	
	Notes	**2013** £000	**2012** £000	**2013** £000	**2012** £000
Investments					
Investments in group undertakings	11	—	—	2,430	2,325
Other financial investments	12	334,814	305,474	334,814	305,289
Deposits with ceding undertakings	13	1,014	4,819	1,014	4,819
		335,828	**310,293**	**338,258**	**312,433**
Reinsurers' share of technical provisions					
Provision for unearned premiums	22	5,612	8,702	5,612	8,702
Claims outstanding	21(a)	9,100	8,540	9,100	8,540
		14,712	**17,242**	**14,712**	**17,242**
Debtors					
Debtors arising out of direct insurance operations	14	452	585	452	585
Debtors arising out of reinsurance operations	15	48,575	42,007	48,575	42,007
Other debtors including taxation and social security	16	484	233	63	39
		49,511	**42,825**	**49,090**	**42,631**
Other assets					
Tangible assets	17	1,128	1,537	901	1,203
Cash at bank and in hand		26,535	23,091	24,455	20,923
Deferred tax asset	10(d)	421	394	329	312
		28,084	**25,022**	**25,685**	**22,438**
Prepayments and accrued income					
Accrued interest		2,175	2,453	2,175	2,453
Deferred acquisition costs	23	12,411	10,159	12,411	10,159
Other prepayments and accrued income	18	478	376	401	302
		15,064	**12,988**	**14,987**	**12,914**
Total assets		**443,199**	**408,370**	**442,732**	**407,658**

See accompanying notes to consolidated financial statements

BALANCE SHEET : LIABILITIES

Tokio Millennium Re (UK) Limited | Year ended 31 December 2013

		Group		Company	
	Notes	2013 £000	2012 £000	2013 £000	2012 £000
Capital and reserves					
Called up share capital	19	125,000	125,000	125,000	125,000
Revaluation reserve		—	—	1,308	1,203
Profit and loss account	20	72,473	65,308	71,165	64,105
Total shareholder's funds	20	**197,473**	**190,308**	**197,473**	**190,308**
Technical provisions					
Provision for unearned premium	22	73,581	53,848	73,581	53,848
Claims outstanding	21(a)	151,595	146,116	151,595	146,116
Equalisation provision	21(c)	12,358	11,056	12,358	11,056
		237,534	**211,020**	**237,534**	**211,020**
Provisions for other risks and charges					
Deferred taxation	10(d)	18	51	—	—
		18	**51**	**—**	**—**
Creditors					
Creditors arising out of insurance operations		30	27	30	27
Creditors arising out of reinsurance operations		4,956	3,643	4,956	3,643
Other creditors including taxation and social security	24	454	952	332	597
		5,440	**4,622**	**5,318**	**4,267**
Accruals and deferred income					
Reinsurers' share of deferred acquisition costs	23	316	431	316	431
Other accruals and deferred income	25	2,418	1,938	2,091	1,632
		2,734	**2,369**	**2,407**	**2,063**
Total liabilities		**443,199**	**408,370**	**442,732**	**407,658**

See accompanying notes to consolidated financial statements

BASIS OF ACCOUNTING

(a) Basis of preparation

The Group financial statements have been prepared under the provision of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI2008/410) relating to insurance groups and in accordance with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers (the ABI SORP) dated December 2005, as amended in December 2006.

The financial statements have been prepared in accordance with applicable accounting standards. A summary of the more important Group accounting policies is set out below, together with an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the year.

The financial statements have also been prepared on the going concern basis in accordance with applicable accounting standards.

(b) Basis of consolidation

The Group financial statements incorporate the assets, liabilities and results of the Company and its subsidiary undertaking drawn up to 31 December each year. The results of subsidiary undertakings acquired or sold during the period are included in the consolidated results from the date of acquisition, or up to the date of disposal. On the acquisition of a subsidiary undertaking, all of its assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date.

(c) Exemption from preparing cash flow statement

The Group availed itself of the exemption under Financial Reporting Standard 1 (FRS 1) (Revised 1996) - Cash Flow Statements - on the grounds that it is wholly owned by Tokio Marine Holdings Inc. (registered in Japan) which includes a consolidated cash flow statement in its financial statements. Accordingly, no cash flow statement is presented.

(d) Exemption from disclosing related party transactions

The Group availed itself of the exemption under Financial Reporting Standard 8 (FRS 8) - Related Party Disclosures - on the grounds that it is wholly owned by Tokio Marine Holdings Inc. (registered in Japan). Accordingly, it has not disclosed any transactions with related entities that are wholly-owned by Tokio Marine Holdings Inc.

(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 profit and loss technical account, with the gross and ceded amounts disclosed separately. Premiums written are stated gross of acquisition costs payable to intermediaries, but net of any premium levies or indirect taxes.

Premiums written relate to business incepted during the financial period, together with any differences between booked premiums and those previously accrued on contracts which incepted in prior financial periods. Premiums written also include accruals of premium estimates due on all incepted contracts, but not yet receivable or notified to the Group, less an allowance for cancellations.

Earned premiums

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

Unearned premium reserves (UPR)

Premiums written not earned are deferred within the balance sheet as unearned premium reserves (UPR). UPR will be recognised as earned premiums in future financial periods' profit and loss technical accounts.

BASIS OF ACCOUNTING (continued)

(g) Claims incurred

Claims incurred are recognised within the profit and loss 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 balance sheet 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 Group 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 balance sheet, the Group considers the claim circumstances as reported, including any information available from loss adjusters.

