Tokio Marine Europe S.A.

Audited Annual Accounts

For the year ended 31 December 2019

Registered address: 33, Rue Sainte Zithe, L-2763 Luxembourg
R.C.S. Luxembourg: B221975
Subscribed capital: $ 1,159,060

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COMPANY INFORMATION

Directors:	B J Cook (Non-Executive Director) P Engelberg (Non-Executive Director) TJ G Hervy (Interim Chief Executive Officer) N I Hutton-Penman (Group Executive) - resigned 1 October 2019 K L Letsinger (Non-Executive Director) H-D Rohlf (*Chairman)* (Non-Executive Director) G White (Group Executive) appointed 19 December 2019 S Urano (Group Executive)
Company Secretary:	J L Holliday
Registered Number:	B221975
Registered Office:	33, Rue Sainte Zithe, L-2763 Luxembourg
Independent Auditors:	PricewaterhouseCoopers Société coopérative 2, rue Gerhard Mercator, L-2182 Luxembourg

DIRECTORS' REPORT

The Directors present their annual report together with the audited annual accounts for the period ended 31 December 2019.

Business Structure

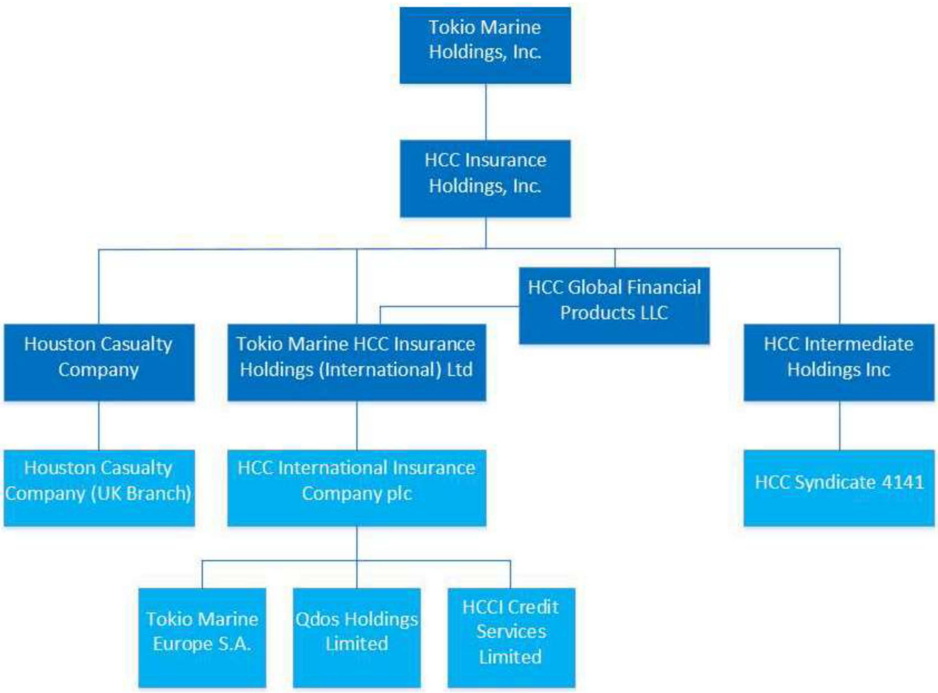
Tokio Marine Europe S.A. (the "Company" or "TME") is a non-life insurance company incorporated on 8 February 2018 as a public limited liability company ("Société Anonyme") subject to the general company law of Luxembourg. The Company is registered with the Registre de Commerce et des Sociétés (RCS) in Luxembourg with a RCS number B221975. The Company is authorised under the law on the insurance sector of 7 December 2015 and supervised by the Commissariat Aux Assurances (CAA).

The Company is a wholly owned subsidiary of HCC International Insurance Company plc (HCCII), a UK Insurance Company, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority. HCCII and its subsidiaries, including TME are part of the Tokio Marine Group ("TM Group") whose ultimate parent company is Tokio Marine Holdings, Inc..

TM Group is a leading international insurance group located in Tokyo, Japan which has 241 subsidiaries, and 25 affiliates that are engaged in the domestic non-life insurance business, domestic life insurance business, international insurance business, and financial and general businesses sector (including consulting and real estate). As of 31 December 2019, TM Group had total assets of ¥24.4 trillion (December 2018 ¥23.3 trillion) and shareholders' equity of ¥3.5 trillion (December 2018 ¥3.5 trillion). TM Group and a number of its major insurance subsidiaries have a financial strength rating of A+ (Stable) from Standard & Poor's Financial Services LLC (S&P).

HCC Insurance Holdings, Inc. (TMHCC Group) is a subsidiary within the TM Group based in the United States and is a leading international specialty insurance group with more than 100 classes of specialty insurance, underwriting risks located in approximately 180 countries. Given its financial strength and track record of excellent results, it benefits from an S&P rating of A+. TMHCC International (illustrated by the simplified structure chart below) is TMHCC Group's operating segment outside of the United States. Located in the United Kingdom and Continental Europe, TMHCC International underwrites business on four different insurance platforms: HCCII, TME, HCC Syndicate 4141 (a wholly aligned Lloyd's syndicate) and Houston Casualty Company (London Branch).

The Company's parent HCCII is the flagship carrier for TMHCC International and the underwriting platform used is based on prescribed rules and if licensing permits, client choice. HCCII and TME have standalone S&P ratings of A+.



TME was established in response to the United Kingdom's vote to leave the European Union (EU) in June 2016 which has resulted in the UK's exit from the EU on 31 January 2020. The triggering of Article 50 presented the TM Group with the risk that HCCII and its UK affiliate, Tokio Marine Insurance Company Limited (TMKI), would, upon the UK's exit from the EU, no longer be licensed to write the European business historically underwritten through their respective European branches and on a freedom of services basis in the UK.

To mitigate this risk, in 2018 HCCII established and received regulatory authorisation for TME and its European branches. The legal Part VII transfer process between HCCII, TMKI and TME was effective from 1 January 2019. This enabled the transfer of existing insurance and reinsurance contracts that had historically been underwritten by HCCII and TMKI European branches and all branch employees to TME, was effective as at 1 January 2019. The transfer was affected through TME issuing one share each, first to TMKI and then to HCCII. TME commenced underwriting new and renewal business on 1 January 2019. Further details of the Part VII transaction including the impact on the balance sheet and the profit and loss account are disclosed in detail in Note 6.

With the successful establishment and operation of TME, TMHCC International is well positioned to modify its operations, if necessary, to adapt to the transition and ultimate agreements between the UK and the EU.

Branches and Subsidiaries
In 2019 the Company's business was underwritten through its branches in Spain, Ireland, France, Germany, Italy, Denmark, Belgium, Norway, Netherlands and on a freedom of services basis in the remaining member states. European risks presented in the London Market have been underwritten through TME's branch in the UK.

Strategic and Operational Initiatives

During 2019 the Company undertook a number of strategic and operational initiatives in respect of its legal entity structure, underwriting and operations. The material initiatives are detailed below:

Cross-Border Merger

In order to simplify TMHCC Group's legal entity structure (outside the US) and align it with its operating structure, the decision was taken in early 2019 to carry out a cross-border merger of HCC Global Financial Products S.L. (HCCG) into TME's Spanish branch. HCCG was the TMHCC Group's Underwriting Agency located in Barcelona, which historically underwrote Financial Lines business on HCCII 's Spanish Branch. From 1 January 2019 this business has been underwritten on TME's Spanish Branch.

The merger was completed on 17 July 2019. The Company has elected to account for the merger as at 1 January 2019 as permitted by Luxembourg Accounting laws and regulations and from 1 January 2019 HCCG's operations have been treated for accounting purposes as being carried out on behalf of TME's Spanish branch.

As a result, all assets and liabilities of HCCG transferred to TME Spanish branch on 1 January 2019. The book value of HCCG net assets that transferred to the Company was $2.4m.

Several share transfers and share issuances took places in connection with the merger and as a result HCCG's sole shareholder, HCC Global Financial Products LLC received a minority shareholding interest in HCCII's parent company, Tokio Marine HCC Insurance Holdings (International) Limited. HCCII remains the sole shareholder of TME at 31 December 2019 (see Note 7).

Non-J French Business

During 2019, there was a review of the operational efficiency and profitability of the Non-J French Business, that had transferred to TME from TMKI under the Part VII Transfer process, and a plan to restructure this French Non-J Business was agreed and received regulatory approval from the French administration (Direccte) following consultation with the Works Council (CSE) during Q4 2019. The plan involves the Non-J Property and Casualty portfolios written by the TME French branch, and historically by the TMKI French branch, being placed in to run off from 1 January 2020; and the redundancy of a number of employees connected to the Non-J Property & Casualty business. From 1 January 2020, TME French branch will only continue to write new and renewal business on the following Non-J Business portfolios: Intellectual Property, Marine Cargo and TMSL (French PA & Contingency and Bloodstock).

European Surety

In 2019 Surety expanded its presence into Continental Europe and the Group now has Surety underwriters based at TME's offices in Germany, France, Luxembourg, Denmark and the Netherlands with the European Surety team underwriting business on TME. The European Surety business expansion is performing as expected.

Risk and Control Framework

After its establishment in 2018, the Company implemented its governance structure, and established its systems, controls and processes. Following the completion of the Part VII Transfer in January 2019, the Company commenced its integration programme in respect of the branches which were historically part of TMKI and transferred to TME under the Part VII Transfer. This programme includes:

- implementation of a risk and internal control framework;
- embedding processes, procedures and controls to ensure material compliance with all TMHCC International compliance policies, including the General Data Protection Regulations (GDPR); and
- alignment of the IT and Finance systems and processes within TMHCC International.

Capital Increase

In Q4 2019 the Company received an investment of $20m from its parent company, HCCII due to changes to the Standard Formula Solvency Capital Requirement (SF SCR) which came into effect on 1 January 2020. This capital investment effected by increasing TME's share premium account.

Principal activity

The Company's principal activity is to underwrite insurance and reinsurance business in all areas excluding life insurance. In 2019, TME underwrote business through three core underwriting segments: International Specialty; London Market and European Property & Casualty (European P&C).

The International Specialty is comprised of:

- Financial Lines;
- Professional Risks (including Contingency business);
- Credit and Political Risk; and
- Surety.

The London Market segment includes the following lines of business:

- Marine & Energy;
- Property Treaty;
- Property Direct and Facultative; and
- Accident and Health (A&H).

From 1 January 2020, the London Market segment will also include a Delegated Property line of business.

The European P&C segment consists of Japanese Business (J Business) which is the commercial insurance coverage provided to Japanese corporate clients in respect of their overseas business interests; and Non- J Business which was local business previously written by TMKI's European branches.

- J Business:
  - Property;
  - Marine & Aviation; and
  - Liability.

- Non-J Business:
  - Intellectual Property;
  - Marine Cargo; and
  - TMSL (French PA & Contingency and Bloodstock).

Reinsurance programme

In respect of TME's reinsurance programme which came into effect on 1 January 2019, the Company placed external and intercompany reinsurance arrangements on lines of business that would otherwise fall outside TME's risk appetite, due to business mix, volatility, or line sizes. The reinsurance programme is a key element of the Company's risk mitigation and capital management strategy. The reinsurance structure is submitted to and approved by the Board of Directors annually.

During 2019, intercompany excess of loss and quota share arrangements were in place with TMKI, TM Group and HCCII.

The intercompany reinsurance arrangements with TM Group and TMKI apply to the lines of business previously written by TMKI and its European branches that transferred to TME under the Part VII Transfer. For future policies external and intergroup reinsurance will vary by line of business and/or will inure to the benefit of the intragroup cessions.

Strategy and Market Conditions

The Company's fundamental business philosophy is to produce an underwriting profit and investment income resulting in consistent net earnings which will increase shareholder value. In order to achieve this the Company's strategy is centred on selective and focused management of a diversified portfolio of businesses; continued expansion of the its brand throughout Europe; identification and development of opportunities to grow its business; and maintenance of the management, organisational and governance structure which is appropriate for and supports TME's growing business.

