



**Mitsui Sumitomo Insurance Company (Europe), Limited**

**Solvency and Financial Condition Report**

**for the Year Ending 31 December 2017**





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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.

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**Robin Adam**  
Chief Executive Officer

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**Andrew Slater**  
Chief Financial Officer

24 April 2018

# 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

Except as stated below, we have audited the following documents prepared by Mitsui Sumitomo Insurance Company (Europe), Limited as at 31 December 2017:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of Mitsui Sumitomo Insurance Company (Europe), Limited as at 31 December 2017, (**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;
- the written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report (**the Responsibility Statement**).

In our opinion, the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report of Mitsui Sumitomo Insurance Company (Europe), Limited as at 31 December 2017 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, and applicable law. 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 Mitsui Sumitomo Insurance Company (Europe), Limited 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 – special purpose 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 Prudential Regulation Authority. 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**

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

- the directors’ use of the going concern basis of accounting in the preparation of the SFCR is not appropriate; or
- the directors have not disclosed in the SFCR any identified material uncertainties that may cast significant doubt about the company’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the SFCR is authorised for issue.

### **Other Information**

The Directors 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, accordingly, we do not express an audit opinion or 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 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.

The Directors are also responsible for such internal control as they determine 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; 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, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

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 Relevant Elements of the Solvency and Financial Condition Report.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

### **Report on Other Legal and Regulatory Requirements**

In accordance with Rule 4.1 (3) of the External Audit Chapter of the PRA Rulebook we are required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of Mitsui Sumitomo Insurance Company (Europe), Limited 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.

### **The purpose of our audit work and to whom we owe our responsibilities**

This report of the external auditor is made solely to the company's directors, as its governing body, in accordance with the requirement in Rule 4.1(2) of the External Audit Part of the PRA Rulebook and the terms of our engagement. We acknowledge that the directors are required to submit the report to the PRA, to enable the PRA to verify that an auditor's report has been commissioned by the company's directors and issued in accordance with the requirement set out in Rule 4.1(2) of the External Audit Part of the PRA Rulebook and to facilitate the discharge by the PRA of its regulatory functions in respect of the company, conferred on the PRA by or under the Financial Services and Markets Act 2000.

Our audit has been undertaken so that we might state to the company's directors those matters we are required to state to them in an auditor's report issued pursuant to Rule 4.1(2) and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company through its governing body, for our audit, for this report, or for the opinions we have formed.



Timothy Butchart for and on behalf of KPMG LLP  
15 Canada Square  
Canary Wharf  
London  
24 April 2018

- The maintenance and integrity of Mitsui Sumitomo Insurance Company (Europe), Limited (MSIEU's) website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Solvency and Financial Condition Report since it was initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of Solvency and Financial Condition Reports may differ from legislation in other jurisdictions.



## **Appendix – relevant elements of the Solvency and Financial Condition Report that are not subject to audit**

### **Solo standard formula**

The Relevant Elements of the Solvency and Financial Condition Report that are not subject to audit comprise:

- The following elements of template S.12.01.02
  - Rows R0110 to R0130 – Amount of transitional measure on technical provisions
- The following elements of template S.17.01.02
  - Rows R0290 to R0310 – Amount of transitional measure on technical provisions
- The following elements of template S.22.01.21
  - Column C0030 – Impact of transitional on technical provisions
- Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.



## Executive Summary

### Business and Performance Summary

The main business of Mitsui Sumitomo Insurance Company (Europe), Limited (“the Company”) is the provision of non-life insurance services to Japanese corporate clients located in the UK and Republic of Ireland. It also provides non-life insurance services to Japanese corporate clients located in continental Europe and sub-Saharan Africa. The Company carries out its business in the UK. The Company also:

- participates in the aviation underwriting pool managed by Global Aerospace Underwriting Managers Limited (“GAUM”) which carries out its business in the UK, France and Switzerland, and
- has a delegated underwriting authority agreement with its sister organisation MS Amlin Underwriting Limited (“MS AUL”), the business in respect of which is carried out in the UK.

The Company provides insurance for the following types of commercial risk:

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

The Company’s corporate vision is to be a profitable insurer providing effective underwriting and claims solutions and superior customer service to Japanese clients in the UK and abroad.

The Company has made preparations to address the various possible outcomes from the United Kingdom’s negotiations over its forthcoming departure from the European Union. Regardless of the outcome, the disruption to the Company’s business is expected to be negligible.

The Company’s results in 2017 and 2016 as presented in its financial statements are summarised in the following table:

Profit or Loss account	2017 £k	2016 £k
Gross Written Premium	47,087	41,834
Net Earned Premium	3,910	4,553
Net Claims Incurred	(1,437)	(1,866)
Reinsurance Commission Income net of Acquisition Costs	3,254	2,377
Expenses	(6,164)	(6,614)
Movement in Equalisation Provision	-	298
<b>Underwriting Loss</b>	<b>(437)</b>	<b>(1,252)</b>
Investment return	769	1,651
Foreign exchange (loss) / gain	(57)	281
Other Income	15	-
<b>Profit before tax</b>	<b>290</b>	<b>680</b>
Tax credit	115	-
<b>Profit after tax</b>	<b>405</b>	<b>680</b>

Statement of Comprehensive Income	2017 £k	2016 £k
Profit after tax	405	680
Currency translation differences	13	(74)
<b>Total Comprehensive Income</b>	<b>418</b>	<b>606</b>

<i>Net Claims ratio</i>	37%	41%
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During 2017 the Company benefited from increased gross written premiums in relation to existing clients and was successful in the acquisition of new clients. The fall in net earned premium (ie. earned premium



net of reinsurance) is primarily due to the purchase of additional facultative reinsurance in 2017. The Company earns commission from its reinsurance arrangements, and hence this additional reinsurance is also responsible for the increase in reinsurance commission income net of acquisition costs from 2016 to 2017.

To provide the capital for its underwriting activities the Company also holds an investment portfolio comprising investments in government bonds, corporate bonds, term deposits with banks, money market funds and current bank accounts. At 31 December 2017 and 31 December 2016 the fair value of this portfolio by investment type is as set out in the following table:

	Fair value at 31 Dec 2017 £k	Fair value at 31 Dec 2016 £k
Government bonds and corporate bonds:		
Government and supranational securities	1,306	7,305
Government agency and regional government securities	4,232	1,555
Corporate bonds	45,746	24,385
Bank term deposits	17,550	42,659
Money market funds	73,358	56,606
Current bank accounts	2,002	4,586
<b>Total</b>	<b>144,194</b>	<b>137,096</b>

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 2017 and 2016 by investment type are set out in the following tables:

2017	Bonds	Bank term deposits	Money market funds	Total
Return (£k)	228	584	57	<b>869</b>
Expenses (£k)	(100)	-	-	<b>(100)</b>
Net of expenses	128	584	57	<b>769</b>
Return (% of amount invested)	0.7%	0.8%	0.2%	<b>0.6%</b>
Expenses (%)	(0.3%)	-	-	<b>(0.1%)</b>
Net of expenses	0.4%	0.8%	0.2%	<b>0.6%</b>

2016	Bonds	Bank term deposits	Money market funds	Total
Return (£k)	1,552	256	23	<b>1,831</b>
Expenses (£k)	(180)	-	-	<b>(180)</b>
Net of expenses	1,372	256	23	<b>1,651</b>
Return (% of amount invested)	1.7%	0.9%	0.4%	<b>1.4%</b>
Expenses (%)	(0.2%)	-	-	<b>(0.1%)</b>
Net of expenses	1.5%	0.9%	0.4%	<b>1.2%</b>

The investment return in 2016 benefitted from an unexpected fall in bond yields which followed the unexpected decision taken in the UK referendum on 23 June 2016 to leave the European Union. There were no similarly unexpected developments in 2017 and hence the investment return net of expenses in 2017 was lower at 0.6% compared to 1.2% in 2016. Furthermore a greater proportion of the investment portfolio was held in bank term deposits throughout 2017 than was the case in 2016. These deposits have fixed rates of interest and hence the overall portfolio was less susceptible to developments in bond markets in 2017 than in 2016.



## **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”). The Board comprises two independent non-executive directors, two non-executive directors employed by companies in the same group, and three executive directors. It is chaired by one of the independent non-executive directors.

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 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 Governance 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 its key functions:

- Risk Management Function
- Compliance Function
- Internal Audit Function
- Actuarial Function
- Finance Function
- Underwriting Function
- Information Technology Function
- Claims Function
- Reinsurance Function
- Investment Management Function
- Japanese Interests Abroad 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, variable and retention pay and is intended to ensure remuneration:

- is linked 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; and
- 4) They must have undergone or be undergoing all training required to enable them to perform their function effectively and in accordance with any regulatory requirements, and to contribute to sound and prudent management of the Company.

#### *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:

##### *1st 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 that help control, assure and reinforce the quality of the activities of the risk takers and controllers. They ensure that the 1st line is taking and managing and controlling the risks they expose the Company to within defined parameters.

##### *2nd 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 1st line to take the appropriate level of risk and effectively manage the exposures the Company faces as a result. The 2nd line of defence provides effective oversight, challenge and reporting of the 1st line’s risk-taking activities.

##### *3rd 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, Risk and Capital Committee, and Underwriting and Operations Committee. The Risk Management Function also provides reports to the Committees on actual performance compared to risk appetite, event 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, and aims to inform 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.