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

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

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

Assumed treaty contracts

These contracts currently comprise a mixed portfolio of property, liability, accident/health, motor, financial and marine 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 Group.

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 Group.

Reinsurance recoveries

For ceded outstanding claims within the balance sheet, 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 balance sheet, these are assumed to be consistent with the historical pattern of recoveries, and adjusted to reflect changes in the Group's reinsurance programme over time.

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

(h) Unexpired risk provisions

Unexpired risk provisions (URP) are established within the balance sheet for any deficiencies arising when unearned premium reserves (UPR), net of associated deferred acquisition costs (DAC) are insufficient to meet expected claims and expenses. No account is taken of future investment return arising from investments supporting the URP and UPR. The expected claims are calculated based on information available at the balance sheet date.

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

(i) Equalisation provisions

Amounts are set aside as equalisation provisions in accordance with the PRA's Handbook for the purpose of mitigating exceptionally high loss ratios in future financial periods. Equalisation provisions are not liabilities because they are in addition to the claims provisions established as described in Accounting Policy (g) above. Notwithstanding this, they are required by Schedule 3 to SI 2008/410 to be included within technical provisions.

(j) Acquisition costs

Acquisition costs

Acquisition costs within the profit and loss technical account represent both external commissions and internal expenses associated with acquiring insurance contracts written during the financial period. Acquisition costs also include reinsurance commissions and profit participations - both receivable and payable. Acquisition costs are recognised in the financial period in which the related premiums are earned, with the gross and ceded amounts disclosed separately.

Deferred acquisition costs

Acquisition costs which relate to unearned premium reserves (UPR) are recognised within the balance sheet as deferred acquisition costs (DAC). DAC will be charged in future financial periods' profit and loss technical accounts.

(k) Financial investments

Debt securities are carried within the balance sheet at market values based on bid prices prevailing at the balance sheet date, or those prevailing during the last trading day before that date. Participations in investment pools, deposits with credit institutions and deposits with ceding undertakings are all carried within the balance sheet at market values.

BASIS OF ACCOUNTING (continued)

(l) Investments in group undertakings

Investments in group undertakings are valued on the balance sheet at current values which utilise net book values as a proxy. Movements in the balance sheet values are taken to the revaluation reserve through the statement of total recognised gains and losses.

(m) Investment return

Investment return is recognised within the profit and loss non-technical account 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 balance sheet date, and their acquired cost if purchased during the financial period; or
- The market value of investments at the balance sheet date, and their market value at the last balance sheet date if purchased in previous financial periods.

Realised gains/losses

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

(n) Other income

Fee income from group undertakings arises from:

- Income receivable by the Company from group undertakings for risk consultancy services; and
- Income receivable by the Company's subsidiary, Tokio Marine Technologies LLC, from group undertakings on:
  - Services for software development and consulting activities; and
  - Licenses for granting use of its internally developed 'core technology' software.

(o) Foreign currency translations and settlements

The Group operates in the three functional 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.

The Group's reporting currency is GBP. The net investment method is used whereby all balance sheet assets/liabilities denominated in the functional currencies of GBP/EUR/USD are translated at closing rates into GBP. The profit and loss account is also translated at closing rates. This is affected by translating individual line items at an average rate with the exchange gains/losses arising from the retranslation, of the profit and loss account from average to closing rates, taken to other income/charges in the profit and loss non-technical account.

Exchange gains/losses arising on consolidation, into GBP, of its subsidiary undertaking are taken to the profit and loss reserve through the statement of total recognised gains and losses.

Exchange gains/losses arising from cash settlements of balance sheet assets/liabilities, and from internal transfers of balance sheet assets/liabilities between the three functional currency ledgers of GBP/EUR/USD are taken to the profit and loss non-technical account.

(p) Operating leases

Operating lease rentals are charged to the profit and loss technical account evenly over the period of the lease.

(q) Current and deferred taxation

Current tax

Current tax is recognised in the profit and loss 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 balance sheet arise from differences in timing between the recognition of taxable profits/losses in the financial statements, versus their recognition in the tax computation.

Provision is made for all material timing differences, including revaluations of investment gains/losses recognised within the profit and loss non-technical account. Using the liability method, deferred tax is calculated at rates at which it is expected the tax will arise. This provision is not discounted.

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

(r) Pension costs

The Group only operates a defined contribution pension scheme. Contributions to the scheme are charged to the profit and loss 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 Group's assets.

(s) Tangible fixed assets and depreciation

The costs of acquiring tangible fixed assets are capitalised on the balance sheet 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
• Computer software	2 to 3 years
• Office equipment	2 years

(t) Dividends

Dividends are recognised when paid. Unpaid dividends are recognised as a liability when a dividend declaration motion proposed by the directors are resolved by the shareholders - and are no longer at the discretion of the Company.