During 2019, the rating environment for the London Market lines of business was above expectations due to improved market conditions which primarily resulted from reduced market capacity. Several of the Specialty lines of business experienced improved rating environments in 2019, however Transactional Risk Insurance (TRI) (within Financial Lines), Liability, Credit and Political Risk experienced challenging rating conditions due to competition and excess market capacity.

Business Performance and Position

Financial Key Performance Indicators (KPIs)

The directors have defined the following KPIs for the business:

	2019 **$m**	**2018** **$m**
Cash and investments	285.4	120.5
Gross premiums written	507.2	n/a
Underwriting profit (excl. investment return)	0.1	n/a
(Loss)/profit for the financial year	(4.2)	0.3
Net loss ratio	64.9%	n/a
Combined ratio	99.8%	n/a
Investment return	4.7	1.4
Total Shareholder's funds	138.5	120.3

Results and Performance - Financial year

For the year ending 31 December 2019 the Company reported a loss of $4.2m (2018 $0.3m profit for the period from 8 February to 31 December 2018), as set out in the Key Performance Indicators (KPIs) above.

TME is a fully licensed platform which enables it to continue to provide seamless service to its European policyholders. In addition to underwriting business which was previously on HCCI branches, TME also underwrites the European business for Japanese corporate clients in respect of their overseas business interests which contributes to 44% of the total 2019 GWP.

The Company made a net loss before tax for the financial year of $1.4m (2018 $0.3m profit) and includes a balance on the technical account for general business of $4.9m (2018 nil) which includes investment income of $4.7m (2018 nil). Investment income transferred to the technical account in 2019 is comprised principally of earned investment income reflecting the Company's approach to managing earned income.

The balance on the technical account excluding investment income is $0.1m, showing a combined ratio of 99.8% (2018 nil).

The Specialty segment benefitted from organic growth and good rating conditions throughout 2019, but the losses on Surety which has been impacted for the second year by several large market losses and challenging experience in the French market pushed the segment result to a loss of $12.4m in 2019. Total prior accident year loss strengthening on Surety was $8.5m increasing the total loss ratio by 13.2%.

The London Market segment contributed $8.4m, primarily from Property Treaty which despite adverse market conditions benefitted from higher earned premium and no catastrophe losses in the year.

The European P&C segment contributed $5.0m to the technical results. Given the nature and complexity of the J Business and its importance of a larger global portfolio, the business is fully ceded to TMNF and the contribution to the technical result represents the override which is set to achieve a profit for the Group, covering the acquisition and operating costs of the business. The result on Agency and other run-off business was a loss of $1.4m.

The non-technical account includes other charges including value adjustments of $6.3m which were foreign exchange losses of $4.2m.

Overall, the directors are satisfied with the Group's operations and its financial position at 31 December 2019.

Gross Premiums Written

Gross Premiums Written was $507.2m for 2019, which includes a reporting adjustment in respect of the Part VII transfers of $117.6m. It is a Luxembourg reporting requirement that unearned premium transferred within a Part VII process should drive profit and loss adjustments that increase both gross and ceded written premium and changes in unearned premium that balance to nil. The reported gross premiums written has been increased by the value of the gross unearned premium transferred to the Company under the Part VII process of $117.6m (see Note 6).

	2019 **$m**
Financial Lines	111.0
Surety	33.6
Professional Risks	17.1
Credit and Political risk	8.2
Other Specialty	1.9
Total Specialty	**171.8**
Property Treaty	24.1
Marine & Energy	20.6
Property Direct & Facultative/Accident & Health	1.6
Total London Market	**46.3**
European Property & Casualty	**171.5**
Gross premiums written	**389.6**
Part VII - gross unearned premium (see Note 7)	117.6
Gross Premium Written reported	**507.2**

Specialty

Financial Lines gross premiums written was $111.0m (2018 nil), driven by improved market conditions in commercial PI, US traded D&O and Australian FL as well as continuing growth in Cyber business. Performance on our Transaction Risk Insurance (TRI) business is subject to intense competition with the emergence of new MGAs in Europe and London.

Surety gross premiums written was $33.6m (2018 nil). The premiums written for the year were in line with expectations which included the positive impact of the expansion of the Surety underwriting team into Europe, which has written $6.0m of business in 2019 as is performing within expectations.

Professional Risks gross premiums written was $17.1m (2018 nil). The business includes Professional Indemnity and Liability totalling $7.3m as well as disability and contingency agency of $9.8m. Professional Indemnity has seen a significant improvement in market conditions in the year with many competitors withdrawing from the market or decreasing line size, with those remaining in the market now running short of capacity. Liability remains competitive with plenty of capacity which has meant limited overall market change, but we continue to benefit from some rate improvements in some areas such as the Republic of Ireland. Sports and Disability enjoyed strong performance in 2019 driven by European football.

Credit & Political Risk gross premiums written was $8.2m (2018 nil). Underwriting conditions remain difficult, mainly in US Credit business due to competition and ongoing uncertainties.

London Market

Property Treaty gross premiums written was $24.1m (2018 nil) which was substantially higher than expectations, due to client preference to have European insurance company paper rather than Lloyd's Brussels at the 1 January renewal. The portfolio is comprised principally of Non-US excess of loss reinsurance business. The strategy of participation on high programme layers and strong client relationships creates a competitive advantage and combined with a sustainable reinsurance programme is producing profitable results. However, the rating environment remains challenging.

Marine & Energy gross premiums written was $20.6m (2018 nil) and comprises around 60% Marine and 40% Energy. The GWP was in line with expectations which factored in the positive rating environment which is allowing for rate increases due to reduced market capacity.

European Property and Casualty (European P&C) gross premiums written was $171.5m (2018 nil). European P&C is the business historically underwritten by TMKI which from 1 January 2019 has been underwritten on TME as part of the TM Group's strategy for Brexit. The majority of this business is reinsured within the TM group as follow:

- J Business – 100% reinsurance as follows:
  - Part VII Transfer – 100% cession to TMKI
  - New and renewal of J Business – 100% cession to TMNF
- European Non-J French Business
  - Part VII Transfer – 100% cession to TMKI
  - New and renewal business – 100% cession to TMKI with the exception of TMSL and Cyber business which are 80% and 50% ceded respectively.

Future Outlook
The Company's strategy for 2020 includes:

- continued expansion of its brand throughout Europe; and the identification and development of opportunities to grow its business;
- completion of the IT integration and infrastructure projects which are necessary to support business growth; and
- successful management of the run-off of the European Non-J Property and Casualty business which was placed into run-off at 1 January 2020.

Investment Performance

The investments of each of TME are managed by New England Asset Management (NEAM). The investment function is overseen by the Investment Committee which operates under terms of reference set by the Company's Board. The Committee is responsible for preparing, in conjunction with the Company's Investment Managers, the Investment Policy for approval by the Board. It is also responsible for monitoring investment performance and recommending the appointment of investment managers. Also, the risk appetite statements relating to the investment portfolios are monitored and reported at the quarterly Board meetings and the financial investments are managed in accordance with the Investment Policy of the Group and the Company's investment guidelines which ensures compliance with regulatory requirements.

The Company's investment strategy is to invest in investment grade fixed and variable interest rate debt securities and units in unit trusts. The Company has invested the available cash in accordance with the investment strategy.

For the period ended 31 December 2019, the investment result is a net gain amounting to $4.7m (2018 $1.4m). As at 31 December 2019 the Company holds German, UK and US corporate bonds and other fixed income securities**.**

Balance sheet

The company balance sheet shows total assets of $998.2m (2018 $121.3m) and shareholder's equity of $138.5m (2018 $120.3m). Of the total assets, $285.4m, i.e. 28.6% (2018 $120.5m, 99.3%) is represented by financial investments and cash at bank. Net technical liabilities from insurance contracts were $104.0m (2018 nil).

Capital and reserves

Capital and reserves amount to $138.5m ($2018 $120.3m), an increase of $18.2m. The loss for 2019 is $4.2m (2018 profit of $0.3m). TME's issued share capital as at the date of this Directors' Report is comprised of a single class of 1,159,060 Ordinary Shares of $1.00 each. During 2019, the Company issued new shares (with a nominal value of $0.2m) in connection with the cross-border merger. The Company received additional capital of $20.0m during the year effected by increasing TME's share premium account. The share premium account also includes the cross-border merger related premium of $2,232,000 detailed at note 15 to the annual accounts.

Principal Risks and Uncertainties

The Company has identified the principal risks arising from its activities and has established policies, procedures and mitigation frameworks to manage these risks in accordance with its risk appetite. The Company maintains a risk register and categorises its risks into six areas: Insurance; Strategic, Regulatory and Group; Market; Credit; Liquidity; and Operational. These risk areas, along with the actions taken by TME to manage and mitigate, are discussed below and further detail is provided in Note 5.

The Board has established risk appetites covering the amount and type of risk the Company is prepared to seek, accept or tolerate and these risk appetites are embedded in policies, authorities and limits across TME.

Risk	**Description**	**Mitigating Actions/Factors**
Insurance Risk	TME's insurance business assumes the risk of loss from persons or organisations that are themselves directly exposed to an underlying loss. Insurance risk arises from this risk transfer due to inherent uncertainties about the occurrence, amount and timing of insurance liabilities. The four key components of insurance risk are: • Premium Risk; • Reinsurance Risk; • Claims Management Risk; • Reserving Risk.	• An underwriting strategy that seeks a diverse and balanced portfolio of risks. • A reserving policy to produce accurate and reliable estimates that are consistent over time and across classes of business • Setting and regularly monitoring risk appetites. • Individual authority limits for all employees authorised to underwrite and business plans for each line of business. • Claims teams focused on delivering quality, reliability and timely service to both internal and external clients. • Using reinsurance to protect the TME's balance sheet. • Monitoring aggregated exposures using catastrophic modelling tools.
Strategic, Regulatory and Group	Risks which arise from: • Appropriateness of TME's strategy or TME's ability to implement its strategy; • TME's compliance with regulatory and legal requirements in the markets in which TME operates; • Potential impacts on TME arising from the actions of other members of the TMHCC (and TM) Group.	• Setting and regularly monitoring key strategic performance indicators and associated risk metrics. • A management structure that encourages organisational flexibility and adaptability, while ensuring that activities are appropriately coordinated and controlled. • Operating across the TMHCC Group with clear and open lines of communication to ensure all TMHCC Group entities are well informed and working towards common goals.
Market	Market risk arises where the value of assets and liabilities or future cash flows change as a result of fluctuations in economic variables, such as movements in foreign exchange rates, interest rates and market prices.	• Investment Committee has an objective to ensure funds are invested in accordance with the 'prudent person principle', whereby: i) assets are of appropriate security, quality and liquidity; ii) are adequately diversified and are localised; and iii) broadly match the liabilities. • Adhering to an investment risk appetite which form part of the TME's overall risk appetites. • Setting and regularly monitoring investment key performance indicators and associated risk appetites. • Independent investment experts assist with the implementation of the investment strategy and monitoring of the economic environment and investment performance. • Foreign exchange risk is mitigated by the fact that most of our premiums and claims are paid in Euros. Additionally, our Finance department regularly monitor and address where necessary currency mismatches between assets and liabilities.
Credit	Credit risk arises where counterparties fail to meet their financial obligations in	• Setting and regularly monitoring counterparty exposure risk appetites.

Risk	Description	Mitigating Actions/Factors
	full as they fall due. The primary sources of credit risk for TME are from reinsurers; brokers and coverholders; investments; and financial institutions holding cash.	• Limiting exposure to a single counterparty or a group of counterparties, outside of TMHD Group Companies. • Established guidelines and approval procedures for counterparties.
Liquidity	Liquidity risk arises where cash may not be available to pay obligations when due at a reasonable cost. TME is exposed to daily calls on its available cash resources, principally from claims arising from its insurance business. In most cases, these claims are settled from premiums received.	• TME maintains sufficient liquid assets, or assets that can be converted into liquid assets at short notice and without any significant capital loss, to meet expected cash flow requirements. These liquid funds are regularly monitored using cash flow forecasting to ensure that surplus funds are invested to achieve a higher rate of return. • TME can also draw on parental funds to bridge short-term cash flow requirements, should the need arise.
Operational	Operational risk arises from the risk of losses due to inadequate or failed internal processes, people, systems, service providers or external events.	• Performing business activities in a fair, honest and transparent manner that complies fully with applicable Luxembourg and European markets' local legal and regulatory requirements, and internal policies and procedures. • Setting and regularly monitoring operational risk appetites and metrics. • Scenario testing and modelling operational risk exposure. • Management review of operational activities, including IT and IT security. • Documented policies and procedures. • Ensuring key processes include preventative and detective controls. • Business Continuity and contingency planning. • Established and embedded systems controls.