##### *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
- 5) Monitoring of the 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, unprofitable future underwriting and adverse claims development from business already written. The Company purchases significant reinsurance protection to mitigate against both types of risk. 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. 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.

### Market Risk

At 31 December 2017 approximately 36% (£51,284k) of the Company's investment assets were invested in government and corporate bonds at 31 December 2017. The market value of these bonds is prone to fluctuate and hence the Company is exposed to market risk. In particular, increases in interest base rates can lead to reductions in the market value of bonds. Market values are also exposed to the risk of widening credit spreads which indicate growing market concerns regarding the ability of bond issuers to service their debt and thereby can depress the market value of bonds. The Company mitigates these risks by:

- setting limits on the duration of bonds,
- imposing minimum credit quality requirements, and
- setting limits on the amount that can be invested with any one issuer.

### 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. As a result the Company is 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 2017 approximately 63% (90,907k) of the Company's investment assets were invested in term deposits with banks, in money market funds or held as cash in current bank accounts at 31 December 2017. The Company is exposed to risk of default by the counterparty to all these types of investment. The balance of 36% (£51,284k) of the Company's investment assets invested in government bonds and corporate bonds is also exposed to the risk of default if the issuer is rendered insolvent and therefore unable to pay the amount due.

The Company mitigates these credit risks by:

- setting limits on the exposure to individual reinsurers,
- requiring that the wording for facultative reinsurance purchased for individual policies is consistent with the original wording to minimise the potential for dispute,
- imposing minimum credit quality requirements for reinsurers and financial institutions, 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 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 (“MS&AD”) and relies upon its parent company, Mitsui Sumitomo Insurance Company Limited (“MSIJ”), to provide capital and other support to meet its strategy. Furthermore, the Company also shares certain services, including IT services, with MS Amlin Corporate Services Limited (“MS ACS”), another group company. 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 and 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 the group strategy and to ensure MSIJ have 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 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 incepted 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 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, both with regard to its current business and 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 and Minimum Capital Requirement at 31 December 2017 stood at £100,520k (2016: £100,184k). All of these Own Funds are classified as Tier 1 unrestricted Own Funds and therefore all are eligible to meet both capital requirements.

The Solvency Capital Requirement at 31 December 2017 was £30,234k (2016: £29,217k). The ratio of eligible Own Funds to this requirement is 332.5% (2016: 342.9%).

The Minimum Capital Requirement at 31 December 2017 was £7,558k (2016: £7,304k). The ratio of eligible Own Funds over the Minimum Capital Requirement at 31 December 2017 is 1,329.9% (2016: 1,371.6%).

The Company has maintained a similarly wide margin over its capital requirements throughout the reporting period.





## 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:

25 Fenchurch Avenue  
London  
EC3M 5AD

#### 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:

KPMG LLP  
15 Canada Square  
London  
E14 5GL

#### Qualifying holdings and group structure

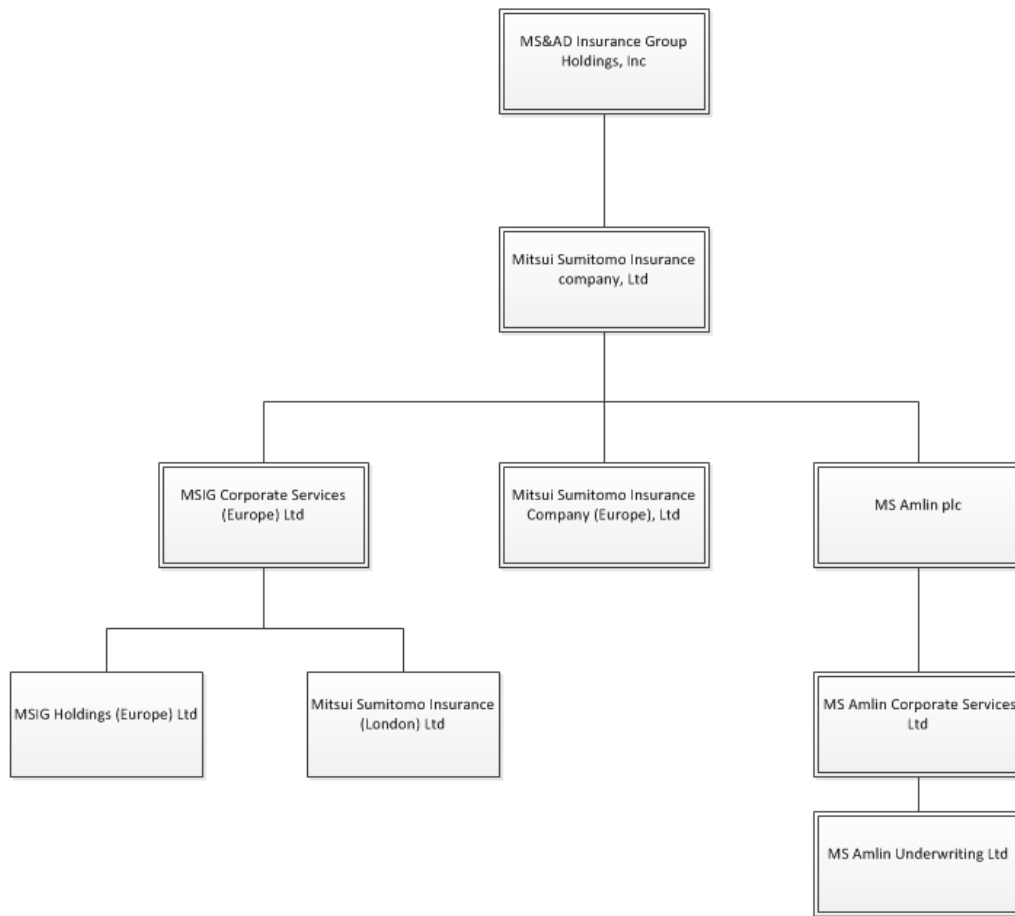
As at 31 December 2017 the entire share capital of the Company was owned by Mitsui Sumitomo Insurance Company Limited (“MSIJ”), a company incorporated in Japan. The ultimate parent of the Company is MS&AD Insurance Group Holdings, Inc., a company incorporated in Japan.

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

<b>Name of Undertaking</b>	<b>Country</b>	<b>Name of Parent</b>	<b>Amount of shares owned</b>
Mitsui Sumitomo Insurance Company, (Europe) Limited	<b>UK</b>	<b>Mitsui Sumitomo Insurance Company Limited</b>	<b>100%</b>
Mitsui Sumitomo Insurance Company Limited	<b>Japan</b>	<b>MS&amp;AD Insurance Group Holdings, Inc.</b>	<b>100%</b>



The Company's position within the MS&AD Insurance Group ("MS&AD") headed by MS&AD Insurance Group Holdings, Inc, along with the position of the other group companies referred to in this report is shown as at 31 December 2017 in the diagram below:



### **Material lines of business and material geographical areas**

The Company mainly provides non-life insurance services to Japanese clients located in the UK and Republic of Ireland. It also provides non-life insurance services to Japanese clients located in continental Europe and sub-Saharan Africa.

The Company carries out its business in the UK. The Company also:

- participates in the aviation underwriting pool managed by GAUM which carries out its business in the UK, France and Switzerland, and
- has a delegated underwriting authority agreement with its sister organisation, MS Amlin Underwriting Limited ("MS AUL"), the business in respect of which is carried out in the UK.

The Company's material lines of business are the provision of general insurance for the following types of commercial risk:

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

### **Significant business or other events**

The Company has made preparations to address the various possible outcomes from the United Kingdom's negotiations over its forthcoming departure from the European Union. Regardless of the outcome, the disruption to the Company's business is expected to be negligible.



## A.2 Underwriting Performance

The main business of the Company during 2017 was the provision of insurance services to Japanese clients located in the UK and Republic of Ireland. It also provided insurance services to Japanese clients located in continental Europe and sub-Saharan Africa. In addition to this business, the Company also:

- a) participated in the aviation underwriting pool managed by GAUM ceding all the premium and insurance risks derived therefrom to MSIJ in return for reinsurance commission, and
- b) underwrote aerospace business through its delegated underwriting authority agreement with its sister organisation, MS AUL.

The below table summarises the Company's underwriting performance as presented in its financial statements:

Profit or Loss account	2017	2016
	£k	£k
Gross Written Premium	47,087	41,834
Net Earned Premium	3,910	4,553
Net Claims Incurred	(1,437)	(1,866)
Reinsurance Commission Income net of Acquisition Costs	3,254	2,377
Expenses	(6,164)	(6,614)
Movement in Equalisation Provision	-	298
<b>Underwriting Loss</b>	<b>(437)</b>	<b>(1,252)</b>

<i>Net Claims ratio</i>	37%	41%
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The Company's gross written premiums for the reporting year were £47,087k, a 13% increase from the prior year. During the reporting year the Company was successful in the acquisition of new Japanese clients.

The Company's net earned premiums for the reporting year were £3,910k, a 14% reduction from the prior year. This is primarily due to the purchase of additional facultative reinsurance.

The Company's net claims ratio during the reporting year was 37% compared to 41% in the prior year. During the reporting year the Company experienced favourable developments with regard to its prior year claim reserves in the General Liability line of business.

Reinsurance commission income net of acquisition costs at £3,254k has increased significantly compared to the prior year due to the purchase of additional reinsurance in 2017 combined with the increase in gross written premiums. The Company receives commission income from the ceding of insurance premiums to reinsurers, and this commission is recognised as income in line with the earning of the reinsurance premium to which it relates.