1. SEGMENTAL INFORMATION

(a) Analyses by class of business

Company
2013

	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses £000	Reinsurance balances £000	Underwriting profit/(loss) £000
Continuing operations						
Assumed treaty business						
Proportional reinsurance	79,333	67,069	(29,963)	(25,130)	(8,332)	3,644
Non-proportional reinsurance	44,123	35,219	(22,215)	(8,051)	(3,099)	1,854
	123,456	**102,288**	**(52,178)**	**(33,181)**	**(11,431)**	**5,498**
Discontinued operations						
Direct and assumed facultative business						
Fire and other damage to property	2,783	4,181	281	(408)	(1,158)	2,896
	2,783	**4,181**	**281**	**(408)**	**(1,158)**	**2,896**
	126,239	**106,469**	**(51,897)**	**(33,589)**	**(12,589)**	**8,394**
					Change in equalisation provision	(1,302)
					Underwriting profit	7,092

Company
2012

	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses £000	Reinsurance balances £000	Underwriting profit/(loss) £000
Continuing operations						
Assumed treaty business						
Proportional reinsurance	70,344	74,347	(38,572)	(30,243)	(1,787)	3,745
Non-proportional reinsurance	26,968	17,746	(10,456)	(5,472)	(4,410)	(2,592)
	97,312	**92,093**	**(49,028)**	**(35,715)**	**(6,197)**	**1,153**
Discontinued operations						
Direct and assumed facultative business						
Fire and other damage to property	1,262	4,857	(7,891)	(816)	1,963	(1,887)
	1,262	**4,857**	**(7,891)**	**(816)**	**1,963**	**(1,887)**
	98,574	**96,950**	**(56,919)**	**(36,531)**	**(4,234)**	**(734)**
					Change in equalisation provision	(4,694)
					Underwriting profit	3,960

The reinsurance balance represents the change to the profit and loss technical account from the aggregate of all items relating to reinsurance outwards.

(b) Analyses by geographical area

	Company 2013			Company 2012		
	Continuing operations £000	Discontinued operations £000	Total £000	Continuing operations £000	Discontinued operations £000	Total £000
By destination						
Gross premiums written						
United Kingdom	69,937	29	69,966	21,800	183	21,983
Europe	1,183	203	1,386	157	(151)	6
Asia and Australia	13,267	326	13,593	13,642	312	13,954
Africa and Middle East	2,265	476	2,741	1,805	74	1,879
North, Central and South America	4,135	1,624	5,759	10,813	576	11,389
Worldwide	32,669	125	32,794	49,095	268	49,363
	123,456	**2,783**	**126,239**	**97,312**	**1,262**	**98,574**

	Company 2013			Company 2012		
	Continuing operations £000	Discontinued operations £000	Total £000	Continuing operations £000	Discontinued operations £000	Total £000
By origin						
United Kingdom						
Gross premiums written	123,456	2,783	126,239	97,312	1,262	98,574
Profit/(loss) before tax	8,066	2,761	10,827	8,504	531	9,035
Profit/(loss) after tax	6,122	2,096	8,218	6,366	398	6,764
Net assets/(liabilities)	168,366	29,107	197,473	149,988	40,320	190,308

Net assets attributable to continuing and discontinued operations have been distributed based on total capital as a % of total liabilities.

2. EARNED PREMIUMS, NET OF REINSURANCE

	Company 2013			Company 2012		
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
Premiums written	126,239	(12,187)	114,052	98,574	(23,332)	75,242
Change in the provision for unearned premiums (refer Note 22)	(19,770)	(3,115)	(22,885)	(1,624)	8,749	7,125
Earned premiums	**106,469**	**(15,302)**	**91,167**	**96,950**	**(14,583)**	**82,367**

3. CLAIMS INCURRED, NET OF REINSURANCE

	Company 2013			Company 2012		
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
Claims paid						
Claims and allocated loss adjustment expenses paid	(45,603)	1,465	(44,138)	(48,884)	339	(48,545)
Unallocated loss adjustment expenses paid (refer Note 4)	(629)	—	(629)	(421)	—	(421)
	(46,232)	**1,465**	**(44,767)**	**(49,305)**	**339**	**(48,966)**
Change in the provision for claims (refer Note 21(a))						
Outstanding claims reserve movement	(2,639)	1,674	(965)	(7,386)	1,800	(5,586)
Claims incurred but not reported reserve movement	(3,051)	(1,071)	(4,122)	638	6,440	7,078
Unallocated loss adjustment expense reserve movement	25	—	25	(866)	—	(866)
	(5,665)	**603**	**(5,062)**	**(7,614)**	**8,240**	**626**
Claims incurred	**(51,897)**	**2,068**	**(49,829)**	**(56,919)**	**8,579**	**(48,340)**

4. NET OPERATING EXPENSES

	Group 2013			Group 2012		
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
Acquisition costs						
Acquisition costs	(22,493)	521	(21,972)	(19,882)	2,205	(17,677)
Profit commissions	(1,949)	8	(1,941)	(1,949)	1	(1,948)
Change in deferred acquisition costs (refer Note 23)	2,613	121	2,734	(2,733)	(435)	(3,168)
Change in deferred profit commissions (refer Note 23)	(367)	(5)	(372)	(141)	(1)	(142)
	(22,196)	**645**	**(21,551)**	**(24,705)**	**1,770**	**(22,935)**
Administrative expenses						
Gross administrative expenses	(12,934)	—	(12,934)	(13,038)	—	(13,038)
Transferred to unallocated loss adjustment expenses paid (refer Note 3)	629	—	629	421	—	421
Transferred to investment expenses	208	—	208	198	—	198
Transferred to acquisition costs	796	—	796	708	—	708
	(11,301)	**—**	**(11,301)**	**(11,711)**	**—**	**(11,711)**
Net operating expenses	**(33,497)**	**645**	**(32,852)**	**(36,416)**	**1,770**	**(34,646)**

