



Mitsui Sumitomo Insurance Company (Europe), Limited

Solvency and Financial Condition Report

for the Year Ending 31 December 2023





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Directors' Responsibility Statement

We acknowledge our responsibility for preparing Mitsui Sumitomo Insurance Company (Europe), Limited's Solvency and Financial Condition Report in all material respects in accordance with the PRA Rules and the Solvency II Regulations.

We are satisfied that:

- a) throughout the financial year in question, Mitsui Sumitomo Insurance Company (Europe), Limited has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations applicable to Mitsui Sumitomo Insurance Company (Europe), Limited, and
- b) it is reasonable to believe that Mitsui Sumitomo Insurance Company (Europe), Limited has continued so to comply subsequently and will continue so to comply in future.

For and on behalf of the Board of Mitsui Sumitomo Insurance Company (Europe), Limited.

Martyn Rodden
Chief Executive Officer

Andrew Slater
Chief Financial Officer

17 April 2024

Report of the external independent auditor to the Directors of Mitsui Sumitomo Insurance Company (Europe), Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the relevant elements of the Solvency and Financial Condition Report

Opinion

We have audited the following documents prepared by Mitsui Sumitomo Insurance Company (Europe), Limited as at 31 December 2023:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of Mitsui Sumitomo Insurance Company (Europe), Limited ('the Company') as at 31 December 2023 (**'the Narrative Disclosures subject to audit'**); and
- Company templates S02.01.02, S17.01.02, S23.01.01, S25.01.21, S28.01.01 (**'the Templates subject to audit'**).

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the **'relevant elements of the Solvency and Financial Condition Report'**.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the Other Information which comprises:

- The 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;
- Company templates S05.01.02, S05.02.01, S19.01.21; and
- the written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report (**'the Statement of Directors' Responsibilities'**).

To the extent the information subject to audit in the relevant elements of the Solvency and Financial Condition Report includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of the Company as at 31 December 2023 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), including ISA (UK) 800 and ISA (UK) 805. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we

have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the PRA. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

In auditing the Solvency and Financial Condition Report, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report is appropriate.

Our audit procedures to evaluate the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report included but were not limited to:

- Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the company's ability to continue as a going concern;
- Making enquiries of the directors to understand the period of assessment considered by them, the assumptions they considered and the implication of those when assessing the company's future financial performance;
- Challenging the appropriateness of the directors' key assumptions in their cash flow forecasts through inquiries with the Chief Financial Officer;
- Assessing the reasonableness of managements model used in computing the forecasted cashflow;
- Assessing the historical accuracy of forecasts prepared by the directors performing retrospective review of the historical forecasts;
- Inspecting correspondence with relevant regulatory authorities to identify any factors that may cause a material uncertainty to the going concern assumption;
- Considering the consistency of the directors' forecasts with other areas of the relevant elements of the Solvency and Financial Condition Report and our audit; and
- Evaluating the appropriateness of the directors' disclosures in the relevant elements of the Solvency and Financial Condition Report on going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the Solvency and Financial Condition Report is authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Other Information

The Directors of the Company are responsible for the Other Information.

Our opinion on the relevant elements of the Solvency and Financial Condition Report does not cover the Other Information and, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the Solvency and Financial Condition Report or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors of the Company are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations which have been modified by the modifications, and supplemented by the approvals and determinations made by the PRA under section 138A of FSMA, the PRA Rules and Solvency II regulations on which they are based.

The Directors of the Company are also responsible for:

- such internal control as management determines is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error;
- overseeing the Company's financial reporting process; and
- 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 they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the relevant elements of the Solvency and Financial Condition Report are prepared, in all material respects, with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are

considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the Solvency and Financial Condition Report.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

Based on our understanding of the Company and the insurance sector in which it operates, we considered that non-compliance with the following laws and regulations have a material impact on the relevant elements of the Solvency and Financial Condition Report. We also considered the permissions and supervisory requirements of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority that have a direct impact on the preparation of relevant elements of the Solvency and Financial Condition Report.

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included, but were not limited to:

- Inquiring of directors and management as to whether the Company is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- Inspecting correspondence, if any, with relevant licensing or regulatory authorities;
- Communicating identified laws and regulations to the engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- Considering the risk of acts by the Company which were contrary to applicable laws and regulations, including fraud.

We also considered those laws and regulations that have a direct impact on the preparation of relevant elements of the Solvency and Financial Condition Report such as the Solvency II regulations.

In addition, we evaluated the Directors' and management's incentives and opportunities for fraudulent manipulation of the relevant elements of the Solvency and Financial Condition Report (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to the valuation of the technical provisions, and significant one-off or unusual transactions.

Our audit procedures in relation to fraud included but were not limited to:

- Making enquiries of the Directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud;
- Addressing the risks of fraud through management override of controls by performing journal entry testing;
- Reviewing the accounting estimate in relation to the valuation of technical provisions for evidence of management bias; and

- Designing audit procedures to incorporate unpredictability around nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities, including fraud, rests with management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

A further description of our responsibilities is available on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on Other Legal and Regulatory Requirements

Other information

In accordance with Rule 4.1 (3) of the External Audit Chapter of the PRA Rulebook for Solvency II firms we are required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the Company's statutory financial statements. 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.

Use of the audit report

This report, including the opinion, has been prepared for the Directors of the Company to enable them to comply with their obligations under External Audit Rule 2.1 of the Solvency II Firms Sector of the PRA Rulebook and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Directors for our audit work, for this report, or for the opinions we have formed.


Bill Schiller (Apr 17, 2024 16:33 GMT+1)

Bill Schiller (Senior Statutory Auditor)
 for and on behalf of Mazars LLP
 Chartered Accountants and Statutory Auditor
 30 Old Bailey
 London
 EC4M 7AU
 17 April 2024



Executive Summary

Business and Performance Summary

The Company provides insurance services to both Japanese and non-Japanese clients.

Japanese clients are located in the United Kingdom, continental Europe, and sub-Saharan Africa. Prior to the Russian invasion of Ukraine, limited services were provided to Japanese clients in Russia, but these were discontinued in 2022. The majority of the premium and insurance risks derived from Japanese clients are ceded to reinsurers in return for reinsurance commission.

Non-Japanese clients are served through a combination of delegated underwriting authorities and individual underwriting. Clients served through delegated underwriting authorities are located world-wide, whereas clients whose risks are individually underwritten are located in the United Kingdom and countries within the Commonwealth of Independent States ("CIS"). Prior to the Russian invasion of Ukraine, a small number of risks were underwritten for clients located in Russia. This business was discontinued in 2022. All of the premium and insurance risks derived from non-Japanese clients are ceded to reinsurers in return for reinsurance commission.

All of the Company's business is conducted from its office in the UK or by staff working from their homes in the UK. The agents to which the Company has delegated underwriting authority conduct their business from offices in the UK and USA.

The Company's material lines of business are the provision of non-life insurance services for the following types of commercial risk:

- Marine, aviation and transport risks
- Fire and other damage to property risks
- General liability risks
- Credit and suretyship risks

The purpose of the Company is to contribute to the development of Japanese clients and support key business partners by enabling safety and peace of mind through the global insurance business.

During 2023 the projected ultimate cost of the claims incurred in 2022 from flooding in Durban in South Africa reduced, producing a credit to the profit and loss account. However, even with this effect excluded, the gross claim ratio (being the ratio of gross claims incurred before reinsurance recoveries to gross earned premium) remained relatively low at 32.1%. This compares to the equivalent ratio in 2022 (with the effect of the Durban flood claims also excluded) of 26.7% reflecting the ongoing low level of attritional claim activity.

The Company's insurance portfolio includes policies written through a delegated underwriting authority that cover risks related to the leasing of aircraft by aviation lessors to operators, including operators in Russia. Although these lessors have in many cases not been able to take possession of many of their aircraft since the Russian invasion of Ukraine, they are not currently considered to have valid or indemnifiable insurance claims under these policies. All of the insurance risk from these policies is ceded to one of the Company's reinsurers, and therefore if claims were to be incurred they would be fully recoverable from the reinsurer leaving no net claim charge to the Company.

The expansion of business from non-Japanese clients is primarily responsible for the increase in gross written premiums from £201,644k in 2022 to £260,626k in 2023. Gross written premiums from non-Japanese clients served through delegated underwriting authorities increased by 41% from £87,321k to £123,158k. Gross written premiums from non-Japanese clients individually underwritten increased by 23% from £62,951k to £77,193k. All of these premiums are ceded to reinsurers and hence have no effect on net written premiums.

Business from Japanese clients has also expanded with gross written premium of £51,372k in 2022 increasing to £60,275k in 2023. This accounts for all the growth in net written premiums from £4,206k in 2022 to £5,387k in 2023.

Reinsurance commission income net of gross commission is the Company's primary source of profit and has increased from £13,252k in 2022 to £18,721k in 2023. This reflects the overall growth in business and the consequent increase in reinsurance commission earned from premium ceded to reinsurers, and is primarily responsible for the improvement in the underwriting result.



Recent increases in the Bank of England base rate caused the value of the Company's investment in a fund regulated under the Undertakings for the Collective Investment in Transferable Securities ("UCITS") regulatory framework to increase from the fourth quarter of 2022 through to the end of 2023 to produce a gain for 2023 of £3,185k.

Returns available from asset types with negligible exposure to market risk increased over the course of 2023 in line with the increases in the Bank of England base rate. These returns combined with the gains from the UCITS fund produced a total investment gain in 2023 of £6,963k.

The Company's results in 2023 and 2022 are summarised in the following table:

Profit or Loss account	2023	2022
	£k	£k
Gross Written Premium	260,626	201,644
Net Earned Premium	5,459	3,979
Net Claims Incurred	463	(299)
Reinsurance Commission Income net of Gross Commission	18,721	13,252
Technical Expenses	202	(364)
Operational Expenses	(9,337)	(8,738)
Underwriting Profit/(Loss)	15,508	7,830
Investment return	6,963	198
Foreign exchange gain / (loss)	(863)	635
Profit before tax	21,608	8,663
Tax charge	(4,769)	(643)
Profit after tax	16,839	8,020

Statement of Comprehensive Income	2023	2022
	£k	£k
Profit after tax	16,839	8,020
Currency translation differences	-	142
Total Comprehensive Income	16,839	8,162

<i>Net Claims ratio</i>	<i>(8%)</i>	<i>8%</i>
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Business from Japanese clients has also expanded with gross written premium of £51,372k in 2022 increasing to £60,275k in 2023. This accounts for all the growth in net earned premiums from £3,979k in 2022 to £5,459k in 2023.

Reinsurance commission income net of gross commission, being the reinsurance commission receivable less the commission payable for the period of cover within the calendar year, has increased from 2022 to 2023 reflecting the overall growth in business and the consequent increase in reinsurance commission earned from premium ceded to reinsurers. This increase in net commission income is the largest factor in the overall improvement in the underwriting result.

In addition to its underwriting activities the Company holds an investment portfolio from which it generates an investment return. At 31 December 2023 this portfolio comprised investments in a fund regulated under the Undertakings for the Collective Investment in Transferable Securities ("UCITS") regulatory framework, bank



Commercial Paper and Certificates of Deposit (classified as Corporate Bonds), term deposits, money market funds and current bank accounts.

The value of the investment portfolio and cash holdings by investment type at 31 December 2023 and 31 December 2022 is set out in the following table:

	Fair value at 31 Dec 2023 £k	Fair value at 31 Dec 2022 £k
Corporate Bonds	19,849	34,695
Bank term deposits	40,000	20,000
UCITS fund	70,638	67,453
Money market funds	32,812	29,834
Current bank accounts	21,095	11,192
Total	184,394	163,174

The allocation of funds to the various investment types is set by reference to risk appetites which limit the concentration of deposits or investments with any single counterparty, and ensure minimum levels of creditworthiness and liquidity. The highest level of return is sought within these constraints.

The returns achieved in 2023 and 2022 by investment type are set out in the following tables:

2023	Corporate Bonds	Bank term deposits	UCITS fund	Money market funds	Total
Return (£k)	1,308	1,250	3,185	1,276	7,019
Expenses (£k)	50	-	(105)	-	(55)
Net of expenses	1,358	1,250	3,080	1,276	6,963
Yield (% of amount invested)	4.6%	4.4%	4.6%	3.0%	4.2%
Expenses (%)	0.2%	-	(0.2%)	-	(0.0%)
Net of expenses	4.8%	4.4%	4.5%	3.0%	4.1%

2022	Corporate Bonds	Bank term deposits	UCITS fund	Money market funds	Total
Return (£k)	283	316	(546)	262	316
Expenses (£k)	(15)	-	(103)	-	(118)
Net of expenses	268	316	(649)	262	198
Yield (% of amount invested)	1.6%	1.1%	(0.8%)	0.8%	0.2%
Expenses (%)	(0.1%)	-	(0.2%)	-	(0.1%)
Net of expenses	1.5%	1.1%	(1.0%)	0.8%	0.1%

The investment return net of expenses in 2023 at a gain of 4.1% compares to a gain of 0.1% in 2022.

Following falls over the first three quarters of 2022 the performance of the holding in the UCITS fund improved significantly from the fourth quarter of 2022 through to the end of 2023. This performance was driven by increases in the Bank of England base rate. The fund returned an overall gain in 2023 of £3,185k. Returns available from asset types with negligible exposure to market risk improved over the course of 2023 in line with continuing increases in the Bank of England base rate. These returns combined with gains from the UCITS fund produced an overall investment gain of £7,019k before expenses.

System of Governance

Board, committees and organisation structure

The ultimate responsibility and authority over the conduct of all the affairs of the Company rest with its board of directors ("the Board").



From 1 January 2023 until 31 March 2023 the Company's Board of Directors (the "Board") was composed of three independent Non-Executive Directors, one Non-Executive Director employed by another MS&AD Group company and three executive directors. Following a six month hand-over period the incumbent Chair of the Audit Committee and Risk and Capital Committee retired on 31 March 2023, her role being taken over by one of the other Non-Executive Directors. Two additional executive directors were appointed later in the year, the first on 24 October 2023 and the second on 6 December 2023, bringing the total number of executive directors to five.

The Board has delegated its authority to a number of committees to facilitate and assist in the execution of its responsibilities. The list of these committees is as follows:

- Audit Committee
- Risk and Capital Committee
- Remuneration and Nomination Committee
- Underwriting and Claims Committee
- Operations Committee
- Finance Committee
- Reserving Committee

Each committee operates in accordance with its own individual Terms of Reference and other relevant policies, frameworks and procedures.

To support the Board and its committees, the Company has also established two types of management meeting, being i) an Executive Directors Meeting, and ii) a Managers Meeting. Both forums also operate in accordance with their own individual Terms of Reference.

The Company's organisation structure is set out in a Management Responsibilities Map which sets out the Company's key functions, a summary of significant responsibilities allocated to the individuals who are responsible for each of these functions, and the reporting lines for each of those individuals. The following have been identified as the Company's key functions:

- Risk Management Function
- Compliance Function
- Internal Audit Function
- Actuarial Function
- Information Technology Function
- Claims Function
- Reinsurance Function
- Underwriting Function
- Finance Function
- Investment Management Function
- Japanese Interests Abroad Marketing Function
- Human Resources Function

The key functions regularly report their activities to the Board and its committees.

Remuneration

The remuneration of all employees is overseen by the Remuneration and Nomination Committee, the membership of which is composed exclusively of Non-Executive Directors, and controlled by the Company's Remuneration Policy. This policy allows the use of fixed and variable pay and long-term incentive plans. It is intended to ensure remuneration:

- is aligned to the long-term business strategy, business objectives and risk appetite,
- has appropriate linkage to the Company's and individuals' performance,
- is compliant with relevant PRA and FCA regulation or guidelines,
- supports the Company's aim of attracting, retaining and motivating its employees,
- is affordable considering the Company's overall performance and plans, and
- sets a consistent approach across the organisation.

Fit and Proper policy

All employees who run the Company and its key functions must satisfy the Company's Fit and Proper Policy. To do this they must satisfy the following criteria:



- 1) they must have suitable personal characteristics (including being of good repute and integrity),
- 2) they must possess the appropriate level of competence, knowledge and experience,
- 3) they must have the requisite qualifications,
- 4) they must have undergone or be undergoing all training required to enable such person to perform his or her function effectively in accordance with any regulatory requirements and contribute to the sound and prudent management of the Company, and
- 5) they must comply with Conduct standards and rules.

Risk management system, risk reporting, own risk and solvency assessment, and internal control

The Company uses the “three lines of defence” governance model with the aim of ensuring effective risk management. Each line of defence is defined as follows:

First Line of Defence - Risk Takers and Controllers

Risk takers and controllers comprise the majority of the people employed by the Company. They commit the Company to risk via income generating activities and interaction with existing or potential customers and clients, or through the development and operation of business infrastructure enabling staff to carry out tasks. There are also employees who help control, assure and reinforce the quality of the activities of the risk takers and controllers. They ensure the first line is taking, managing and controlling the risks they expose the Company to within defined parameters.

Second Line of defence – Corporate Risk Management

This group comprises the Compliance Function, the Risk Management Function, and the Risk and Capital Committee. These functions do not directly commit the Company to taking any risk. Instead they facilitate the ability of the first line to take the appropriate level of risk and manage the exposures the Company faces as a result. The second line of defence provides effective oversight, challenge and reporting of the first line’s risk-taking activities.

Third Line of defence – Internal Audit

This consists of the Internal Audit Function which provides independent assurance as to the appropriateness and effectiveness of the Company’s system of internal control. The Internal Audit Function is responsible for reviewing and testing all aspects of internal control across the business, including the effectiveness of the Board and committee structure. It reports directly to the Audit Committee, which meets at least four times a year.

Risk Reporting

The Company has a Risk Register containing details of risks, controls and assessment data. The information is tiered to allow for risk to be managed and reported at different levels of granularity. The Risk Management Function produces an Enterprise Wide Risk Exposure Summary report each quarter which is provided to the Board and Risk and Capital Committee. The Risk Management Function also provides reports to the Committees on actual performance compared to risk appetite, events and issues arising, and emerging risks.

Own Risk and Solvency Assessment (“ORSA”)

The ORSA is a continuous process overseen and supported by the Risk and Capital Committee. Its purpose is to inform management decisions with formal analyses of the risk and capital implications of those decisions. A full ORSA report is produced at least once a year summarising the implications of all key decisions made during the year and incorporating the updated business plan.

Internal control

The Company’s internal control system comprises strategies, policies, processes and procedures, backed by systematic measures (such as reviews, audits, and checks) to:

- conduct the Company’s business in an orderly and efficient manner,
- safeguard its assets and resources,
- deter and detect errors, fraud and theft,
- ensure accuracy and completeness of its data,
- produce reliable and timely financial and management information, and
- ensure adherence to relevant laws and regulations.

It is summarised in the Internal Control Policy which has five components as follows:

- 1) The control environment (being the general principles necessary for effective internal control)
- 2) The methods for identifying and evaluating risks and their associated controls
- 3) The main control activities (eg. approval processes, and review cycles)



- 4) Information processes and the controls to ensure completeness, accuracy and appropriateness of information
- 5) Monitoring effectiveness of controls

Risk Profile

In the course of its operations the Company is exposed to various risks categorised as follows:

Underwriting Risk

Underwriting risk comprises two elements: i) unprofitable future underwriting, and ii) adverse claims development from business already written. The Company purchases high levels of reinsurance protection to mitigate against both types of risk. The only part of the Company's business which is not fully protected by reinsurance, and for which the Company retains underwriting risk, is its provision of insurance services to Japanese clients. There have been no significant changes to the reinsurance programme in 2023. The growth in business from non-Japanese clients has been fully protected by reinsurance.

The retained underwriting risk (ie. the risk not covered by reinsurance protection) comes primarily from man-made catastrophes, natural catastrophes and large fire claims affecting property and marine policies, and industrial disease claims affecting liability policies.

Market Risk

At 31 December 2023 43% of the Company's investment portfolio had exposure to investment market risk.

From the first quarter of 2020 the Company began investing in a fund regulated under the Undertakings for the Collective Investment in Transferable Securities ("UCITS") regulatory framework with exposure to market risk to achieve a marginal increase in yield. As at 31 December 2023 the value of this investment represented 43% of the total investment portfolio. The fund has experienced volatility during the bouts of market turbulence caused by the Covid-19 pandemic, the Russian invasion of Ukraine in February 2022, and the increases in central bank base rates over the course of 2022 and 2023. To mitigate market risk the volatility of the fund is a limiting factor in the calculation of the maximum amount that can be invested in it at any given time.