Expenses in 2017 have reduced compared to the prior year. This is driven by savings in office expenses and technical expenses.



### **Material lines of business**

The Company's underwriting performance in 2017 and 2016 analysed by material line of business as presented in its financial statements is shown below:

2017	Marine, Aviation and Transport £k	Fire and other damage to property £k	General Liability £k
Gross Written Premium	19,866	17,965	8,159
Net Earned Premium	1,863	1,347	429
Net Claims Incurred	(1,421)	(487)	466
Reinsurance Commission Income net of Acquisition Costs	935	1,289	1,033
<b>Underwriting Result before Expenses</b>	<b>1,377</b>	<b>2,149</b>	<b>1,928</b>

<i>Net Claims ratio</i>	76%	36%	(109%)
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2016	Marine, Aviation and Transport £k	Fire and other damage to property £k	General Liability £k
Gross Written Premium	19,578	15,748	6,068
Net Earned Premium	1,830	1,534	925
Net Claims Incurred	(1,075)	(728)	32
Reinsurance Commission Income net of Acquisition Costs	668	1,090	619
<b>Underwriting Result before Expenses</b>	<b>1,423</b>	<b>1,896</b>	<b>1,576</b>

<i>Net Claims ratio</i>	59%	47%	(3%)
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#### *Marine, Aviation and Transport*

The gross written premium for the Marine, Aviation and Transport line of business during the reporting year was £19,866k, a slight increase from the prior year driven by increased premiums from existing Japanese clients. The increase in gross written premium has resulted in slightly higher net earned premium compared to the prior year.

The net claims ratio was 76% in 2017 compared to 59% in 2016 due to the increased incidence of a small number of new claims.

#### *Fire and other damage to property*

The gross written premium for the Fire and other damage to property line of business during the reporting year was £17,965k, a 14% increase from the prior year. This is due to the acquisition of new Japanese business. The net earned premiums were £1,347k, a 12% decrease from prior year due to the purchase of additional facultative reinsurance.

The net claims ratio was 36% in 2017 compared to 47% in 2016 due to the reduced incidence of new claims in 2017 compared to 2016.



### General Liability

The gross written premium for the General Liability line of business during the reporting year was £8,159k, a 34% increase from the prior year. This is primarily driven by the acquisition of new Japanese business.

The net earned premiums were £429k, a 54% decrease from the prior year. This is due to a change in the reinsurance programme in 2015 together with the purchase of additional facultative reinsurance in 2017.

The net claims ratio in 2017 is negative and significantly lower than the prior year primarily due to favourable developments with regard to prior year claim reserves.

### Material geographical areas

The Company underwrites business from its office in the UK and provides insurance services to its clients primarily located in the UK and Republic of Ireland, but also located in continental Europe and sub-Saharan Africa. Business emanating from the Company's participation in the aviation pool managed by GAUM is conducted through GAUM's offices established in the UK, France and Switzerland.

The Company's underwriting performance in 2017 and 2016 by material geographical area based on the location of risk is set out in the following tables:

2017	UK*	Continental Europe	Sub-Saharan Africa
	£k	£k	£k
Gross Written Premium	32,769	8,641	2,664
Net Earned Premium	2,123	611	314
Net Claims Incurred	(1,016)	(87)	(33)
Reinsurance Commission Income net of Acquisition Costs	2,120	946	(67)
<b>Underwriting Result before Expenses</b>	<b>3,227</b>	<b>1,470</b>	<b>214</b>

<i>Net Claims ratio</i>	48%	14%	11%
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\* Including worldwide marine, aviation and transport risks.

2016	UK*	Continental Europe	Sub-Saharan Africa
	£k	£k	£k
Gross Written Premium	28,132	8,029	2,093
Net Earned Premium	2,916	614	312
Net Claims Incurred	(1,416)	(238)	(24)
Reinsurance Commission Income net of Acquisition Costs	1,640	519	51
<b>Underwriting Result before Expenses</b>	<b>3,140</b>	<b>895</b>	<b>339</b>

<i>Net Claims ratio</i>	49%	39%	8%
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\* Including worldwide marine, aviation and transport risks.



### A.3 Investment Performance

The Company's investment portfolio comprises investments in government bonds and corporate bonds, term deposits with banks, money market funds and current bank accounts. The fair value of the investment portfolio by investment type at 31 December 2017 and 31 December 2016 as presented in its financial statements is set out in the following table:

	Fair value at 31 Dec 2017 £k	Fair value at 31 Dec 2016 £k
Government bonds and corporate bonds:		
Government and supranational securities	1,306	7,305
Government agency and regional government securities	4,232	1,555
Corporate bonds	45,746	24,385
Bank term deposits	17,550	42,659
Money market funds	73,358	56,606
Current bank accounts	2,002	4,586
<b>Total</b>	<b>144,194</b>	<b>137,096</b>

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 2017 and 2016 by investment type are set out in the following tables:

<b>2017</b>	<b>Bonds</b>	<b>Bank term deposits</b>	<b>Money market funds</b>	<b>Total</b>
Return (£k)	228	584	57	<b>869</b>
Expenses (£k)	(100)	-	-	<b>(100)</b>
Net of expenses	<u>128</u>	<u>584</u>	<u>57</u>	<b>769</b>
Return (% of amount invested)	0.7%	0.8%	0.2%	<b>0.6%</b>
Expenses (%)	(0.3%)	-	-	<b>(0.1%)</b>
Net of expenses	<u>0.4%</u>	<u>0.8%</u>	<u>0.2%</u>	<b>0.6%</b>

<b>2016</b>	<b>Bonds</b>	<b>Bank term deposits</b>	<b>Money market funds</b>	<b>Total</b>
Return (£k)	1,552	256	23	<b>1,831</b>
Expenses (£k)	(180)	-	-	<b>(180)</b>
Net of expenses	<u>1,372</u>	<u>256</u>	<u>23</u>	<b>1,651</b>
Return (% of amount invested)	1.7%	0.9%	0.4%	<b>1.4%</b>
Expenses (%)	(0.2%)	-	-	<b>(0.1%)</b>
Net of expenses	<u>1.5%</u>	<u>0.9%</u>	<u>0.4%</u>	<b>1.2%</b>

The investment return in 2016 benefitted from an unexpected fall in bond yields which followed the unexpected decision taken in the UK referendum on 23 June 2016 to leave the European Union. There were no similarly unexpected developments in 2017 and hence the investment return net of expenses in 2017 was lower at 0.6% compared to 1.2% in 2016. Furthermore a greater proportion of the investment portfolio was held in bank term deposits throughout 2017 than was the case in 2016. These deposits have fixed rates of interest and hence the overall portfolio was less susceptible to developments in bond markets in 2017 than in 2016.



### **Investment expenses**

Investment expenses incurred over the year to 31 December 2017 of £100k (2016: £180k) comprise asset management and custodian fees for the portfolio of government bonds and corporate bonds. The asset management fees were calculated under a formula applied monthly to the value of the government bonds and corporate bonds under management. The custodian fees are a fixed annual fee. There are no other investment expenses.

### **A.4 Performance of other activities**

The Company had no other material income or expenses during the years to 31 December 2017 and to 31 December 2016 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**

The Company has a board of directors (the “Board”), which is composed of two independent non-executive directors, two non-executive directors employed by other companies in the same group and three executive directors. 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 a clear and measurable statement 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 in 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 Company’s committee structure at 31 December 2017 is set out in Appendix 2.

#### *Audit Committee*

The Audit Committee consists of all 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 Officer, Chief Actuary and 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 consists of all the directors, Chief Underwriting Officer, Chief Actuary and Chief Risk Officer, and Head of Compliance. The Risk and Capital Committee meets 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, and
- oversee whistleblowing, fraud and anti-money laundering activities.





There are three working groups reporting to the Risk and Capital Committee, being the Capital Modelling Working Group, Emerging Risk Working Group, and Risk Appetite Working Group.

#### *Remuneration and Nomination Committee*

The Remuneration and Nomination Committee consists of all the non-executive directors and meets at least twice a year. The regular attendees of the Remuneration and Nomination Committee include the Chief Executive Officer and HR manager. The Chief Executive Officer does not participate in the meeting when conflicts of interest exists 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, the Senior Insurance Management Function (“SIMF”), and Significant Influence Functions (“SIF”),
- exercise authority delegated by the Board in respect of the Company’s remuneration strategy and policies, including consideration and approval of the remuneration of the chairman of the Board, all executive directors of the Board and other identified members as defined in the Terms of Reference of the Remuneration and Nomination Committee, and
- ensure that adequate succession planning is undertaken and maintained for all directors.

#### *Underwriting and Operations Committee*

The Underwriting and Operations Committee consists of two executive directors, the Head of JIA business, the Chief Underwriting Officer, the Head of Claims and Business Support, the Chief Actuary and Chief Risk Officer, the Head of Compliance and the Technical Control Manager. The regular attendees of the Underwriting and Operations Committee include the HR Manager and IT Manager.

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

- review and recommend to the Board strategy in relation to underwriting, claims, reinsurance, outsourcing and any other key operational matters,
- keep under review the performance and activity of underwriting, claims, reinsurance, outsourcing and other key operational matters,
- identify, oversee, monitor and mitigate (where possible) key insurance, operational and other risks which the Underwriting and Operations Committee is deemed responsible for, along with their associated risk indicators and the effectiveness and adequacy of the associated management controls,
- establish and maintain a Business Continuity Plan, and
- monitor and assess all aspects of Conduct Risk.