	Company 2013			Company 2012		
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
Acquisition costs						
Acquisition costs	(22,493)	521	(21,972)	(19,882)	2,205	(17,677)
Profit commissions	(1,949)	8	(1,941)	(1,949)	1	(1,948)
Change in deferred acquisition costs (refer Note 23)	2,613	121	2,734	(2,733)	(435)	(3,168)
Change in deferred profit commissions (refer Note 23)	(367)	(5)	(372)	(141)	(1)	(142)
	(22,196)	**645**	**(21,551)**	**(24,705)**	**1,770**	**(22,935)**
Administrative expenses						
Gross administrative expenses	(13,026)	—	(13,026)	(13,153)	—	(13,153)
Transferred to unallocated loss adjustment expenses paid (refer Note 3)	629	—	629	421	—	421
Transferred to investment expenses	208	—	208	198	—	198
Transferred to acquisition costs	796	—	796	708	—	708
	(11,393)	**—**	**(11,393)**	**(11,826)**	**—**	**(11,826)**
Net operating expenses	**(33,589)**	**645**	**(32,944)**	**(36,531)**	**1,770**	**(34,761)**

5. STAFF COSTS

(a) Staff numbers

	Group		Company	
	2013 Number	**2012** Number	**2013** Number	**2012** Number
Average number of employees (including Directors) employed during the financial year				
Underwriting	8	7	8	7
Claims	3	1	3	1
Risk	35	33	12	13
Finance	9	9	7	7
IT	8	9	6	7
Administration, Human Resources and Compliance	6	7	5	6
Management	12	12	7	7
	81	**78**	**48**	**48**

(b) Staff costs

	Group		Company	
	2013 £000	**2012** £000	**2013** £000	**2012** £000
Aggregate payroll costs of employees (including Directors) employed during the financial year				
Wages and salaries	7,330	6,657	5,171	4,727
Social security costs	575	507	449	394
Other pension costs	404	355	311	273
	8,309	**7,519**	**5,931**	**5,394**

The pension costs above represent the Group's contributions to defined contribution pension schemes. Pension costs of £26,553 were unpaid at the year end (2012: £29,286).

6. DIRECTORS' EMOLUMENTS

	Group and Company	
	2013 £000	**2012** £000
Aggregate emoluments	356	434
Compensation for loss of office (excluding shares)	—	212
Sums paid to third parties for Directors' services	80	88
	436	**734**

	Group and Company	
	2013 £000	**2012** £000
Highest paid Director		
Aggregate emoluments	349	381
	349	**381**

The highest paid Director did not exercise share options or receive shares in respect of qualifying services under any long term incentive scheme (2012: Nil).

No season ticket travel loans (2012: Nil) were granted to any directors during the year (2012: Nil). The loan amount outstanding at year end was £Nil (2012: Nil).

No compensation for loss of office was paid to any directors (2012: £212,000).

No retirement benefits (2012: £Nil) accrued to any directors (2012: Nil) under the Group's defined contribution scheme.

No guarantees (2012: £Nil) on behalf of any directors (2012: Nil) were granted during the year.

7. AUDITORS' REMUNERATION

During the year, the Group (including its overseas subsidiaries) obtained the following services from the Company's auditor and its associates:

	Group		Company	
	2013 £000	**2012** £000	**2013** £000	**2012** £000
Fees payable to the company's auditor and its associates for the audit of the parent Company and consolidated financial statements	(106)	(150)	(106)	(150)
Fees payable to the Company's auditor and its associates for other services:				
The audit of the Company's subsidiaries	(39)	(40)	—	—
Audit-related assurance services	(23)	(28)	(23)	(28)
	(168)	**(218)**	**(129)**	**(178)**

8. INVESTMENT INCOME

	Group		Company	
	2013 £000	**2012** £000	**2013** £000	**2012** £000
Income from debt securities	5,804	6,191	5,804	6,191
Income from deposits with ceding undertakings and other deposits	14	8	14	8
Income from deposits with credit institutions and cash at bank and in hand	199	453	197	447
Income from participations in investment pools	222	183	222	183
	6,239	**6,835**	**6,239**	**6,829**

9. OTHER INCOME AND OTHER CHARGES

(a) Other income

	Group		Company	
	2013 £000	**2012** £000	**2013** £000	**2012** £000
Interest receivable on corporation tax repayments	—	37	—	37
Fee income from group undertakings	4,165	3,956	158	57
Exchange gain on cash settlements	—	217	—	217
Exchange gain on revaluation of profit and loss account from average to closing rates and on internal transfers of balance sheet assets/liabilities between functional currencies	3,039	394	3,039	394
Gain on tangible fixed assets disposals	4	1	4	1
Other income	2	9	2	9
	7,210	**4,614**	**3,203**	**715**

(b) Other charges

	Group		Company	
	2013 £000	**2012** £000	**2013** £000	**2012** £000
Non-technical expenses	(3,851)	(3,602)	—	—
Exchange loss on cash settlements	(954)	—	(954)	—
	(4,805)	**(3,602)**	**(954)**	**—**

10. CORPORATION TAX

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

	Group		Company	
	2013 £000	**2012** £000	**2013** £000	**2012** £000
United Kingdom corporation tax at 23.25% (2012: 24.5%)				
Current tax on income for the year	(2,609)	(2,231)	(2,609)	(2,231)
Adjustments in respect of previous financial years	(17)	19	(17)	19
	(2,626)	**(2,212)**	**(2,626)**	**(2,212)**
Foreign corporation tax				
Current tax on income for the year	(138)	(158)	—	—
	(138)	**(158)**	**—**	**—**
Total current tax (refer Note 10(b))	**(2,764)**	**(2,370)**	**(2,626)**	**(2,212)**
United Kingdom deferred tax movements				
Origination and reversal of timing differences	45	(10)	45	(10)
Adjustment in respect of previous financial years	13	(19)	13	(19)
Impact of change in UK tax rate	(41)	(30)	(41)	(30)
	17	**(59)**	**17**	**(59)**
Foreign deferred tax movements				
Origination and reversal of timing differences	45	7	—	—
	45	**7**	**—**	**—**
Total deferred tax movements (refer Note 10(d))	**62**	**(52)**	**17**	**(59)**
Tax on profit on ordinary activities	**(2,702)**	**(2,422)**	**(2,609)**	**(2,271)**