Holdings in corporate bonds comprise only bank Commercial Paper with a term of no more than one year which is held to maturity. As such, they are valued at amortised cost, and unlike other types of corporate or government bonds, their value is not prone to fluctuate due to movements in the wider bond markets. Similarly holdings in money market funds, bank term deposits and operational cash balances, are not prone to fluctuation in value due to developments in wider investment markets.

The Company regularly monitors the foreign exchange market risk arising from differences in the value of its foreign currency assets and liabilities. Where differences are detected in excess of the tolerances set in the associated risk appetite, they are reduced by executing the necessary foreign exchange trades.

Credit Risk

The Company relies heavily on reinsurance, and as a consequence can recover from its reinsurers a significant proportion of the claims it pays. The Company is thereby exposed to the risk that its reinsurers are either unable to pay due to financial difficulties or unwilling to pay due to a dispute with the Company.

At 31 December 2023 the Company's investment assets were invested in a UCITS fund, bank Commercial Paper, bank term deposits, money market funds and cash held in current bank accounts. The Company is exposed to risk of default by the counterparties to all of these investment types.

The Company mitigates these credit risks by:

- setting limits on the exposure to individual reinsurers,
- requiring the wording for facultative reinsurance purchased for individual policies to be consistent with the original wording to minimise the potential for dispute,
- imposing minimum credit quality requirements for reinsurers and financial institutions,
- imposing minimum credit quality requirements on the investment portfolio as a whole, and
- setting limits on the amount that can be invested with any one counterparty across all types of investment.



Liquidity Risk

The most significant liquidity risk is that the Company may be required to pay a very large individual claim or a very large amount arising from an event following which claims are payable to multiple insured parties such as a natural catastrophe, and having insufficient liquid assets to do so. As noted above, the Company relies heavily on reinsurance. Therefore, it is likely that a large proportion of these claim payments would be recoverable from reinsurers.

The Company mitigates liquidity risk by:

- including “cash call clauses” in reinsurance contracts which allow the Company to make recoveries from reinsurers before paying claims to insured parties, and
- maintaining sufficient liquid assets to pay claims.

Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people, or systems, or from external events. The Company considers its most material Operational Risks are key person risk, business disruption, and IT systems failure. Succession plans have been developed to mitigate key person risk. The Company has also developed a business continuity plan to mitigate the risk of business disruption and IT system failure.

Group Risk

The Company is part of the MS&AD Insurance Group Holdings, Inc group (“MS&AD”) and relies upon its parent company, Mitsui Sumitomo Insurance Company Limited (“MSIJ”), to provide capital and other support to fulfil its strategy. The Company also shares certain services, including IT services, with MS Amlin Corporate Services Limited (“MS ACS”), another group company. Due to these interdependencies the Company could be adversely affected by the following:

- Withdrawal of support by MSIJ
- Lack of MSIJ strategic planning
- A downgrade of MS&AD’s credit ratings
- Contagion from the activities or poor reputation of another MS&AD subsidiary

The Company mitigates these risks by maintaining close communication with MSIJ to ensure the Company’s strategy is aligned to group strategy and to ensure MSIJ has a clear and accurate picture of the Company’s operations and performance. The Company’s management also liaise with MS ACS’s management to ensure shared services operate smoothly.

Valuation for Solvency Purposes

All items recorded on the Company’s balance sheet (being its assets, Technical Provisions and other liabilities) are valued for solvency purposes in accordance with Solvency II regulations. For most items on the balance sheet these are in line with the valuations used under UK Generally Accepted Accounting Practice (“UK GAAP”). The principal exceptions to this are the Technical Provisions. In accordance with Solvency II regulations the method of calculation differs from UK GAAP insofar as Solvency II requires the Technical Provisions to:

- take account of profits from policies written at the reporting date but the premium from which has not been recognised as earned under UK GAAP,
- take account of profits from policies not yet written or inception at the reporting date but to which the Company is legally bound,
- take account of all the operational expenses (and not just the claim handling expenses as required under UK GAAP) that would be incurred over the period required to fully discharge the insurance obligations represented by the Technical Provisions,
- take account of Events Not In Data (“ENIDs”) such as potential new sources of claims, an example being claims arising from new as yet unidentified diseases,
- exclude any margin above the best estimate of future liabilities that may have been included under UK GAAP,
- take account of the time value of money by discounting the value of the future cashflows represented by the Technical Provisions,



- include a risk margin which represents the cost of transferring the obligations to a third party and is calculated by considering the cost of holding capital to support the run-off of the Technical Provisions over their lifetime,
- include insurance and intermediary receivables that are not more than three months past due (such amounts being separately classified under UK GAAP), and
- include reinsurance payables (such amounts being separately classified under UK GAAP).

Standard actuarial methods have been used to calculate the Technical Provisions. Nevertheless they are subject to uncertainty arising from:

- future events
- the settlement of known claims
- delays in reporting claims
- the methodologies and assumptions used to estimate the Technical Provisions

Capital Management

At all times the Company expects to hold a wide margin of Own Funds over its capital requirements with regard to both its current business and its business planned to be written in the future. The Company calculates its Solvency Capital Requirement and Minimum Capital Requirement using the Standard Formula prescribed by the Solvency II regulations.

Total available Own Funds to meet the Company's Solvency Capital Requirement at 31 December 2023 stood at £134,878k (2022: £114,324k). Own Funds comprise Tier 1 Basic Own Funds of £114,878k and Tier 2 Ancillary Own Funds of £20,000k. All are eligible to meet the Solvency Capital Requirement.

Total available Own Funds to meet the Company's Minimum Capital Requirement at 31 December 2023 stood at £114,878k (2022: £94,324k) being Tier 1 Basic Own Funds. All of these Tier 1 Basic Own Funds are eligible to meet the Minimum Capital Requirement.

The Solvency Capital Requirement at 31 December 2023 was £59,765k (2022: £61,251k). The ratio of eligible Own Funds to this requirement is 226% (2022: 187%).

The Minimum Capital Requirement at 31 December 2023 was £14,941k (2022: £15,313k). The ratio of eligible Own Funds to this requirement is 769% (2022: 616%).



A. Business and Performance

A.1 Business

Mitsui Sumitomo Insurance Company (Europe), Limited (“the Company”), a private company limited by shares, is incorporated in the UK. The Company’s registered office and business address is:

122 Leadenhall Street
London
EC3V 4AG

Supervisory Authority

The supervisory authority of the Company is the Prudential Regulation Authority (“PRA”). The address of the PRA is:

The Prudential Regulation Authority
20 Moorgate
London
EC2R 6DA

External Auditors

The independent external auditors of the Company are:

Mazars LLP
30 Old Bailey
London
EC4M 7AU

Qualifying holdings and group structure

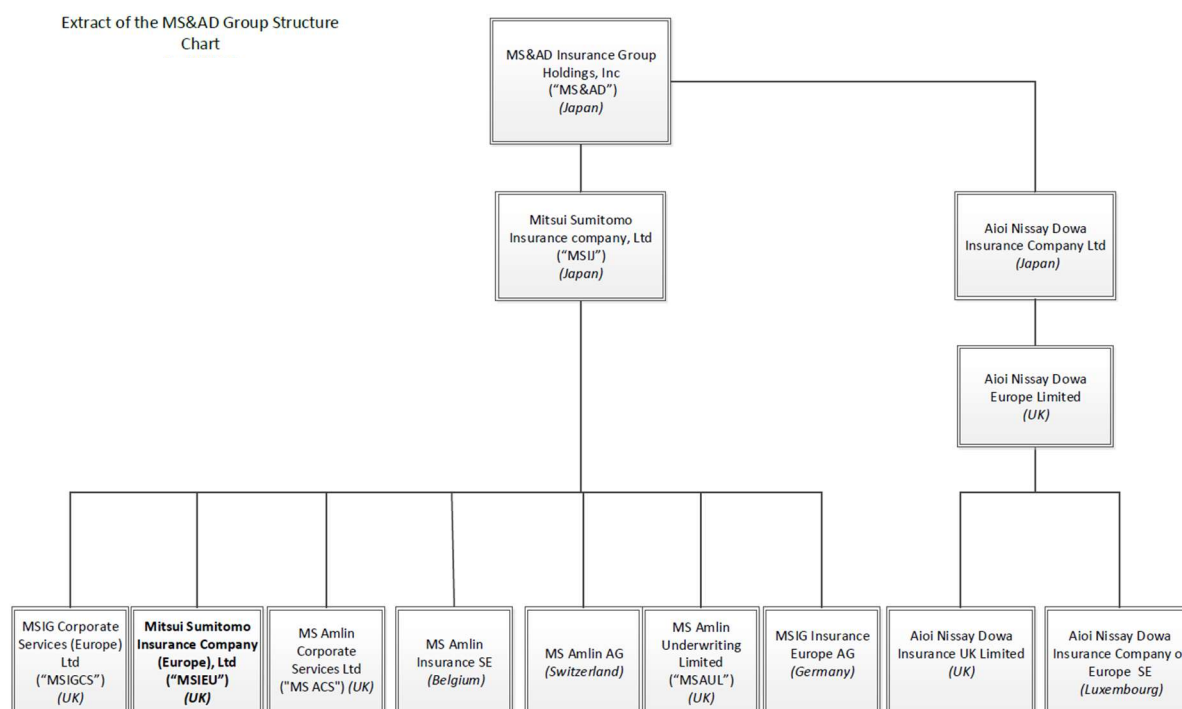
As at 31 December 2023 the entire share capital of the Company was owned by Mitsui Sumitomo Insurance Company Limited (“MSIJ”), a company incorporated in Japan. The ultimate parent of the Company is MS&AD Insurance Group Holdings, Inc., a company incorporated in Japan.

The direct and indirect holders of qualifying holdings in the Company are as follows:

Name of Undertaking	Country of Parent	Name of Parent	Amount of shares owned
Mitsui Sumitomo Insurance Company, (Europe) Limited	Japan	Mitsui Sumitomo Insurance Company Limited	100%
Mitsui Sumitomo Insurance Company Limited	Japan	MS&AD Insurance Group Holdings, Inc.	100%



The Company's position within the MS&AD Insurance Group Holdings, Inc group ("MS&AD"), headed by MS&AD Insurance Group Holdings, Inc, along with the position of other group companies referred to in this report is shown as at 1st April 2024 in the diagram below:



Material lines of business and material geographical areas

The Company provides insurance services to both Japanese and non-Japanese clients.

Japanese clients are located in the United Kingdom, continental Europe, and sub-Saharan Africa. Prior to the Russian invasion of Ukraine, limited services were provided to Japanese clients in Russia, but these were discontinued in 2022. The majority of the premium and insurance risks derived from Japanese clients are ceded to reinsurers in return for reinsurance commission.

Non-Japanese clients are served through a combination of delegated underwriting authorities and individual underwriting. Clients served through delegated underwriting authorities are located world-wide, whereas clients whose risks are individually underwritten are located in the United Kingdom and countries within the Commonwealth of Independent States ("CIS"). Prior to the Russian invasion of Ukraine, a small number of risks were underwritten for clients located in Russia. This business was discontinued in 2022. All of the premium and insurance risks derived from non-Japanese clients are ceded to reinsurers in return for reinsurance commission.

All of the Company's business is conducted from its office in the UK or by staff working from their homes in the UK. The agents to which the Company has delegated underwriting authority conduct their business from offices in the UK and USA.

The Company's material lines of business are the provision of non-life insurance services for the following types of commercial risk:

- Marine, aviation and transport risks
- Fire and other damage to property risks
- General liability risks
- Credit and suretyship risks

Significant business or other events

During 2023 the projected ultimate cost of the claims incurred in 2022 from flooding in Durban in South Africa reduced, producing a credit to the profit and loss account. However, even with this effect excluded, the gross claim ratio (being the ratio of gross claims incurred before reinsurance recoveries to gross earned premium)



remained relatively low at 32.1%. This compares to the equivalent ratio in 2022 (with the effect of the Durban flood claims also excluded) of 26.7% reflecting the ongoing low level of attritional claim activity.

The Company's insurance portfolio includes policies written through a delegated underwriting authority that cover risks related to the leasing of aircraft by aviation lessors to operators, including operators in Russia. Although these lessors have in many cases not been able to take possession of many of their aircraft since the Russian invasion of Ukraine, they are not currently considered to have valid or indemnifiable insurance claims under these policies. All of the insurance risk from these policies is ceded to one of the Company's reinsurers, and therefore if claims were to be incurred they would be fully recoverable from the reinsurer leaving no net claim charge to the Company.

The expansion of business from non-Japanese clients is primarily responsible for the increase in gross written premiums from £201,644k in 2022 to £260,626k in 2023. Gross written premiums from non-Japanese clients served through delegated underwriting authorities increased by 41% from £87,321k to £123,158k. Gross written premiums from non-Japanese clients individually underwritten increased by 23% from £62,951k to £77,192k. All of these premiums are ceded to reinsurers and hence have no effect on net written premiums.

Business from Japanese clients has also expanded with gross written premium of £51,372k in 2022 increasing to £60,276k in 2023. This accounts for all the growth in net written premiums from £4,206k in 2022 to £5,387k in 2023.

Reinsurance commission income net of gross commission is the Company's primary source of profit and has increased from £13,252k in 2022 to £18,721k in 2023. This reflects the overall growth in business and the consequent increase in reinsurance commission earned from premium ceded to reinsurers, and is primarily responsible for the improvement in the underwriting result.

Since February 2020 investment has been made into a fund regulated under the Undertakings for the Collective Investment in Transferable Securities ("UCITS") regulatory framework. The fund's performance improved significantly from the fourth quarter of 2022 through to the end of 2023, driven by the recent increases in the Bank of England base rate. In 2023 the Company's investment in the fund returned an overall gain of £3,185k, compared to a loss of £546k in 2022.

Returns available from asset types with negligible exposure to market risk increased over the course of 2023 in line with the increases in the Bank of England base rate. These returns combined with the gains from the UCITS fund produced a total investment gain in 2023 of £6,963k.

Capital Management

The Company's capital structure was enhanced on 1 October 2022 by the introduction of a Letter of Credit for £20,000k of which the Company is the beneficiary. The Letter of Credit is issued by SMBC Bank International plc, a bank incorporated in the United Kingdom, for a minimum term of three years. The Prudential Regulation Authority has given approval for it to be taken into account as an amount of ancillary own funds when calculating the Company's total Own Funds for purposes of calculating its solvency ratio under the Solvency II regulatory regime. No further changes to the Company's capital structure have been made in 2023.

A.2 Underwriting Performance

The main business of the Company during 2023 was:

- a) provision of insurance services to Japanese clients located in the United Kingdom, continental Europe, and sub-Saharan Africa,
- b) provision of insurance services to non-Japanese clients located worldwide through delegated underwriting authorities ceding all the premium and insurance risks derived therefrom to reinsurers in return for reinsurance commission, and
- c) provision of insurance services to non-Japanese clients located in the United Kingdom and countries in the Commonwealth of Independent States ("CIS") by way of individual underwriting of risks and ceding all the premium and insurance risks derived therefrom to reinsurers in return for reinsurance commission.



Technical account	2023 £k	2022 £k
Gross Written Premium	260,626	201,644
Net Earned Premium	5,459	3,979
Net Claims Incurred	463	(299)
Reinsurance Commission Income net of Gross Commission	18,721	13,252
Underwriting Result before Expenses	24,643	16,932
Technical Expenses	202	(364)
Operational Expenses	(9,337)	(8,738)
Underwriting Profit/(Loss)	15,508	7,830

<i>Net Claims ratio</i>	<i>(8%)</i>	<i>8%</i>
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The expansion of business from non-Japanese clients is primarily responsible for the increase in gross written premiums from £201,644k in 2022 to £260,626k in 2023. Gross written premiums from non-Japanese clients served through delegated underwriting authorities increased by 41% from £87,321k to £123,158k. Gross written premiums from non-Japanese clients individually underwritten increased by 23% from £62,951k to £77,193k. All of these premiums are ceded to reinsurers and hence have no effect on net written premiums.

Business from Japanese clients has also expanded with gross written premium of £51,372k in 2022 increasing to £60,275k in 2023. This accounts for all the growth in net earned premiums from £3,979k in 2022 to £5,459k in 2023.

Reinsurance commission income net of gross commission, being the reinsurance commission receivable less the commission payable for the period of cover within the calendar year, has increased from 2022 to 2023 reflecting the overall growth in business and the consequent increase in reinsurance commission earned from premium ceded to reinsurers. This increase in net commission income is the largest factor in the overall improvement in the underwriting result.

As noted above, all of the non-Japanese business and the majority of business from Japanese clients is ceded to reinsurers and hence gross claims are mostly recoverable under the Company's reinsurance policies leaving a relatively small net claim charge.

The net claim ratio for the retained business improved to *negative* 8% in 2023 compared to 8% in 2022 continuing the benign trend seen in net claims experience in recent years.

The combination of these largely favourable developments has resulted in the underwriting result improving from a profit of £7,830k in 2022 to a profit of £15,508k in 2023.



Material lines of business

The Company's underwriting performance in 2022 and 2023 analysed by material line of business as presented in its financial statements is shown below:

2023	Marine, Aviation and Transport	Fire and other damage to property	General Liability	Credit	Total
	£k	£k	£k	£k	£k
Gross Written Premium	43,821	151,668	12,422	52,715	260,626
Net Earned Premium	2,247	2,275	882	55	5,459
Net Claims Incurred	(1,084)	2	1,566	(20)	463
Reinsurance Commission Income net of Gross Commission	2,922	11,894	1,659	2,245	18,721
Underwriting Result before Expenses	4,085	14,171	4,107	2,280	24,643
Technical Expenses					202
Operational Expenses					(9,337)
Underwriting Profit/(Loss)					15,508

<i>Net Claim ratio</i>	48%	(0%)	(177%)	37%	(8%)
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2022	Marine, Aviation and Transport	Fire and other damage to property	General Liability	Credit	Total
	£k	£k	£k	£k	£k
Gross Written Premium	35,881	119,477	14,733	31,553	201,644
Net Earned Premium	2,040	1,297	514	128	3,979
Net Claims Incurred	(1,337)	(1,282)	2,369	(50)	(299)
Reinsurance Commission Income net of Gross Commission	1,750	8,788	1,660	1,053	13,252
Underwriting Result before Expenses	2,454	8,803	4,544	1,131	16,932
Technical Expenses					(364)
Operational Expenses					(8,738)
Underwriting Profit/(Loss)					7,829

<i>Net Claim ratio</i>	66%	99%	(461%)	39%	8%
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Marine, Aviation and Transport

The gross written premium for the Marine, Aviation and Transport line of business during 2023 of £43,821k has increased by £7,940k since 2022. Of this increase £3,220k is due to new cargo business written for non-Japanese clients in CIS countries. A further £2,486k relates to increased volume of business from Japanese clients, with the remainder primarily due to increases in cargo business written for non-Japanese clients through a delegated underwriting authority.

As the Company cedes all of the premium from non-Japanese business to reinsurers, the increase in net earned premium is entirely due to the growth in business from Japanese clients.

Reinsurance commission income net of gross commission has increased by £1,172k from 2022 to 2023. This reflects the 68% increase in GWP since 2021 and consequent increase in reinsurance premium, the effect of which is time-lagged to allow for earning.

The net claim ratio in 2023 at 48% compares to 66% in 2022. The ratio was higher in 2022 due to the un-reinsured portion of claims incurred following flooding in Durban, South Africa in April 2022. In the absence of any major claim developments in 2023 the ratio has fallen back to a relatively low level reflective of the low level of attritional claims activity.



Fire and Other Damage to Property

The gross written premium for the Fire and Other Damage to Property line of business increased by £32,191k to reach £151,668k in 2023, this increase being due to the expansion of business written for non-Japanese clients through delegated underwriting authorities.

All of the premium from the delegated underwriting authorities was ceded to other insurance companies in return for reinsurance commission. Hence the growth in gross written premium had no effect on net earned premium, but is responsible for the £3,106k increase in reinsurance commission income net of gross commission from £8,788k in 2022 to £11,894k in 2023.