There are two working groups under the Underwriting and Operations Committee. The Terms of Business Agreement (“TOBA”) Working Group has been established to address TOBA related issues including issue and review of TOBAs. The Data Directory Working Group has been established to review and oversee the Company’s Data Directory.

#### *Finance Committee*

The Finance Committee consists of the Chief Financial Officer and four senior management staff and 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, and
- review and monitor credit and 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 consists of five members including two executive directors, the Chief Actuary and Chief Risk Officer, and the Head of Claims. The Reserving Committee meets eight times a year 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”) and (ii) the best estimate of technical provisions and risk margin as calculated in accordance with Solvency II regulations at each quarter-end.

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*

The Executive Directors Meeting is composed exclusively of Executive Directors with non-members invited from time to time. The Executive Directors Meeting is held at least ten times per year.

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

- implementation of strategy, key operational plans, policies, procedures,
- control of budgets,
- developing both the Company’s underwriting and investment strategy and plan for recommendation to the Board,
- monitoring of 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 seven senior management staff and six regular invitees. The Managers Meeting is held at least six times a 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 mainly to Japanese clients located in the UK, Republic of Ireland, continental Europe and sub-Saharan Africa. 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 UK Corporate Governance Code as deemed appropriate in the context of the Company, and
- (iii) to comply with the 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 that power and information are not concentrated in one or two individuals, and that there is not any undue reliance on any one director.

The Board reviews its own performance, constitution and terms of reference to ensure its performance is effective. The Board performance evaluation is conducted annually and is facilitated by an independent external evaluation process every five years. The most recent external evaluation took place in 2017 and no significant areas for concern were identified. The Chairman of the Board acts on the results of the performance evaluation by recognising the strengths and addressing the weaknesses as identified.



The Compliance function also periodically reviews the Board performance to ensure that the Board is performing in line with legislative requirements. The review by the Compliance function was last carried out in 2016.

The Board is responsible for articulating and maintaining an effective culture to support the business model and business practice. The Board reviewed the existing and desired future culture during 2017. Steps to reinforce and embed current and desired culture have been identified and actions have been undertaken accordingly.

While the Board retains ultimate responsibilities, the Board delegates its 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 terms of reference of the committees are recommended to the Board where necessary.

The Board holds an annual strategy meeting prior to formal consideration and approval of the budget. Main topics of the Strategy Meeting include review of the underwriting and marketing environment in which the Company operates, new business opportunities, and claims development.

The Strategy Meeting is attended by all the directors and senior management. It promotes good communication between senior management and the non-executive directors and provides a good opportunity for non-executive directors to gain detailed insight into the business of the Company.

The organisation structure is regularly reviewed as part of the review of the Governance 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
- Finance Function
- Underwriting Function,
- Information Technology Function
- Claims Function
- Reinsurance Function
- Investment Management Function
- JIA Business 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 that any concerns or issues are raised and discussed without the presence of the executive directors where 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 reporting to the Board, the membership of which 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 annually. 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 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 appointment, salary increases, promotions, and termination packages) are referred to and approved by the Committee prior to implementation.

### *Principles*

The Company's remuneration policy is comprised of fixed, variable and retention 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 market data. Increases are not automatic and changes to fixed pay consider a range of factors including external and internal relativities, 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 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.

#### Retention Pay

##### *Annual retention awards*

Annual retention awards are limited to Executive Directors and are limited within ranges. Ranges are in place to promote sound and effective risk management and to discourage excessive risk taking. Claw-back provisions are also in place.

##### *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, 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 in connection with remuneration 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 undergone all training required to enable them to perform the key function effectively and 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 that 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) to contribute to the sound and prudent management of the Company. Holders of Senior Insurance Management Functions (SIMF's), holders of Significant Influence Functions (SIF's), those identified as Material Risk Takers, Notified Non-Executive Directors and Key Function Holders 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; and
- 4) They must have undergone or be undergoing all training required to enable such person to perform his or her key function effectively and in accordance with any relevant regulatory requirements, and to contribute to the sound and prudent management of the Company.

All regulated roles are set out in the Company's Governance 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 covering 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 (according to police records)
- Review of financial records
- Confirmation of eligibility to work in the role location
- 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. This declaration includes confirmation that no breach of regulatory conduct standards and financial or criminal activity has taken place within the last year.

Criminal records and financial records are checked on a five yearly basis via an outsourced provider.



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

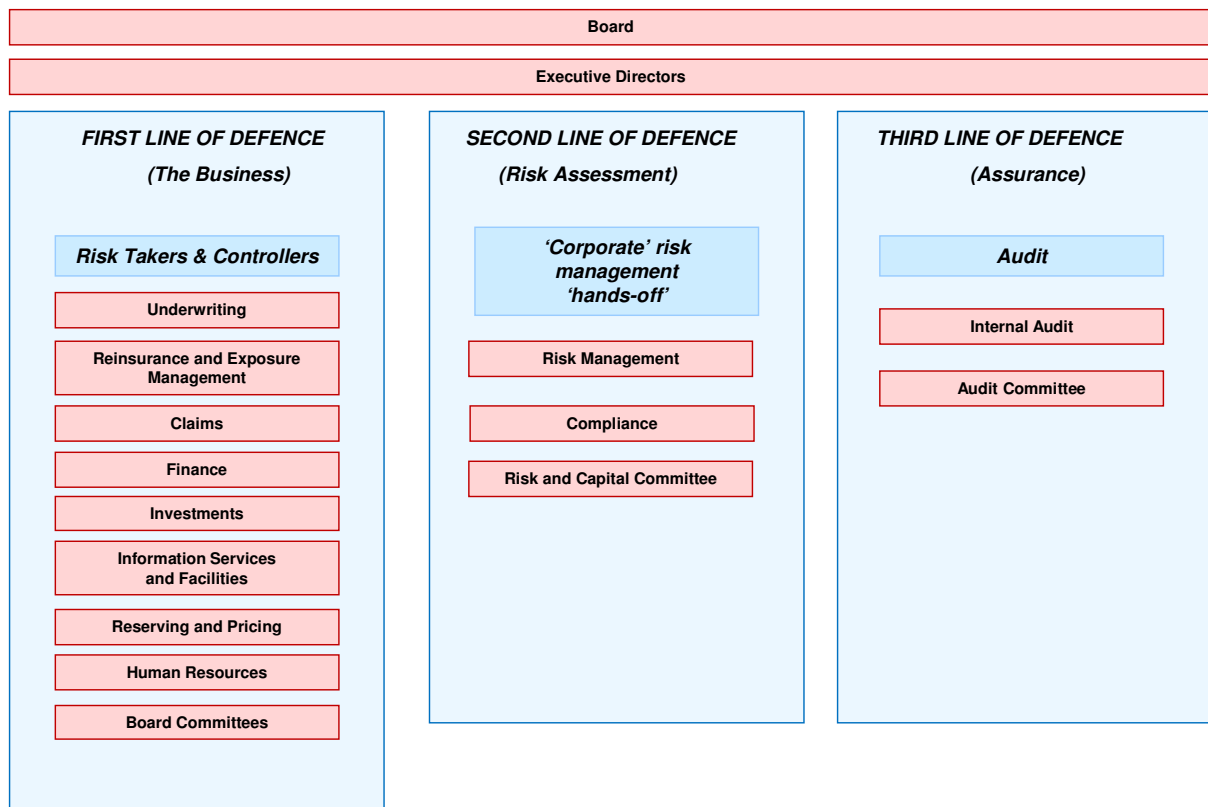
### Risk Management System

The 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 one of 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:



Note: The first line of defence Board Committees are the Underwriting and Operations Committee, the Finance Committee and the Reserving Committee.

Each line of defence is defined as follows:

#### *1st 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). For example, an underwriter carries out specific risk-mitigating activities during the selection and underwriting of a risk. The 1st 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 1st line is taking and managing and controlling the risks they expose the Company to within defined parameters. Often these people sit alongside the risk takers (e.g. Business Support).



### *2nd 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 1st line to take the appropriate level of risk and effectively manage the exposures the Company faces as a result. The 2nd line of defence provides effective oversight, challenge and reporting of the 1st 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.