10. CORPORATION TAX (continued)

(b) Factors affecting tax (charge)/credit for the year

The tax assessed on the profit on ordinary activities for the year is different than that resulting in applying the standard rate of corporation tax in the UK of 23.25% (2012: 24.5 %). The differences are reconciled below:

	Group		Company	
	2013 £000	**2012** £000	**2013** £000	**2012** £000
Profit on ordinary activities before tax	11,075	9,450	10,827	9,035
Profit on ordinary activities before tax multiplied by the standard rate of corporation tax in the United Kingdom at 23.25% (2012: 24.5%)	(2,575)	(2,315)	(2,517)	(2,214)
Factors affecting charge:				
United Kingdom:				
Expenses not deductible for tax purposes	(40)	(29)	(40)	(29)
Capital allowances in excess of depreciation	(44)	4	(44)	4
Prepaid/(accrued) expenses deductible in current/future year	1	(3)	1	(3)
Profit/(loss) on sale of non qualifying fixed assets	1	—	1	—
Movement in technical/doubtful debt provisions	(10)	10	(10)	10
Adjustment to tax charge in respect of previous financial years	(17)	20	(17)	20
	(109)	**2**	**(109)**	**2**
Foreign:				
Expenses not deductible for tax purposes	(5)	(4)	—	—
Capital allowances in excess of depreciation	(32)	(8)	—	—
Prepaid/(accrued) expenses deductible in current/future year	(13)	—	—	—
Higher tax rates on foreign earnings	(30)	(44)	—	—
Exchange gain/(loss) not taxable for tax purpose	—	1	—	—
Profit/(loss) on sale of non qualifying fixed assets	1	—	—	—
Adjustment to tax charge in respect of previous financial years	(1)	(2)	—	—
	(80)	**(57)**	**—**	**—**
Current tax charge for the year (refer Note 10(a))	**(2,764)**	**(2,370)**	**(2,626)**	**(2,212)**

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

	Group		Company	
	2013 £000	**2012** £000	**2013** £000	**2012** £000
United Kingdom:				
Corporation tax in respect of current financial year (refer Note 24)	(50)	(292)	(50)	(292)
Foreign:				
Corporation tax in respect of current financial year (refer Note 16)	(90)	19	—	—
Corporation tax in respect of prior financial year (refer Note 16)	97	78	—	—
	(43)	**(195)**	**(50)**	**(292)**

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

	Group			Company		
	Current £000	Non-current £000	Total £000	Current £000	Non-current £000	Total £000
Tangible fixed assets depreciation less/ (greater) than capital allowances:						
At beginning of year	—	176	176	—	227	227
Exchange gain/(loss) on retranslation of brought forward balances from last to this year closing rates	—	1	1	—	—	—
Movement during year - pure	—	70	70	—	37	37
Movement during year - adjustment in respect of previous financial years	—	13	13	—	13	13
Movement during year - UK tax rate change	—	(30)	(30)	—	(30)	(30)
Exchange loss on retranslation of in-year movements from average to closing rates through profit and loss account	—	(1)	(1)	—	—	—
At end of year	**—**	**229**	**229**	**—**	**247**	**247**
Prepaid/accrued items:						
At beginning of year	86	3	89	—	7	7
Exchange gain/(loss) on retranslation of brought forward balances from last to this year closing rates	(2)	—	(2)	—	—	—
Movement during year - pure	13	(2)	11	—	(1)	(1)
Movement during year - UK tax rate change	—	(1)	(1)	—	(1)	(1)
At end of year	**97**	**—**	**97**	**—**	**5**	**5**
Provision for doubtful debt:						
At beginning of year	—	78	78	—	78	78
Movement during year - pure	—	9	9	—	9	9
Movement during year - UK tax rate change	—	(10)	(10)	—	(10)	(10)
At end of year	**—**	**77**	**77**	**—**	**77**	**77**

10. CORPORATION TAX (continued)

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

	Group			Company		
	Current £000	Non-current £000	Total £000	Current £000	Non-current £000	Total £000
Total:						
At beginning of year	86	257	343	—	312	312
Exchange gain/(loss) on retranslation of brought forward balances from last to this year closing rates	(2)	1	(1)	—	—	—
Movement during year - pure (refer Note 10(a))	13	77	90	—	45	45
Movement during year - adjustment in respect of previous financial years (refer Note 10(a))	—	13	13	—	13	13
Movement during year - UK tax rate change (refer Note 10(a))	—	(41)	(41)	—	(41)	(41)
Exchange loss on retranslation of in-year movements from average to closing rates through profit and loss account	—	(1)	(1)	—	—	—
At end of year	**97**	**306**	**403**	**—**	**329**	**329**
Consisting of:						
Deferred tax assets	97	324	421	—	329	329
Deferred tax liabilities	—	(18)	(18)	—	—	—
At end of year	**97**	**306**	**403**	**—**	**329**	**329**

There were no unprovided deferred tax assets/liabilities at year end (2012: £Nil).