The increase in net earned premium from 2022 to 2023 is due to a number of relatively small adjustments made in 2022 to reinsurance premiums payable for policies written in 2021. Similar adjustments were not required in 2023.

The net claim ratio in 2023 of 0% compares to 99% in 2022. The high ratio in 2022 was due to a reduction in the reinsurers' share of claims provisions to reflect the possibility of non-recovery of reinsured claims on a number of policies written for non-Japanese clients that rely on a Russian reinsurer. Excluding this development, the net claim ratio in 2022 would have been 21%. This fell to 0% in 2023 reflecting the very low level of ongoing net attritional claim activity and the release of surplus claim reserves.

General Liability

The gross written premium for the General Liability line of business saw a decrease of £2,311k from £14,733k in 2022 to £12,422k in 2023 due to lower business volumes. This business comprises policies individually underwritten for both Japanese and non-Japanese clients. All of the business from non-Japanese clients is ceded to other insurance companies in return for reinsurance commission and hence has no effect on net earned premium. The increase in net earned premium from 2022 to 2023 is due to the effect of a marginally lower ceding ratio for gross premium from Japanese clients.

The effect of lower gross written premium in 2023 on reinsurance commission income net of gross commission is time-lagged to allow for earning. Hence reinsurance commission income net of gross commission has remained flat from 2022 to 2023.

The net claim ratio in 2023 of *negative* 177% compares to *negative* 461% in 2022. Both years have benefitted from favourable developments in prior year claim reserves.

Credit

Gross written premium for the Credit line of business has increased significantly from £31,553k in 2022 to £52,715k in 2023. This increase of £21,162k is primarily due to the continued growth in 2023 of a set of policies for non-Japanese clients first underwritten in 2022. All of these new policies are ceded to other insurance companies in return for reinsurance commission, and hence have no effect on net earned premium. They do, however, account for the increase in reinsurance commission income net of gross commission.

The un-reinsured portion of this class of business is small and hence net earned premium and net claims incurred are negligible.

Material geographical areas

During 2023 the principal geographical areas from which the Company generated gross written premium were the United Kingdom, European Union, CIS and USA. In territories where the Company does not have a licence to underwrite risks directly they are underwritten by local insurance companies and reinsured back to the Company. The agents to which the Company has delegated underwriting authority conduct their business from offices in the United Kingdom and USA.



The Company's Operational Expenses are incurred almost entirely in the United Kingdom¹.

The Company's underwriting performance in 2023 and 2022 by material geographical area based on location of risk is set out in the following tables:

2023	UK £k	European Union £k	CIS £k	USA £k	Other £k	Total £k
Gross Written Premium	91,310	18,664	35,630	73,036	41,986	260,626
Net Earned Premium	2,940	958	11	2	1,548	5,459
Net Claims Incurred	697	(6)	10	-	(239)	463
Reinsurance Commission Income net of Gross Commission	8,015	1,081	1,709	5,161	2,754	18,721
Underwriting Result before Expenses	11,653	2,033	1,730	5,162	4,063	24,643
Technical Expenses						202
Operational Expenses						(9,337)
Underwriting Profit/(Loss)						15,508

<i>Net Claims ratio</i>	(24%)	1%	(95%)	0%	15%	(8%)
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2022	UK £k	European Union £k	CIS £k	USA £k	Other £k	Total £k
Gross Written Premium	62,865	10,225	39,077	41,063	48,414	201,644
Net Earned Premium	1,455	1,054	30	1	1,439	3,979
Net Claims Incurred	1,619	111	(1,036)	-	(993)	(299)
Reinsurance Commission Income net of Gross Commission	5,271	1,523	1,752	2,253	2,454	13,252
Underwriting Result before Expenses	8,345	2,688	746	2,254	2,900	16,932
Technical Expenses						(364)
Operational Expenses						(8,737)
Underwriting Profit/(Loss)						7,830

<i>Net Claims ratio</i>	(111%)	(11%)	3453%	0%	69%	8%
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During 2023 gross written premium increased in the United Kingdom, European Union, and USA due to the expansion of business written for non-Japanese clients both individually underwritten and through delegated underwriting authorities.

The increase in reinsurance commission income net of gross commission in the United Kingdom, European Union, and USA mirrors the growth in gross written premium. Despite the fall in gross written premium in the CIS and Other regions, reinsurance commission net of gross commission is unchanged from 2022 to 2023 as commissions continue to be earned from business written in 2022.

The *credits* in net claims incurred in the United Kingdom in both 2022 and 2023 are due to the favourable developments in prior year claim reserves in the General Liability class of business.

¹ The only overseas expenses are in connection with a small marketing research office in Johannesburg, South Africa. These expenses are negligible.



A.3 Investment Performance

The fair value of the investment portfolio by investment type and cash holdings at 31 December 2023 and 31 December 2022 is set out in the following table:

	Fair value at 31 Dec 2023 £k	Fair value at 31 Dec 2022 £k
Corporate Bonds	19,849	34,695
Bank term deposits	40,000	20,000
UCITS fund	70,638	67,453
Money market funds	32,812	29,834
Current bank accounts	21,095	8,522
Total	184,394	160,504

Since February 2020 investment has been made into a fund regulated under the Undertakings for the Collective Investment in Transferable Securities (“UCITS”) regulatory framework. The fund has exposure to market risk and the investment is made with the intention of generating higher returns than those available from bank Commercial Paper and Certificates of Deposit (classified as Corporate Bonds), money market funds, and bank term deposits, all of which have negligible exposure to market risk. No new investment was made into the fund in 2023 leaving the total amount invested at £68,000k.

The allocation of funds to the various investment types is set by reference to risk appetites which limit the concentration of deposits or investments with any single counterparty, and ensure minimum levels of creditworthiness and liquidity. The highest level of return is sought within these constraints.

The returns achieved in 2023 and 2022 by investment type are set out in the following tables:

2023	Corporate Bonds	Bank term deposits	UCITS fund	Money market funds	Total
Return (£k)	1,308	1,250	3,185	1,276	7,019
Expenses (£k)	50	-	(105)	-	(55)
Net of expenses	<u>1,358</u>	<u>1,250</u>	<u>3,080</u>	<u>1,276</u>	6,963
Yield (% of amount invested)	4.6%	4.4%	4.6%	3.0%	4.2%
Expenses (%)	0.2%	-	(0.2%)	-	(0.0%)
Net of expenses	<u>4.8%</u>	<u>4.4%</u>	<u>4.5%</u>	<u>3.0%</u>	4.1%

2022	Corporate Bonds	Bank term deposits	UCITS fund	Money market funds	Total
Return (£k)	283	316	(546)	262	316
Expenses (£k)	(15)	-	(103)	-	(118)
Net of expenses	<u>268</u>	<u>316</u>	<u>(649)</u>	<u>262</u>	198
Yield (% of amount invested)	1.6%	1.1%	(0.8%)	0.8%	0.2%
Expenses (%)	(0.1%)	-	(0.2%)	-	(0.1%)
Net of expenses	<u>1.5%</u>	<u>1.1%</u>	<u>(1.0%)</u>	<u>0.8%</u>	0.1%

The investment return net of expenses in 2023 at a gain of 4.1% compares to a gain of 0.1% in 2022.

Following falls over the first three quarters of 2022 the performance of the holding in the UCITS fund improved significantly from the fourth quarter of 2022 through to the end of 2023. This performance was driven by increases in the Bank of England base rate. The fund returned an overall gain in 2023 of £3,185k. Returns available from asset types with negligible exposure to market risk improved over the course of 2023 in line with continuing increases in the Bank of England base rate. These returns combined with gains from the UCITS fund produced an overall investment gain of £7,019k before expenses.



This compares to an investment gain in 2022 of £316k before expenses, comprising a loss of £546k from the UCITS fund and gains from other asset types of £861k. The loss from the UCITS fund was due to adverse developments in bond markets, whilst the lower return from other asset types reflected the lower average Bank of England base rate over the course of 2022 compared to 2023.

Investment expenses

Investment expenses incurred over the year to 31 December 2023 of £55k (2022: £118k) comprise management fees for the investment in the UCITS fund and arrangement fees for term deposits and bank Commercial Paper.

As a result of these developments the overall investment return (net of expenses and charges) increased from a gain of £198k in 2022 to a gain of £6,963k in 2023.

A.4 Performance of other activities

The Company had no other material income or expenses during the years to 31 December 2023 and to 31 December 2022 other than those arising from its underwriting and investment activities.

A.5 Any other information

The Company has no other information to report on its business and performance.



B. System of Governance

B.1 General Information on the system of governance

Structure of the administrative, management or supervisory body

From 1 January 2023 until 31 March 2023 the Company's Board of Directors (the "Board") was composed of three independent Non-Executive Directors, one Non-Executive Director employed by another MS&AD Group company and three executive directors. Following a six month hand-over period the incumbent Chair of the Audit Committee and Risk and Capital Committee retired on 31 March 2023, her role being taken over by one of the other Non-Executive Directors. Two additional executive directors were appointed later in the year, the first on 24 October 2023 and the second on 6 December 2023, bringing the total number of executive directors to five.

The Board has ultimate responsibility and authority over the conduct of all of the affairs of the Company and has established and adopted a formal document detailing its terms of reference and matters reserved for the Board. The Board is chaired by an independent Non-Executive Director.

The role of the Board is to:

- (i) create value for the shareholder, and ensure that obligations to the shareholder and other stakeholders are understood and met,
- (ii) set values and standards,
- (iii) establish a sustainable business model and a clear strategy consistent with that model,
- (iv) provide the entrepreneurial leadership of the Company within a framework of prudent and effective controls which enable risk to be assessed and managed,
- (v) articulate and oversee clear and measurable statements of risk appetite against which major business decisions are actively assessed,
- (vi) ensure systems and controls are in place to comply with all relevant regulations,
- (vii) promote a culture that supports prudent management,
- (viii) ensure that the necessary financial and human resources are in place for the Company to meet its objectives, and
- (ix) review management performance.

The Board has delegated its authority to a number of its Committees to facilitate and assist with the execution of its responsibilities. The Board Committees operate in accordance with their individual Terms of Reference and other relevant policies, frameworks and procedures.

The Board has appointed the Chairman as the Consumer Duty Champion who is supported by the Head of Compliance. The Chairman holds a meeting with the Underwriting Director (the SMF responsible for Product Governance), Chief Executive Officer and the Head of Compliance on a regular basis to cover Consumer Duty matters where they apply.

The Company's committee structure is set out in Appendix 2.

Audit Committee

The Audit Committee membership comprises all of the Non-Executive Directors and meets at least four times a year. The regular attendees of the Audit Committee include the Chief Executive Officer, Chief Financial & Operations Officer, Chief Actuary & Chief Risk Officer, Head of Compliance, and Head of Internal Audit. The Audit Committee is chaired by an independent Non-Executive Director.

The main roles of the Audit Committee are to:

- review and monitor the integrity of the Company's financial statements,
- review the annual accounts and annual regulatory returns, and make recommendations with regard to these to the Board,
- review reports from internal and external auditors,
- monitor and review the effectiveness of the Internal Audit function, and
- monitor and review the independence, objectivity and effectiveness of external auditors.



Risk and Capital Committee

The Risk and Capital Committee membership comprises all of the directors (including Non-Executive Directors), Chief Underwriting Officer, Chief Actuary & Chief Risk Officer, and Head of Compliance. The Risk and Capital Committee meets at least four times a year. The Risk and Capital Committee is chaired by an independent Non-Executive Director.

The main roles of the Risk and Capital Committee are to:

- oversee risk management and compliance activities and capital adequacy,
- promote a strong corporate risk management and compliance culture throughout the Company,
- oversee whistleblowing and financial crime prevention activities,
- monitor and assess climate change and sustainability risks, and
- monitor and assess risks associated with Operational Resilience and Business Continuity.

There are three working groups reporting to the Risk and Capital Committee, being the Capital Modelling Working Group, the Emerging Risk Working Group, and the Climate Risk Working Group. The Climate Risk Working Group is responsible for reviewing and monitoring compliance with the PRA's Supervisory Statement SS3/19.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee membership comprised all of the Non-Executive Directors and meets at least three times a year. The regular attendees of the Remuneration and Nomination Committee include the Chief Executive Officer and Head of HR. The Chief Executive Officer does not participate in the meeting when conflicts of interest exist or may potentially exist. The Remuneration and Nomination Committee is chaired by a Non-Executive Director.

The main roles of the Remuneration and Nomination Committee are to:

- review, consider and make recommendations to the Board in respect of all proposed appointees to the Board, Senior Management Functions ("SMFs") and Certification Functions ("CFs"),
- exercise authority delegated by the Board to consider and approve the remuneration of executive directors (with the exception of two executive directors seconded from MSII) and the Company's remuneration strategy and policies, and
- ensure that adequate succession planning is undertaken and maintained for all directors and holders of SMFs and CFs.

Underwriting and Claims Committee

The Underwriting and Claims Committee membership consists of three executive directors, the Chief Underwriting Officer, and the Head of Claims & Operations. It is routinely attended by the Chief Actuary & Chief Risk Officer and the Technical Control Managers.

The Underwriting and Claims Committee meets at least four times a year and its main roles are to:

- review and recommend to the Board strategy in relation to underwriting, claims, reinsurance, and delegated underwriting authorities,
- keep under review the performance and activities of underwriting, claims, reinsurance, and delegated underwriting authorities,
- identify, oversee, monitor and mitigate (where possible) the key insurance, reinsurance and other risks which the Underwriting and Claims Committee is deemed responsible for, along with the associated risk indicators and the effectiveness and adequacy of the associated management controls, and
- monitor and assess all aspects of Conduct Risk.

The Delegated Underwriting Authority Working Group reports into the Underwriting and Claims Committee. It oversees the development and implementation of procedures for the Company's delegated underwriting authorities.

The Product Governance Working Group and the Consumer Duty Working Group report into the Underwriting and Claims Committee. They ensure adherence to the product governance and consumer duty frameworks through which the Company ensures it meets its regulatory responsibilities in this regard.



Operations Committee

The Operations Committee membership comprised the Chief Financial & Operations Officer, the Head of HR, the Head of IT and the Head of Claims & Operations, and is routinely attended by the Head of Compliance.

The Operations Committee meets at least four times a year and its main roles are to:

- review and recommend to the Board strategy in relation to key operational matters including those related to personnel and technology,
- keep under review the performance and activities of key operational matters including those undertaken under outsourcing arrangements,
- identify, oversee, monitor and mitigate (where possible) key operational risks which the Operations Committee is deemed responsible for, along with the associated risk indicators and the effectiveness and adequacy of the associated management controls, and
- establish and maintain a Business Continuity Plan and monitor Operational Resilience.

The Operational Resilience Working Group reports into the Operations Committee and oversees the implementation of procedures for ensuring compliance with Operational Resilience regulations.

Finance Committee

The Finance Committee membership comprises the Chief Financial & Operations Officer and four senior management staff including the Chief Actuary & Chief Risk Officer, the Head of Compliance and the Head of Claims & Operations. It meets at least ten times a year. The main roles of the Finance Committee are to:

- review the financial performance and position of the Company,
- oversee all aspects of the Company's finance related activities including production of annual accounts, annual regulatory returns and business plans,
- oversee the Company's cash and investment asset portfolios,
- review and monitor premium debt and investment credit risk, and
- review and monitor liquidity risk.

The Credit Control Working Group has been established to assist the Finance Committee in monitoring the Company's premium debt credit exposure.

Reserving Committee

The Reserving Committee membership comprised six members including two executive directors, the Chief Actuary & Chief Risk Officer, the Head of Compliance, the Head of Claims & Operations, and a Technical Control Manager. The Reserving Committee meets in the first, third and fourth quarter to review and approve:

- (i) the best estimate of claim reserves (including incurred but not reported claims) and management margin in accordance with UK Generally Accepted Accounting Practice ("UK GAAP") at the end of the second, third and fourth quarters, and
- (ii) the best estimate of technical provisions and risk margin as calculated in accordance with Solvency II regulations at the end of the second and fourth quarters.

To support the Board and Board Committees, the Company has established two types of management meeting, being i) an Executive Directors Meeting and ii) a Managers Meeting. Both forums operate in accordance with their individual Terms of Reference.

Executive Directors Meeting

During the year the Executive Directors Meeting comprised the Executive Directors with non-members invited from time to time. The Executive Directors Meeting was held ten times during the year.

The main role of the Executive Directors Meeting was to assist the Chief Executive Officer in the performance of his duties, including:

- implementation of strategy and key operational plans, policies, and procedures,
- control of budgets,
- developing the Company's underwriting and investment strategy and plans for recommendation to the Board,



- monitoring financial performance,
- assessing and controlling risk, and
- ensuring appropriate and adequate capabilities and resources are in place.

Managers Meeting

The Managers Meeting is composed of senior management staff. The Managers Meeting was held three times in the year.

The purpose of the Meeting is to conduct a holistic review of all underwriting, claims, reinsurance and operations with the aim of assisting and improving the day-to-day running of the Company.

System of Governance

The Company provides insurance services to Japanese clients located primarily in the United Kingdom, continental Europe, and sub-Saharan Africa.

The Company provides insurance services to non-Japanese clients around the world through a combination of delegated underwriting authority arrangements and individually underwritten risks.

The system of governance is designed to control the business of the Company.

The Board plays a key role in maintaining an effective system of governance. The Board has adopted a Board Governance Guideline, the purpose of which is:

- (i) to clarify and to promote high standards of Board governance within the Company,
- (ii) to apply the provisions of the Financial Reporting Council's UK Corporate Governance Code as deemed appropriate in the context of the Company, and
- (iii) to comply with statutory and regulatory requirements in relation to the operation of the Board.

The structure, size and composition (including the skills, knowledge, experience and diversity) of the Board is regularly reviewed and any necessary changes are recommended to the Board. The Board ensures power and information are not concentrated in one or two individuals, there is not any undue reliance on any one director, and the Board is well diversified in terms of knowledge and experience.

The Board reviews its own performance, constitution and terms of reference to ensure its performance is effective. The Board's performance evaluation is conducted annually and is periodically facilitated by an external evaluation process. The Chairman of the Board acts on the results of the performance evaluation by recognising the strengths and addressing the weaknesses.

The Compliance function also periodically reviews the Board's performance to ensure it is performing in line with legislative requirements. An external review of Board effectiveness was carried out by the Institute of Directors in 2023 the recommendations from which have been duly considered.

The Board is responsible for articulating and maintaining an effective culture to support the business model and business practice. The Board monitors and reviews the culture throughout the year, and has responsibility for embedding corporate values across the business. An employee engagement survey is carried out at least once a year, and includes questions on compliance and conduct culture. In 2023 an additional risk and control culture survey was conducted by Internal Audit at the request of the Board.

While the Board retains ultimate responsibilities, the Board delegates these responsibilities to its Committees. Each Committee reviews its own performance, constitution, and terms of reference to ensure it is operating at maximum effectiveness. The outcome of the reviews along with an action plan is reported to the Board, and amendments to the Committees' terms of reference are recommended to the Board where necessary.

Given the recent changes to the Company's direction and the plans to develop London Market business, the Board holds meetings as necessary to refine and develop the strategy to achieve these aims. This includes development of financial plans, which are then formulated into budgets and subject to formal consideration and approval.

The organisation structure is regularly reviewed as part of the review of the Management Responsibilities Map which sets out a list of the Company's key functions, a summary of the significant responsibilities allocated to the individuals who are responsible for those functions, and the reporting lines of each of those individuals.



The Company has identified the following as its key functions:

- Risk Management Function
- Compliance Function
- Internal Audit Function
- Actuarial Function
- Information Technology Function
- Claims Function
- Reinsurance Function
- Underwriting Function
- Finance Function
- Investment Management Function
- Japanese Interests Abroad² Marketing Function
- Human Resources Function

The key functions regularly report their activities to the Board and its Committees. The Risk and Capital Committee reviews the remit of the Risk Management, Actuarial, and Compliance functions, and the Audit Committee reviews that of the Internal Audit function. The Risk and Capital Committee and Audit Committee arrange private sessions between those functions and the Non-Executive Directors to ensure any concerns or issues are raised and discussed without the presence of the Executive Directors as necessary.