### *3rd Line of defence – Internal Audit*

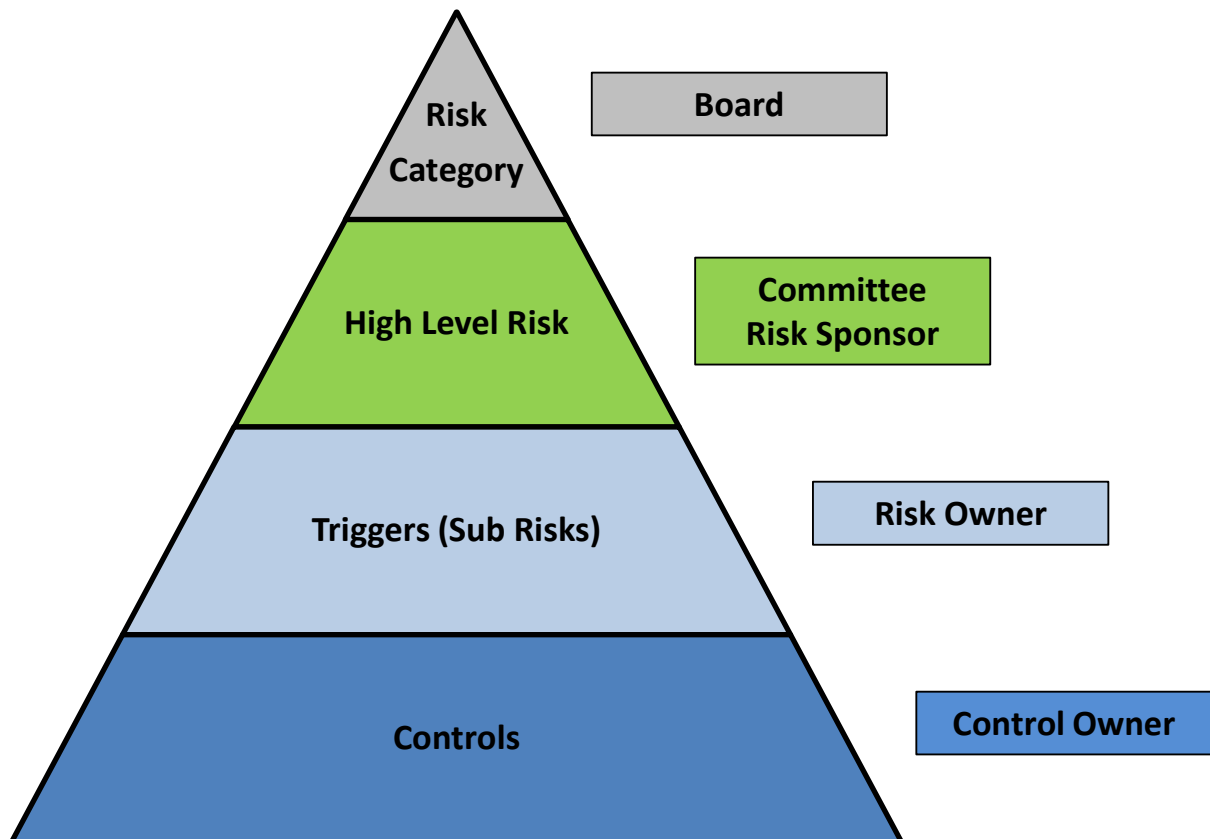
This consists of the Internal Audit Function which provides independent assurance as to the appropriateness and effectiveness of the Company's system of internal control. The Internal Audit Function is responsible for reviewing and testing all aspects of internal control across the business, including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

The Risk Management Function attends all the Committees with the exception of the Remuneration and Nomination 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 data 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. This report is also provided to the Underwriting and Operations Committee for review and discussion. 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, Business Operations, Technical Control and Information Technology functions also provide reports to the Board, Finance Committee and the Underwriting and Operations Committee as appropriate. These reports include details of actual performance compared to key performance indicators and key risk indicators, and any issues arising.

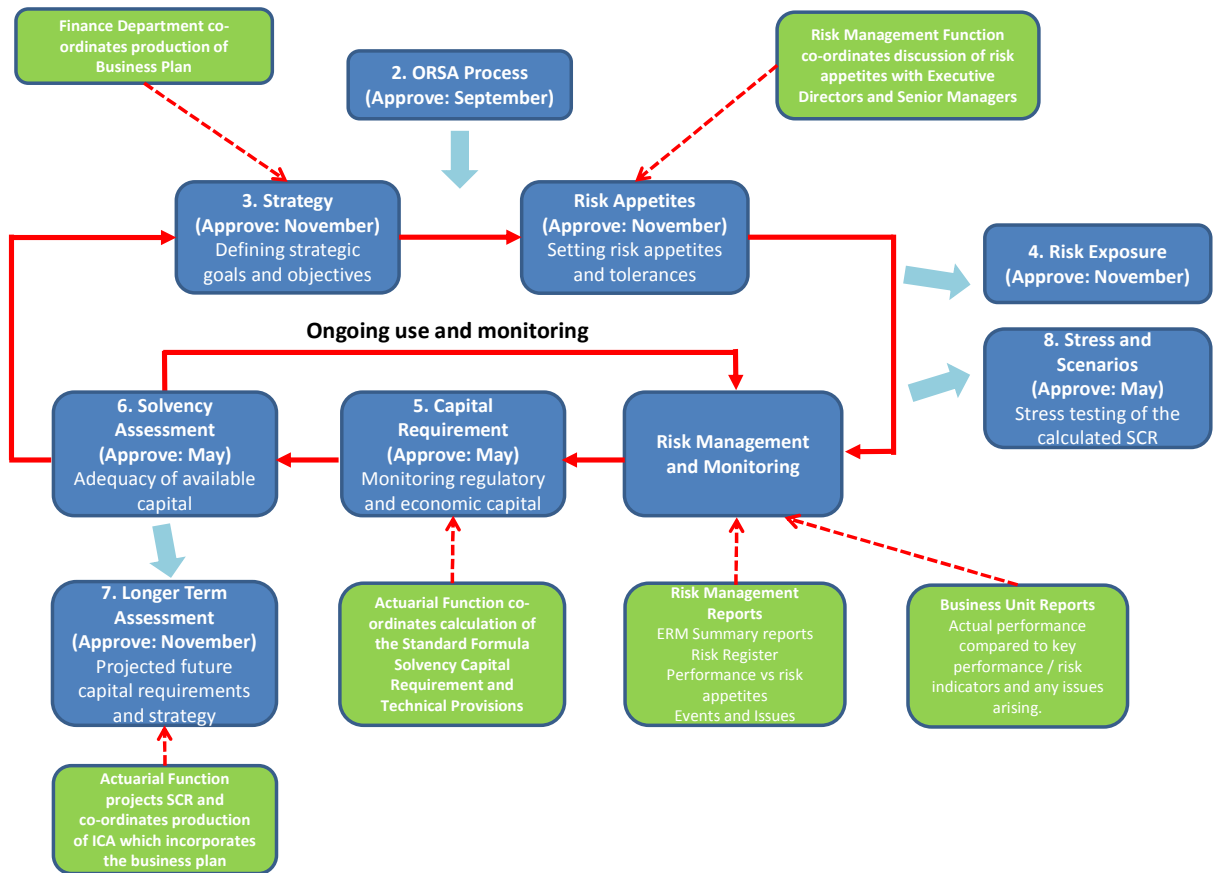
#### **Own Risk and Solvency Assessment ("ORSA")**

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 to ensure compliance 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 that 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.

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 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.



### 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 of the SCR.

### Obligations under the Prudent Person Principle

The company fulfils its obligations to invest all its assets in accordance with the ‘prudent person principle’ set out in article 132 of Directive 2009/138/EC as follows:

- The Company invests in government bonds, corporate bonds, term deposits with banks, money market funds and current bank accounts. The allocation of funds to each of these investment types is set by reference to risk appetites which limit the concentration of deposits or investments with any single counterparty, and require minimum levels of creditworthiness and liquidity. The highest level of return is sought within these constraints.
- The risks associated with government bonds and corporate bonds are measured by the Company’s asset manager and reported monthly. They are also calculated in the course of the budgeting cycle for purposes of setting targets for the forthcoming financial year. The risks associated with term deposits, money market funds and current bank accounts largely concern the creditworthiness of the counterparties. These are monitored by reference to credit ratings.
- In accordance with the Company’s investment policy, matching of investments assets and insurance and reinsurance liabilities in terms of duration is not specifically targeted. Deliberate mismatching of duration, by holding investment assets with a shorter duration than the liabilities’ duration, particularly for loss limitation purposes, is viewed as a valid asset allocation strategy provided the overall risk appetite limits are not breached. Asset and liability matching in terms of currency exposure is targeted and a risk appetite for maximum mismatches has been set.



## 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 that 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 (including use of ‘Ethical walls’),
- 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 data flows, the associated controls to ensure the completeness, accuracy and appropriateness of data, and the control owners are comprehensively documented and assessed in the Data Directory and Data Controls Log. The Data Directory and Data Controls Log is reviewed and updated annually by the Data Directory Working Group. 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 in a way such that they are readily available to inform business decision-making and external reporting.

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 business operations enabling it to fulfil its role within the “second line of defence”. It is headed by the Head of Compliance whose independence is reinforced by his direct reporting line to the Chief Executive Officer. Its independence 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, Underwriting and Operations Committee and Finance Committee and also regularly attends the Audit Committee and Reserving Committee meetings to assist in the performance of this role and provide full visibility of the Company’s activities. The Compliance Function also has access to all staff and information necessary for it to fulfil its responsibilities.



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



## **B.5 Internal audit function**

The Company's Internal Audit function is provided by an employee of its sister company, MS ACS. 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 on a contracting basis 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 that Internal Auditors not 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 Manager. 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 support as appropriate. Various committees, under their terms of references, are empowered to engage external support to aid or review the work of the Actuarial Function. The key areas of external support are as follows:

- The running of the capital model to produce the Individual Capital Assessment ("ICA") is outsourced to Willis Towers Watson.
- KPMG LLP provide an independent actuarial opinion on the UK GAAP claim reserves each year.
- The Company's external reinsurance broker performs 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 and ICA modelling)
- Analysis of outputs from the Standard Formula calculation and ICA model
- 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 structures, separation of duties, professional requirements, internal reviews and audit (both internal and external). The Chief Actuary reports to the Chief Financial Officer whilst the Technical Control Manager reports 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 continuously subject to review.



## B.7 Outsourcing

The Company's outsourcing policy ensures an effective system of governance over its outsourcing arrangements and forms part of the sound and prudent management of the Company's business. The policy reflects the importance of outsourcing to the Company's business and ensures that the services received will meet or exceed the required standards. The policy clearly sets 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.