Given the nature of TME's business, the largest risks fall under the category of Insurance risk, reflecting the potential for unexpected losses - either catastrophe or systemic - that may fall outside business plan parameters. These risks are closely monitored and robustly managed.

In addition to monitoring TME's existing and established principal risks, the risk management framework is designed to support the identification of developing and emerging risks; those which have the potential to impact, or require a review of, the existing strategic objectives. The following risks have been identified as currently requiring additional commentary:

- Uncertainties related to Brexit; and
- Sustainability Risk.

<u>Uncertainties related to Brexit</u>
TME was established in response to the United Kingdom's vote to leave the EU and commenced underwriting on 1 January 2019. The United Kingdom left the EU on 31 January 2020 and entered the transition period which will end on 31 December 2020. The terms of the future relationship between the UK and EU post-Brexit will be negotiated during the transition period.

The creation of TME and its successful operation during 2019 ensures that TM Group is able to provide continuous service to its European clients' irrespective of the outcome of the Brexit negotiations.

Sustainability Risk

The issue of Sustainability, whether it relates to the strategic and operational risks of addressing environmental, social and governance concerns, including climate change, or our social responsibilities to both our external and internal stakeholders, is not a new risk, but its profile has been raised significantly in 2019.

Progress has been made by the Company in 2019 towards articulating our philosophy related to Sustainability, and all its component elements, through the establishment of a Sustainability Committee. This Board-delegated committee, and its various sub-groups, have responsibility for agreeing TME's strategy and risk appetite and will coordinate the advancement and implementation of sustainability initiatives, as well as initiating development of potential stress and scenario tests which may provide insight into the climate change risks. Sustainability risk is also in the process of being incorporated into our risk management framework.

Going concern

The corporate governance in place at TME keeps the Board of Directors continually apprised of the trading and financial outlook of the Company. To date these processes have validated the profitable future outlook and strong capital position of the Company. Given market uncertainties caused by the coronavirus pandemic (Covid-19) the Board has further assessed the potential impact on the Company's future trading outlook and its ability to continue as a going concern. Although it is too early to make a comprehensive assessment of the impact on the Company, the review considered the effect on its underwriting, operational and liquidity risks and solvency position.

The Company's business portfolio as a whole is relatively uncorrelated and those businesses which have a direct exposure to losses associated with Covid-19 have comprehensive reinsurance with high quality reinsurers. Additionally, the IT infrastructure of the Company enables remote working so that the highly skilled and dedicated employees can continue normal operational processes without substantial disruption. This enables TME to continue to service its policyholders. The investment portfolio is conservatively invested and the Company has substantial liquidity.

Based on this assessment, the Board of Directors believes that this material post balance sheet market event will not have a material impact on the entities ability to continue as a going concern.

Subsequent events

Subsequent events after the balance sheet date are detailed at Note 35 to the annual accounts.

Other items

The Company did not acquire any of its own shares during the year ended 31 December 2019.

The Company did not carry out any activities in the field of research and development during the year under review.

Appropriation of profit

At the Annual General Meeting, the Board of Directors will propose to bring forward the Company's 2019 loss of $4.2m. There will be no allocation to the legal reserve (2018 $0.02m).

Board of Directors

The directors who held office during the financial period and to the date of this report were as follows:

B J Cook (Non-Executive Director)
P Engelberg (Non-Executive Director)
T J G Hervy (Interim Chief Executive Officer)
N I Hutton-Penman (Group Executive) resigned 1 October 2019
K L Letsinger (Non-Executive Director)
H-D Rohlf (*Chairman)* (Non-Executive Director)
S Urano (Group Executive)
G White (Group Executive) appointed 19 December 2019
No directors had any interest in the shares of the Company during the period ended 31 December 2019.

Auditors

PwC Luxembourg (PricewaterhouseCoopers Société Coopérative) acted as auditors of the Company for the period from 1 January 2019 to 31 December 2019.

Luxembourg,

On behalf of the Board of Directors

T J G Hervy
Director

Audit report

To the Shareholders of
Tokio Marine Europe S.A.

Report on the audit of the annual accounts

Our opinion

In our opinion, the accompanying annual accounts give a true and fair view of the financial position of Tokio Marine Europe S.A. (the "Company") as at 31 December 2019, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the annual accounts.

Our opinion is consistent with our additional report to the Audit Committee or equivalent.

What we have audited

The Company's annual accounts comprise:

- the balance sheet as at 31 December 2019;
- the profit and loss account for the year then ended; and
- the notes to the annual accounts, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with the EU Regulation No 537/2014, the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" (CSSF). Our responsibilities under the EU Regulation No 537/2014, the Law of 23 July 2016 and ISAs as adopted for Luxembourg by the CSSF are further described in the "Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the annual accounts" section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the annual accounts. We have fulfilled our other ethical responsibilities under those ethical requirements.

To the best of our knowledge and belief, we declare that we have not provided non-audit services that are prohibited under Article 5(1) of the EU Regulation No 537/2014.

The non-audit services that we have provided to the Company and its controlled undertakings, if applicable, for the year then ended, are disclosed in Note 34 to the annual accounts.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts of the current period. These matters were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
Valuation of incurred but not reported ('IBNR') reserves and the associated reinsurers' share	
As at 31 December 2019, IBNR reserves ($223.9 million) included within "claims outstanding", and the associated reinsurers' share ($207.1 million), represent significant accounting estimates in the annual accounts, as set out in Notes 3.8.2 and 3.9. The methodologies and assumptions used by the Management to estimate IBNR reserves and the associated reinsurers' share involve a significant degree of judgement. The main area of focus was the underlying volatility attached to estimates for the larger classes of insurance risks, such as Financial Lines and Liability, where small changes in the assumptions adopted in the estimation process and methodology, can lead to significant impact on the IBNR reserves estimate.	We have understood, evaluated and tested the design and operational effectiveness of relevant controls in place in respect of the valuation of IBNR reserves and the associated reinsurer's share. This included controls over the reconciliation of data from the underlying systems and the review and approval of the IBNR reserves and the associated reinsurers' share by the directors. On a sample basis we have also agreed underlying source data back to supporting documentation. In performing our detailed audit work over the valuation of IBNR reserves and the associated reinsurer's share, we used actuarial specialists. Our procedures included: • Developing independent re-projections for selected classes of insurance risks considered to be higher risk, particularly focusing on the largest and most uncertain estimates. For these classes, we compared our re-projected estimates to those booked by the Company; • For other classes of insurance risks, testing of the methodology and assumptions used by the Company to derive the IBNR reserve estimates and assessing whether these produced reasonable estimates based on underlying facts and circumstances. This included performing analytical audit procedures; and • Reperforming the calculation of the estimated reinsurers' share of IBNR reserves by applying gross to net ratios against the estimated IBNR reserves.

Key audit matter	How our audit addressed the Key audit matter
Insurance portfolio transfer	
Effective 1st January 2019, European insurance risk portfolios of HCC International (HCCI) and Tokio Marine Kiln International (TMKI) have been transferred through a contribution in kind transaction to the Company. Whilst this transfer represents a significant transaction, it should be noted that the underlying operational environment remains substantially unchanged. As such transfer of insurance portfolio is governed by a specific legal framework, the Company is exposed to risks of non-compliance with the legal and regulatory requirements of related transferee jurisdictions. Additionnaly, the Company is subject to potential significant misstatements resulting from incomplete or incorrect book entries in the Company accounting system.	We have assessed Management's controls and procedures in places over the portofolio transfer process. We have also performed other audit procedures which included, but are not limited to : • Compliance checks with the regulatory requirements as validated by the supervisory body as well as the proper reconciliation with the terms and conditions as stipulated in the related contractual agreement; • Completeness testing of the transaction and its adequate accounting treatment; • Consistency work of the accounting/valuation principles applied at year-end for the transferred portfolio with the other Company's portfolios of risks; • Disclosure adequacy checks of this transfer transaction in the annual accounts of the Company and in particular within the Directors' report and the related notes.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information stated in the directors' report but does not include the annual accounts and our audit report thereon.

Our opinion on the annual accounts does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the annual accounts, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the annual accounts or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and those charged with governance for the annual accounts

The Board of Directors is responsible for the preparation and fair presentation of the annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the annual accounts, and for such internal control as the Board of Directors determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the annual accounts

The objectives of our audit are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation No 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

As part of an audit in accordance with the EU Regulation No 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;

- conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Company to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual accounts of the current period and are therefore the key audit matters. We describe these matters in our audit report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

The directors' report is consistent with the annual accounts and has been prepared in accordance with applicable legal requirements.

We have been appointed as "Réviseur d'Entreprises Agréé" of the Company by the General Meeting of the Shareholders on 02 April 2019 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 2 years.

PricewaterhouseCoopers, Société coopérative
Represented by

Luxembourg, 30 March 2020

Electronically signed by:
Claude Jacoby

Claude Jacoby

TOKIO MARINE HCC

TOKIO MARINE EUROPE S.A.
BALANCE SHEET
As at 31 December 2019

ASSETS

	Notes	2019 $'000	2018 $'000
Investments			
Other financial investments			
Shares and other variable yield transferable securities and units in unit trusts	8	20,724	12,009
Debt securities and other fixed income transferable securities	8	170,831	108,468
		191,555	120,477
Reinsurers' share of technical provisions			
Provision for unearned premiums	9	88,681	-
Claims outstanding	10	407,900	-
		496,581	-
Debtors			
Debtors arising out of direct insurance operations			
Intermediaries	11	98,600	-
Debtors arising out of reinsurance operations	11	76,001	-
Other debtors	11	13,373	32
		187,974	32
Other assets			
Cash at bank and in hand	12	93,883	22
Tangible assets	12	698	-
		94,581	22
Prepayments and accrued income			
Deferred acquisition costs	13	25,661	-
Other prepayments and accrued income	14	1,830	727
		27,491	727
Total assets		**998,182**	**121,258**

The accompanying notes form an integral part of the annual accounts.

TOKIO MARINE EUROPE S.A.
BALANCE SHEET
As at 31 December 2019

LIABILITIES

	Notes	**2019 $'000**	**2018 $'000**
Capital and reserves			
Subscribed capital or equivalent funds	15	1,159	1,000
Share premium account	15	141,232	119,000
Reserves			
Other reserve	15	285	-
Legal reserve	15	15	-
Profit and loss for the financial year	15	(4,164)	300
		138,527	120,300
Technical provisions			
Provision for unearned premiums	9	138,315	-
Claims outstanding	10	462,299	-
		600,614	-
Provision for other risks and charges			
Provision for current taxation	16	-	102
		-	102
Creditors			
Creditors arising out of direct insurance operations	17	44,768	-
Creditors arising out of reinsurance operations	17	112,116	-
Other creditors	17	35,243	843
		192,127	843
Accruals and deferred income	18	66,914	13
Total liabilities		**998,182**	**121,258**

The accompanying notes form an integral part of the annual accounts.

TOKIO MARINE HCC

TOKIO MARINE EUROPE S.A.
PROFIT AND LOSS ACCOUNT
For the year ended 31 December 2019

TECHNICAL ACCOUNT

	Notes	Year ending 31 December 2019 $'000	Period from 8 February to 31 December 2018 $'000
Earned premiums			
Gross premiums written	19	507,172	-
Outward reinsurance premiums	20	(399,427)	-
Change in the provision for unearned premiums		(136,821)	-
Change in the provision for unearned premiums, reinsurer share		93,480	-
		64,404	-
Allocated investment return transferred from the non-technical account	22	**4,725**	-
Other technical income, net of reinsurance	23	**347**	-
Claims incurred, net of reinsurance			
Claims paid			
- gross amount		300,042	-
- reinsurers' share		(285,702)	-
Change in the provision for claims outstanding			
- gross amount		(474,627)	-
- reinsurers' share		418,473	-
	24	**(41,814)**	-
Net operating expenses			
Acquisition costs	25	(99,775)	-
Change in deferred acquisition costs		25,511	-
Administrative expenses	26	(63,276)	-
Reinsurance commissions and profit participation	27	114,747	
		(22,793)	-
Balance on the technical account for non-life insurance business		**4,869**	-

The accompanying notes form an integral part of the annual accounts.