11. INVESTMENTS IN GROUP UNDERTAKINGS

	Company	
	2013 £000	**2012** £000
Historic cost		
At beginning of year	1,122	1,122
Additions during the year	—	—
At end of year	**1,122**	**1,122**
Revaluation		
At beginning of year	1,203	1,043
Movements during year (refer Note 20)	105	160
At end of year	**1,308**	**1,203**
Net book value		
At end of this year	**2,430**	**2,325**
At end of last year	**2,325**	**2,165**

11. INVESTMENTS IN GROUP UNDERTAKINGS (continued)

Group undertakings	Principal activity	Class of shares held	Percentage holding	Country of incorporation	Capital and reserves at 31 December 2013	Profit for year ended 31 December 2013
Tokio Marine Technologies LLC	Software development and consultancy	Ordinary	100%	United States of America	US$'000 4,024 (2012: 3,779)	US$'000 245 (2012: 413)

12. OTHER FINANCIAL INVESTMENTS

	Group historical cost		Group market value		Company market value	
	2013 £000	**2012** £000	**2013** £000	**2012** £000	**2013** £000	**2012** £000
Listed debt securities	218,277	224,186	215,550	222,751	215,550	222,751
Participations in investment pools	75,541	58,459	75,541	58,459	75,541	58,459
Deposits with credit institutions	43,723	24,264	43,723	24,264	43,723	24,079
	337,541	**306,909**	**334,814**	**305,474**	**334,814**	**305,289**

13. DEPOSITS WITH CEDING UNDERTAKINGS

	Group and Company	
	2013 £000	**2012** £000
Deposits with cedants	1,014	4,819
	1,014	**4,819**

14. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	Group and Company	
	2013 £000	**2012** £000
Amounts falling due within one year		
Amounts due from non-group undertakings	452	585
	452	**585**

15. DEBTORS ARISING OUT OF REINSURANCE OPERATIONS

	Group and Company	
	2013 £000	**2012** £000
Amounts falling due within one year		
Amounts due from non-group undertakings	36,948	21,544
Amounts due from group undertakings	11,627	20,463
	48,575	**42,007**

16. OTHER DEBTORS INCLUDING TAXATION AND SOCIAL SECURITY

	Group		Company	
	2013 £000	**2012** £000	**2013** £000	**2012** £000
Amounts falling due within one year				
Value added tax recoverable	—	2	—	2
Foreign corporation tax receivable (refer Note 10(c))	7	97	—	—
Other debtors	26	15	26	15
Amounts due from group undertakings	451	119	37	22
	484	**233**	**63**	**39**

17. TANGIBLE ASSETS

	Group 2013			
	Computer hardware and software £000	Furniture/ fixtures/fittings and office equipment £000	Leasehold improvements £000	Total £000
Book cost				
At beginning of year	4,488	435	801	5,724
Exchange gain/(loss) on retranslation of brought forward balances from last to this year closing rates	(20)	(2)	—	(22)
Additions during year	527	13	—	540
Disposals during year	(413)	(36)	—	(449)
At end of year	**4,582**	**410**	**801**	**5,793**
Accumulated depreciation				
At beginning of year	3,382	382	423	4,187
Exchange (gain)/loss on retranslation of brought forward balances from last to this year closing rates	(16)	(2)	—	(18)
Charge during year	838	37	80	955
Exchange (gain)/loss on retranslation of in-year movements from average to closing rates through profit and loss account	(12)	(1)	—	(13)
Eliminated on disposals during year	(411)	(35)	—	(446)
At end of year	**3,781**	**381**	**503**	**4,665**
Net book value				
At end of this year	**801**	**29**	**298**	**1,128**
At end of last year	**1,106**	**53**	**378**	**1,537**

The Group's depreciation charge for the year ended 31 December 2012 was £625,299.

17. TANGIBLE ASSETS (continued)

	Company 2013			
	Computer hardware and software £000	Furniture/ fixtures/fittings and office equipment £000	Leasehold improvements £000	Total £000
Book cost				
At beginning of year	2,975	324	801	4,100
Additions during year	398	9	—	407
Disposals during year	(308)	(34)	—	(342)
At end of year	**3,065**	**299**	**801**	**4,165**
Accumulated depreciation				
At beginning of year	2,174	300	423	2,897
Charge during year	610	18	80	708
Eliminated on disposals during year	(307)	(34)	—	(341)
At end of year	**2,477**	**284**	**503**	**3,264**
Net book value				
At end of this year	**588**	**15**	**298**	**901**
At end of last year	**801**	**24**	**378**	**1,203**

The Company's depreciation charge for the year ended 31 December 2012 was £436,561.

18. OTHER PREPAYMENTS AND ACCRUED INCOME

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
Prepaid rent	25	21	17	19
Prepaid other expenses	415	298	346	226
Accrued income	38	57	38	57
	478	**376**	**401**	**302**

19. SHARE CAPITAL

	Group and Company	
	2013 £000	2012 £000
Allotted, called up and fully paid		
125,000,000 ordinary shares of £1 each	125,000	125,000
Authorised		
250,000,000 ordinary shares of £1 each	250,000	250,000

20. RECONCILIATION OF MOVEMENTS IN TOTAL SHAREHOLDER'S FUNDS

	Group 2012			Group 2013		
	Share capital £000	Profit and loss account £000	Total shareholder's funds £000	Share capital £000	Profit and loss account £000	Total shareholder's funds £000
At beginning of year	125,000	65,308	190,308	125,000	62,614	187,614
Exchange gain/(loss) on retranslation of brought forward balances from last to this year closing rates	—	(1,158)	(1,158)	—	(4,230)	(4,230)
Profit	—	8,373	8,373	—	7,028	7,028
Exchange gain/(loss) arising on consolidation	—	(50)	(50)	—	(104)	(104)
At end of year	**125,000**	**72,473**	**197,473**	**125,000**	**65,308**	**190,308**