The Company's outsourcing policy involves the following six stages:

**i) Defining outsourcing categories and service providers:** The Policy requires the outsourced service to be categorised as critical function outsourcing, general outsourcing, or procurement. The Policy lists the criteria used for this purpose. The Policy also requires service providers to be defined as either Internal Service Providers or External Service Providers. Internal Service Providers are those that are in the same group as the Company. A risk based approach is then adopted with greater focus on critical function outsourcing. Similarly, subject to certain other criteria being met, Internal Service Providers may be considered to pose a lower level of risk.

**ii) Definition of responsibilities:** The Policy sets out the responsibilities of each person and committee in the outsourcing process. These persons and committees are as follows: Relationship Manager, Compliance Officer, Underwriting and Operations 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.

**iii) Selection and authorisation procedures for a service provider:**

*a) Selection*

The Policy sets out the requirements for selection of a service provider of suitable quality for each outsourcing category. These requirements reflect the differing impacts that procurement, general outsourcing and critical function outsourcing have on the Company's business. They include analysis of the potential impacts on the business of the proposed outsourcing arrangement and list the operational issues that are to be considered. They also include the due diligence to be undertaken on suppliers of general outsourcing and critical function outsourcing.

*b) Review authorisation and reporting*

The Policy sets out the review, authorisation and reporting requirements for suppliers in each outsourcing category. All suppliers of critical function outsourcing must be approved by the Board.

**iv) Contract terms:** The Policy sets out in detail the terms to be included in all critical function outsourcing arrangements. These terms include protection of the Company's rights and provision for agreed service level protocols. The Policy also requires 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 for the services provided should be inadequate. It also requires 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 Policy defines the frequency, scope and reporting requirements for monitoring and reviewing of outsourcing contracts. The approach to monitoring and review is dependent upon the category of the outsourcing contract.

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

### Location of outsourcing providers

The jurisdiction of all of the Company's outsourcing providers is the UK.

### Critical key function outsourced service providers

The Company has outsourced Internal Audit (being a critical key function) to the following entity:

i) MS Amlin Corporate Services Limited ("MS ACS") – Internal Audit





MS ACS provides Internal Audit services to the Company. It is a UK registered company and part of the MS&AD Group. It also provides this service to a number of other MS&AD group companies based in the UK and European Union and as such has appropriately qualified staff to do so.

The person responsible in the service provider for this outsourced key function is: Emile Mandelstam

#### **Other function outsourced service providers**

The Company has other material outsourced service providers as follows:

i) MS Amlin Corporate Services Limited (“MS ACS”) – Facilities and IT services

MS ACS supplies facilities, IT and tax services to the Company. It is a UK registered company and part of the MS&AD group. It also provides services to a number of other MS&AD group companies based in the UK and European Union, and possesses the relevant skills, systems and support necessary for providing such services. The Company and MS ACS have a detailed service level agreement which covers not only details of services provided but also sets out desired service levels.

ii) MS Amlin Underwriting Limited (“MS AUL”) – Delegated underwriting authority

The Company has a delegated underwriting authority agreement with MS AUL. It is a UK registered company and part of the MS&AD group. Regular audits are undertaken to ensure MS AUL performs satisfactorily and within the guidelines and protocols of the delegated underwriting authority.

iii) Global Aerospace Underwriting Managers Limited (“GAUM”) - Delegated underwriting authority

GAUM is a leading provider of aerospace and aviation insurance with a worldwide portfolio of clients who are engaged in every aspect of the aviation and aerospace industries. Its underwriting capacity is provided by a pool of insurance companies of which the Company is one. Under this arrangement the Company has a delegated underwriting authority agreement with GAUM.

To ensure GAUM follow the guidelines and protocols of the delegated underwriting authority the Company carries out audits of GAUM on an annual basis.

iv) Hexaware Technologies UK Limited (“Hexaware”) – IT support , maintenance and development services

Hexaware is a leading global provider of IT, business processing system and consulting services. Hexaware focuses on the banking, capital markets, travel, transportation, logistics, hospitality, healthcare, insurance, manufacturing and consumer sectors. It provides support, maintenance and development services for the Company’s underwriting system.

The master service agreement and statements of work under which Hexaware supplies its services include benchmarks to measure its performance on an ongoing basis.

v) PwC Change Management Limited (“PwC CML”) – IT support, maintenance and development services

PwC CML is a subsidiary of PricewaterhouseCoopers LLP, a leading professional services firm. It provides support and maintenance services for the Company’s financial ledger system. Its roles and obligations are set out in the service agreement between it and the Company.

vi) Sumitomo Mitsui Asset Management (London) Limited (“SMAM”) – Investment management

SMAM is appointed to manage part of the Company’s investment portfolio. The relationship between the Company and SMAM is governed by an investment management agreement under which SMAM is authorised to supervise, invest, reinvest and otherwise manage those investment funds allotted to it in accordance with investment guidelines set by the Company.

SMAM is a UK registered subsidiary of Sumitomo Mitsui Asset Management Company, Limited, a company incorporated in Japan, and one of the leading asset management specialists in Japan with assets under management of approximately USD 102 billion as at 31 December 2016. SMAM is authorised and regulated in the UK by the Financial Conduct Authority.



## **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 purchases significant reinsurance protection which mitigates both premium and reserve risk. Therefore, when claims are paid to policyholders a significant proportion of this claim 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 Company operates in the limited JIA market which 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 as to whether a significant proportion of the risk could 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 in both South-East Asia and Europe. 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 tailed 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 materialise and therefore the delay in claims being reported to the insurer can be very 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 catastrophe property and cargo losses has been reduced by purchasing a lower level of excess of loss reinsurance protection. The long tailed Liability business has been heavily reinsured since 2016. There were no significant changes in the reinsurance programme in 2017.

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.

The Company receives significant reinsurance commissions from business which is written to service MSIJ's clients' global requirements. The amount of reinsurance commission income available to the Company is therefore dependent on these global negotiations.

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 Risks**

The following measures are used to assess Underwriting Risk:

- The SCR for Underwriting Risk is calculated using the Standard Formula.
- Premium and Reserve Risk are each modelled using the ICA model.
- 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 controls are assessed and reviewed with the Risk Management Function every quarter.
- The Actuarial Function estimates both claim reserves calculated under UK GAAP and Technical Provisions calculated under Solvency II regulations each quarter. 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 and subject to the approval of the Reserving Committee.

### **Stress and Scenario Analysis**

The Company performs stress tests which consider the impact of catastrophes, total policy limit losses on large individual risks, business plan loss ratio inadequacy, and reserve inadequacy. Certain scenarios combine the impact of a catastrophe leading to a loss equal to the total policy limit with a dispute with or default of the largest reinsurer outside the MS&AD group. In only one scenario is the loss of sufficient magnitude to significantly erode the margin of Own Funds over 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 is 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 2017 approximately 36% (£51,284k) of the Company's investment assets were invested in government and corporate bonds. These are predominantly denominated in British Pounds. By purchasing a bond the Company is effectively loaning money to the issuer (a government or private company) for a fixed period of time. At the end of that period (the maturity date), the value of the bond is repaid. Investors also receive a pre-determined interest rate (the coupon) which is usually paid annually.

Increases in interest base rates can lead to reductions in the market value of bonds. The longer the duration of any bond the greater the effect on its market value of changes in interest base rates and hence the greater the volatility of its market value. Bonds are also exposed to the risk of reduction in market value caused by widening credit spreads and default. A credit spread is the difference in yield between two bonds of similar maturity but of different credit quality. Widening credit spreads indicate growing market concerns regarding the ability of bond issuers to service their debt and the potential for default.

The Company mitigates these risks by:

- setting limits on the duration of bonds such that no individual bond duration exceeds 10 years and the average duration of all bonds does not exceed 3 years,
- imposing minimum credit quality requirements on each asset class, 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 5% of the total value of investment assets unless otherwise agreed by the Finance Committee and then only up to a maximum of 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 as discussed previously in section B.3 ("Risk management system including the Own Risk and Solvency Assessment").

### Assessment of Market Risks

The following measures are used to assess Market Risk:

- The SCR for Market Risk is calculated using the Standard Formula.
- Market Risk is modelled using the ICA model.
- 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 controls are assessed and reviewed with the Risk Management Function each quarter.

### Stress and Scenario Analysis

The Company considers a stress test which combines the impact of the widening of credit spreads (Market Risk) and the failure of the largest investment counterparty (Credit Risk).

The losses under this scenario are not only lower than the Company's Own Funds of £100,520k at 31 December 2017, but also lower than the SCR of £30,234k.



## C.3 Credit risk

### Material Credit Risks

The Company relies heavily on reinsurance. A significant proportion of the premium paid by insured parties to the Company is paid to reinsurers. Consequently, the Company can recover a significant proportion of the claims it pays to insured parties from its reinsurers. As a result the Company is 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 2017 approximately 63% (90,907k) of the Company's investment assets were invested in term deposits with banks and in money market funds or held as cash in current bank accounts. 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. The balance of 36% (£51,284k) of the Company's investment assets invested in government bonds and corporate bonds is also exposed to the risk of default if the issuer is rendered insolvent and therefore unable to pay the amount due.

The Company mitigates Credit risk by:

- setting limits on the exposure to individual reinsurers,
- requiring that the wording for facultative reinsurance purchased for individual policies is 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, 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 5% of the total value of investment assets unless otherwise agreed by the Finance Committee and then only up to a maximum of 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 as discussed previously in section B.3 ("Risk management system including the Own Risk and Solvency Assessment").