The Risk and Capital Committee regularly reviews the effectiveness of the Risk Management and Compliance functions, and the Audit Committee regularly reviews that of the Internal Audit function.

Any material change in the system of governance that have taken place over the reporting period

There were no material changes in the system of governance over the reporting period.

Remuneration Governance

The Company has a Remuneration and Nomination Committee which reports to the Board. The membership of is composed exclusively of Non-Executive Directors. The scope of the Remuneration and Nomination Committee is set out in the 'Structure of the administrative, management and supervisory body' section above. The Company has a Remuneration Policy which is reviewed every two years. Significant changes to the Remuneration Policy are reviewed and approved by the Remuneration and Nomination Committee and presented to the Board.

Remuneration Policy

Policy and practices

The Company's remuneration policy is intended to ensure there are appropriate policies, procedures and practices in place which articulate a reward framework that:

- is aligned to the long-term business strategy, business objectives, and risk appetite,
- has appropriate linkage to the Company's performance and individuals' performance,
- is compliant with relevant PRA and FCA regulation or guidelines,
- supports the Company's aim of attracting, retaining and motivating its employees,
- is affordable considering the Company's overall performance and plans, and
- sets a consistent approach across the organisation

Any divergence from the policy must be supported by clear rationale and approved accordingly by the responsible Executive Director and the Remuneration and Nomination Committee.

All proposals for remuneration of Executive Directors and senior individuals paid over a set amount defined in the Remuneration and Nomination Committee's Terms of Reference (including but not limited to payments on appointment, salary increases, promotions, and termination packages) are referred to and approved by the Committee prior to implementation.

² Japanese Interests Abroad refers to business undertaken for the Company's Japanese clients. It is abbreviated to JIA.



Principles

The Company's remuneration policy is comprised of fixed, variable and long-term incentive pay components as described below:

Fixed Pay

Fixed Pay is primarily determined by pricing roles relative to the local employment market and is supported by independent bench-marking market data. Increases are not automatic and changes to fixed pay consider a range of factors including external and internal relativities and the demand for the skills and experience necessary to perform the role, as well as taking into account the individual's performance.

Fixed pay is comprised of base salary and benefits, including eligibility to participate in the Company's defined contribution pension scheme.

Variable Pay

Variable Pay refers to all cash awards which are made over and above fixed pay to recognise discretionary effort and performance against the achievement of goals and targets. Other than in exceptional circumstances (such as part of an approved recruitment package) variable pay is not guaranteed.

a) Discretionary Bonus

A discretionary bonus is allocated to reward performance during the previous calendar year. All employees are eligible to be considered for a discretionary bonus award; however, awards are not necessarily granted to all employees and not all employees will be awarded a discretionary bonus every year. Awards are linked to overall performance ratings determined under the performance management process and are geared to rewarding higher performance with higher rewards.

b) Executive/Senior Manager Bonus Schemes

Executive directors and certain senior managers participate in bonus schemes where bonuses are limited within ranges and include deferral provisions. These schemes are designed to reward performance during the previous calendar year, promote sound and effective risk management and discourage excessive risk taking.

Long-term Incentive Plan ("LTIP")

a) Annual Discretionary LTIP awards

An annual discretionary LTIP award is granted to eligible executive directors and vested for three years. The award grant is within limited ranges. The ranges are in place to promote sound and effective risk management and to discourage excessive risk taking. Any LTIP payment made at the end of the vesting period is determined by the LTIP performance conditions being met and approved by the Remuneration and Nomination Committee. Claw-back provisions are also in place.

b) Other retention awards

Other retention awards are created on a needs basis to support major projects or to retain highly valued staff. They are used in limited circumstances.

Performance Criteria

The performance management process is based on the goals for the business set by the Board in the Company's short and longer-term business plans, and cascades these from the management to individual members of staff to align them with and give them clear visibility of the high-level plans. Specific goals and targets are determined by reference to a range of factors including financial, conduct and values, customer focus, processes, and interaction with colleagues.

Pension and early retirement schemes

The Company operates a defined contribution pension scheme with all employees eligible to receive a fixed contribution from the Company. Employees have access to an on-line portal which allows them to:

- choose from a variety of funds;
- carry out online risk profiling; and
- perform pension modelling and review fund management details.



Employees can make additional voluntary contributions by salary sacrifice, subject to statutory limits.

Material Transactions

There were no material transactions during the reporting period with shareholders or with persons who exercise a significant influence over the Company.

B.2 Fit and proper requirements

Skills, Knowledge and Expertise

All individuals who run the Company and its key functions must satisfy the requirements of the Company's Fit and Proper policy, which is based on regulatory requirements. To be fit for any given role, they must have the relevant qualifications and have undergone all training required to enable them to perform the key function effectively in accordance with any relevant regulatory requirements, and to enable them to contribute to the sound and prudent management of the firm.

Assessment of Fitness and Propriety

The Company has a policy which sets out its procedures to ensure all those who effectively run the Company are, and remain, fit and proper to: a) perform their function effectively in accordance with any relevant regulatory requirements, and b) contribute to the sound and prudent management of the Company. The holders of Senior Management Functions (SMFs) and Certification Functions (CFs), including those identified as Material Risk Takers and Key Function Holders, and the Notified Non-Executive Directors are classified as those who effectively run the Company. In order to meet fit and proper requirements each of these individuals must satisfy the following criteria:

- 1) they must have suitable personal characteristics (including being of good repute and integrity),
- 2) they must possess the appropriate level of competence, knowledge and experience,
- 3) they must have the requisite qualifications,
- 4) they must have undergone or be undergoing all training required to enable such person to perform her or his key function effectively in accordance with any relevant regulatory requirements and contribute to the sound and prudent management of the Company, and
- 5) they must comply with Conduct standards and rules.

All regulated roles are set out in the Company's Management Responsibilities Map, which is reviewed as and when required, and at a minimum on a quarterly basis. These roles are reviewed and reported annually to the Remuneration and Nomination Committee and Board of Directors. In order to enable individuals performing the above roles to be able to demonstrate that they are and remain "Fit and Proper", the following procedures apply:-

Initial assessment

Recruitment is subject to a screening process undertaken by an independent screening agent including but not limited to:

- Verification of CV
- Verification and review of professional qualifications for the last six years
- Review of criminal record
- Review of financial records
- Confirmation of eligibility to work in the United Kingdom
- Assessment of personal characteristics and past business conduct, such assessment to include taking of references from the individual's current and previous employers for the last six years
- Competency assessment and skills gap analysis
- Review of training needs

Candidates for these roles are assessed by way of a structured selection process. Structured interview questions are available to support the process.

Ongoing Assessment

Employees are managed on an ongoing basis via the Company's Performance Management process. Annual Fit and Proper declarations are signed by individuals performing Senior Management Functions or Certification



Functions and by Non-Executive Directors. These declarations include confirmation that no breach of regulatory conduct standards or financial mismanagement or criminal activity has taken place within the last year.

Criminal and financial records for SMCR individuals and Finance staff involved in payment procedures are checked every two years via an outsourced provider. All other staff will be asked to complete a self-assessment to confirm they have not been subject to any criminal or personal insolvency proceedings.

B.3 Risk management system including the own risk and solvency assessment

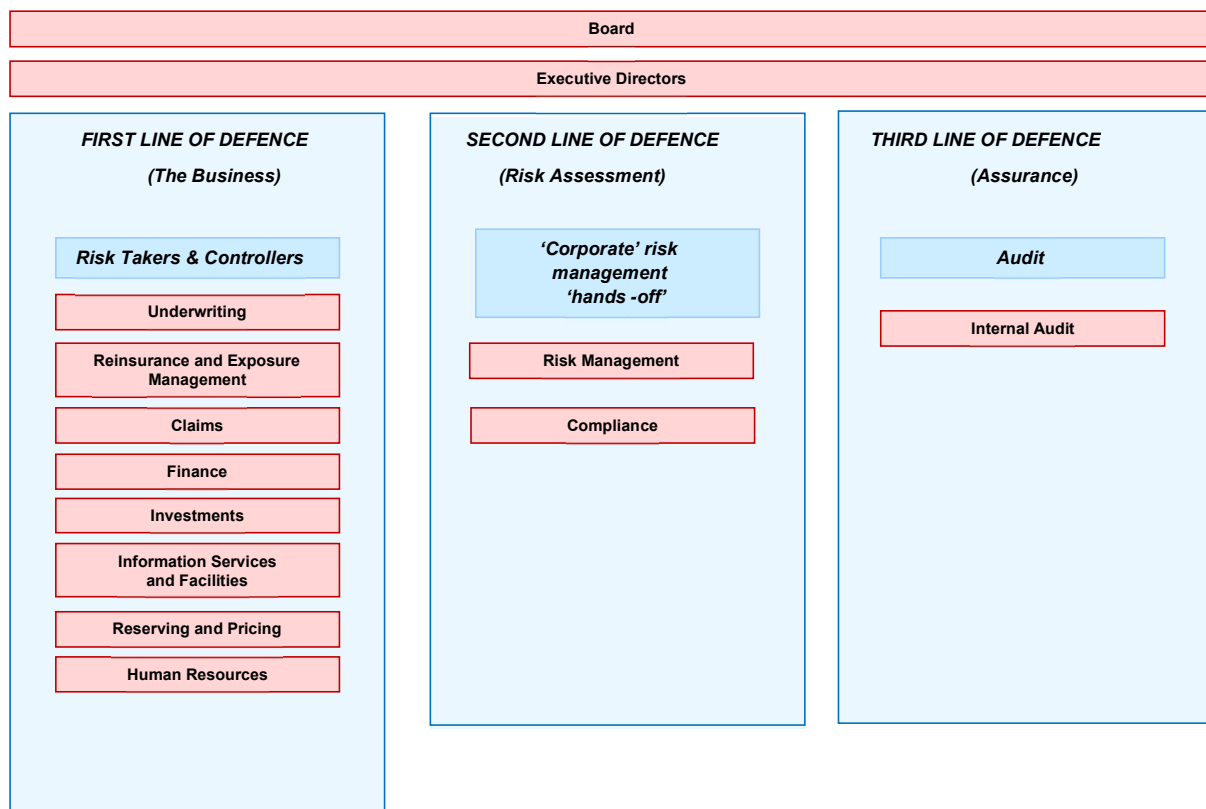
Risk Management System

The Company's Board is ultimately responsible for managing all risks facing the business. The Board sets relevant risk appetites and tolerances, and approves the Company's overarching risk strategy.

The Company's risk management system is set out in the Risk Management Framework and in individual risk policies and frameworks relating to specific risks.

The Board has delegated oversight of the Risk Management Framework to the Risk and Capital Committee ("RCC"). Beneath that, the oversight of individual risk categories has been delegated to the Company's Board Committees with an Executive Director assigned as a Risk Sponsor.

The Company uses the "three lines of defence" governance model as illustrated by the chart below:



Each line of defence is defined as follows:

First Line of Defence - Risk Takers and Controllers

The risk takers and controllers comprise the majority of the people employed by the Company. They commit the Company to risk via income generating activities and interaction with existing or potential customers and clients (e.g. Underwriting and Claims functions) or through the development and operation of business infrastructure enabling staff to carry out tasks (e.g. Information Services and Finance functions). An example of first line risk management is when an underwriter carries out specific risk-mitigating activities during the selection and underwriting of a risk. The First Line of Defence conducts regular risk and control self-assessments.

In addition, there are employees that help control, assure and reinforce the quality of the activities of the risk takers and controllers. They ensure that the first line is taking and managing and controlling the risks they expose the Company to within defined parameters.



Second Line of Defence – Corporate Risk Management

This group comprises the Compliance Function, the Risk Management Function and Risk and Capital Committee. These functions do not directly commit the Company to taking any risk. Instead they facilitate the ability of the first line to take the appropriate level of risk and effectively manage the exposures the Company faces as a result. The Second Line of Defence provides effective oversight, challenge and reporting of the first line's risk-taking activities. Where required, the Risk Management Function seeks assistance from areas with specialist knowledge such as Finance, Actuarial and Compliance Functions.

Third Line of Defence - Audit

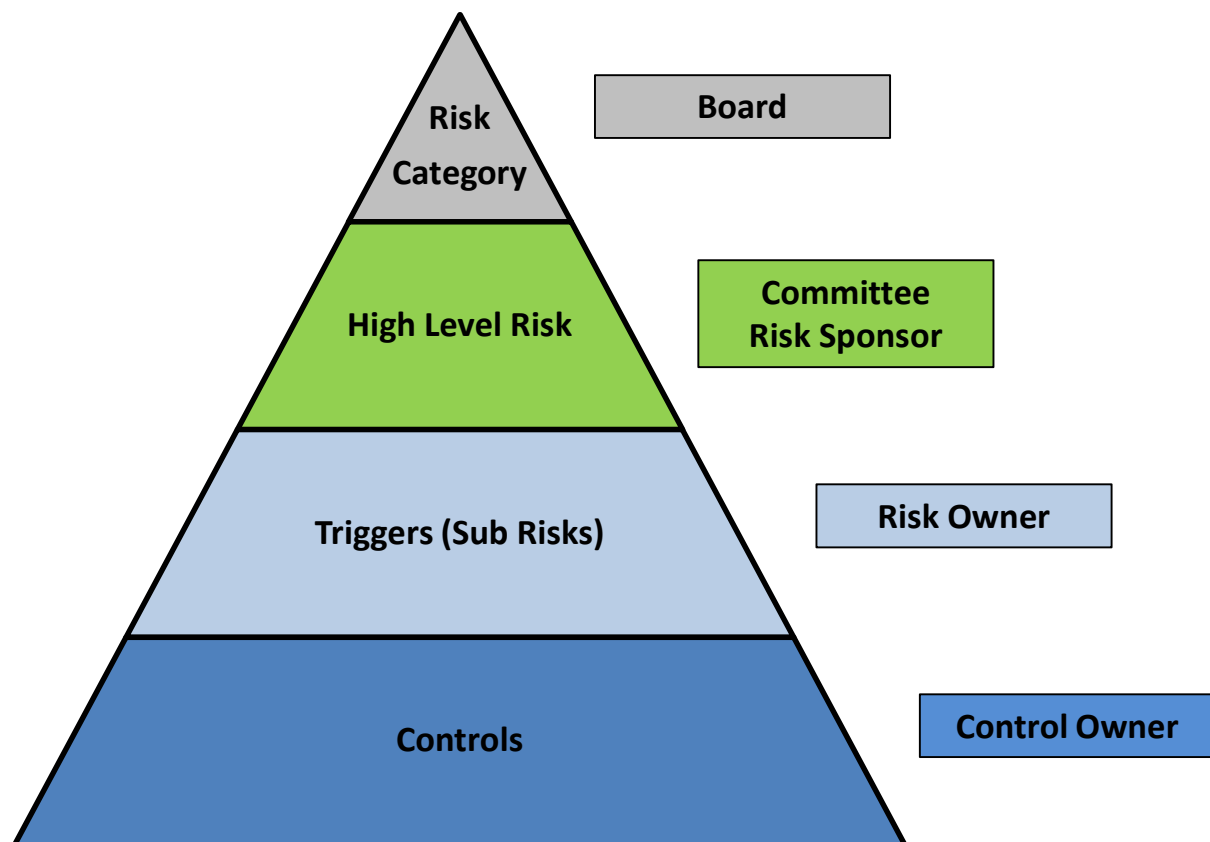
This consists of the Internal Audit Function which provides independent assurance as to the appropriateness and effectiveness of the Company's system of internal control. The Internal Audit Function is responsible for reviewing and testing all aspects of internal control across the business, including the effectiveness of the Board and committee structure. It reports directly to the Audit Committee.

The Risk Management Function attends all the Committees with the exception of the Remuneration and Nominations committee. This facilitates the integration of the risk management system into the decision making process.

The Company's overall system of governance is considered adequate given the nature, scale and complexity of the risks inherent to its business.

Risk Reporting

The Company has a Risk Register which holds information regarding the Company's risk profile. The register contains details of risks, controls and assessment data. The information is tiered to allow for risks to be managed and reported at different levels of granularity. The chart below shows how the risks are defined and controlled:



Should the Board or a Committee require more detailed information or an exception warrants visibility at a higher level, then the information is available in the register for collation and inclusion within the appropriate reporting pack.



The Risk Management Function produces an Enterprise Wide Risk Exposure Summary report each quarter. This report is designed to provide the Board and the Risk and Capital Committee with an overview of any issues regarding the High Level Risks contained in the Risk Register. The Risk Management Function also provides reports to the Committees on the following matters:

- Actual performance compared to the risk appetites set by the Board. For example, the maximum net impact of any one natural catastrophe claim or event of a magnitude expected to arise once in every ten years measured against the risk appetite that this should not exceed 5% of Own Funds.
- Events and issues arising. For example, a failure to adhere to the Company's guidelines regarding the payment of claims.
- Emerging risks which could affect the Company's business in the future. For example, new laws and regulations.

These reports also include details of any actions arising and the progress made in completing the actions.

The Finance, Underwriting, Claims, Reinsurance, HR and Information Technology Functions also provide reports to the Board, Finance Committee, and Underwriting and Claims Committee as appropriate. These reports include key performance indicators and key risk indicators, and details of any issues arising.

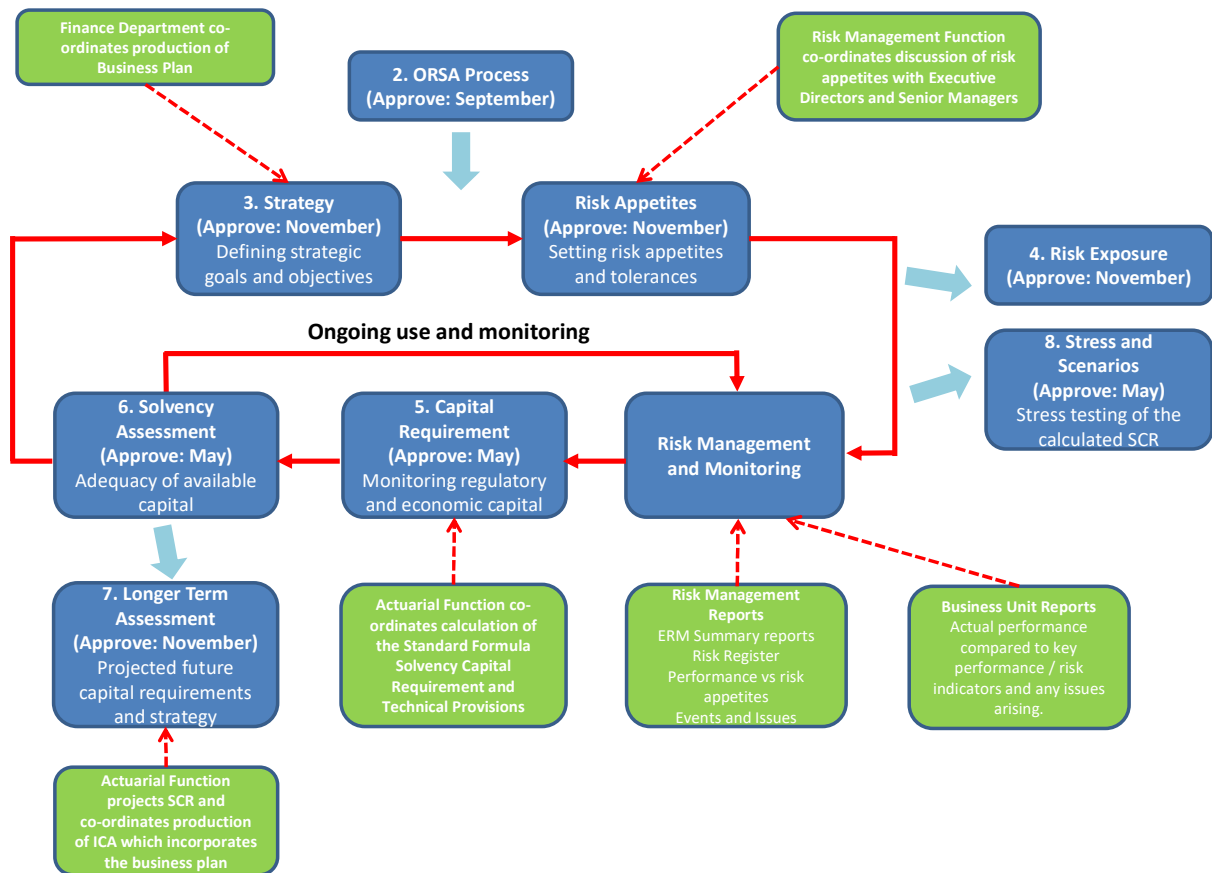
Own Risk and Solvency Assessment ("ORSA")

The ORSA is the responsibility of the Board. The Risk and Capital Committee, through delegated authority from the Board, supports and oversees the process for the development and maintenance of the ORSA. The ORSA Report is approved by the Board.