	Company 2013			
	Share capital £000	Revaluation reserve £000	Profit and loss account £000	Total shareholder's funds £000
At beginning of year	125,000	1,203	64,105	190,308
Revaluation gain/(loss) on group undertaking (refer Note 11)	—	105	—	105
Exchange gain/(loss) on retranslation of brought forward balances from last to this year closing rates	—	—	(1,158)	(1,158)
Retained profit	—	—	8,218	8,218
At end of year	**125,000**	**1,308**	**71,165**	**197,473**

	Company 2012			
	Share capital £000	Revaluation reserve £000	Profit and loss account £000	Total shareholder's funds £000
At beginning of year	125,000	1,043	61,571	187,614
Revaluation gain/(loss) on group undertaking (refer Note 11)	—	160	—	160
Exchange gain/(loss) on retranslation of brought forward balances from last to this year closing rates	—	—	(4,230)	(4,230)
Retained profit	—	—	6,764	6,764
At end of year	**125,000**	**1,203**	**64,105**	**190,308**

During the year, no dividend (2012: £Nil) was paid. No final dividends are proposed (2012: £Nil).

21. TECHNICAL PROVISIONS

(a) Claims outstanding

	Group and Company 2013			
	Outstanding claims reserves £000	Claims incurred but not reported reserves £000	Unallocated loss adjustment expense reserves £000	Total claims outstanding £000
Gross				
At beginning of year	66,682	76,668	2,766	146,116
Exchange loss/(gain) on retranslation of brought forward balances from last to this year closing rates	(317)	(729)	(15)	(1,061)
Increase/(decrease) during year (refer Note 3)	2,639	3,051	(25)	5,665
Exchange loss/(gain) on retranslation of in-year movement from average to closing rates through profit and loss account	106	765	4	875
At end of year	**69,110**	**79,755**	**2,730**	**151,595**
Reinsurers' share				
At beginning of year	1,783	6,757	—	8,540
Exchange gain/(loss) on retranslation of brought forward balances	(11)	3	—	(8)
Increase/(decrease) during year (refer Note 3)	1,674	(1,071)	—	603
Exchange (loss)/gain on retranslation of in-year movement from average to closing rates through profit and loss account	(53)	18	—	(35)
At end of year	**3,393**	**5,707**	**—**	**9,100**

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

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

	Group and Company 2013			Group and Company 2012		
	Non-catastrophe losses £000	Catastrophe losses £000	Total losses £000	Non-catastrophe losses £000	Catastrophe losses £000	Total losses £000
Continuing operations						
Assumed treaty business						
Proportional reinsurance	8,945	1,923	10,868	6,435	(459)	5,976
Non-proportional reinsurance	683	14	697	2,285	-	2,285
	9,628	**1,937**	**11,565**	**8,720**	**(459)**	**8,261**
Discontinued operations						
Direct and assumed facultative business fire and other damage to property	3,591	(13)	3,578	(2,552)	935	(1,617)
	3,591	**(13)**	**3,578**	**(2,552)**	**935**	**(1,617)**
	13,219	**1,924**	**15,143**	**6,168**	**476**	**6,644**

(c) Equalisation provision

	Group and Company 2013 £000
At beginning of year	11,056
Increase/(decrease) during year	1,302
At end of year	**12,358**

The increase in the equalisation provision during the year has had the effect of reducing the balance on the consolidated profit and loss technical account for general business and the profit before taxation for the year by £1,302,186 (2012: -£4,694,085). The effect of the provision is to reduce shareholder's funds by £12,357,691 (2012: £11,056,012).

22. PROVISION FOR UNEARNED PREMIUMS

	Group and Company **2013** £000
Gross	
At beginning of year	53,848
Exchange gain/(loss) on retranslation of brought forward balances from last to this year closing rates	(501)
Increase/(decrease) during year (refer Note 2)	19,770
Exchange gain/(loss) on retranslation of in-year movement from average to closing rates through profit and loss account	464
At end of year	**73,581**
Reinsurers' share	
At beginning of year	8,702
Exchange gain/(loss) on retranslation of brought forward balances from last to this year closing rates	(23)
Increase/(decrease) during year (refer Note 2)	(3,115)
Exchange loss/(gain) on retranslation of in-year movement from average to closing rates through profit and loss account	48
At end of year	**5,612**

23. DEFERRED ACQUISITION COSTS

	Group and Company 2013		
	Deferred acquisition costs £000	Deferred profit commissions £000	Total deferred acquisition costs £000
Gross			
At beginning of year	9,543	616	10,159
Exchange (gain)/loss on retranslation of brought forward balances from last to this year closing rates	(122)	—	(122)
Increase/(decrease) during year (refer Note 4)	2,613	(367)	2,246
Exchange (gain)/loss on retranslation of in-year movement from average to closing rates through profit and loss account	130	(2)	128
At end of year	**12,164**	**247**	**12,411**
Reinsurers' share			
At beginning of year	430	1	431
Exchange gain on retranslation of brought forward balances from last to this year closing rates	(2)	—	(2)
Decrease during year (refer Note 4)	(121)	5	(116)
Exchange gain/(loss)on retranslation of in-year movement from average to closing rates through profit and loss account	3	—	3
At end of year	**310**	**6**	**316**

24. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
Amounts falling due within one year				
Insurance premium tax payable	9	33	9	33
Value added tax payable	89	—	89	—
Employment tax payable	73	145	73	145
UK corporation tax payable (refer Note 10(c))	50	292	50	292
Other creditors - non-group undertakings	116	127	111	127
Other creditors - group undertakings	117	355	—	—
	454	**952**	**332**	**597**

25. OTHER ACCRUALS AND DEFERRED INCOME

	Group		Company	
	2013 £000	**2012** £000	**2013** £000	**2012** £000
Accrued professional fees	324	412	229	343
Accrued outsourcing fees	108	91	108	91
Accrued rent	78	125	78	125
Accrued other expenses	1,905	1,310	1,676	1,073
Deferred Income	3	—	—	—
	2,418	**1,938**	**2,091**	**1,632**

26. GUARANTEES, FINANCIAL COMMITMENTS AND CONTINGENT LIABILITIES

(a) Guarantees

A credit facility with the Bank of Tokyo-Mitsubishi has been extended for US$ 6,149,885 and CA$ 43,897 at the end of the financial year (2012: US$ 11,011,825 and CA$ Nil) pursuant to the issuance of several letters of credit to policy holders/cedants in the United States of America and Canada.

A credit facility with Mizuho Trust and Banking has been extended for US$ 18,722,508 at the end of the financial year (2012: US$ 18,955,418) pursuant to the issuance of several letters of credit to policy holders/cedants in the United States of America.

Investment balances of US$ Nil (2012: US$ Nil) which are held in trust with CIBC Mellon have been assigned to our cedant, Aviva International in Canada, pursuant to the reinsurance contract terms.

(b) Capital commitments

Capital commitments, contracted but for which no provision has been made at the end of the financial year, were £Nil (2012: £Nil).

(c) Annual commitments

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

	Group		Company	
	2013 Land and buildings £000	**2012** Land and buildings £000	**2013** Land and buildings £000	**2012** Land and buildings £000
Operating leases which expire:				
Within one year	82	57	35	54
Between one and five years	567	605	547	511
After five years	—	—	—	—
	649	**662**	**582**	**565**

Rent expenses for the period ended 31 December 2013 were £676,878 (2012: £673,475) for the Group and £571,939 (2012: £567,764) for the Company.

27. DISCONTINUED OPERATIONS

(a) Discontinued portfolio of underwriting contracts incepting prior to 1 January 2011

Discontinued operations within the profit and loss account reflect transactions that emanate from the direct/facultative property and engineering portfolio of contracts (refer Note 1(a)) which incepted prior to 1 January 2011.

(b) Analysis of discontinued operations within the profit and loss account

	Group 2013			Group 2012		
	Continuing operations £000	Discontinued operations £000	Total £000	Continuing operations £000	Discontinued operations £000	Total £000
Earned premiums, net of reinsurance	91,130	37	91,167	83,584	(1,217)	82,367
Claims incurred, net of reinsurance	(52,611)	2,782	(49,829)	(46,872)	(1,468)	(48,340)
Net operating expenses	(32,929)	77	(32,852)	(35,445)	799	(34,646)
Change in the equalisation provision	(1,305)	3	(1,302)	2,245	2,449	4,694
Balance on the technical account for general business	4,285	2,899	7,184	3,512	563	4,075
Investment return	1,486	—	1,486	4,363	—	4,363
Other income and charges (refer Note 9(a), 9(b))	2,543	(138)	2,405	1,044	(32)	1,012
Total Group operating profit	**8,314**	**2,761**	**11,075**	**8,919**	**531**	**9,450**

	Company 2013			Company 2012		
	Continuing operations £000	Discontinued operations £000	Total £000	Continuing operations £000	Discontinued operations £000	Total £000
Earned premiums, net of reinsurance	91,130	37	91,167	83,584	(1,217)	82,367
Claims incurred, net of reinsurance	(52,611)	2,782	(49,829)	(46,872)	(1,468)	(48,340)
Net operating expenses	(33,021)	77	(32,944)	(35,560)	799	(34,761)
Change in the equalisation provision	(1,305)	3	(1,302)	2,245	2,449	4,694
Balance on the technical account for general business	4,193	2,899	7,092	3,397	563	3,960
Investment income	1,486	—	1,486	4,360	—	4,360
Other income and charges (refer Note 9(a), 9(b))	2,387	(138)	2,249	747	(32)	715
Total Company operating profit	**8,066**	**2,761**	**10,827**	**8,504**	**531**	**9,035**

28. RELATED PARTY TRANSACTIONS AND BALANCES

	Company 2013 Balances Net debtor/ (creditor) £000	Company 2012 Balances Net debtor/ (creditor) £000
Wholly-owned by Tokio Marine Holdings, Inc.		
Tokio Marine Technologies LLC	16	32
Tokio Millennium Re Limited	(1,045)	(1,816)
Tokio Millennium Re Limited, Zurich Branch	(7)	1
Tokio Millennium Re Limited, Australian Branch	1,117	1,995
Tokio Marine Management Brazil Branch	1	—
Tokio Marine & Nichido Fire Insurance Co., Ltd.	(1)	26
Tokio Marine Holdings, Inc.	2	2
Kiln Syndicate 1880	**(2,552)**	**(1,436)**

	Company 2013		Company 2012	
	Transactions Net income/ (expense) £000	Balances Net debtor/ (creditor) £000	Transactions Net income/ (expense) £000	Balances Net debtor/ (creditor) £000
Partially-owned by Tokio Marine Holdings, Inc.				
Kiln Syndicate 510	**(1,216)**	**10,508**	**10,799**	**18,463**

29. 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 financials 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.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INFORMATION

CORPORATE INFORMATION

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