### 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.
- Default Risk for reinsurers and financial institutions are modelled using the ICA model.
- 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 controls are assessed and reviewed with the Risk Management Function each quarter.

### 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 66% 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 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 on 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:

- Liquidity Risk is modelled using the ICA model.
- 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 controls are assessed and reviewed with the Risk Management Function each quarter.

### 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 is £2,177k. 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:

Solvency II Line of Business	Total Profit £k	Incepted Profit £k	Unincepted Profit £k
General Liability Insurance	1,481	1,409	73
Fire and Other Damage to Property Insurance	271	-	271
Marine, Aviation and Transport Insurance	414	292	123
Medical Expenses	10	10	-
Miscellaneous Financial Loss	-	-	-
Credit & Suretyship	-	-	-
<b>Grand Total</b>	<b>2,177</b>	<b>1,710</b>	<b>467</b>





## 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, major IT systems failure etc.

The Company considers that 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.
- Operational Risk is modelled in the ICA model using a scenario based approach.
- The Company's risk register considers Operational risk and the associated controls used to mitigate against this risk. The risks and controls are assessed and reviewed with the Risk Management Function each quarter.

### **Stress and Scenario Analysis**

The Company considers the impact of a number of scenarios as part of the modelling of Operational Risk in the ICA model. These include:

- Inappropriate strategy leading to loss of profit
- Non-compliance with legislation and/or regulation
- Business disruption including IT failure
- 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

The results for each of these scenarios are not only lower than the Company's Own Funds of £100,520k at 31 December 2017, but also lower than the SCR of £30,234k.



## 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 meet its strategy. In addition, the Company also shares certain services with 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 coming from the activities and 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 senior management to ensure shared services operate smoothly.

### Assessment of Group Risk

The following measures are used to assess Group Risk:

- Group Risk is modelled in the ICA model using a scenario based approach
- The Company's risk register considers Group Risk and the associated controls used to mitigate against this risk. The risks and controls are assessed and reviewed with the Risk Management Function each quarter.

### Stress and Scenario Analysis

As part of the modelling of Group Risk in the ICA model the Company considers the impact of a number of extreme scenarios deemed likely to take place once in every 200 years. These include:

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

The results for each of these scenarios are not only lower than the Company's Own Funds of £100,520k at 31 December 2017, but also lower than the SCR of £30,234k.

## C.7 Any other information

On the 1 April 2017 the Company became a direct subsidiary of MSIJ. Previously the Company was a subsidiary of MSIG Holding (Europe) Limited, a UK holding company itself a subsidiary of MSIJ.



## D. Valuation for Solvency Purposes

### D.1 Assets

The table below sets out the valuation of assets as at 31 December 2017 under UK GAAP and Solvency II regulations:

UK GAAP description	UK GAAP valuation £k	Reclassif- ication £k	Revalu- ation £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) Government and supranational securities	1,306	1,475		2,781	Government Bonds
2) Government agency and regional government	4,232	(4,232)			
3) Corporate bonds	45,746	3,019		48,765	Corporate Bonds
4) Holdings in collective investment schemes	17,550	7		17,557	Collective Investments Undertakings
5) Deposits with credit institutions	73,358	308		73,666	Deposits other than cash equivalents
<i>Total Financial investments</i>	<u>142,192</u>			<u>142,769</u>	
6) Reinsurers' share of technical provisions	102,964	(13,133)	(13,393)	76,438	Reinsurance recoverables
7) Debtors arising out of direct insurance operations	11,584	(4,440)		7,144	Insurance and intermediaries receivables
8) Debtors arising out of reinsurance operations	3,350			3,350	Reinsurance receivables
9) Other debtors	262	(182)	(80)	-	Receivables (trade, not insurance) + Any other assets, not elsewhere shown
10) Intangible assets	650		(650)	-	Intangible assets
11) Cash at bank and in hand	2,002			2,002	Cash and cash equivalents
12) Deferred acquisition costs	2,282		(2,282)	-	Deferred acquisition costs
13) Other prepayments and accrued income	654	(577)	(77)	-	Any other assets, not elsewhere shown
	<u>265,940</u>	<u>(17,755)</u>	<u>(16,482)</u>	<u>231,703</u>	

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

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	Valuation for Solvency II purposes
1)	<i>Government and supranational securities</i>	1,306		<p>All government bonds are recognised under both Solvency II and UK GAAP at fair value. Government bonds have been valued at fair value using bid price. Bid prices are supplied by the custodian or by investment managers, who obtain market data from numerous independent pricing services. The prices used are reconciled against a common market pricing source.</p> <p><u>Reclassification</u></p> <p>Under Solvency II regulations accrued interest of £7k is added to the value of these assets. Under UK GAAP this accrued interest is separately classified in "Other prepayments and accrued income".</p> <p>Under Solvency II regulations "Government and supranational securities" and "Regional government securities" are all classified as "Government Bonds", whereas "Government agency securities" with a value of £2,764k are classified as "Corporate bonds".</p>
2)	<i>Government agency and regional government securities</i>	4,232	2,781	



**Differences in valuation of assets under UK GAAP and Solvency II regulations (continued)**

#	Asset	UK GAAP valuation £k	Solvency II valuation £k	Valuation for Solvency II purposes
3)	Corporate bonds	45,746	48,765	<p>All corporate bonds are recognised under both Solvency II and UK GAAP at fair value. Corporate bonds with an original maturity of more than one year have been valued at fair value using bid price. Bid prices are supplied by the custodian or by investment managers, who obtain market data from numerous independent pricing services. The prices used are reconciled against a common market pricing source. Corporate bonds with an original maturity of a year or less that are held to maturity are valued at fair value using cost plus the time apportioned income.</p> <p><u>Reclassification</u></p> <p>Under Solvency II regulations accrued interest of £255k is added to the value of these assets. Under UK GAAP this accrued interest is separately classified in “Other prepayments and accrued income”.</p> <p>Under Solvency II regulations “Government agency securities” with a value of £2,764k are classified as “Corporate bonds”.</p>
4)	Holdings in collective investment schemes	17,550	17,557	<p>Holdings in collective investment undertakings comprise investments in money market funds. They are recognised under both Solvency II and UK GAAP at fair value using a stable net asset value basis as published for each of the individual funds by their managers. All such funds are independently validated and repriced by the fund manager daily. The published values are taken to be their fair value on the grounds that they can be readily realised for this value at short notice. Partial realisation of these funds regularly takes place to meet the Company’s operational cash requirements.</p> <p><u>Reclassification</u></p> <p>Under Solvency II regulations “Holdings in collective investment schemes” are valued inclusive of £7k of accrued investment income. Under UK GAAP accrued investment income is separately classified as “Other prepayments and accrued income”.</p>
5)	Deposits with credit institutions	73,358	73,666	<p>Deposits other than cash equivalents comprise term deposits with banks that cannot be used to make payments until before a specific maturity date. They are recognised under both Solvency II and UK GAAP at fair value calculated as the amount deposited.</p> <p><u>Reclassification</u></p> <p>Under Solvency II regulations “Deposits with credit institutions” are valued inclusive of £308k of accrued interest. Under UK GAAP accrued interest is separately classified as “Other prepayments and accrued income”. Accrued interest is calculated on a straight line basis over the period to which it relates.</p>



**Differences in valuation of assets under UK GAAP and Solvency II regulations (continued)**

#	Asset	UK GAAP valuation £k	Solvency II valuation £k	Valuation for Solvency II purposes
6)	<i>Reinsurers' share of technical provisions</i>	102,964	76,438	<p>"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.</p> <p>Details of valuation differences between technical provisions under UK GAAP and Solvency II are set out in section D.2.</p>
7)	<i>Debtors arising out of direct insurance operations</i>	11,584	7,144	<p>"Debtors arising out of direct reinsurance operations" comprise amounts due to the Company from brokers and clients.</p> <p>Under UK GAAP they are measured at cost less provision for impairment. They are expected to be collected within 15 months and hence are not discounted for the time value of money. This is deemed to be fair value under Solvency II given the short term nature of these assets.</p> <p><u>Reclassification</u></p> <p>Under Solvency II regulations only those "Debtors arising out of direct insurance operations" that are past due are classified here. Debtors that are not past due with a value of £4,440k are included in the calculation of Technical Provisions in the Liabilities section of the balance sheet. Under UK GAAP all insurance and intermediaries are classified here regardless of whether or not they are past due.</p>
8)	<i>Debtors arising out of reinsurance operations</i>	3,350	3,350	<p>"Debtors arising out of reinsurance operations" comprise amounts due for settlement to the Company from its reinsurers in connection with reinsurance claim recoveries.</p> <p>Under UK GAAP they are measured at cost less provision for impairment. They are expected to be collected within 12 months and hence are not discounted for the time value of money. This is deemed to be fair value under Solvency II given the short term nature of these assets.</p>
9)	<i>Other debtors</i>	262	-	<p>"Other debtors" comprise sundry debtors and other receivables. Under UK GAAP they included at amortised cost. Under Solvency II regulations fair value cannot be established for £80k of these debtors and they have therefore been valued at nil. The balance of £182k is short term in nature and therefore amortised cost is deemed to be equivalent to fair value.</p> <p><u>Reclassification</u></p> <p>The amount of £182k included in UK GAAP in "Other debtors" and also recognised under Solvency II regulations has been reclassified in "Accruals" for Solvency II purposes.</p>