The ORSA process is a continuous process that takes place throughout the year with the aim of informing management decisions with formal analyses of the risk and capital implications of management decisions. A full ORSA Report is produced at least once a year summarising the implications of all key decisions made during the year and incorporating the updated business plan. This is submitted to the PRA in accordance with regulatory requirements. Intermediate ORSA Reports are produced if capital adequacy is affected by a material event or if there is a material change in the Company's risk profile that has not already been adequately accounted for in the Strategy or Risk Appetite setting process. The ORSA Policy and Process document provides a basis for strategy setting for the next year and consideration of future risks and capital requirements.

Certain components of the ORSA Process are run throughout the year for the Board's use in decision making to ensure the Company's risk profile, capital adequacy and solvency position are appropriately monitored, understood and remain within agreed parameters. For example, the Enterprise Wide Risk Exposure Summary report which is provided to the Board each quarter is a key component of the Risk Exposure section of the ORSA Report. Other components are generally only run once a year. For example, the full recalculation of the Solvency Capital Requirement is generally performed annually.

The chart below shows the ORSA Process and how this is integrated into the decision making of the Company. The individual components of the ORSA process are shown as blue boxes which are linked by continuous red arrows. The individual components of the ORSA report are shown as numbered blue boxes. The green boxes show how the key business processes of the Company link to and support the ORSA process and report.



(The numbering in the chart above starts at 2 “ORSA Process” to cross-reference into the ORSA report. Section 1 in the ORSA report is the Executive Summary.)

Solvency needs

The Company uses the Solvency II Standard Formula to calculate the Solvency Capital Requirement (“SCR”) for all risk modules and does not have a partial or full internal model. The Company does not apply any undertaking specific parameters in the calculation the SCR.

The capital management activities and risk management system interact through:

- i) the calibration of risk appetites by reference to the SCR (e.g. Market Risk must give rise to capital requirement of no more than 25% of the total SCR)
- ii) the quarterly Enterprise Wide Risk Exposure Summary report provided to the Board and the Risk and Capital Committee indicating the amount of the total SCR arising from each risk category
- iii) assessment of the capital implications of underwriting new classes of business or changes to strategy by reference to the effect on the SCR calculated using the Standard Formula.

B.4 Internal control system

The internal control system comprises strategies, policies, processes and procedures, backed by systematic measures (including reviews, audits and checks) to:

- conduct the Company's business in an orderly and efficient manner,
- safeguard its assets and resources,
- deter and detect errors, fraud and theft,
- ensure the accuracy and completeness of its data,



- produce reliable and timely financial and management information, and
- ensure adherence to relevant laws and regulations.

The internal control system is summarised in the Internal Control Policy which has five components as described below:

i) Control environment

The control environment sets the general principles of the Company's approach to internal control. Control environment factors include:

- Holding appropriate ethical values
- Board direction on the importance of internal control
- Management philosophy emphasising the importance of internal control
- Clear assignment of responsibility
- Maintaining secure and accurate information
- Emphasising the importance of staff integrity
- Emphasising the importance of staff competency
- Emphasising the importance of staff development

ii) Identification and evaluation of risks and controls

Risk assessment requires the identification and evaluation of relevant risks to the achievement of the Company's objectives to form the basis for determining how these risks should be managed. Because economic, industry, regulatory and operating conditions continually change, the Company employs the following mechanisms to identify and deal with the emergence of new risks arising from these changes:

- Production of the quarterly Enterprise Wide Risk Exposure Summary report to provide the Board and the Risk and Capital Committee with an overview of issues arising
- Review of actual performance compared to the risk appetites set by the Board
- Maintenance of an Events and Issues log and setting of required actions
- Review of emerging risks and setting of required actions
- Periodic reviews of the terms of reference and constitution of the Board Committees
- Periodic review of the activities of the Board Committees
- Regular assessment of "Key Documents" (as defined below)

iii) Control activities

(a) Main Control Activities

Each function is responsible for ensuring it has in place appropriate strategies, policies, procedures and terms of reference (collectively known as the "Key Documents") and where necessary ensuring these are peer reviewed and approved as appropriate by the Board, a Board Committee, or a business function.

The main control activities are those actions undertaken by each function to comply with the Key Documents. They include:

- Approval of individual actions (eg. payment release, reinsurance purchasing),
- Authorisations (eg. setting of underwriting authorities and claim settlement authorities),
- Verifications (eg. peer reviews and independent reviews),
- Reconciliations (eg. reconciliation of data from the underwriting system to the financial ledger),
- Contingency planning (including adequate disaster recovery capabilities),
- Reviews (eg. internal audits and reviews of compliance with regulation and relevant legislation),
- Segregation of duties,
- Monitoring against risk appetite statements, and
- Monitoring of key performance indicators and key risk indicators.

(b) Day-to-day decisions

As well as following formal policies and procedures, control activities include the day-to-day making of informed decisions by appropriately qualified and experienced personnel to:



- Accept risk,
- Transfer risk to third parties,
- Share risk with third parties, and
- Withdraw from unacceptable risks.

iv) Information processes

Relevant information is identified, captured and secured in a form and timeframe that enables staff to carry out their responsibilities effectively. The systems for recording and processing data (being primarily the underwriting system and financial ledger) are restricted to authorised personnel by use of passwords and user IDs. The systems themselves are also protected from external interference by firewalls and other appropriate technologies that prevent in-bound traffic from external sources. In this way the systems are completely segregated from the wider internet.

An accurate, up-to-date and accessible set of Key Documents is maintained by:

- Defining and identifying the Key Documents,
- Controlling production of the Key Documents,
- Ensuring the Key Documents are secure and access restricted as required,
- Reviewing the accuracy and relevance of Key Documents and that they remain up-to-date, and
- Ensuring appropriate audit trails and version control are maintained.

Key Documents are communicated to staff such that they are readily available to inform business decision-making and external reporting.

As part of strengthening the information security controls, the company has additional controls to:

- manage End User Computing (“EUC”),
- manage third party risk exposure, and
- adopt the National Institute of Standards and Technology (“NIST”) cybersecurity framework.

v) Monitoring effectiveness

As described in Section B3 (“Risk management system including the own risk and solvency assessment”) the Compliance and Risk Management Functions form part of the “second line of defence” and the Internal Audit Function forms part of the “third line of defence” within the Company’s governance model. In fulfilling these roles these functions monitor the management and supervision of the Company’s activities and the actions of staff in performing their duties in relation to internal control. Reports of their findings are made to the relevant oversight Committees, with serious matters escalated to the Executive Directors or Board as appropriate.

The Compliance Function

The Compliance Function is independent of all other day-to-day business operations enabling it to fulfil its role within the “second line of defence” and is headed by the Head of Compliance. The independence of the Head of Compliance is reinforced by a direct reporting line to the Chief Executive Officer. The independence of the Compliance Function is further reinforced by limiting its scope to purely compliance related activities. Similarly the Head of Compliance does not take any part in any of the other day-to-day business operations.

The Head of Compliance is an active member of the Risk and Capital Committee, Reserving Committee and Finance Committee, and also regularly attended Board, Audit Committee and Operations Committee meetings to assist in the performance of his role and gain full visibility of the Company’s activities. The Compliance Function has access to all staff and information necessary for it to fulfil its responsibilities.

To determine its effectiveness and independence, the Risk and Capital Committee carries out a review of the Compliance Function annually.

B.5 Internal audit function

The Company’s Internal Audit function was provided throughout 2023 by one of its sister companies, MSIG Corporate Services (Europe) Limited (“MSIGCS”).

This outsourcing model for Internal Audit has been followed for many years and has the advantage of enhancing the independence and objectivity of the Internal Audit function. The Head of Internal Audit for the Company



reports functionally to the Audit Committee and administratively to the Chief Executive Officer. The Head of Internal Audit appoints qualified and experienced Internal Auditors to assist with the delivery of the audit plan.

The Internal Audit Function reports directly and formally to the Audit Committee. Copies of audit reports are made available to the Chief Executive Officer and other Executive Directors, Risk Management Function, Compliance Function, External Auditors and to MSIJ's senior management, including MSIJ's Internal Audit Function. The Audit Committee also holds private sessions with the Head of Internal Audit.

To achieve the degree of independence necessary to effectively carry out their responsibilities, Internal Auditors have direct and unrestricted access to management information, senior management and the Board.

Independence and Objectivity

Independence is the freedom from conditions that threaten the ability of the Internal Audit Function to carry out its responsibilities in an unbiased manner. Objectivity is an unbiased mental attitude that allows Internal Auditors to perform audits in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires Internal Auditors not to subordinate their judgment on audit matters to others. Accordingly, the Internal Audit Function must be, and is, independent from the business units subject to audit in order to carry out its duties objectively. Threats to independence or objectivity are managed at the individual auditor, engagement, functional and organisational levels. The provision of Internal Audit services by a sister company improves objectivity and independence as none of the auditors have any operational responsibilities in the Company. Where necessary, contractor resources are engaged to assist with the delivery of the audit plan, which similarly enhances their independence and objectivity.

B.6 Actuarial function

Implementation

The Company's Actuarial Function comprises the Chief Actuary and the Technical Control Managers. The Chief Actuary is the Actuarial Function Holder. The Function has a range of experience across reserving, capital, pricing, reinsurance and risk management. The Actuarial Function is supported by external advisers as appropriate. Various committees, under their terms of references, are empowered to engage external advisers and other support to aid or review the work of the Actuarial Function. The key areas of external support are as follows:

- Mazars LLP provide an independent actuarial opinion on the UK GAAP claim reserves each year.
- Aon Benfield perform the catastrophe modelling calculations for the EU Natural Catastrophe and Property Man made Fire Catastrophe Risk elements of the Standard Formula SCR calculations

The main tasks performed by the Actuarial Function are:

- Reserving (calculation of UK GAAP claim reserves and Solvency II Technical Provisions)
- Pricing (review of pricing tools and technical file reviews)
- Capital Modelling (co-ordination of the Standard Formula calculations)
- Analysis of outputs from the Standard Formula calculation
- Quantitative support for business planning (in particular calculation of claim ratios and capital requirements)

Conflicts of interest are addressed through clear governance structures for material tasks, reporting, separation of duties, professional requirements, internal reviews, and audit (both internal and external). The Chief Actuary reports to the Chief Financial & Operations Officer whilst the Technical Control Managers report to the Technical Director.

The Company's Actuarial Function is subject to the Company's Fit and Proper policy which ensures that senior staff and function holders have skills appropriate to their roles.

The composition and strength of the Actuarial Function with reference to regulatory guidance and best market practice is subject to continuous review.

B.7 Third Party Risk Management (Outsourcing)

The Company's third party risk management policies are the Delegated Underwriting Authority ("DUA") policy and the Operational Outsourcing and Procurement policy. The DUA policy covers the outsourcing of insurance



and reinsurance activities, while the Operational Outsourcing and Procurement policy applies to all other activities performed by a third party under contract.

These policies ensure an effective system of governance over the Company's outsourcing and procurement arrangements to mitigate third party risk exposure, and form part of the sound and prudent management of the Company's business. The policies reflect the significance of outsourcing and procurement of important services to the business, and ensure the services received will meet or exceed the required standards. The control framework mitigates exposure to third party risk in compliance with latest regulatory requirements. The policies clearly set out the tasks to be performed and by whom and the processes and procedures to be applied both prior to entering into an outsourcing agreement and during its lifetime.

In line with current regulatory requirements, the following areas are covered in both policies in respect of outsourcing arrangements:

i) Defining outsourcing categories and service providers: Both policies require the outsourced service to be categorised as critical outsourcing, material outsourcing, or standard outsourcing. The policies list the criteria used for this purpose. A risk based approach is then adopted with greater focus on critical and material outsourcing.

ii) Definition of responsibilities: The policies set out the responsibilities of each person and Committee in the outsourcing process. These persons and Committees are as follows: Relationship Manager, Chief Financial & Operations Officer, Function Heads, Compliance Officer, Chief Risk Officer, Underwriting and Claims Committee, Operations Committee, Risk and Capital Committee and Board. The Relationship Manager is the employee with direct responsibility for management of the outsourced service and the relationship with the service provider.

Delegated underwriting authorities are additionally subject to oversight by the Delegated Underwriting Authority Working Group under the terms of reference approved by the Underwriting and Claims Committee.

iii) Selection and authorisation procedures for a service provider:

a) Selection

The policies set out the requirements for selection of a service provider of suitable quality. They include analysis of the potential impacts on the business of the proposed outsourcing arrangement and list the commercial and operational issues that are to be considered. They also include the scope of the due diligence to be undertaken depending on the outsourcing category.

b) Authorisation and reporting

The policies set out the authorisation and reporting requirements for service providers in each outsourcing category. All critical outsourcing must be approved by the Board.

iv) Contract terms: The policies set out in detail the terms to be included in all outsourcing arrangements. These terms include protection of the Company's rights and provision for agreed service level protocols. The policies also require all contracts regardless of the category to include terms giving the Company the right to terminate the contract with a reasonable period of notice if the services provided should prove inadequate. They also require all contracts to provide that the service provider may only terminate the contract with a notice period sufficiently long to enable the Company to find an alternative solution.

v) Monitoring and Review: The policies define the frequency, scope and reporting requirements for monitoring and reviewing of outsourcing contracts. The approach to monitoring and review is dependent upon the categorisation of the contract.

vi) Contracts database: Following agreement with the supplier, all outsourcing and procurement contracts are recorded in a central contract database which includes their expected expiry dates. The database also holds copies of the executed legal agreements and any supporting documentation.

Location of outsourcing providers

The jurisdiction of all of the Company's operational outsourcing providers is the UK. The jurisdiction of all of the Company's insurance and reinsurance outsourcing providers is the UK and USA. The Company has three insurance outsourcing providers with delegated underwriting authorities based in the USA who use the Company's US Surplus Lines licence for writing US risks and its Latin American reinsurance licences for underwriting Latin American risks.



B.8 Any other information

The Company has no other material information to report regarding its system of governance.



C. Risk Profile

C.1 Underwriting risk

Material Underwriting Risks

Underwriting risk comprises two elements, unprofitable future underwriting (premium risk) and adverse claims development from business already underwritten (reserve risk). The Company relies heavily on reinsurance protection which mitigates both premium and reserve risk. Therefore, when claims are paid to policyholders a significant proportion of these claims can be recovered from reinsurers. Facultative reinsurance protection is specific and is purchased for individual policies. Treaty reinsurance is purchased to protect all policies within a line of business.

The only part of the Company's business which is not fully protected by reinsurance, and for which the Company retains underwriting risk, is its provision of insurance services to Japanese clients. This Japanese market is limited and restricts the extent to which the Company can select the risks it wishes to write. If a risk is not deemed appropriate for the Company's risk profile, consideration is given to whether a significant proportion of the risk can be ceded to reinsurers, and in particular to MSIJ, along with the reinsurance commission which might be available to the Company for doing so.

Property and marine cargo losses arising from man-made catastrophes, natural catastrophes and large fire losses are the main drivers of premium risk. The Company has exposure to losses arising from catastrophes around the world notably in Europe, South-East Asia and the United States. The Company writes worldwide contingent business interruption insurance for certain major clients and this creates the principal exposure to catastrophes in South-East Asia. Contingent business interruption arises where an event (e.g. natural catastrophe or fire) leads to a manufacturer in the location affected by the event being unable to supply a manufacturer in another location. Therefore, the business of the second manufacturer is interrupted and they may submit a claim to their contingent business interruption insurer. It is problematic to model this exposure as the physical locations of exposures which may lead to the disruption of supply chains are difficult to identify. Historically, the losses arising from this exposure have largely been recoverable from reinsurers although it is recognised that the Company has some exposures which have less reinsurance protection.

The Company also writes long-tail Liability business where claims may be reported and settled many years after the business was underwritten. This exposure is the main driver of reserve risk, being the risk of adverse claims development from business already underwritten. In particular, the Company writes Employers Liability business which includes exposure to industrial disease claims. Industrial disease claims can arise if the employees of an insured party, such as a manufacturer, suffer from a disease arising as a result of their employment by the insured party. Some diseases can take over twenty years to manifest themselves and therefore the delay in claims being reported to the insurer can be lengthy. The Company includes explicit reserves for industrial disease claims in the Technical Provisions based on discussions between the Actuarial Function and the Claims Function.

During 2015 and 2016 the Company restructured its reinsurance programme to reduce premium risk across all classes of business. In particular, the impact of future large and catastrophic property and cargo losses was reduced by purchasing a lower level of excess of loss reinsurance protection. The long tailed Liability business has been heavily reinsured since 1 July 2015. There were no significant changes in the reinsurance programme from 2022 to 2023. The growth in business from non-Japanese clients is fully protected by reinsurance.

The Company has exposure to cyber risk. This arises from both affirmative cover but also silent exposures which are harder to identify and quantify. The Company's cyber risk exposure is mitigated through the use of annual aggregate limits for individual policies, various exclusions, and reinsurance. Notwithstanding this, the Company recognises that this is an evolving risk and continues to monitor market developments and best practice, and will aim to reduce both affirmative and silent exposures by way of specific exclusions where practicable.

The Company receives significant reinsurance commissions from business written to service MSIJ's clients' global requirements. The amount of reinsurance commission income available to the Company is dependent on these global negotiations and therefore not entirely within its control.

The retained underwriting risk is managed through the monitoring of known and potential future geographical accumulations, catastrophe modelling performed by the Company's reinsurance broker, and monitoring of retained exposures against risk appetites.



Assessment of Underwriting Risk

The following measures are used to assess underwriting risk:

- The SCR for underwriting risk is calculated using the Standard Formula.
- The Company's exposure to European natural catastrophes is modelled each year.
- Risk appetite statements are set and actual performance monitored against these statements.
- The Company's risk register considers underwriting risk and the associated controls used to mitigate this risk. The risks and key controls are assessed and reviewed with the Risk Management Function every quarter.
- The Actuarial Function estimates claim reserves calculated under UK GAAP each quarter and Technical Provisions calculated under Solvency II regulations each half-year. Draft estimates are discussed with senior Underwriting, Claims, Reinsurance and Finance staff for the purposes of providing and gaining feedback. The proposed UK GAAP claim reserves and Solvency II Technical Provisions are reviewed by the Reserving Committee prior to recommendation to and approval by the Board.
- Underwriting risk is assessed through consideration of various sensitivity tests and stress tests applied to each of the key areas of uncertainty.

Stress and Scenario Analysis

The Company performs stress tests which consider the impact of catastrophes and pandemics, total policy limit losses on large individual risks, business plan loss ratio inadequacy, and reserve inadequacy. Certain scenarios combine the impact of major catastrophe events or total policy limit losses on individual risks with a dispute with or default of the largest reinsurer outside the MS&AD group.

None of the scenarios produce losses of sufficient magnitude to reduce Own Funds below the SCR.

The conclusion of the stress and scenario analysis is that the Company's reinsurance programme significantly mitigates underwriting risk. Therefore, the greatest impact would be if the reinsurance programme were to fail. Given the company's reinsurers have strong (A- or above) credit ratings, such failure was considered to be more likely as a result of a reinsurance dispute rather than a default.

C.2 Market risk

Material Market Risks

At 31 December 2023 43% of the Company's investment portfolio had exposure to investment market risk.

From the first quarter of 2020 the Company began investing in a fund regulated under the Undertakings for the Collective Investment in Transferable Securities ("UCITS") regulatory framework with exposure to market risk to achieve a marginal increase in yield. At 31 December 2023 the value of this investment was £70,638k representing 43% of the total investment portfolio. The fund has experienced volatility during the bouts of market turbulence caused by the Covid-19 pandemic, the Russian invasion of Ukraine in February 2022, and the increases in central bank base rates over the course of 2022 and 2023. To mitigate market risk the volatility of the fund is a limiting factor in the calculation of the maximum amount that can be invested in it at any given time.