TOKIO MARINE EUROPE S.A.
PROFIT AND LOSS ACCOUNT
For the year ended 31 December 2019

NON-TECHNICAL ACCOUNT

	Notes	**Year ending 31 December 2019 $'000**	**Period from 8 February to 31 December 2018 $'000**
Balance on the technical account non-life insurance business		**4,869**	-
Investment income			
Income from other investments		5,261	1,466
Gain on realisation of investments		42	-
		5,303	**1,466**
Investment management charges, including interest		(578)	(87)
		(578)	**(87)**
		4,725	**1,379**
Allocated investment return transferred to the technical account	22	**(4,725)**	**-**
Other charges, including value adjustments	28	(6,318)	(974)
(Loss) or profit on ordinary activities before tax		**(1,449)**	**405**
Tax on (loss) or profit on ordinary activities	29,33	(2,715)	(105)
(Loss) or profit on ordinary activities after tax		**(4,164)**	**300**
(Loss) or profit for the financial year		**(4,164)**	**300**

The accompanying notes form an integral part of the annual accounts.

1. General information

Tokio Marine Europe S.A. ('the Company') was incorporated on 8 February 2018 and is organised under the "Commercial Companies" laws of the Grand Duchy of Luxembourg as a public limited liability company (Société Anonyme). The Company is registered with the Register of Commerce and Companies of Luxembourg under section B221975.

On 10 April 2018, an insurance licence was granted to the Company by the Minister of Finance.

Since 18 October 2018, the registered office of the Company is 33, Rue Sainte Zithe, L-2763 Luxembourg.

The financial year of the Company begins on 1 January and ends on 31 December of each year, with the exception of the first financial period, which began on 8 February 2018 (date of incorporation) and ended on 31 December 2018.

2. Presentation of the annual accounts

The annual accounts of the Company have been prepared in accordance with the Law of 8 December 1994 on the annual accounts of insurance and reinsurance undertakings, as amended from time to time, and with the generally accepted accounting policies for the insurance and reinsurance industry in the Grand Duchy of Luxembourg. The accounting policies and the valuation rules, apart from those defined by Luxembourg law or by the Commissariat aux Assurances are determined and applied by the Board of Directors.

All amounts in these annual accounts are presented in US Dollar.

3. Summary of significant accounting policies

The significant accounting policies applied by the Company are as follows:

3.1. Translation of items expressed in foreign currencies

The Company's accounting records are maintained in US Dollars, which is the Company's functional and presentation currency. Foreign currency transactions are recorded using the spot exchange rates at the dates of the transactions into the functional currency. At each period end, foreign currency monetary assets and liabilities are revalued using the closing rate. For this purpose, all assets and liabilities arising from insurance contracts (including unearned premiums, deferred acquisition costs and unexpired risks provisions) are monetary items. Exchange differences, including un-realised gain, arising on the revaluation of foreign currency amounts to the functional currency are recognised in the profit and loss account.

3.2. Formation expenses

Formation expenses are expenses relating to the creation or extension of an undertaking or of a line of business and are directly recognised in the profit and loss account.

3.3 Other financial investments

3.3.1 Shares and other variable yield transferable securities and units in unit trusts

Shares and other variable yield transferable securities and units in unit trusts are valued at the lower of acquisition cost, including expenses incidental thereto and calculated based on the specific identification method or market value. A value adjustment is recorded where the market value is lower than the purchase price. These value adjustments are not continued if the reasons for which the value adjustments were made have ceased to apply.

3.3.2 Debt securities and other fixed income transferable securities

Debt securities and other fixed income transferable securities are valued at amortised cost with premiums and discounts amortised over the period to maturity.

The amortised cost of debt securities and other fixed income transferable securities are evaluated periodically and adjusted for credit risk in cases where a decrease in the ultimate recovery value is considered to be of a durable nature. These value adjustments may not be carried when the reasons for which they were made cease to apply.

3.4 Reinsurer's share of technical provisions

The share of technical provisions for ceded business is determined with reference to the contractual agreement and calculated by underlying gross business.

3.5 Debtors

Debtors are valued at their nominal value, less deductions for impairment, if applicable.

3.6 Other assets

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

3.7 Prepayments and accrued income

3.7.1 Deferred acquisition cost

Acquisition costs related to non-life insurance policies are deferred and amortised consistent with the recognition of unearned premiums.

3.7.2 Other prepayments and accrued income

Other prepayments and accrued income include other expenditure incurred during the financial period which relates to a subsequent financial year and income relating to the current financial period, but which is not receivable until a subsequent financial period.

3.8 Technical provisions

3.8.1 Provision for unearned premiums and unexpired risks

The provision for unearned premiums comprises the amount representing that part of gross premiums written which is estimated to be earned in the following or subsequent financial year, computed separately for each insurance contract using the daily pro rata method. The proportion attributable to subsequent periods are deferred as a provision for unearned premiums.

The provision for unexpired risks is recognised when the estimated costs of future claims and related deferred acquisition costs are expected to exceed the unearned premium provision. In determining the need for an unexpired risk provision the different classes of business have been regarded as business that is managed together.

3.8.2 Provision for claims outstanding

Outstanding claims comprise provisions for the estimated costs of settling all claims incurred up to but not paid at the balance sheet whether reported or not, together with related claims handling expenses. Claims incurred includes all claims payments made in respect of the financial period, claims handling expenses and the movement in provision for outstanding claims and claims handling expenses.

3.9 Insurance contracts

i. Classification of insurance and investment contracts

The Company issues insurance contracts that transfer significant insurance risk.

ii. Insurance contracts

Results are determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance, as follows:

a. Premiums written

Premiums written relates to business incepted during the year, together with adjustments made in the year to premiums written in prior accounting periods. Premiums are presented gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for unreported, or pipeline, premiums representing amounts due to the Company not yet notified. Outward reinsurance premiums are accounted for in the same accounting year as the premiums for the related inwards business.

b. Unearned premiums

Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on a time apportionment/risk profile basis.

c. Acquisition costs

Acquisition costs, which represent commission and other related expenses, are deferred over the period in which the related premiums are earned.

d. Claims incurred

Claims incurred comprise of claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and related loss adjustment expenses, together with any other adjustments to claims for previous years. Where applicable, deductions are made for salvage and other recoveries.

e. Claims provisions and related reinsurance recoveries

A provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Company. The estimated cost of claims includes expenses to be incurred in settling claims and deduction for expected value of salvage and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. Gross loss provisions are calculated gross of any reinsurance recoveries.

The estimate of claims incurred but not reported ('IBNR') is generally subject to a greater degree of uncertainty than the estimate of the cost of settling claims already notified to the Company, where more information about a claim event is generally available. Claims IBNR may not become known to the insurer until many years after the event giving rise to the claim. Classes of business where the IBNR proportion of the total reserve is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. Classes of business where claims are typically reported relatively quickly after the event tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims the Company uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience.

Allowance is made for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

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

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

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

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

Credit and Surety, London Market and Other Business
The majority of this business is “short tail”, that is, where claims are usually made during the term of the policy or shortly after the policy has expired. The cost of claims notified to the Company at the balance sheet date is estimated on a case-by-case basis to reflect the individual circumstances of each claim. The ultimate expected cost of claims is projected from this data by reference to statistics which show how estimates of claims incurred in previous years have developed over time to reflect changes in the underlying estimates of the cost of notified claims and late notifications.

Professional Risks and Financial Lines
These claims are longer tail than those of the other classes of business described above and so a larger element of the claims provision relates to IBNR. Claims estimates for the Company’s Professional Risks and Financial Lines businesses, as with other lines, are derived initially from a combination of loss ratio based estimates followed after a period of time reflecting the longer tail by estimates based upon actual claims experience. Alternative projection methods may be employed. The initial estimate of the loss ratio is based on the experience of previous years, adjusted for factors such as premium rate changes, claims inflation and market environment. The estimate of claims inflation and anticipated market environment is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract.

Reinsurance
Reinsurance to cover catastrophe exposed lines or lines with unbalanced line size to premium is purchased on a shared basis for the international insurance entities. Reinsurance premiums on excess of loss programmes are allocated across the International platforms based on gross premiums written. Reinsurance recoveries are allocated based on the share of gross losses suffered by each carrier. Additionally, the Company purchases quota share reinsurance to balance line size and premium where it is prudent to do so.

The reinsurers' share of claims incurred in the profit and loss account reflects the amounts received or receivable from reinsurers in respect of those claims incurred during the year. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised in the Profit and Loss Account as "outwards reinsurance premiums".

Unexpired risks provision

Provisions are made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums provision and unexpired risks provision. The expected claims are calculated based on information available at the balance sheet date.

Unexpired risks surpluses and deficits are offset where business classes are managed together and a provision is made if an aggregate deficit arises. The unexpired risks provision would be included within 'Other technical provisions'.

Subrogation and salvage

Recoveries arising out of subrogation or salvage are estimated on a prudent basis and included within other debtors.

3.10 Provision for other risk and charges

Provisions are recognised when:

- the Company has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources will be required to settle the obligation; and
- the amount of the obligation can be estimated reliably.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations might be small. Provisions for levies are recognised on the occurrence of the event identified by legislation that triggers the obligation to pay the levy.
Provision for other risks and charges are intended to cover losses or debts whose nature is clearly defined but are, at the balance sheet date, either likely or certain to be incurred but amounts are indeterminable.

3.11 Taxation

Provision for taxation includes estimated income tax liabilities for financial periods for which a definitive taxation assessment has not yet been received from the fiscal authorities and unpaid final tax liabilities. Advance tax payments are recognised under the position "Other debtors".

Taxation expense for the period comprises current tax recognised in the year. Current tax is the amount of income tax payable in respect of the taxable profit for the year. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the year end.

3.12 Creditors

Creditors include intercompany balances, tax and social security payables and are valued at their nominal value.

3.13 Accruals and deferred income

This item includes income received during the financial year but relating to a subsequent financial year, and charges that relate to the current financial year but payable in a subsequent financial year.

3.14 Allocated investment return transferred to the non-technical account

The allocated investment return represents a transfer of investment results from the technical account to the non-technical account. The calculation of allocated investment return is based on the actual return generated by the investments covering technical provisions.

3.15 Administrative expenses

The administrative expenses are allocated by nature and destination to the insurance business, the investment business and to other charges on an imputed basis.

3.16 Value adjustments

Value adjustments are deducted from the related individual asset category.

At each balance sheet date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset may be impaired. If so, the recoverable amount of the asset is compared to the carrying amount of the asset with an impairment loss recognised through the profit and loss account.

If an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the profit and loss account.

For financial assets not at fair value, the Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following events:

- significant financial difficulty of the issuer or debtor;
- a breach of contract such as a default or delinquency in payments;
- it becomes probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
- adverse changes in the payment status of issuers or debtors in the group; or
- national or local economic conditions that correlate with defaults on the assets in the Company.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, then it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred on loans and receivables, the amount of the loss is measured as the difference between the asset carrying amount and the present value of estimated future cash flows discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit and loss account for the period. As a practical expedient, the Company may measure impairment on the basis of an instrument’s fair value using an observable market price.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Company's grading process that considers asset type, industry, geographical location, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the issuer's ability to pay all amounts due under the contractual terms of the debt instrument being evaluated.

If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed through the profit and loss account for the period.

4. Judgements and key sources of estimation uncertainty

Estimation of the ultimate net claims incurred from the issuance of insurance contracts involves assumptions concerning the future, and the resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

i. The ultimate liability arising from claims made under insurance contracts

The estimate of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are many sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. The level of provision has been set on the basis of the information that is currently available, including potential outstanding loss advices, experience of development of similar claims, historical experience, case law and legislative and judicial actions.