Holdings in corporate bonds comprise only bank Commercial Paper with a term of no more than one year which is held to maturity. As such, they are valued at amortised cost, and unlike other types of corporate or government bonds, their value is not prone to fluctuate due to movements in the wider bond markets. Similarly holdings in money market funds, bank term deposits and operational cash balances, are not prone to fluctuation in value due to developments in wider investment markets.

The Company mitigates market risk by:

- setting limits on the maximum amount that can be invested in assets with exposure to market risk by reference to their volatility,
- imposing minimum credit quality requirements on investment asset classes and on the portfolio as a whole, and
- setting limits on the amount that can be invested with any one counterparty across all types of investment such that:



- the amount invested with any one counterparty cannot exceed 10% of the total value of investment assets, and
- the combined amount invested with counterparties individually holding more than 5% of the total value of investment assets cannot exceed 40% of the total value of investment assets.

The Company regularly monitors the foreign exchange market risk arising from differences in the value of its foreign currency assets and liabilities. Where differences are detected in excess of the tolerances set in the associated risk appetite, they are reduced by executing the necessary foreign exchange trades.

The Company's investment assets have been invested in accordance with the 'prudent person principle' set out in Article 132 of Directive 2009/138/EC.

Assessment of Market Risk

The following measures are used to assess market risk:

- The SCR for market risk is calculated using the Standard Formula.
- Risk appetite statements are set and actual performance and developments are compared to these statements. For example, the actual percentage of assets with a current credit quality rating of less than A- is compared to the risk appetite for such percentage.
- The Company's risk register considers market risk and the associated controls used to mitigate this risk. The risks and key controls are assessed and reviewed with the Risk Management Function each quarter.

Stress and Scenario Analysis

The Company considers stress tests which:

- combine the impact of the widening of credit spreads (Market Risk) and the failure of the largest investment counterparty (Credit Risk),
- apply the downside volatility experienced by the UCITS fund following the outbreak of the Covid-19 pandemic to the value of the holding in the fund at the time of the test, and
- assume a global systemic economic crisis leading to a contraction in the insurance market combined with a significant increase in claims and the default of the two largest investment counterparties combined with a significant reduction in asset values.

The losses under these scenarios are not only lower than the Company's Own Funds of £134,878k at 31 December 2023, but are also lower than the SCR of £59,765k.

C.3 Credit risk

Material Credit Risks

The Company relies heavily on reinsurance. The majority of the premium paid by insured parties to the Company is paid to reinsurers. Consequently, the Company can recover the majority of the claims it pays to insured parties from its reinsurers. The Company is thereby exposed to the risk that its reinsurers are either unable to pay due to financial difficulties or are unwilling to pay due to a dispute with the Company. For example, disputes can arise with reinsurers where there is a difference of opinion regarding whether certain types of claims are excluded from the reinsurance contract. A significant proportion of the Company's reinsurance protection is provided by MSIJ, the Company's parent company, with which the risk of dispute is believed to be less than with other reinsurers.

At 31 December 2023 51% (£93,907k) of the Company's investment portfolio and cash holdings were invested in bank term deposits, holdings in money market funds, and operational cash balances. A term deposit is a cash investment held at a financial institution for an agreed rate of interest over a fixed period of time. Money market funds are comprised of short-term securities which themselves comprise high-quality, liquid debt and monetary instruments. The Company is exposed to the risk of default by the counterparty to all these types of investment. A further 11% (£19,849k) of the Company's investment assets were invested in bank Commercial Paper and Certificates of Deposit which are also exposed to the risk of default if the issuer is rendered insolvent and therefore unable to pay the amount due. The balance of 38% of the Company's investment assets is invested in a UCITS fund comprised of a large number of investment positions in various asset types. The Company is exposed to the risk of default by the counterparties to these investment positions.



The Company mitigates credit risk by:

- setting limits on the exposure to individual reinsurers,
- requiring the wording for facultative reinsurance purchased for individual policies to be consistent with the original wording to minimise the potential for dispute,
- imposing minimum credit quality requirements for reinsurers, financial institutions and other investment counterparties for each asset class,
- imposing minimum credit quality requirements on the investment portfolio as a whole, and
- setting limits on the amount that can be invested with any one counterparty across all types of investment such that:
 - the amount invested with any one counterparty cannot exceed 10% of the total value of investment assets, and
 - the combined amount invested with counterparties individually holding more than 5% of the total value of investment assets cannot exceed 40% of the total value of investment assets.

The Company's investment assets have been invested in accordance with the 'prudent person principle' set out in article 132 of Directive 2009/138/EC.

Assessment of Credit Risks

The following measures are used to assess credit risk:

- The SCR for Counterparty Default Risk is calculated using the Standard Formula.
- Risk appetite statements are set and actual performance and developments are compared to these statements. For example, the percentage of total investment assets held with any individual investment counterparty is compared to the risk appetite for such percentage.
- The Company's risk register considers credit risk and the associated controls used to mitigate this risk. The risks and key controls are assessed and reviewed with the Risk Management Function each quarter.
- The Company relies heavily on reinsurance and monitors its exposure on a monthly basis. For each individual reinsurer the estimated premium income, limits, outstanding claims and credit rating are monitored. In addition, the Company has a number of risk appetites regarding its exposure to reinsurers. In particular, the Company monitors its largest exposure to individual reinsurers on single risks. Exposures greater than £40,000k are monitored on a monthly basis and are reported at each meeting of the Underwriting and Claims Committee. The largest exposure is within risk appetite.

Stress and Scenario Analysis

As discussed in section C.1 ("Underwriting Risk") the Company performs stress tests which consider the impact of catastrophe events, losses from large individual risks up to the total limit covered by the policy, higher loss ratios than included in the business plan, and reserve inadequacy. Certain scenarios combine the impact of a catastrophe and/or total policy limit loss with a dispute with or default of the largest reinsurer outside the MS&AD group.

The conclusion of the stress and scenario analysis is that the Company's reinsurance programme significantly mitigates its risks. Therefore, the greatest impact would be if the reinsurance programme were to fail to respond. Given the Company's reinsurers have strong (A- or above) credit ratings, such failure is considered to be more likely as a result of a reinsurance dispute rather than a default.

Currently, the largest exposure to an individual reinsurer on a single risk (excluding MS&AD group companies) amounts to approximately 55% of the Own Funds.

C.4 Liquidity risk

Material Liquidity Risks

The most significant liquidity risk is that the Company may be required to pay a very large individual claim or a very large amount arising from an event following which claims are payable to multiple insured parties such as a natural catastrophe, and having insufficient liquid assets to do so. As discussed previously the Company relies heavily on reinsurance. Therefore, it is likely that a large proportion of these claim payments would be recoverable from reinsurers.



The Company mitigates liquidity risk by:

- including “cash call clauses” in all reinsurance contracts (with the exception of excess of loss reinsurance contracts) which allow the Company to make recoveries from reinsurers before paying claims to insured parties, and
- maintaining sufficient liquid assets to pay claims.

The liquid assets maintained are greater than the maximum amount payable for a single claim net of reinsurance recoveries other than recoveries due under excess of loss reinsurance.

Assessment of Liquidity Risks

The following measures are used to assess liquidity risk:

- Risk appetite statements are set and actual performance and developments are compared to these statements. For example, the amount of investment assets kept in liquid form is compared to the amount set out in the risk appetite statement.
- The Company’s risk register considers liquidity risk and the associated controls used to mitigate this risk. The risks and key controls are assessed and reviewed with the Risk Management Function each quarter.
- The Company’s risk appetite is that at least £10m be held at all times in assets that can be realised as cash by the following business day. This risk appetite is monitored on a monthly basis and reported to the Finance Committee.

Stress and Scenario Analysis

The Company considers a stress test which would require the greatest use of funds at short notice. This is considered to be a single large Property claim triggering the maximum amount recoverable from the Company’s excess of loss reinsurance programme and that recovery not being received in advance of settlement of the claim.

The result of this scenario is that the liquid assets held would be sufficient to settle the claim prior to receipt of the excess of loss reinsurance recovery.

Expected Profit included in the Future Premium

The expected profit included in the future premium at 31 December 2023 is £1,968k. This is the expected premium less the associated claims and expenses after reinsurance.

The table below shows the expected profit included in the future premium split by line of business and analysed between incepted and unaccepted policies:

Solvency II Line of Business	Total Profit £k	Incepted Profit £k	Unaccepted Profit £k
General Liability Insurance	529	422	107
Fire and Other Damage to Property Insurance	1,068	401	667
Marine, Aviation and Transport Insurance	2	0	2
Medical Expenses	2	2	0
Miscellaneous Financial Loss	0	0	0
Credit & Suretyship	368	310	58
Grand Total	1,968	1,134	833

C.5 Operational risk

Material Operational Risks

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people, or systems or from external events. This includes the ineffective management of outsourcing, non-compliance with legislation and/or regulation, ineffective or inadequate governance, failure to manage any litigation or other legal proceedings, and business disruption arising from fire, terrorist attack, cyber-attack, major IT systems failure, etc.



The Company considers its most material Operational Risks are key person risk, business disruption, and IT systems failure. The Company employs a relatively small number of staff and is therefore exposed to key person risk. Succession plans have been developed for key individuals to mitigate this risk. The Company has also developed a business continuity plan to mitigate the risk of business disruption and IT systems failure.

Assessment of Operational Risks

The following measures are used to assess Operational Risk:

- SCR for Operational Risk is calculated using the Standard Formula.
- The Company's risk register considers Operational risk and the associated controls used to mitigate this risk. The risks and key controls are assessed and reviewed with the Risk Management Function each quarter.

Stress and Scenario Analysis

The Company considers the impact of various potential Operational Risks. These include:

- Inappropriate strategy leading to loss of profit
- Non-compliance with legislation and/or regulation
- Business disruption
- IT failure including failure arising from a cyber attack
- Failure to collect large individual debtors
- Key person risks
- Inappropriate or inadequate governance
- Failure to manage litigation or other legal proceedings effectively
- Ineffective management of outsourcing
- Inadequate exposure management
- Sanctions risk
- Incorrectly ceding a risk or multiple risks to reinsurance treaties leading to a shortfall in the recoveries in the event of a claim.

The estimated impact of each of these Operational Risks is not only lower than the Company's Own Funds of £134,878k at 31 December 2023, but also lower than the SCR of £59,765k.

C.6 Other material risks

The Company is part of the MS&AD group and is therefore exposed to Group Risk. The Company relies on its immediate parent, MSIJ to provide capital and other support to fulfil its strategy. In addition, the Company also receives certain services from MS ACS, including IT services. As a result of these interdependencies, the Company could be adversely affected by the following:

- Withdrawal of support by MSIJ
- Lack of MSIJ strategic planning
- A downgrade of MS&AD's credit ratings
- Contagion from the activities or poor reputation of another MS&AD company

The likelihood of MSIJ withdrawing support from the Company is considered to be very remote and can only be conceived if MSIJ cannot continue to provide support (as opposed to being unwilling to provide support). The Company's Executive Directors maintain close communication with MSIJ to ensure the Company's strategy is aligned to the group strategy. MSIJ's International Department representatives are based in the Company's office to assist in this communication. The Company's management also liaise with MS ACS's management to ensure shared services operate smoothly. The Company and MS ACS have a detailed service level agreement which covers both details of services provided and desired service levels.

Assessment of Group Risk

The following measure is used to assess Group Risk:

- The Company's risk register considers Group Risk and the associated controls used to mitigate this risk. The risks and key controls are assessed and reviewed with the Risk Management Function each quarter.



Stress and Scenario Analysis

The Company considers the impact of various potential Group Risks notably:

- Severe contagion arising from the activities of other MS&AD companies leading to loss of business and profit, and
- Ineffective management of the services provided by MS ACS leading to severe losses.

The estimated impact of each of these Group Risks is not only lower than the Company's Own Funds of £134,878k at 31 December 2023, but also lower than the SCR of £59,765k.

C.7 Any other information

There is no other material information to report.



D. Valuation for Solvency Purposes

D.1 Assets

Valuation of assets for Solvency Purposes

Investments (other than assets held for index-linked and unit-linked contracts)

i) Corporate Bonds

All the Corporate Bonds are bank Commercial Paper and have a term of a year or less. They are held to maturity and valued at amortised cost.

ii) Collective Investments Undertakings

Investments in collective investment undertakings comprise investments in money market funds and a UCITS fund held to achieve a marginal increase in yield. The money market funds are valued on a stable net asset value basis as published for each of the individual funds by their managers. They are independently validated and re-priced by the fund manager daily. The published values are taken to be their fair value on the grounds they can be readily realised for this value at short notice. The UCITS fund is valued by reference to a net asset value per unit which is calculated at each daily valuation point by the administrator of the fund. This value is taken to be the fair value of the fund on the grounds that it can be readily realised for this value at short notice.

Partial realisation of the money market funds regularly takes place to meet the Company's operational cash requirements.

iii) Deposits other than cash equivalents

Deposits other than cash equivalents comprise term deposits with banks. Their fair value is calculated at cost plus accrued income. Accrued income is calculated on a straight line basis over the period to which it relates.

Reinsurance recoverables

Reinsurance recoverables represent that portion of the Technical Provisions that are recoverable from reinsurers. The calculation and valuation of these amounts is described in section D.2 ("Technical Provisions").

Insurance and intermediaries receivables

Insurance and intermediaries receivables comprise amounts due to the Company from brokers and clients relating to policies that were more than three months past due at the end of the reporting period. Bad debt provisions are raised against those amounts which are deemed unlikely to be received. These amounts therefore have zero value for solvency purposes. All other amounts are expected to be received in full and hence are reported at fair value which is taken to be the amount due from the brokers and clients. They are expected to be collected within 18 months and hence are not discounted for the time value of money.

Reinsurance receivables

Reinsurance receivables comprise amounts due for settlement to the Company from its reinsurers in connection with reinsurance claim recoveries. Bad debt provisions are raised against amounts due from reinsurers which have ceased trading or which have weak credit ratings or which management believe may experience difficulties in making payment. These amounts therefore have no value for solvency purposes. All other amounts are valued at the amount due from the reinsurers. They are expected to be collected within 12 months and hence are not discounted for the time value of money.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and current bank accounts which are subject to an insignificant risk of change in fair value.

Deferred tax assets

Deferred tax assets are tax amounts recoverable by way of deferred deductions to be made from the taxable profit of future reporting periods.



Differences in valuation of assets under UK GAAP and Solvency II regulations

The valuation of assets under UK GAAP and Solvency II regulations is set out in the following table:

UK GAAP description	UK GAAP valuation £k	Reclassification £k	Revaluation £k	Solvency II valuation £k	Solvency II description
<i>Financial investments</i>					<i>Investments</i>
<i>Debt securities and other fixed income securities</i>					<i>Bonds</i>
1) Corporate bonds	19,849			19,849	Corporate Bonds
2) Holdings in collective investment schemes	103,450	113		103,563	Collective Investments Undertakings
3) Deposits with credit institutions	40,000	550		40,550	Deposits other than cash equivalents
<i>Total Financial investments</i>	<i>163,299</i>			<i>163,962</i>	
4) Reinsurers' share of technical provisions	407,806	(118,589)	(80,635)	208,582	Reinsurance recoverables
5) Debtors arising out of direct insurance operations	107,246	(104,372)		2,874	Insurance and intermediaries receivables
6) Debtors arising out of reinsurance operations	11,038			11,038	Reinsurance receivables
7) Other debtors	541		(541)	-	Receivables (trade, not insurance) + Any other assets, not elsewhere shown
8) Tangible assets	-		-	-	Tangible assets
9) Intangible assets	-		-	-	Intangible assets
10) Cash at bank and in hand	21,095			21,095	Cash and cash equivalents
11) Deferred tax assets	1,061			1,061	Deferred tax assets
12) Deferred acquisition costs	19,694		(19,694)	-	Deferred acquisition costs
13) Other prepayments and accrued income	1,129	(663)	(466)	-	Any other assets, not elsewhere shown
	<u>732,909</u>	<u>(222,961)</u>	<u>(101,336)</u>	<u>408,612</u>	

The reasons for the reclassifications and revaluations set out in the table above are as follows:

	Asset	UK GAAP valuation £k	Solvency II valuation £k	Reason for differences
1)	<i>Corporate bonds</i>	19,849	19,849	All "Corporate Bonds" have a term of one year or less and are held to maturity. They are valued under both Solvency II regulations and UK GAAP at amortised cost reflecting the Company's intention to collect all associated cashflows up to and including maturity. Amortised cost represents their fair value.
2)	<i>Holdings in collective investment schemes</i>	103,450	103,563	Under both Solvency II regulations and UK GAAP "Holdings in collective investment schemes" are valued on the net asset values ("NAVs") of each of the individual funds as published by the managers. These holdings include investments in Money Market Funds which are valued on a stable NAV basis. Under Solvency II regulations accrued investment income and dividends declared but not yet received are added to the valuations. Under UK GAAP accrued investment income is separately classified as "Other prepayments and accrued income" and dividends declared but not yet received are separately classified as "Other debtors". Accrued investment income at 31 December 2023 was £113k. Dividends declared but not yet received at 31 December 2023 were nil.



	Asset	UK GAAP valuation £k	Solvency II valuation £k	Reason for differences
3)	<i>Deposits with credit institutions</i>	40,000	40,550	Under both Solvency II regulations and UK GAAP “Deposits with credit institutions” are valued at cost reflecting the Company’s expectation that they will be held to expiry of the deposit term. Under Solvency II regulations accrued investment income is added to the valuation. Under UK GAAP accrued investment income is separately classified as “Other prepayments and accrued income”. Accrued investment income at 31 December 2023 was £550k.
4)	<i>Reinsurers’ share of technical provisions</i>	407,806	208,582	“Reinsurers’ share of Technical Provisions” under UK GAAP is replaced by “Reinsurance recoverables” under Solvency II regulations. “Reinsurance recoverables” are calculated in accordance with Solvency II regulations, and take into account both reinsurance premiums payable and reinsurance claims receivable.
5)	<i>Debtors arising out of direct insurance operations</i>	107,246	2,874	Under Solvency II regulations only those “Debtors arising out of direct insurance operations” that are more than three months past due but nevertheless expected to be received are classified here. Receivables that are less than three months past due or not yet due are included in the calculation of the Technical Provisions. Under UK GAAP all amounts due in connection with inward insurance business and expected to be received are classified here regardless of whether or not they are past due.
6)	<i>Debtors arising out of reinsurance operations</i>	11,038	11,038	“Debtors arising out of reinsurance operations” are valued on the same basis under both Solvency II regulations and UK GAAP.
7)	<i>Other debtors</i>	541	-	“Other debtors” have no realisable value and hence are valued at nil for Solvency purposes.
8)	<i>Tangible assets</i>	-	-	“Tangible assets” have no realisable value and hence are valued at nil for Solvency II purposes. Under UK GAAP the value of “Tangible assets” is nil.
9)	<i>Intangible assets</i>	-	-	“Intangible assets” are not recognised under Solvency II regulations as they cannot be readily converted to cash for settlement of liabilities, and hence have nil value. Under UK GAAP the value of “Intangible assets” is nil.
10)	<i>Cash at bank and in hand</i>	21,095	21,095	“Cash at bank and in hand” is valued on the same basis under both Solvency II regulations and UK GAAP.



	Asset	UK GAAP valuation £k	Solvency II valuation £k	Reason for differences
11)	<i>Deferred tax assets</i>	1,061	1,061	A deferred tax asset of £1,061k has been recognised under both Solvency II regulations and UK GAAP in connection with amounts recoverable by way of deferred deductions to be made from the taxable profit of future reporting periods. A deferred tax asset of £1,278k has not been recognised under either Solvency II regulations or UK GAAP due to the uncertainty as to when it will be necessary or beneficial for the Company to claim the capital allowances to which it relates.
12)	<i>Deferred acquisition costs</i>	19,694	-	“Deferred acquisition costs” are not recognised under Solvency II regulations as they do not represent future cash inflows to the Company and therefore do not represent resources available to the Company for settlement of liabilities as they fall due.
13)	<i>Other prepayments and accrued income</i>	1,129	-	Under Solvency II regulations accrued investment income is included in the value of investments. Under UK GAAP it is separately classified in “Other prepayments and accrued income”. Under Solvency II regulations prepayments and other accrued income have nil value.
	TOTAL	732,909	408,612	

D.2 Technical provisions

The Company’s Technical Provisions have been calculated in accordance with articles 75 to 86 of the Solvency II Directive. The Technical Provisions comprise the best estimate plus the risk margin.