The most significant assumptions made relate to the level of future claims, the level of future claims settlements and the legal interpretation of insurance policies. Whilst the directors consider that the gross provision for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amount provided. Adjustments to the amounts of provision are reflected in the financial statements for the period in which the adjustments are made. The methods used and the estimates made are reviewed regularly.

ii. Pipeline premium

The Company makes an estimate of premiums written during the year that have not yet been notified by the financial year end ('pipeline premiums') based on prior year experience and current year business volumes. The pipeline premium is booked as written and an assessment is made of the related unearned premium provision and an estimate of claims incurred but not reported in respect of the earned element.

5. Risk management

The Company has identified the risks arising from its activities and has established policies and procedures to manage these risks in accordance with its risk appetite. The Company maintains a risk register and categorises its risks into six areas: Insurance; Strategic, Regulatory and Group; Market; Operational; Credit; and Liquidity. The sections below outline the Company's risk appetite and explain how it defines and manages each category of risk.

5.1 Insurance risk

The Company's insurance business assumes the risk of loss from persons or organisations that are themselves directly exposed to an underlying loss. Insurance risk arises from this risk transfer due to inherent uncertainties about the occurrence, amount and timing of insurance liabilities. The four key components of insurance risk are underwriting including delegated authorities, reinsurance purchasing, claims management and reserving. Each element is considered below.

5.1.1 Underwriting risk

Underwriting risk relates to the potential claims arising from inadequate underwriting. There are four elements that apply to all insurance products offered by the Company:

- cycle risk – the risk that business is written without full knowledge as to the (in) adequacy of rates, terms and conditions;
- event risk – the risk that individual risk losses or catastrophes lead to claims that are higher than anticipated in plans and pricing;
- pricing risk – the risk that the level of expected loss is understated in the pricing process; and
- expense risk – the risk that the allowance for expenses and inflation in pricing is inadequate.

The Company manages and models these four elements in the following three categories; attritional claims, large claims and catastrophe events.

The Company's underwriting strategy is to seek a diverse and balanced portfolio of risks in order to limit the variability of outcomes. This is achieved by accepting a spread of business over time, segmented between different products, geographies and sizes.

To manage underwriting exposures, the Company has developed limits of authority and business plans which are binding upon all staff authorised to underwrite and are specific to underwriters, classes of business and industry.

These authority limits are enforced through a comprehensive sign-off process for underwriting transactions including an escalation process for all risks exceeding individual underwriters' authority limits. Exception reports are also run regularly to monitor compliance and a rigorous peer and external review process are in place.

Rate monitoring, including risk adjusted rate change and adequacy against benchmark rates, are recorded and reported.

The annual corporate budgeting process comprises a three year Plan which incorporates the Company's underwriting strategy by line of business and sets out the classes of business, the territories and the industry sectors in which business is to be written. The Plan is approved by the directors and monitored by the underwriting committees on a monthly basis.

Underwriters calculate premiums for risks written based on a range of criteria tailored specifically to each individual risk. These factors include, but are not limited to, the financial exposure, loss history, risk characteristics, limits, deductibles, terms and conditions and acquisition expenses using rating and other models.

The Company also recognises that insurance events are, by their nature, random and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

To address this, the Company sets out its risk appetite (expressed as Probable Maximum Loss estimates ('PML') and modelled return period events) in certain territories as well as a range of events such as natural catastrophes and specific scenarios which may result in large industry losses. The aggregate position and modelled loss scenarios are monitored at the time of underwriting a risk and reports are regularly produced to highlight the key aggregations to which the Company is exposed.

The Company uses a number of modelling tools to monitor its exposures against the agreed risk appetite set and to simulate catastrophe losses in order to measure the effectiveness of its reinsurance programmes. Stress and scenario tests are also run using these models.

One of the largest types of event exposure relates to natural catastrophe events such as windstorm or earthquake. Where possible, the Company measures geographic accumulations and uses its knowledge of the business, historical loss behaviour and commercial catastrophe modelling software to assess the expected range of losses at different return periods. Upon application of the reinsurance coverage purchased, the key gross and net exposures are calculated on the basis of extreme events at a range of return periods.

The Company's catastrophe risk appetite set by the directors is limited to a gross PML aggregate of no more than 200% of Capital and for a probability of gross catastrophe event exceeding 50% of Capital of less than 1%. Additionally, the appetite for non-modelled risk and other potential non-Natural Catastrophe perils is included within the Catastrophe appetites noted above.

i. Reinsurance risk

Reinsurance risk arises where reinsurance contracts:

- do not perform as anticipated;
- result in coverage disputes; or
- prove inadequate in terms of the vertical or horizontal limits purchased.

Failure of a reinsurer to pay a valid claim is considered a credit risk which is detailed in the credit risk section. See Note 5.5.

The purchase of reinsurance is a key tool utilised to manage underwriting risk. The Company's reinsurance programme is comprised predominantly of excess of loss cover which may be over placed to protect against reinstatement costs. Prior to placement of the programme, it is modelled against significant historic and modelled events across the peak exposure areas. The programme is purchased on a class of business basis, modelling catastrophe, large and attritional losses separately.

Consideration is given to a number of factors when setting minimum retention including the Annual Aggregate Loss ('AAL') for catastrophe exposed lines. Where market opportunity allows, additional reinsurance is purchased. Quota share and facultative reinsurance is also utilised where considered appropriate. A Tokio Marine HCC Group reinsurance approval group examines and approves all reinsurers to ensure that they possess suitable security. The Company's reinsurance team ensures that these guidelines are followed, undertakes the administration of reinsurance contracts and monitors and instigates the Company's responses to any erosion of the reinsurance programmes.

ii. Claims management risk

Claims management risk may arise within the Company in the event of inaccurate or incomplete case reserves and claims settlements, poor service quality or excessive claims handling costs. These risks may damage the Company brand and undermine its ability to win and retain business or incur punitive damages. These risks can occur at any stage of the claim life cycle.

The Company's claims teams are focused on delivering quality, reliability and speed of service to both internal and external clients. Their aim is to adjust and process claims in a fair, efficient and timely manner, in accordance with the policy's terms and conditions, the regulatory environment and the business' broader interests. Prompt and accurate case reserves are set for all known claims liabilities, including provisions for expenses, as soon as a reliable estimate can be made of the claims liability.

iii. Reserving risk

Reserving risk occurs within the Company where established insurance liabilities are insufficient through inaccurate forecasting, or where there is inadequate allowance for expenses and reinsurance bad debts.

The objective of the Company's reserving policy is to produce accurate and reliable estimates that are consistent over time and across classes of business. The Company's reserving process is governed by the IBNR Committee, a subcommittee of the Board, which meets on a quarterly basis (more frequently if catastrophic events require). The membership of the IBNR Committee is comprised of executives, actuarial, claims and finance representatives. A fundamental part of the reserving process involves information from and recommendations by each underwriting team for each underwriting year and reserving class of business. These estimates are compared to the actuarial estimates (described in further detail below) and management's best estimate of IBNR is recorded. It is the policy of the Company to carry, at a minimum, the actuarial best estimate. It is not unusual for management's best estimate to be higher than the actuarial best estimate.

The actuarial reserving team uses a range of recognised techniques to project current paid and incurred claims and monitors claim development patterns. This analysis is then supplemented by a variety of tools including back testing, scenario testing, sensitivity testing and stress testing.

Gross and net development triangles of the estimate of ultimate claim cost for claims notified in a given year are presented below and give an indication of the accuracy of the Company's estimation technique for claims payments.

5.2 Strategic, regulatory and group risk

The Company manages strategic, regulatory and group risks together. Each element is considered below:

i. Strategic risk

This is the risk that the Company's strategy is inappropriate or that the Company is unable to implement its strategy. Where an event exceeds the Company's strategic plan, this is escalated at the earliest opportunity through the Company's monitoring tools and governance structure.

On a day-to-day basis, the Company's management structure encourages organisational flexibility and adaptability, while ensuring that activities are appropriately coordinated and controlled. By focusing on the needs of their customers and demonstrating both progressive and responsive abilities, staff, management and outsourced service providers are expected to excel in service and quality. Individuals and teams are also expected to transact their activities in an open and transparent way. These behavioural expectations reaffirm low risk tolerance by aligning interests to ensure that routine activities, projects and other initiatives are implemented to benefit and protect resources of both local business segments and the Company as a whole.

ii. Regulatory risk

Regulatory risk is the risk arising from not complying with regulatory and legal requirements. The operations of the Company are subject to legal and regulatory requirements within the jurisdictions in which it operates, and the Company's compliance function is responsible for ensuring that these requirements are adhered to. Regulatory risk includes capital management risk.

Capital management

The Company estimates its economic capital requirements using an internal model (the Economic Capital Model ('ECM')) which, the Directors believe, is the most appropriate tool to determine the Company's medium term capital needs. For Solvency purposes, the Company measures its regulated capital requirement using the Standard Formula Solvency Capital Requirement ('SF SCR'). The Board has reviewed the SF SCR against the ECM and has concluded that the SF SCR is appropriate. The SF SCR is measured against the Company's Solvency II Available Assets to monitor its Solvency. Given the inherent volatility of the SF SCR and Solvency II Available Assets, the Company carries an amount in excess of the regulatory minimum. Per the regulatory approval process, it has been calculated that as at 31 December 2019 Solvency II Available Assets are in excess of 155% of the regulatory minimum.

iii. Group risk
Group risk occurs where business units fail to consider the impact of other parts of a group on the Company, as well as the risks arising from these activities. There are two main components of group risk which are explained below.

a. Contagion
Contagion risk is the risk arising from actions of one part of a group which could adversely affect any other part of the group. The Company is a member of the Tokio Marine group and therefore may be impacted by the actions of any other group company. This risk is managed by operating with clear and open lines of communication across the group to ensure all group entities are well informed and working to common goals.

b. Reputation
Reputation risk is the risk of negative publicity as a result of the Tokio Marine group's contractual arrangements, customers, products, services and other activities. The Company's preference is to minimise reputation risks, but it is not possible or beneficial to avoid them, as the benefits of being part of the group brand are significant.

The Company considers reputation risk as an impact on all risk events in the Risk Register, but not as a risk in its own right.

5.3 Market risk
Market risk arises where the value of assets and liabilities or future cash flows change as a result of fluctuations in economic variables, such as movements in foreign exchange rates, interest rates and market prices. Managing investment risk as a whole is fundamental to the operation and development of the Company's investment strategy key to the investment of Company assets.

The investment strategy is developed by reference to an investment risk budget, which is reviewed annually by the directors as part of the overall risk budgeting framework of the business.

Investment strategy is consistent with this risk appetite and investment risk is monitored on an ongoing basis. The internal model includes an asset risk module, which uses an Economic Scenario Generator ('ESG') to simulate multiple simulations of financial conditions, to support stochastic analysis of investment risk. Internal model output is used to assess potential investment downsides, at different confidence levels, including '1 in 200' year event, which reflects Solvency II modelling requirements. In addition, the Company undertakes regular scenario tests (which look at shock events such as yield curve shifts, credit spread widening, or the repeat of historic events) to assess the impact of potential investment losses.

ESG outputs are regularly validated against actual market conditions, but (as noted above) the Company also uses a number of other qualitative measures to support the monitoring and management of investment risk.

i. Foreign exchange risk

The Company's functional and reporting currency is the US Dollar and when possible the Company generally hedges currency monetary liabilities (excluding unearned premium and deferred acquisition costs) with assets in those same currencies. Excess assets are generally held in US Dollars. The effect of this on foreign exchange risk is that the Company is mainly exposed to revaluation FX gains/losses of unmatched non-US Dollar denominated positions.