The best estimate is equivalent to the sum of the estimated future cash inflows and cash outflows relating to the run off of all insurance liabilities (including premiums receivable, and claims and expenses payable) from all the earned business plus business to which the company is legally obliged at 31 December 2023.

The risk margin represents the cost of transferring the obligations to a third party and is calculated by considering the cost of holding capital to support the run off of the Technical Provisions over their lifetime.

Standard actuarial methods have been used to calculate the best estimate. These include the chain ladder method, Bornhuetter-Ferguson method and the Initial Expected Loss Ratio method. These methods are commonly used in non-life insurance to estimate premium and claim amounts.

The Company does not apply the matching adjustment referred to in Article 77b of Directive 2009/138/EC.

The Company does not use the volatility adjustment referred to in Article 77d of Directive 2009/138/EC.

The Company does not apply the transitional risk-free interest rate-term structure referred to Article 308c of Directive 2009/138/EC.

The Company does not apply the transitional deduction referred to in Article 308d of Directive 2009/138/EC.

Technical Provisions Split by Line of Business

There are no material changes in the methodology and assumptions used to calculate the Technical Provisions as at 31 December 2023 compared to 31 December 2022.

The total Technical Provisions as at 31 December 2023 are £47,228k comprising a best estimate of £36,514k and a risk margin of £10,714k.



The table below shows the Technical Provisions split between the material lines of business.

Solvency II Line of Business	Gross Best Estimate £k (1)	Reinsurance Recoveries £k (2)	Net Best Estimate £k (3) = (1) + (2)	Risk Margin £k (4)	Technical Provisions £k (5) = (3) + (4)
General Liability Insurance	59,622	(48,712)	10,911	4,434	15,345
Fire and Other Damage to Property Insurance	123,155	(108,297)	14,858	3,159	18,017
Marine, Aviation and Transport Insurance	59,332	(54,221)	5,111	1,590	6,701
Other	2,986	2,648	5,634	1,531	7,165
Grand Total	245,096	(208,582)	36,514	10,714	47,228

1. Gross Best Estimate - principally comprises gross claims payable to the Company's insureds less gross premiums payable by insureds to the Company.
2. Reinsurance Recoveries - principally comprises reinsurance claims recoveries from reinsurers (from gross claims payable) less reinsurance premiums payable by the Company to reinsurers.
3. Net Best Estimate = Gross Best Estimate less Reinsurance Recoveries
4. Risk Margin - comprises the cost of transferring the obligations to a third party
5. Technical Provisions = Net Best Estimate plus Risk Margin

As can be seen in the table above each line of business has material reinsurance protection. A significant proportion of this reinsurance protection is provided by the Company's parent company, MSIJ, and other sister companies in the MS&AD Group. Some reinsurance protection is specific and is purchased for individual policies ("facultative reinsurance"). Other reinsurance is purchased to protect all policies within a line of business ("treaty reinsurance"). A significant proportion of the General Liability and Fire and Other Damage to Property reinsurance claim recoveries are anticipated facultative recoveries arising from a small number of large claims. Most of the Marine, Aviation and Transport business written is protected by treaty reinsurance such that a large proportion of the gross claims payable are recoverable from reinsurers.

Changes in Technical Provisions

The table below shows the change in the SII Technical Provisions during 2023.

Net Technical Provisions (£k)	31 December 2023 £k	31 December 2022 £k	Change
Outstanding Claims	2,655	2,480	174
Earned IBNR	8,797	10,308	(1,510)
Claims Reserves - Earned Business	11,452	12,788	(1,336)
Unearned IBNR	1,668	1,675	(7)
Unincepted IBNR	497	555	(57)
Claims Reserves - Future Business	2,165	2,230	(64)
Premium Debtors	(104,372)	(76,558)	(27,813)
RI Creditors	118,589	106,532	12,057
Net Premium Creditors	14,217	29,973	(15,756)
Unwritten Future Premium	(1,942)	(2,133)	191
Unincepted Future Premium	(1,116)	(1,267)	151
Expected Future Premium Payments	11,159	26,573	(15,414)
Events Not In Data	495	710	(215)
Expenses	9,695	8,815	879
Bad Debt Reserve	3,849	3,532	317
Total Other	14,039	13,057	982
Undiscounted Best Estimate	38,815	54,648	(15,833)
Impact of Discounting	(2,301)	(3,320)	1,019
Discounted Best Estimate	36,514	51,328	(14,814)
Risk Margin	10,714	14,754	(4,040)
Net Technical Provisions	47,228	66,082	(18,854)



As shown in the table above the Solvency II Technical Provisions have decreased by £18,854k over the year from 31 December 2022 to 31 December 2023. This is primarily due to:

- i) the £15,414k decrease in Expected Net Future Premium Payments, the main driver of which is the £15,756k decrease in the net premium creditors.
- ii) the £4,040k decrease in the Risk Margin.

Uncertainty

The uncertainty within Technical Provisions arises from the uncertainty regarding:

- future events
- the settlement of known claims
- delays in reporting of claims
- the methodologies and assumptions used to estimate the Technical Provisions.

In particular, the General Liability business (Liability and Employers Liability) is long tailed and therefore claims may be reported and settled many years after the policies were written. This is particularly the case for Employers Liability Industrial Disease claims which can be reported over twenty years after the policies were written. The best estimate Technical Provisions include an explicit allowance for such Industrial Disease claims but this is subject to significant uncertainty.

Judgement with regard to policies affected by the Russian invasion of Ukraine

The Company's insurance portfolio includes policies written through a delegated underwriting authority that cover risks related to the leasing of aircraft by aviation lessors to operators, including operators in Russia. Although these lessors have in many cases not been able to take possession of many of their aircraft since the Russian invasion of Ukraine in February 2022, they are not currently considered to have valid or indemnifiable insurance claims under these policies. The amounts involved are significant and if ultimately such policies were deemed to provide such cover, the Company could incur materially large claims. Following consideration of the circumstances no provision has been made in the financial statements or Solvency II Technical Provisions other than for associated costs. The Directors consider reference to amounts in the claim seriously prejudicial to the interests of the Company.

All of the insurance risk from these policies is ceded to one of the Company's reinsurers. If claims were to be incurred they would be fully recoverable from the reinsurer. Any change in the gross Technical Provisions would therefore be offset by a corresponding change in the reinsurance recoverables and there would be no net claim charge to the Company.

Differences in valuation of Technical Provisions under Solvency II regulations and UK GAAP

With regard to the actuarial techniques deployed, the bases, methods and main assumptions used for the valuation of Technical Provisions under Solvency II regulations are essentially the same as under UK GAAP. The difference in valuation arises from the following differences in approach between Solvency II regulations and UK GAAP:

- 1) Under Solvency II regulations, insurance and intermediaries receivables that are not more than three months past due are included in the Technical Provisions. Under UK GAAP they are included with all other insurance and intermediaries receivables and are classified separately from Technical Provisions.

Under Solvency II regulations, reinsurance payables are included in the Technical Provisions. Under UK GAAP they are classified separately from Technical Provisions.
- 2) As prescribed by Solvency II regulations, any margin above the best estimate of future liabilities that may have been included under UK GAAP must be excluded.
- 3) As prescribed by Solvency II regulations, the Solvency II Technical Provisions take account of:
 - future profit from policies that have been written at the reporting date but the premium from which has not been recognised as earned, and
 - future profit from policies that are legally bound but have not been written or have not inceptioned at the reporting date.

Neither of these factors are taken into account in calculating the Technical Provisions under UK GAAP.



- 4) As prescribed by Solvency II regulations, the Solvency II Technical Provisions take account of all the operational expenses (including claim handling expenses) that would be incurred over the period required to fully discharge the insurance obligations represented by the Technical Provisions.

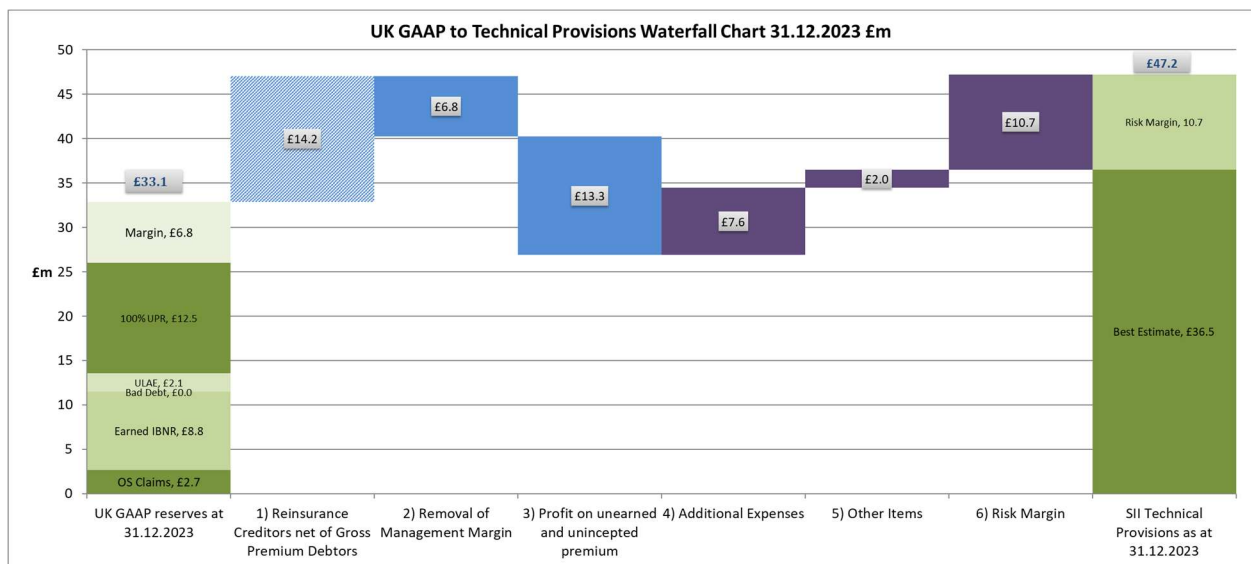
Under UK GAAP only the claim handling expenses that would be incurred over the period required to fully discharge the insurance obligations represented by the Technical Provisions are taken into account in calculating the Technical Provisions.

- 5) As prescribed by Solvency II regulations, the Solvency II Technical Provisions take account of:
- Events Not In Data (“ENIDs”) such as potential new sources of claims, an example being claims arising from new as yet unidentified diseases, and
 - the time value of money with regard to the future cashflows represented by the Technical Provisions by applying the discount rates prescribed by the PRA to calculate their present value.

Neither of these factors are taken into account in calculating the Technical Provisions under UK GAAP.

- 6) As prescribed by Solvency II regulations, a risk margin is included in the Technical Provisions which represents the cost of transferring the obligations to a third party and is calculated by considering the cost of holding capital to support the run-off of the Technical Provisions over their lifetime. No such margin is required under UK GAAP.

The chart below shows the value of each of these adjustments and sets out the items included in the Technical Provisions under Solvency II regulations but separately classified under UK GAAP and the effect of the revaluation due to the differences in approach described above:



D.3 Other liabilities

Valuation of liabilities for Solvency Purposes

Insurance & intermediaries payables

Insurance & intermediaries payables comprise amounts due to policyholders and intermediaries in connection with i) claims agreed for settlement but not yet settled at the end of the reporting period, and ii) premiums payable to co-insurers. They are expected to be paid in full within twelve months of the reporting date and are valued at the amount payable.

Payables (trade, not insurance)

Payables (trade, not insurance) comprise amounts due to parties other than the Company's policyholders. These are primarily i) tax payable, ii) amounts due to the Company's staff, and iii) amounts due to other group companies for the Company's share of the cost of services supplied by those companies. They are expected to be paid in full within twelve months of the reporting date and are valued at the amount payable.



Any other liabilities, not elsewhere shown

Other liabilities comprise amounts accrued for expenses that have not yet been invoiced and are therefore not due for payment at the end of the reporting period. They are, however, expected to both become due for payment and be paid in full within twelve months of the reporting date, and are valued at the amount accrued.

Differences in valuation of other liabilities under Solvency II regulations and UK GAAP

The valuation of liabilities under UK GAAP and Solvency II regulations is set out in the following table:

UK GAAP description	UK GAAP valuation £k	Reclassification £k	Revaluation £k	Solvency II valuation £k	Solvency II description
1) Technical provisions	430,444	(104,372)	(70,263)	255,810	Technical provisions - non-life
2) Creditors arising out of direct insurance operations	19,268			19,268	Insurance & intermediaries payables
3) Creditors arising out of reinsurance operations	118,589	(118,589)		-	Reinsurance payables
4) Other creditors including taxation and social security	13,220	4,033		17,252	Payables (trade, not insurance)
5) Accruals	5,437	(4,033)		1,403	Any other liabilities, not elsewhere shown
6) Deferred reinsurance commissions	30,144		(30,144)	-	Other technical provisions
	<u>617,102</u>	<u>(222,961)</u>	<u>(100,407)</u>	<u>293,734</u>	

The reasons for the reclassifications and revaluations set out in the table above are as follows:

	Liability	UK GAAP valuation £k	Solvency II valuation £k	Reason for differences
1)	<i>Technical provisions</i>	430,444	255,810	"Technical Provisions" under UK GAAP are replaced by "Technical Provisions" calculated in accordance with Solvency II regulations, which include premiums receivable less than three months past due or not yet due as transferred from the Assets section of the balance sheet.
2)	<i>Creditors arising out of direct insurance operations</i>	19,268	19,268	"Creditors arising out of direct insurance operations" under UK GAAP are valued on the same basis as "Insurance & intermediaries payables" under Solvency II regulations.
3)	<i>Creditors arising out of reinsurance operations</i>	118,589	-	Under Solvency II regulations "Creditors arising out of reinsurance operations" are included in "Reinsurance recoverables" in the Assets section of the balance sheet. Under UK GAAP they are separately classified.
4)	<i>Other creditors including taxation and social security</i>	13,220	17,252	"Other creditors including taxation and social security" under UK GAAP are valued on the same basis as "Payables (trade, not insurance)" under Solvency II regulations. Items classified as "Accruals" under UK GAAP with a value of £4,033k are classified as "Payables (trade, not insurance)" under Solvency II regulations.



	Liability	UK GAAP valuation £k	Solvency II valuation £k	Reason for differences
5)	Accruals	5,437	1,403	"Accruals" under UK GAAP are valued on the same basis as "Any other liabilities, not elsewhere shown" under Solvency II regulations. Items classified as "Accruals" under UK GAAP with a value of £4,033k are classified as "Payables (trade, not insurance)" under Solvency II regulations.
6)	Deferred reinsurance commissions	30,144	-	"Deferred reinsurance commissions" are not recognised under Solvency II regulations as they do not represent future cash outflows from the Company and therefore do not represent a reduction in the resources available to the Company for settlement of liabilities.
	TOTAL	617,102	293,734	

During the reporting period no changes were made to the recognition and valuation bases or to the estimates used.

Other than with regard to the Technical Provisions no assumptions or judgements have been made with regard to the future or other sources of uncertainty.

D.4 Alternative methods for valuation

The Company does not use alternative methods for valuation.

D.5 Any other information

The Company has no other material information to report in regards to its valuation of assets and liabilities for solvency purposes.



E. Capital Management

E.1 Own funds

Objectives, policies and processes for managing Own Funds

At all times the Company expects to hold a wide margin of Own Funds over its capital requirements, both with regard to current business and business planned for the future. The current margin and the margin projected twelve months forward of Own Funds over Solvency Capital Requirement are calculated monthly. These margins and projections are reviewed by the Finance Committee and included in reports discussed at Board meetings. Projections of Own Funds and the corresponding margin over Solvency Capital Requirement over the four year business planning period are produced as part of the annual budgeting and business planning cycle. These projections are included in the budgeting and business planning reports to the Finance Committee and Board.

Subject to regulatory constraints, the appropriate level of the Company's share capital and retained profit is determined by the Board in discussion with its owner, MSIJ, and by reference to the Company's Own Funds and capital requirements. Any proposed withdrawal of capital and consequent diminution in the margin of Own Funds over capital requirements is discussed with the PRA in advance.

Own Funds classified by tier

The Company's Own Funds comprise Tier 1 Basic Own Funds and Tier 2 Ancillary Own Funds.

Tier 1 Basic Own Funds comprise ordinary share capital and a Reconciliation Reserve, both of which are classified as Tier 1 unrestricted Own Funds on the grounds that together they represent the amount available to fully absorb losses on a permanent going-concern basis and thereby accord with the definition set out in Article 93(1)(a) of Directive 2009/138/EC. There is no share premium account or any other form of capital or reserve.

Tier 2 Ancillary Own Funds comprise a Letter of Credit for £20,000k of which the Company is the beneficiary. The Letter of Credit was issued on 1 October 2022 by SMBC Bank International plc, a bank incorporated in the United Kingdom, for a minimum term of three years. The Prudential Regulation Authority has given approval for it to be taken into account as an amount of ancillary own funds when calculating the Company's total Own Funds for purposes of calculating its solvency ratio under the Solvency II regulatory regime.

The following table sets out the type and amount of each component of Own Funds at the end of the current and previous reporting periods:

	31 December 2023 £k	31 December 2022 £k
<i>Tier 1 Basic Own Funds</i>		
Issued and fully paid ordinary shares of £1 each	80,700	80,700
Reconciliation reserve	34,178	13,624
<i>Sub-total</i>	<u>114,878</u>	<u>94,324</u>
<i>Tier 2 Ancillary Own Funds</i>		
Letter of Credit	20,000	20,000
Total	<u>134,878</u>	<u>114,324</u>

The amount in the Reconciliation Reserve at 31 December 2023 and 31 December 2022 is calculated as the retained profits under UK GAAP at each balance sheet date less the difference between the valuation of net assets under UK GAAP and Own Funds under Solvency II regulations.

The change in the Reconciliation Reserve of £20,554k in the year to 31 December 2023 (and hence the equivalent change in Tier 1 Basic Own Funds) arose from changes in the normal course of insurance business in the value of the Company's assets and liabilities as valued under Solvency II regulations.

There were no other material changes over the reporting period.



Eligible amount of Own Funds to cover the Solvency Capital Requirement

Total available Own Funds to meet the Solvency Capital Requirement at 31 December 2023 are £134,878k (2022: £114,324k). This comprises all of the Tier 1 Basic Own Funds of £114,878k and all of the Tier 2 Ancillary Own Funds of £20,000k. All of these Own Funds are eligible to meet the Solvency Capital Requirement of £59,765k (2022: £61,251k).

The ratio of eligible Own Funds to the Solvency Capital Requirement at 31 December 2023 is 226% (2022: 187%).

Eligible amount of Own Funds to cover the Minimum Capital Requirement

The available Own Funds to meet the Minimum Capital Requirement at 31 December 2023 are £114,878k (2022: £94,324k) being the Tier 1 Basic Own Funds. All of these Tier 1 Basic Own Funds are eligible to meet the Minimum Capital Requirement of £14,941k (2022: £15,313k).

The ratio of eligible Own Funds to the Minimum Capital Requirement at 31 December 2023 is 769% (2022: 616%).

There are no deductions from eligible Own Funds.

Difference between equity as shown in the financial statements and the excess of assets over liabilities as calculated for solvency purposes

Total equity at 31 December 2023 per the financial statements is £115,807k (2022: £98,968k). The excess of assets over liabilities at 31 December 2023 as calculated for solvency purposes is £114,878k (2022: £94,324k), which is equivalent to the value of the Tier 1 Basic Own Funds. There are no differences between the ordinary share capital reported in the financial statements and that included in Tier 1 Basic Own Funds. The surplus of £929k (2022: £4,644k surplus) of the equity as reported in the financial statements to the excess of assets over liabilities as calculated for solvency purposes is due to differences between the valuation methods used under UK GAAP and those used under Solvency II rules.