FX risk exposure	**AUD $**	**CAD $**	**CHF Fr**	**EUR €**	**GBP £**	**Subtotal**	**USD $**	**Total**
31 December 2019	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Total assets	11,585	442	(302)	659,972	12,809	**684,506**	313,676	**998,182**
Total liabilities	(13,008)	(420)	(1,734)	(678,368)	(24,508)	**(718,037)**	(141,618)	**(859,655)**
Net assets	**(1,423)**	**22**	**(2,036)**	**(18,396)**	**(11,698)**	**(33,531)**	**172,058**	**138,527**
Net profit/(loss)	**(71)**	**7**	**(626)**	**17,594**	**(21,860)**	**(4,956)**	**792**	**(4,164)**

FX risk exposure	**AUD $**	**CAD $**	**CHF Fr**	**EUR €**	**GBP £**	**Subtotal**	**USD $**	**Total**
31 December 2018 restated	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Total assets	-	-	-	223	-	**223**	121,035	**121,258**
Total liabilities	-	-	-	(906)	(375)	**(1,281)**	323	**(958)**
Net assets	**-**	**-**	**-**	**(683)**	**(375)**	**(1,058)**	**121,358**	**120,300**
Net profit/(loss)	**-**	**-**	**-**	**(683)**	**(375)**	**(1,058)**	**1,358**	**300**

Investments and cash – foreign exchange exposure sensitivity	**Impact on profit after tax**		**Impact on net assets**	
	2019	**2018**	**2019**	**2018**
	$'000	**$'000**	**$'000**	**$'000**
Dollar weakens 30% against other currencies	(1,204)	(272)	(10,059)	(336)
Dollar weakens 20% against other currencies	(803)	(181)	(6,706)	(224)
Dollar weakens 10% against other currencies	(401)	(91)	(3,353)	(112)
Dollar strengthens 10% against other currencies	401	91	3,353	112
Dollar strengthens 20% against other currencies	803	181	6,706	224
Dollar strengthens 30% against other currencies	1,204	272	10,059	336

ii. Interest rate risk

Some of the Company's financial instruments, including cash and certain financial assets at fair value, are exposed to movements in market interest rates.

The Company manages interest rate risk by investing primarily in short duration financial assets along with cash. The Investment Committee monitors the duration of these assets on a regular basis.

Changes in interest rates also impact the present values of estimated Company liabilities, which are used for solvency calculations. The Company's investment strategy reflects the nature of the Company's liabilities, and the combined market risk of investment assets and estimated liabilities is monitored and managed within specified limits.

The following table shows the average duration at the reporting date of the financial instruments that are exposed to movements in market interest rates. Duration is a commonly used measure of volatility and the Company believes this gives a better indication than maturity of the likely sensitivity of the Company's investment portfolio to changes in interest rates.

Investments and cash - duration	**<1 yr**	**1-2 yrs**	**2-3 yrs**	**3-4 yrs**	**4-5 yrs**	**5-10 yrs**	**>10 yrs**	**Total**
31 December 2019	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Shares and other variable yield securities	20,724	-	-	-	-	-	-	20,724
Debt Securities	15,547	28,937	19,731	33,910	16,273	40,857	15,576	170,831
Sub Total	**36,271**	**28,937**	**19,731**	**33,910**	**16,273**	**40,857**	**15,576**	**191,555**
Cash at bank and in hand	93,883	-	-	-	-	-	-	93,883
Total	**130,154**	**28,937**	**19,731**	**33,910**	**16,273**	**40,857**	**15,576**	**285,438**

Investments and cash - duration	**<1 yr**	**1-2 yrs**	**2-3 yrs**	**3-4 yrs**	**4-5 yrs**	**5-10 yrs**	**>10 yrs**	**Total**
31 December 2018	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Shares and other variable yield securities	12,009	-	-	-	-	-	-	12,009
Debt Securities	15,106	502	41,308	6,305	22,307	22,940	-	108,468
Sub Total	**27,115**	**502**	**41,308**	**6,305**	**22,307**	**22,940**	**-**	**120,477**
Cash at bank and in hand	22	-	-	-	-	-	-	22
Total	**27,137**	**502**	**41,308**	**6,305**	**22,307**	**22,940**	**-**	**120,499**

Changes in interest yields, with all other variables constant, would result in changes in the market value of debt securities as well as subsequent interest receipts and payments. This would affect reported profits after tax and net assets as indicated in the table below:

Sensitivity analysis

Investments and cash – interest rate sensitivity	**Impact on profit after tax**		**Impact on net assets**	
	2019	**2018**	**2019**	**2018**
	$'000	**$'000**	**$'000**	**$'000**
100 basis points increase	(8,027)	(3,234)	(8,027)	(3,234)
50 basis points increase	(3,983)	(1,617)	(3,983)	(1,617)
50 basis points decrease	3,837	1,521	3,837	1,521
100 basis points decrease	7,639	3,043	7,639	3,043

5.4 Operational risk

Operational risk arises from the risk of losses due to inadequate or failed internal processes, people, systems, service providers or external events. Operational risk includes conduct risk.

The Company actively manages and minimises operational risks where appropriate. This is achieved by implementing and communicating guidelines and detailed procedures and controls to staff and other third parties. The Company regularly monitors the performance of its controls and adherence to procedures through the risk management reporting process. Key components of the Company's operational control environment include:

- modelling of operational risk exposure and scenario testing;
- management review of activities;
- documentation of policies and procedures;
- preventative and detective controls within key processes;
- contingency planning; and
- other systems controls.

Addressing conduct risk has always been treated as a priority irrespective of the regulatory emphasis on the selling of financial products, including insurance products, to consumers. The Company's primary objective is that all policyholders should receive fair treatment throughout the product lifecycle, which requires the effective management of conduct risk. However, conduct risk is not limited to the fair treatment of customers and the Company's Conduct Risk Policy broadly defines conduct risk as "…the risk that detriment is caused to the company, our customers, clients or counterparties because of the inappropriate execution of our business activities."

The Company therefore seeks at all times to perform its business activities in a manner that is not only fair, honest and transparent but that also complies fully with applicable Luxembourg and International laws and regulations and internal policies and procedures. The Company ensures that this ethos is clearly communicated from the Board of directors downwards to all members of staff and oversight is provided throughout the governance structure, primarily by way of the Product Governance and Distribution Committee. Day-to-day responsibility for monitoring the fair treatment of customers and broader aspects of conduct risk resides with the International Compliance Department which undertakes scheduled reviews as part of a comprehensive Compliance Monitoring schedule.

5.5 Credit risk

Credit risk arises where counterparties fail to meet their financial obligations in full as they fall due. The primary sources of credit risk for the Company are:

- reinsurers – whereby reinsurers may fail to pay valid claims against a reinsurance contract held by the Company;
- brokers and coverholders - whereby counterparties fail to pass on premiums or claims collected or paid on behalf of the Company;
- investments – whereby issuer default results in the Company losing all or part of the value of a financial instrument; and
- financial institutions holding cash.

The Company's core business is to accept insurance risk and the appetite for other risks is low. This protects the Company's solvency from erosion from non-insurance risks so that it can meet its insurance liabilities.

The Company limits exposure to a single counterparty or a group of counterparties and analyses the geographical locations of exposures when assessing credit risk.

An approval system exists for all new brokers and coverholders and their performance is carefully monitored. Regular exception reports highlight trading with non-approved brokers, and the Company's credit control function frequently assesses the ageing and collectability of debtor balances. Any large aged items are prioritised and where collection is outsourced incentives are in place to support these priorities.

The Investment Committee has established comprehensive guidelines for the Company's Investment Managers regarding the type, duration and quality of investments acceptable to the Company to ensure credit risk relating to the investment portfolio is kept to a minimum. The performance of the Company's Investment Managers is regularly reviewed to confirm adherence to these guidelines.

The Company has developed processes to formally examine all reinsurers before entering into new business arrangements. New reinsurers are approved by the reinsurance approval group, which also reviews arrangements with all existing reinsurers at least annually. Vulnerable or slow-paying reinsurers are examined more frequently. To assist in the understanding of credit risks, Moody's and Standard & Poor's ('S&P') ratings are used. The Company's concentrations of credit risk on investments have been categorised by these ratings in the following table.

Investment and cash - credit ratings 31 December 2019	**AAA $'000**	**AA $'000**	**A $'000**	**BBB $'000**	**BB $'000**	**Not Rated $'000**	**Total $'000**
Shares and variable yield securities	-	20,724	-	-	-	-	20,724
Debt security	5,366	57,227	92,210	16,028	-	-	170,831
Total other financial investments	**5,366**	**77,951**	**92,210**	**16,028**	**-**	**-**	**191,555**
Cash at bank and in hand	93,883	-	-	-	-	-	93,883
Total	**99,249**	**77,951**	**92,210**	**16,028**	**-**	**-**	**285,438**

Investment and cash - credit ratings 31 December 2018	**AAA $'000**	**AA $'000**	**A $'000**	**BBB $'000**	**BB $'000**	**Not Rated $'000**	**Total $'000**
Shares and variable yield securities	12,009	-	-	-	-	-	12,009
Debt security	2,870	41,602	56,884	7,112	-	-	108,468
Total other financial investments	**14,879**	**41,602**	**56,884**	**7,112**	**-**	**-**	**120,477**
Cash at bank and in hand	22	-	-	-	-	-	22
Total	**14,901**	**41,602**	**56,884**	**7,112**	**-**	**-**	**120,499**

The Company's largest investment counterparty exposure is $34.9m (2018 - $32.5m).

An ageing analysis of the company's insurance and reinsurance receivables that are past due at the reporting date is presented below.

Financial assets - ageing 31 December 2019	**Not yet due $'000**	**Up to 3 months past due $'000**	**3 to 6 months past due $'000**	**7 to 12 months past due $'000**	**>1 year past due $'000**	**Total $'000**
Reinsurer share of claims outstanding	407,900	-	-	-	-	407,900
Insurance debtors	45,472	20,430	15,677	16,814	207	98,600
Reinsurance debtors	62,852	5,828	3,780	3,404	137	76,001
Other debtors	13,373	-	-	-	-	13,373
Total other financial investments	**529,597**	**26,258**	**19,457**	**20,218**	**344**	**595,874**

Financial assets - ageing 31 December 2018	**Not yet due $'000**	**Up to 3 months past due $'000**	**3 to 6 months past due $'000**	**7 to 12 months past due $'000**	**>1 year past due $'000**	**Total $'000**
Reinsurer share of claims outstanding	-	-	-	-	-	-
Insurance debtors	-	-	-	-	-	-
Reinsurance debtors	-	-	-	-	-	-
Other debtors	32	-	-	-	-	32
Total other financial investments	**32**	**-**	**-**	**-**	**-**	**32**

Fair value estimation

The following table presents the Company's financial investments measured at fair value at 31 December 2019 categorised into levels 1, 2 and 3. No liabilities were measured at fair value at 31 December 2019.

Financial investments – pricing basis 31 December 2019	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Shares and other variable yield securities	20,724	-	-	20,724
Other financial investments	**20,724**	**-**	**-**	**20,724**

Financial investments – pricing basis 31 December 2018	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Shares and other variable yield securities	12,009	-	-	12,009
Other financial investments	**12,009**	**-**	**-**	**12,009**

- Level 1 – Inputs are based on quoted prices in active markets for identical instruments;

  Company's Level 1 investments consist of U.S. Treasuries, money market funds and equity securities traded in an active exchange market. The Company uses unadjusted quoted prices for identical instruments to measure fair value.

- Level 2 – Inputs are based on observable market data (other than quoted prices) or are derived from or corroborated by observable market data;

  The Company's Level 2 investments include most of its fixed maturity securities, which consist of U.S. government agency securities, foreign government securities, municipal bonds (including those held as restricted securities), corporate debt securities, bank loans, middle market senior loans, foreign debt securities, mortgage-backed and asset-backed securities (including collateralized loan obligations). The Company measures fair value for the majority of its Level 2 investments using matrix pricing and observable market data, including benchmark securities or yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, bids, offers, default rates, loss severity and other economic measures. The Company measures fair value for its structured securities using observable market data in cash flow models.

The Company is responsible for the prices used in its fair value measurements. The Company uses independent pricing services to assist itself in determining fair value of all of its Level 2 investments. The pricing services provide a single price or quote per security. The Company uses data provided by the Company's third-party investment managers to value the remaining Level 2 investments. To validate that these quoted prices are reasonable estimates of fair value, the Company performs various quantitative and qualitative procedures, including:

1) evaluation of the underlying methodologies;
2) analysis of recent sales activity;
3) analytical review of the Company's fair values against current market prices; and
4) comparison of the pricing services' fair value to other pricing services' fair value for the same investment.