These differences are listed in the following table:

	31 December 2023 £k	31 December 2022 £k
Equity per the financial statements (under UK GAAP)	115,807	98,968
<i>Remove:</i>		
UK GAAP Technical Provisions	22,638	24,402
Debtors included in Solvency II Technical Provisions	(104,372)	(76,558)
Creditors included in Solvency II Technical Provisions	118,589	106,533
Deferred acquisition costs	(19,694)	(11,192)
Deferred reinsurance commissions	30,144	19,107
Tangible assets	-	(35)
Intangible assets	-	-
Other debtors	(541)	(509)
Other prepayments and accrued income	(466)	(311)
<i>Include:</i>		
Solvency II Technical Provisions (Best Estimate)	(36,514)	(51,328)
Solvency II Technical Provisions (Risk Margin)	(10,714)	(14,754)
Excess of assets over liabilities (= Own Funds) (under Solvency II rules)	114,878	94,324

E.2 Solvency Capital Requirement and Minimum Capital Requirement

The Company calculates its Solvency Capital Requirement and Minimum Capital Requirement using the Solvency II Standard Formula.



The Company is not using any undertaking-specific parameters in the calculation of the Standard Formula Solvency Capital Requirement pursuant to Article 104(7) of Directive 2009/138/EC.

No capital add-ons have been set by the Company's supervisor.

The Company has applied the following simplifications to the calculation of the Standard Formula Solvency Capital Requirement:

- Counterparty Default Risk - The Company has applied the simplification for calculating the counterparty default risk associated with reinsurance as permitted under Article 107 of the Delegated Acts. This derives a Gross Underwriting Risk Solvency Capital Requirement from which the Net Underwriting Risk Solvency Capital Requirement is deducted to estimate the allowance for reinsurance in the Solvency Capital Requirement. This amount is then apportioned across the current reinsurance exposures in line with the outstanding amounts recoverable.
- Counterparty Default Risk – The Company has applied the simplification of the loss give default for all reinsurers except MSIJ and ADIJ for which it has been confirmed that less than 60% of their assets are allocated to collateral.
- Interest Rate Risk (part of Market Risk) - The asset duration has been directly input into the Interest Rate Risk Solvency Capital Requirement instead of calculating this part of the Solvency Capital Requirement from the cashflows arising from the assets included within the module.

The final Solvency Capital Requirement of £59,765k at 31 December 2023 is still subject to supervisory assessment. Analysis of the Solvency Capital Requirement by risk module is set out in the Quantitative Reporting Template S.25.01.21 included in Appendix 1. Overall, the Solvency Capital Requirement has decreased by £1,486k (2.4%) since 31 December 2022.

The inputs into the Minimum Capital Requirement ("MCR") are the net best estimate Technical Provisions and net written premium in the previous 12 months. The table below shows these inputs split by line of business:

Line of business	Net Best Estimate Technical Provisions £k	Net Written Premium (Previous 12 months) £k
Medical Expenses	47	51
Marine, Aviation and Transportation	5,111	2,107
Fire & Other Damage to Property	14,858	2,346
General Liability	10,911	882
Credit and Suretyship	5,179	-
Miscellaneous Financial Loss	408	1
Total	36,514	5,387

(The analysis of Net Written premium in the previous 12 months is unaudited.)

The Linear MCR is calculated by multiplying the net written premium and the net best estimate Technical Provisions by factors prescribed for each line of business. The Linear MCR is calculated as £4,631k. However, the final MCR can be no greater than 45% of the SCR (£59,765k = 45% x £26,894k) and no lower than 25% of the SCR (£59,765k = 25% x £14,941k). Consequently, the final MCR is £14,941k (being 25% of the SCR).

The MCR at 31 December 2022 was also equal to 25% of the SCR (£15,313k = 25% x £61,251k). Therefore, the MCR has decreased by £372k which is due to the £1,486k decrease in the SCR.



E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

The Company does not use the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement.

E.4 Differences between the standard formula and any internal model used

The Company does not have an approved full or partial internal model.

E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

The Company continues to comply with the Minimum Capital Requirement and Solvency Capital Requirement.

E.6 Any other information

There is no other information with regard to the Company's capital management.



Appendix 1

Mitsui Sumitomo

Solvency and Financial Condition Report

Disclosures

31 December

2023

(Monetary amounts in GBP thousands)

General information

Undertaking name	Mitsui Sumitomo Insurance Company (Europe), Limited
Undertaking identification code	549300SL7DMSQCNFTC38
Type of code of undertaking	LEI
Type of undertaking	Non-life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2023
Currency used for reporting	GBP
Accounting standards	Local GAAP
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02 - Balance sheet

S.05.01.02 - Premiums, claims and expenses by line of business: Non-life insurance and reinsurance obligations

S.05.02.01 - Premiums, claims and expenses by country: Non-life insurance and reinsurance obligations

S.17.01.02 - Non-Life Technical Provisions

S.19.01.21 - Non-Life insurance claims

S.23.01.01 - Own Funds

S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula

S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

S.02.01.02

Balance sheet

Solvency II value	
C0010	
	1,061
	0
	163,962
	0
	0
	0
	19,849
	0
	19,849
	0
	0
	103,563
	40,550
	0
	0
	0
	208,582
	208,582
	208,619
	-37
	0
	0
	2,874
	11,038
	0
	21,095
	408,612

Assets

R0030	Intangible assets
R0040	Deferred tax assets
R0050	Pension benefit surplus
R0060	Property, plant & equipment held for own use
R0070	Investments (other than assets held for index-linked and unit-linked contracts)
R0080	<i>Property (other than for own use)</i>
R0090	<i>Holdings in related undertakings, including participations</i>
R0100	<i>Equities</i>
R0110	<i>Equities - listed</i>
R0120	<i>Equities - unlisted</i>
R0130	<i>Bonds</i>
R0140	<i>Government Bonds</i>
R0150	<i>Corporate Bonds</i>
R0160	<i>Structured notes</i>
R0170	<i>Collateralised securities</i>
R0180	<i>Collective Investments Undertakings</i>
R0190	<i>Derivatives</i>
R0200	<i>Deposits other than cash equivalents</i>
R0210	<i>Other investments</i>
R0220	Assets held for index-linked and unit-linked contracts
R0230	Loans and mortgages
R0240	<i>Loans on policies</i>
R0250	<i>Loans and mortgages to individuals</i>
R0260	<i>Other loans and mortgages</i>
R0270	Reinsurance recoverables from:
R0280	<i>Non-life and health similar to non-life</i>
R0290	<i>Non-life excluding health</i>
R0300	<i>Health similar to non-life</i>
R0310	<i>Life and health similar to life, excluding index-linked and unit-linked</i>
R0320	<i>Health similar to life</i>
R0330	<i>Life excluding health and index-linked and unit-linked</i>
R0340	<i>Life index-linked and unit-linked</i>
R0350	Deposits to cedants
R0360	Insurance and intermediaries receivables
R0370	Reinsurance receivables
R0380	Receivables (trade, not insurance)
R0390	Own shares (held directly)
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in
R0410	Cash and cash equivalents
R0420	Any other assets, not elsewhere shown
R0500	Total assets

S.02.01.02

Balance sheet

		Solvency II value
		C0010
Liabilities		
R0510	Technical provisions - non-life	255,810
R0520	<i>Technical provisions - non-life (excluding health)</i>	255,787
R0530	<i>TP calculated as a whole</i>	0
R0540	<i>Best Estimate</i>	245,086
R0550	<i>Risk margin</i>	10,701
R0560	<i>Technical provisions - health (similar to non-life)</i>	23
R0570	<i>TP calculated as a whole</i>	0
R0580	<i>Best Estimate</i>	10
R0590	<i>Risk margin</i>	13
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	<i>Technical provisions - health (similar to life)</i>	0
R0620	<i>TP calculated as a whole</i>	
R0630	<i>Best Estimate</i>	
R0640	<i>Risk margin</i>	
R0650	<i>Technical provisions - life (excluding health and index-linked and unit-linked)</i>	0
R0660	<i>TP calculated as a whole</i>	
R0670	<i>Best Estimate</i>	
R0680	<i>Risk margin</i>	
R0690	Technical provisions - index-linked and unit-linked	0
R0700	<i>TP calculated as a whole</i>	
R0710	<i>Best Estimate</i>	
R0720	<i>Risk margin</i>	
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	19,268
R0830	Reinsurance payables	0
R0840	Payables (trade, not insurance)	17,252
R0850	Subordinated liabilities	0
R0860	<i>Subordinated liabilities not in BOF</i>	
R0870	<i>Subordinated liabilities in BOF</i>	0
R0880	Any other liabilities, not elsewhere shown	1,403
R0900	Total liabilities	293,734
R1000	Excess of assets over liabilities	114,878

Premiums, claims and expenses by line of business: Non-life insurance and reinsurance obligations

Premiums written

R0110	Gross - Direct Business	225				29,133	69,480	7,355	49,089		1					155,283
R0120	Gross - Proportional reinsurance accepted	9				14,687	82,200	5,069	2,157		1,221					105,343
R0130	Gross - Non-proportional reinsurance accepted															0
R0140	Reinsurers' share	183				41,713	149,333	11,542	51,247		1,221					255,239
R0200	Net	51				2,107	2,347	882	-1		1					5,387

Premiums earned

R0210	Gross - Direct Business	185				29,912	59,564	7,345	23,989			1				120,996
R0220	Gross - Proportional reinsurance accepted	11				12,759	86,649	3,911	252			17				103,599
R0230	Gross - Non-proportional reinsurance accepted															0
R0240	Reinsurers' share	137				40,423	143,857	10,460	24,242			17				219,136
R0300	Net	59				2,247	2,356	795	0			1				5,459

Claims incurred

R0310	Gross - Direct Business	-5				19,263	40,273	-8,836	4,067			0				54,763
R0320	Gross - Proportional reinsurance accepted	-3				2,944	-5,115	-3,824	-3,818			0				-9,816
R0330	Gross - Non-proportional reinsurance accepted															0
R0340	Reinsurers' share	0				21,025	35,276	-11,113	221			0				45,409
R0400	Net	-7				1,182	-117	-1,548	27			0				-463

Changes in other technical provisions

[illegible][illegible]

S.05.02.01

Premiums, claims and expenses by country: Non-life insurance and reinsurance obligations

R0010

C0010	C0020	C0030	C0040	C0050	C0060	C0070
Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations			Top 5 countries (by amount of gross premiums written) - non-life obligations		Total Top 5 and home country
	US	KZ	ES	AE	DE	
C0080	C0090	C0100	C0110	C0120	C0130	C0140

Premiums written

R0110	Gross - Direct Business	106,129	49,154	0	0	0	0	155,283
R0120	Gross - Proportional reinsurance accepted	8,723	12,206	41,576	5,497	3,531	3,333	74,866
R0130	Gross - Non-proportional reinsurance accepted							0
R0140	Reinsurers' share	111,058	61,359	41,659	5,475	3,521	3,095	226,166
R0200	Net	3,794	2	-83	22	10	238	3,983

Premiums earned

R0210	Gross - Direct Business	80,584	40,412	0	0	0	0	120,996
R0220	Gross - Proportional reinsurance accepted	10,486	11,945	36,129	5,805	2,759	3,486	70,610
R0230	Gross - Non-proportional reinsurance accepted							0
R0240	Reinsurers' share	87,227	52,355	36,156	5,787	2,758	3,339	187,622
R0300	Net	3,843	2	-26	18	1	147	3,984

Claims incurred

R0310	Gross - Direct Business	26,648	28,109	0	0	0	0	54,757
R0320	Gross - Proportional reinsurance accepted	7,887	-9,281	1	13	65	173	-1,143
R0330	Gross - Non-proportional reinsurance accepted							0
R0340	Reinsurers' share	35,137	18,747	1	13	64	164	54,127
R0400	Net	-602	80	0	0	0	9	-512

Changes in other technical provisions

R0410	Gross - Direct Business							0
R0420	Gross - Proportional reinsurance accepted							0
R0430	Gross - Non-proportional reinsurance accepted							0
R0440	Reinsurers' share							0
R0500	Net	0	0	0	0	0	0	0

R0550	Expenses incurred	-3,253	-4,072	423	-371	-58	24	-7,307
R1200	Other expenses							-78
R1300	Total expenses							-7,384

S.17.01.02

Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance											Accepted non-proportional reinsurance				Total Non-Life obligation	
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance		Non-proportional property reinsurance
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
R0010	Technical provisions calculated as a whole	0					0	0	0	0			0					0
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole																	0
Technical provisions calculated as a sum of BE and RM																		
Best estimate																		
Premium provisions																		
R0060	Gross	-18					12,185	9,354	4,321	-2,079			-350					23,413
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	-36					10,835	1,968	3,896	-3,667			-923					12,073
R0150	Net Best Estimate of Premium Provisions	17					1,350	7,386	425	1,588			573					11,340
Claims provisions																		
R0160	Gross	28					47,147	113,801	55,301	5,432			-26					221,683
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	-2					43,386	106,329	44,815	1,841			139					196,509
R0250	Net Best Estimate of Claims Provisions	30					3,761	7,472	10,486	3,591			-166					25,174
R0260	Total best estimate - gross	10					59,332	123,155	59,622	3,353			-376					245,096
R0270	Total best estimate - net	47					5,111	14,858	10,911	5,179			408					36,514
R0280	Risk margin	13					1,590	3,159	4,434	1,518			0					10,714
Amount of the transitional on Technical Provisions																		
R0290	Technical Provisions calculated as a whole																	0
R0300	Best estimate																	0
R0310	Risk margin																	0
R0320	Technical provisions - total	23					60,922	126,314	64,056	4,871			-376					255,810
R0330	Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	-37					54,221	108,297	48,712	-1,826			-784					208,582
R0340	Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	60					6,701	18,017	15,345	6,697			408					47,228

Non-Life insurance claims

Z0020

R0100
R0160
R0170
R0180
R0190
R0200
R0210
R0220
R0230
R0240
R0250
R0260

R0100
R0160
R0170
R0180
R0190
R0200
R0210
R0220
R0230
R0240
R0250
R0260

S.23.01.01

Own Funds

Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35

R0010	Ordinary share capital (gross of own shares)
R0030	Share premium account related to ordinary share capital
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings
R0050	Subordinated mutual member accounts
R0070	Surplus funds
R0090	Preference shares
R0110	Share premium account related to preference shares
R0130	Reconciliation reserve
R0140	Subordinated liabilities
R0160	An amount equal to the value of net deferred tax assets
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above

R0220 Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds

R0230 Deductions for participations in financial and credit institutions

R0290 Total basic own funds after deductions

Ancillary own funds

R0300	Unpaid and uncalled ordinary share capital callable on demand
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand
R0320	Unpaid and uncalled preference shares callable on demand
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC
R0390	Other ancillary own funds
R0400	Total ancillary own funds

Available and eligible own funds

R0500	Total available own funds to meet the SCR
R0510	Total available own funds to meet the MCR
R0540	Total eligible own funds to meet the SCR
R0550	Total eligible own funds to meet the MCR

R0580 SCR

R0600 MCR

R0620 Ratio of Eligible own funds to SCR

R0640 Ratio of Eligible own funds to MCR

Reconciliation reserve

R0700	Excess of assets over liabilities
R0710	Own shares (held directly and indirectly)
R0720	Foreseeable dividends, distributions and charges
R0730	Other basic own fund items
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds
R0760	Reconciliation reserve

Expected profits

R0770	Expected profits included in future premiums (EPIFP) - Life business
R0780	Expected profits included in future premiums (EPIFP) - Non- life business
R0790	Total Expected profits included in future premiums (EPIFP)

Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
C0010	C0020	C0030	C0040	C0050
80,700	80,700		0	
0	0		0	
0	0		0	
0		0	0	0
0	0			
0		0	0	0
0		0	0	0
34,178	34,178			
0		0	0	0
0				0
0	0	0	0	0
0				
0				

0				
0				
0				
0				
0				
0				
20,000			20,000	
0				
0				
0				
20,000			20,000	0

134,878	114,878	0	20,000	0
114,878	114,878	0	0	
134,878	114,878	0	20,000	0
114,878	114,878	0	0	

59,765
14,941
225.68%
768.87%

C0060
114,878
0
80,700
0
34,178

1,968
1,968

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

R0010 Market risk
 R0020 Counterparty default risk
 R0030 Life underwriting risk
 R0040 Health underwriting risk
 R0050 Non-life underwriting risk
 R0060 Diversification

R0070 Intangible asset risk

R0100 Basic Solvency Capital Requirement

Calculation of Solvency Capital Requirement

R0130 Operational risk
 R0140 Loss-absorbing capacity of technical provisions
 R0150 Loss-absorbing capacity of deferred taxes
 R0160 Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC
 R0200 Solvency Capital Requirement excluding capital add-on
 R0210 Capital add-ons already set
 R0220 Solvency capital requirement

Other information on SCR

R0400 Capital requirement for duration-based equity risk sub-module
 R0410 Total amount of Notional Solvency Capital Requirements for remaining part
 R0420 Total amount of Notional Solvency Capital Requirements for ring fenced funds
 R0430 Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios
 R0440 Diversification effects due to RFF nSCR aggregation for article 304

Approach to tax rate

R0590 Approach based on average tax rate

Calculation of loss absorbing capacity of deferred taxes

R0640 LAC DT
 R0650 LAC DT justified by reversion of deferred tax liabilities
 R0660 LAC DT justified by reference to probable future taxable economic profit
 R0670 LAC DT justified by carry back, current year
 R0680 LAC DT justified by carry back, future years
 R0690 Maximum LAC DT

Gross solvency capital requirement	USP	Simplifications
C0110	C0090	C0120
11,568		
41,676		
0		
48		
10,728		
-11,701		
0		
52,319		
C0100		
7,446		
0		
0		
59,765		
0		
59,765		
0		
0		
0		
0		
0		
C0109		
0		
LAC DT		
C0130		
0		
0		
0		
0		
0		
0		

USP Key

For life underwriting risk:

1 - Increase in the amount of annuity benefits
 9 - None

For health underwriting risk:

1 - Increase in the amount of annuity benefits
 2 - Standard deviation for NSLT health premium risk
 3 - Standard deviation for NSLT health gross premium risk
 4 - Adjustment factor for non-proportional reinsurance
 5 - Standard deviation for NSLT health reserve risk
 9 - None

For non-life underwriting risk:

4 - Adjustment factor for non-proportional reinsurance
 6 - Standard deviation for non-life premium risk
 7 - Standard deviation for non-life gross premium risk
 8 - Standard deviation for non-life reserve risk
 9 - None

S.28.01.01

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity**Linear formula component for non-life insurance and reinsurance obligations**R0010 MCR_{NL} Result

C0010

4,631

Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
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C0020

C0030

R0020	Medical expense insurance and proportional reinsurance
R0030	Income protection insurance and proportional reinsurance
R0040	Workers' compensation insurance and proportional reinsurance
R0050	Motor vehicle liability insurance and proportional reinsurance
R0060	Other motor insurance and proportional reinsurance
R0070	Marine, aviation and transport insurance and proportional reinsurance
R0080	Fire and other damage to property insurance and proportional reinsurance
R0090	General liability insurance and proportional reinsurance
R0100	Credit and suretyship insurance and proportional reinsurance
R0110	Legal expenses insurance and proportional reinsurance
R0120	Assistance and proportional reinsurance
R0130	Miscellaneous financial loss insurance and proportional reinsurance
R0140	Non-proportional health reinsurance
R0150	Non-proportional casualty reinsurance
R0160	Non-proportional marine, aviation and transport reinsurance
R0170	Non-proportional property reinsurance

47	51
0	
0	
0	
0	
5,111	2,107
14,858	2,347
10,911	882
5,179	-1
0	
0	
408	1
0	
0	
0	
0	

Linear formula component for life insurance and reinsurance obligationsR0200 MCR_L Result

C0040

0

Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
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C0050

C0060

R0210	Obligations with profit participation - guaranteed benefits
R0220	Obligations with profit participation - future discretionary benefits
R0230	Index-linked and unit-linked insurance obligations
R0240	Other life (re)insurance and health (re)insurance obligations
R0250	Total capital at risk for all life (re)insurance obligations

Overall MCR calculation

C0070

R0300	Linear MCR
R0310	SCR
R0320	MCR cap
R0330	MCR floor
R0340	Combined MCR
R0350	Absolute floor of the MCR
R0400	Minimum Capital Requirement

4,631
59,765
26,894
14,941
14,941
2,359
14,941



Appendix 2

MSIEU Governance Structure December 2023