No markets for the Company's investments were judged to be inactive at period end. Based on these procedures, the Company did not adjust the prices or quotes provided by its independent pricing services, third party investment managers as of 31 December 2019 or at 31 December 2018.

- Level 3 – use of a valuation technique where there is no active market of other transactions which is a good estimate of fair value.

  These comprise financial instruments where it is determined that there is no active market or that the application of criteria to demonstrate such are Level 2 securities is impractical. That fair value is established through the use of a valuation technique which incorporates relevant information to reflect appropriate adjustments for credit and liquidity risks and maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. The relative weightings given to differing sources of information and the determination of non-observable inputs to valuation models can require the exercise of significant judgement. The Company has no Level 3 securities.

5.6 Liquidity risk

Liquidity risk arises where cash may not be available to pay obligations when due at a reasonable cost. The Company is exposed to daily calls on its available cash resources, principally from claims arising from its insurance business. In the majority of cases, these claims are settled from premiums received.

The Company's approach is to manage its liquidity position so that it can reasonably survive a significant individual or market loss event (details of the Company's management of its exposure to loss scenarios are provided in Note 5.1.(i). This means that the Company maintains sufficient liquid assets, or assets that can be readily converted into liquid assets at short notice, to meet expected cash flow requirements. The Company can also draw on Company funds to bridge short-term cash flow requirements.

The following table is an analysis of the net contractual cash flows based on all the liabilities held at 31 December 2019:

Financial liabilities - projected cash flows 31 December 2019	**Within 1 year**	**1-3 years**	**3-5 years**	**> 5 years**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Net claims outstanding	22,859	20,680	7,504	3,356	54,399
Creditors from direct insurance operations	44,768	-	-	-	44,768
Creditors from reinsurance operations	112,116	-	-	-	112,116
Other creditors	35,243	-	-	-	35,243
Total	**214,986**	**20,680**	**7,504**	**3,356**	**246,526**

Financial liabilities - projected cash flows 31 December 2018	**Within 1 year**	**1-3 years**	**3-5 years**	**> 5 years**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Net claims outstanding	-	-	-	-	-
Creditors from direct insurance operations	-	-	-	-	--
Creditors from reinsurance operations	-	-	-	-	-
Other creditors	843	-	-	-	843
Total	**843**	**-**	**-**	**-**	**843**

The next table summarises the carrying amount at the reporting date of financial instruments analysed by maturity date.

Investments and cash - maturity	**Within 1 yr**	**1-3 yrs**	**3-5 yrs**	**>5 yrs**	**Total**
31 December 2019	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Shares and other variable yield securities	20,724	-	-	-	20,724
Debt securities	501	33,696	41,847	94,787	170,831
Total other financial investments	**21,225**	**33,696**	**41,847**	**94,787**	**191,555**
Cash at bank and in hand	93,883	-	-	-	93,883
Total	**115,108**	**33,696**	**41,847**	**94,787**	**285,438**

Investments and cash - maturity	**Within 1 yr**	**1-3 yrs**	**3-5 yrs**	**>5 yrs**	**Total**
31 December 2018	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Shares and other variable yield securities	12,009	-	-	-	12,009
Debt securities	-	23,066	29,919	55,483	108,468
Total other financial investments	**12,009**	**23,066**	**29,919**	**55,483**	**120,477**
Cash at bank and in hand	22	-	-	-	22
Total	**12,031**	**23,066**	**29,919**	**55,483**	**120,499**

6. Part VII transfers from affiliated companies

TME, HCCII and TMKI underwent the legal process (Part VII transfer) to transfer HCCII and TMKI insurance and reinsurance contracts underwritten historically by their European branches together with the branch employees to TME. The transfers effected on 1 January 2019 by TME through the issuance of one share to each of HCCII and TMKI. The process followed the Part VII transfer protocol in the UK as approved by the Luxembourg regulator (Commissariat aux Assurances), in exchange for shares through two contribution in kind ('CIK') transactions in accordance with Luxembourg company law.

Subsequent to the Part VII transfers, quota share reinsurance arrangements were applied to cede balances back to the transferring companies as shown in the tables below. The tables below show the obligations transferred to TME based on the book values in HCCII and TMKI as at 31 December 2018. Subsequently, assets were transferred into TME equal to the net obligations net of the intercompany reinsurance.

The TMKI debtors of $47.9m and creditors of $37.4m (net $10.5m) were included in the approved CIK values at 31 December 2018 but were not transferred in full to TME. Debtors of $14.3m and creditors of $5.3m (net $9.0m) relating to pipeline adjustments on technical debtors and creditors were transferred. The Framework Agreement under which the Part VII transfer of the net insurance liabilities of HCCII and TMKI were transferred allowed for other assets to be transferred of equivalent value to those included in the CIK schedule. These included the establishment of a retrocessional reinsurance contract, as shown in the table below, and other appropriate assets and liabilities including the transfer of fixed assets and other operational assets and liabilities necessary for the ongoing operation of the business.

The impact of the net assets transferred on the balance sheet and profit and loss account is shown in the tables below.

	Part VII transfer			Intercompany reinsurance			
Balance sheet	**HCCII**	**TMKI**	**Total**	**HCCII**	**TMKI**	**Total**	**Net**
	$'m	**$'m**	**$'m**	**$'m**	**$'m**	**$'m**	**$'m**
Provision for unearned premium - gross	(87.5)	(30.1)	**(117.6)**	-	-	-	**(117.6)**
Provision for unearned premium - reinsurer share	31.9	14.3	**46.2**	38.3	15.9	**54.2**	**100.4**
Claims outstanding - gross	(304.5)	(156.8)	**(461.3)**	-	-	-	**(461.3)**
Claims outstanding - reinsurer share	132.1	57.1	**189.2**	137.1	97.3	**234.4**	**423.6**
Deferred acquisition costs - gross	29.8	4.6	**34.4**	-	-	-	**34.4**
Deferred acquisition costs - reinsurer share	(9.0)	(4.0)	**(13.0)**	(23.0)	(7.6)	**(30.6)**	**(43.6)**
Net technical provisions	**(207.2)**	**(114.9)**	**(322.1)**	**152.4**	**105.6**	**258.0**	**(64.1)**
Debtors	34.2	47.9	**82.1**	-	-	-	**82.1**
Creditors	(74.9)	(37.4)	**(112.3)**	-	(1.9)	**(1.9)**	**(114.2)**
Net assets	(247.9)	(104.4)	**(352.3)**	**152.4**	**103.7**	**256.1**	**(96.2)**
Cash at bank and investments	247.9	104.4	**352.3**				
Value of contribution	**$1***	**$1***	**$2***				

* not in millions

Profit and loss account	**HCCII**	**TMKI**	**Total**	**HCCII**	**TMKI**	**Total**	**Net**
	$'m	**$'m**	**$'m**	**$'m**	**$'m**	**$'m**	**$'m**
Gross premiums written	87.5	30.1	**117.6**			-	**117.6**
Change in the provision for unearned premium - gross	(87.5)	(30.1)	**(117.6)**			-	**(117.6)**
Outward reinsurance premium	(31.9)	(14.3)	**(46.2)**	(38.3)	(15.9)	(54.2)	**(100.4)**
Change in the provision for unearned premium -reinsurer share	31.9	14.2	**46.2**	38.3	15.9	54.2	**100.4**
Claims paid - gross amount	304.5	156.8	**461.3**	-	-	-	**461.3**
Change in the provision for claims outstanding - gross	(304.5)	(156.8)	**(461.3)**	-	-	-	**(461.3)**
Claims paid - reinsurer share	(132.1)	(57.1)	**(189.2)**	(137.1)	(97.3)	(234.4)	**(423.6)**
Change in the provision for claims outstanding - reinsurer share	132.1	57.1	**189.2**	137.1	97.3	234.4	**423.6**
Acquisition costs written - gross	(29.8)	(4.6)	**(34.4)**	-	-	-	**(34.4)**
Change in deferred acquisition costs - gross	29.8	4.6	**34.4**			-	**34.4**
Reinsurance commissions written	9..0	4.0	**13.0**	23.0	7.6	30.6	**43.6**
Change in deferred acquisition costs - reinsurer share	(9.0)	(4.0)	**(13.0)**	(23.0)	(7.6)	(30.6)	**(43.6)**

7. Cross-border merger.

In order to simplify TMHCC Group's legal entity structure (outside the US) and align it with its operating structure, the decision was taken in early 2019 to carry out a cross-border merger of HCC Global Financial Products S.L. (HCCG) into TME's Spanish branch as detailed in the section Strategic and Operational Initiatives in the Directors' Report.

The net assets of HCC Global Financial Products Sociedad Ltda amounting to $2.4m were acquired from another TMHCC affiliate company effective 1 January 2019, in return for new TME shares.

8. Other financial investments

As of 31 December 2019, the book and actual values of other financial investments were as follows:

	2019 Book value	2018 Book value	2019 Market value	2018 Market value
	$'000	$'000	$'000	$'000
Shares and other variable yield securities and units in unit trusts	20,724	12,009	20,724	12,009
Debt securities and other fixed-income transferable securities	170,831	108,468	174,968	108,704
Total	**191,555**	**120,477**	**195,692**	**120,713**

The actual value of debt securities and other fixed income transferable securities generally represents their quoted market value. Where no such quoted market values exist, the actual values are based on other observable market data. The amortisation of discounts and premiums on debt securities and other fixed income transferable securities is disclosed under "Income from other investments" and "Investment management charges, including interest", respectively, and is as follows:

	2019	2018
	$'000	$'000
Amortisation of discounts	87	31
Amortisation of premiums	(382)	(63)
	(295)	**(32)**

Discounts and premiums represent the positive and negative differences, respectively, between the amounts repayable at maturity compared to the purchase price of these securities and are accrued or amortised in instalments over the period until maturity.

9. Provision for unearned premium

As of 31 December 2019, unearned premiums are detailed as follows:

	Unearned premium reinsurer's share	Unearned premium gross	Unearned premium net
	$'000	$'000	$'000
At 1 January 2019	-	-	-
Change for the year	93,480	136,821	43,341
Foreign currency revaluation	(4,799)	1,494	6,293
At 31 December 2019	**88,681**	**138,315**	**49,634**

The 2019 change for the year in unearned premium includes a Part VII disclosure element (see note 6).

10. Claims outstanding

As of 31 December 2019, provisions for claims outstanding are detailed as follows:

	Claims outstanding reinsurer's share	Claims outstanding gross	Claims outstanding net
	$'000	**$'000**	**$'000**
At 1 January 2019	-	-	-
Change for the year	418,473	474,627	56,154
Foreign currency revaluation	(10,573)	(12,328)	(1,755)
At 31 December 2019	**407,900**	**462,299**	**54,399**

The 2019 change for the year in claims outstanding includes a Part VII disclosure element (see note 6).

11. Debtors

Debtors	**2019**	**2018**
	$'000	**$'000**
Debtors arising out of direct insurance operations	98,600	**-**
Debtors arising out of reinsurance operations	76,001	**-**
Other debtors	13,373	32
Total	**187,974**	**32**

As of 31 December 2019, debtors arising out of direct insurance operations of $98.6m are balances due and unbilled on inward direct insurance business placed mainly via brokers and intermediaries. Debtors arising out of reinsurance operations of $76.0m includes balances due and unbilled on inward reinsurance business of $33.8m and reinsurer share of paid losses of $42.2m.

Other debtors of $13.3m includes intercompany debtors amounting to $4.8m, and $8.5m in relation to tax and payroll. Intercompany debtors transferred from HCCG on 1 January 2019 amounted to $4.7m. Amounts owed by and to affiliated undertakings and other Company companies were as follows:

Debtors	**2019 Affiliate companies**	**2019 Other companies**	**2019 Total**
	$'000	**$'000**	**$'000**
Debtors arising out of direct insurance operations	-	98,600	98,600
Debtors arising out of reinsurance operations	35,413	40,588	76,001
Other debtors	4,810	8,563	13,373
Total	**40,223**	**147,751**	**187,974**

Debtors	**2018 Affiliate companies**	**2018 Other companies**	**2018 Total**
	$'000	**$'000**	**$'000**
Debtors arising out of direct insurance operations	-	-	-
Debtors arising out of reinsurance operations	-	-	-
Other debtors	**-**	32	**32**
Total	**-**	**32**	**32**

12. Other assets

As of 31 December 2019, the Company held cash of $93.9m (2018 $0.02m). Cash balances transferred from HCCG on 1 January 2019 amounted to $12.8m. Tangible assets of $0.7m is mainly furniture and fixtures.

13. Deferred acquisition costs

As of 31 December 2019, deferred acquisition costs are detailed as follows:

	Deferred acquisition costs reinsurers' share(*)	Deferred acquisition costs gross	Deferred acquisition costs Net
	$'000	$'000	$'000
At 1 January 2019	-	-	-
Change for the year	38,933	25,511	(13,422)
Foreign currency revaluation	74	150	76
At 31 December 2019	**39,007**	**25,661**	**(13,346)**

*Deferred acquisition costs reinsurer's share is reported within accruals and deferred income (Note 18)

14. Prepayment and accrued income

As at 31 December 2019, prepayment and accrued income amount to $1.8m (2018 $0.7m). Balances transferred from HCCG on 1 January 2019 amounted to $0.2m.

15. Capital and reserves

The movements during the financial period in respect of capital and reserves may be broken down as follows:

Year ending 31 December 2019	Subscribed capital	Share premium	Other reserves	Legal reserve	2018 profit	2019 profit	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 1 January 2019	1,000	119,000	-	-	300	-	120,300
Allocation of 2018 profit	-	-	285	15	(300)	-	-
Additions during the year	159	22,232		-	-	-	22,391
Loss for the year	-	-	-	-	-	(4,164)	(4,164)
Total	**1,159**	**141,232**	**285**	**15**	**-**	**(4,164)**	**138,527**

At incorporation, on 8 February 2018, the share capital was 150,000 of fully paid up shares with a nominal value of $1.00.

On 10 April 2018, HCCII, the Company's sole shareholder resolved to increase the capital of the Company through the issue of 850,000 fully paid up shares of $1.00 with the and share premium of $99,000,000.

On 13 December 2018, HCCII, the Company's sole shareholder resolved to increase the capital of the Company by $20,000,000 through an increase to the Company's share premium.

On 1 January 2019, HCCII and TMKI transferred the existing insurance and reinsurance contracts that had historically been underwritten by HCCII and TMKI European branches and all branch employees to the Company under the Part VII Transfer process. The transfer was affected by the Company issuing one share to each of HCCII and TMKI. TMKI immediately transferred its one share to HCCII. At 1 January 2019, the Company had 1,000,002 shares in issue.

On 17 July 2019, as part of the merger of HCCG, 159,058 new shares with nominal value of $1 were issued for a total amount of $159,058 in consideration for the contribution in kind representing the assets and liabilities transferred from HCCG, together with a related premium for an amount of $2,232,000 disclosed under “Share premium".

On 12 December 2019, HCCII, the Company’s sole shareholder resolved to increase the capital of the Company by $20,000,000 through an increase to the Company’s share premium.

As of 31 December 2019, the capital and reserves amounts to $138,527,060 and is represented by $1,159,060 share capital divided into 1,159,060 shares fully paid up with a nominal value of $1, by $141,232,000 share premium (including the related premium following the cross-border merger as indicated above), other reserves of $285,000, legal reserve of $15,000 and a loss for 2019 of $4,164,000.

Legal reserve
Under Luxembourg company law, the Company is required to allocate a minimum of 5% of its annual net income to a legal reserve, until this reserve equals 10% of the subscribed capital. The legal reserve may not be distributed to shareholders, except upon the dissolution of the Company.

Other reserves
As of 31 December 2019, the Company has allocated to the non-distributable reserves an amount corresponding to five times the amount of reduction of the Net Wealth Tax. This reserve is non-distributable for a period of five years from the year following the one during which the Net Wealth Tax was reduced.

16. Provision for current taxation

	2019	2018
Provision for current tax	**$’000**	**$’000**
	-	102

A current tax debtor of $0.1m is included within Other Debtors.

17. Creditors

	2019	2018
	$’000	**$’000**
Creditors arising out of direct insurance operations	44,768	-
Creditors arising out of reinsurance operations	112,116	-
Other creditors	35,243	843
Total	**192,127**	**843**

As of 31 December 2019, creditors arising out of direct insurance operations of $44.8m is approved claims payments of $23.1m, profit commissions payable on inwards business of $8.3m, amounts due under co-insurance arrangements of $11.2m and other insurance payables of $2.2m. Creditors arising out of reinsurance operations of $112.1m comprises reinsurance premiums payable .

Other creditors of $35.2m is deposits on Surety business of $23.9m and mainly HCC international company creditors of $9.3m. Creditor balances transferred from HCCG on 1 January 2019 amounted to $1.1m.

Creditors	**2019 Affiliate companies**	**2019 Other companies**	**2019 Total**
	$'000	**$'000**	**$'000**
Creditors arising out of direct insurance operations	-	44,768	44,768
Creditors arising out of reinsurance operations	69,989	42,127	112,116
Other creditors	9,328	25,915	35,243
Total	**79,317**	**112,810**	**192,127**

Creditors	**2018 Affiliate companies**	**2018 Other companies**	**2018 Total**
	$'000	**$'000**	**$'000**
Creditors arising out of direct insurance operations	-	-	-
Creditors arising out of reinsurance operations	-	-	-
Other creditors	843	-	843
Total	**843**	**-**	**843**

Creditors classified based on their duration are:

As at 31 December 2019	**Within 5 years**	**After more than 5 years**	**Total**
	$'000	**$'000**	**$'000**
Creditors arising out of direct insurance operations	44,768	-	44,768
Creditors arising out of reinsurance operations	112,116	-	112,116
Other creditors	35,243	-	35,243
Total	**192,127**	**-**	**192,127**

As at 31 December 2018	**Within 5 years**	**After more than 5 years**	**Total**
	$'000	**$'000**	**$'000**
Creditors arising out of direct insurance operations	-	-	-
Creditors arising out of reinsurance operations	-	-	-
Other creditors	843	-	843
Total	843	-	843

18. Accruals and deferred income

As of 31 December 2019, accruals and deferred income of $66.9m includes reinsurer's share of deferred acquisition costs of $39.0m, in addition to accruals and deferred income of $27.9m (2018 $13k) mainly comprising $16.1m of premium taxes and $11.8m of other accrued expenses. Accrued expenses balances transferred from HCCG on 1 January 2019 amounted to $1.4m.

19. Breakdown of gross premiums written

For the year ended 31 December 2019, non-life insurance gross premiums written can be split as follows:

	2019
	$'000
Inward direct insurance	421,132
Inward reinsurance assumed	86,040
	507,172

The reported gross premiums written has been increased by the value of the gross unearned premium transferred to the Company under the Part VII process of $117.6m (see Note 6).

	2019
Direct insurance - Line of business	$'000
Specialty	218,166
London Market Marine and Property	17,517
European Property and Casualty	185,449
	421,132

20. Reinsurance balance

For the year ended 31 December 2019, the Outward reinsurance premiums is an expense of $399.4m (2018 nil).

21. Geographic analysis of premiums written

For the year ended 31 December 2019, gross direct insurance premiums amounting to $421.1m (2018 nil) may be broken down into geographic zones according to where the contracts have been concluded:

	2019
	$'000
Grand Duchy of Luxembourg	751
Spain	135,209
France	116,732
United Kingdom	53,743
Germany	45,127
Ireland	23,069
Italy	16,720
Belgium	16,508
Netherlands	11,859
Denmark	1,413
	421,132

The principal technical result before allocation of investment return of the insurance business may be broken down between direct insurance and reinsurance acceptances as follows:

	Direct insurance	Reinsurance acceptances	Total
	$'000	**$'000**	**$'000**
Gross premiums written	421,132	86,040	507,172
Gross premiums earned	300,226	70,125	370,351
Gross claims	(178,754)	4,169	(174,585)
Gross acquisition costs	(57,943)	(16,320)	(74,263)
Gross operating expenses (net of technical income)	(51,013)	(11,916)	(62,929)
Reinsurance balance	(54,209)	(4,220)	(58,429)
Technical result	(41,693)	41,838	145

22. Investment return - allocated from non-technical account

For the year ended 31 December 2019, the total net investment return of $4.7m was allocated from the non-technical account to the technical account.

23. Other technical income, net of reinsurance

For the year ended 31 December 2019, other technical income amounting to $0.3m is fee income.

24. Claims incurred, net of reinsurance

For the year ended 31 December 2019, claims incurred net of reinsurance was $41.8m and the amount relating to direct insurance amounted to $49.5m.

25. Acquisition costs

For the year ended 31 December 2019, total written commissions to intermediaries was $99.8m and the amount relating to written direct insurance amounted to $82.0m (2018 nil).

26. Administrative expenses

For the year ended 31 December 2019, administrative expenses of $63.3m are staff salaries and other operating expenses.

27. Reinsurance commissions and profit participations

For the year ended 31 December 2019, reinsurance commissions and profit participation amounting to $114.7m is income received from reinsurers relating to their contribution to the commissions and operating expenses resulting from premiums ceded.

28. Other charges including value adjustments

For the year ended 31 December 2019, other charges including value adjustment of $6.3m comprises the impact of foreign exchange translation amounting to $4.2m (2018 nil) and corporate oversight costs of $2.1m.

29. Taxation

For the year ended 31 December 2019, the tax charge amounted to $2.7m (2018 $0.1m).

30. Personnel employed during the year

	Year ending 31 December 2019	From 8 Feb to 31 December 2018
Average number of employees	230	1
Year end number of employees	300	6

	Year ending 31 December 2019	From 8 Feb to 31 December 2018
Managerial staff	2	1
Administrative staff	298	5
Total	**300**	**6**

Employee related costs are included in administrative expenses and are broken down as follows:

	Year ending 31 December 2019	From 8 Feb to 31 December 2018
	$'000	**$'000**
Wages and salaries	22,307	131
Social security costs	6,884	28
of which pensions	*1,508*	*28*
	29,191	159

31. Advances to supervisory staff

No advances were granted to members of the supervisory staff during 2019.

32. Remuneration granted to members of supervisory bodies and commitments entered into in respect of retirement pensions for former members of those bodies.

Emoluments granted in respect of the 2019 financial period to the members of the Board of Directors in fulfilment of their responsibilities amounted to $116k (2018 $35k).

33. Taxes

The Company is subject to the general tax regulations applicable to all companies in Luxembourg. The branches of the Company are subject to the tax regulation in the respective countries.

34. Fees to the auditor

The audit fees (excluding VAT) for the period ended 31 December 2019 amounted to $463k (2018 $296k).

	Note	2019	2018
		$'000	$'000
Audit fees	1	441	47
Other permissible non-audit services	2	22	249
Total		**463**	**296**

1. Audit fees represent fees for the audit of the annual accounts and related regulatory reports. The fees to the auditor are included in the administrative expenses in the profit and loss account.
2. The fees for other permissible non-audit services in 2019 represent fees in relation to the cross-border merger (see note 7) and in 2018 in relation to the audit of the Contribution in Kind as detailed in note 6, which were borne by other group companies.

35. Subsequent events

The coronavirus pandemic (Covid-19) is a material post balance sheet market event. The Company's exposure to potential claims lies principally with the Event Cancellation business which has comprehensive reinsurance coverage with high quality reinsurers. Additionally, the investment portfolio is principally invested in US dollar government and corporate securities. The market value of the investment portfolio hasn't changed materially since 31 December 2019. As explained in the Directors' Report, this does not impact the future trading outlook or the Company's ability to continue as a going concern.

36. Parent company and ultimate controlling party

Tokio Marine Europe S.A. is included in the consolidated financial statements of Tokio Marine Holdings Inc., its ultimate parent company. The registered office, where the consolidated financial statements are available is located at Tokio Marine Nichido Building Shinkan, 2-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-0005, Japan and on the website http://www.tokiomarinehd.com/en/ir/library/annual_report/.

37. Off balance sheet commitments

At 31 December 2019, the Company has entered into a pledge agreement where assets amounting to $72k (2018 $72k) were pledged in relation to rent obligations.