**Differences in valuation of assets under UK GAAP and Solvency II regulations (continued)**

#	Asset	UK GAAP valuation £k	Solvency II valuation £k	Valuation for Solvency II purposes
10)	<i>Intangible assets</i>	650	-	Under UK GAAP “Intangible assets” represent amortised amounts expended on software development.  They are not deemed to be capable of being sold separately and are therefore valued at nil under Solvency II regulations.
11)	<i>Cash at bank and in hand</i>	2,002	2,002	“Cash at bank and in hand” represent cash deposits with original maturities of less than three months. They are stated at the realisable cash value of the assets under both Solvency II regulations and UK GAAP.
12)	<i>Deferred acquisition costs</i>	2,282	-	“Deferred acquisition costs” are acquisition costs relating to policies in force at the balance sheet date which are carried forward from one reporting period to subsequent reporting periods, relating to the unexpired periods of risk.  Under Solvency II regulations they are not recognised as all acquisition costs not incurred by the reporting date are included in the calculation of technical provisions.
13)	<i>Other prepayments and accrued income</i>	654	-	“Other prepayments and accrued income” comprise £77k relating to amounts paid in advance for services still to be rendered at the balance sheet date plus £577k of interest accrued from financial investments.  Under UK GAAP prepayments are included at amortised cost. Under Solvency II regulations fair value cannot be established for these items and they have therefore been valued at nil.  <u>Reclassification</u>  Under Solvency II regulations accrued interest is included in the value of the financial investment assets.
14)	<i>Deferred tax asset</i>	-	-	A deferred tax asset of £2,317k has not been recognised under either Solvency II regulations or UK GAAP due to the uncertainty as to whether the Company will generate sufficient taxable profits in the future to use the deferred tax asset.
	<b>TOTAL</b>	<b>265,940</b>	<b>231,703</b>	



## 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 2017.

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 2017 compared to 31 December 2016.

The total Technical Provisions as at 31 December 2017 are £45,286k comprising a best estimate of £34,622k and a risk margin of £10,664k. 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	53,351	(33,230)	20,121	6,197	26,319
Fire and Other Damage to Property Insurance	23,282	(14,071)	9,211	2,837	12,048
Marine, Aviation and Transport Insurance	33,579	(28,409)	5,170	1,592	6,762
Other	849	(729)	120	37	158
<b>Grand Total</b>	<b>111,060</b>	<b>(76,438)</b>	<b>34,622</b>	<b>10,664</b>	<b>45,286</b>

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 (on 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. 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 Property reinsurance claim recoveries are anticipated facultative recoveries arising from a small number of large claims. Most of the Marine and Aviation 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 2017.

Net Technical Provisions (£m)	31 December 2017 £k	31 December 2016 £k	Change
Outstanding Claims	4,382	5,224	(842)
Earned IBNR	14,315	14,350	(35)
<b>Claims Reserves - Earned Business</b>	<b>18,697</b>	<b>19,574</b>	<b>(877)</b>
Unearned IBNR	1,509	1,533	(23)
Unincepted IBNR	267	137	130
<b>Claims Reserves - Future Business</b>	<b>1,776</b>	<b>1,670</b>	<b>107</b>
Premium Debtors	(4,440)	(2,683)	(1,757)
RI Creditors	13,133	14,979	(1,845)
<b>Net Premium Creditors</b>	<b>8,693</b>	<b>12,295</b>	<b>(3,602)</b>
Unwritten Future Premium	(1,125)	(898)	(227)
Unincepted Future Premium	(597)	(320)	(278)
<b>Expected Future Premium Payments</b>	<b>6,971</b>	<b>11,077</b>	<b>(4,106)</b>
Events Not In Data	630	606	24
Expenses	6,629	6,606	23
Bad Debt Reserve	774	771	3
<b>Total Other</b>	<b>8,032</b>	<b>7,983</b>	<b>50</b>
<b>Undiscounted Best Estimate</b>	<b>35,476</b>	<b>40,303</b>	<b>(4,827)</b>
Impact of Discounting	(854)	(737)	(117)
<b>Discounted Best Estimate</b>	<b>34,622</b>	<b>39,567</b>	<b>(4,944)</b>
Risk Margin	10,664	9,648	1,016
<b>Net Technical Provisions</b>	<b>45,286</b>	<b>49,214</b>	<b>(3,928)</b>

As shown in the table above the Solvency II Technical Provisions have reduced by £3.9m, over the year from December 2016 to December 2017 as discussed below.

**£4.1m reduction in Expected Net Future Premium Payments.** The main driver of this is the £3.6m reduction in the net premium creditors. This arises from a £1.8m increase in the premium debtors (premium due to the Company from insured's) and a £1.8m reduction in the reinsurance creditors (reinsurance premiums payable by the Company to its reinsurers).

**£0.8m decrease in Claims reserves.** This arises from a £0.3m reduction in the net outstanding claims for UK Employers Liability business and a £0.4m reduction in the net outstanding claims for UK Liability business. This mainly arises because the more recent underwriting years are more heavily reinsured than was the case in the past.

**£1.0m increase in the Risk Margin.** The main driver of this increase is that the average expected timing of future claims payments is further into the future than previously estimated. Therefore, more capital is required for longer so the risk margin increases.

### 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.

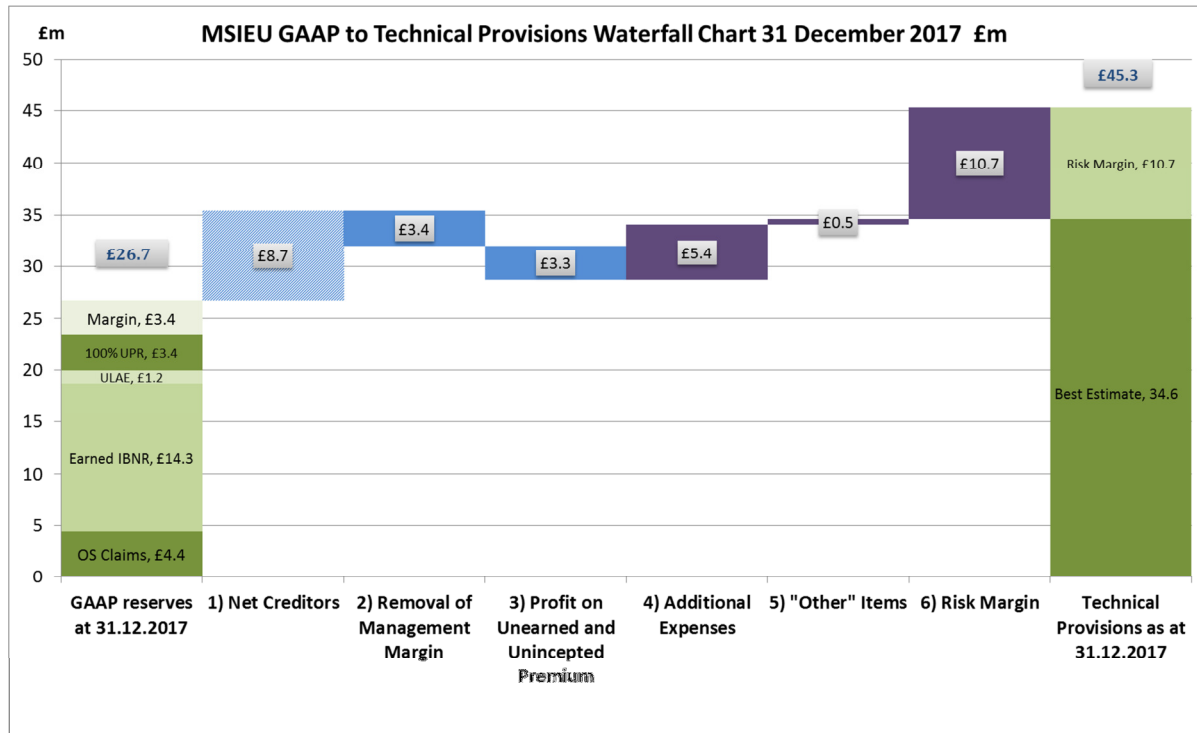




In particular, the General Liability business (Liability and Employers Liability) is long tailed and therefore claims may be reported and settled many years after the policies were written. This is particularly the case for Employers Liability Industrial Disease claims which can be reported over 20 years 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.

### **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 differences in approach between Solvency II regulations and UK GAAP as set out in the following chart and described below:



- 1) Under Solvency II regulations, reinsurance payables net of insurance and intermediaries receivables that are not past due are included in the Technical Provisions. Under UK GAAP they are classified separately from Technical Provisions along with all other insurance and intermediaries receivables.
- 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 incepted 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 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.

- 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 European Insurance and Occupational Pensions Authority 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.



## D.3 Other liabilities

### Valuation of liabilities for Solvency Purposes

The table below sets out the valuation of liabilities as at 31 December 2017 under UK GAAP and Solvency II regulations:

UK GAAP description	UK GAAP valuation £k	Reclassif- ication £k	Revalu- ation £k	Solvency II valuation £k	Solvency II description
1) Technical provisions	127,963	(4,440)	(1,799)	121,724	Technical provisions - non-life
2) Creditors arising out of direct insurance operations	556			556	Insurance & intermediaries payables
3) Creditors arising out of reinsurance operations	13,133	(13,133)		-	Reinsurance payables
4) Other creditors including taxation and social security	6,136			6,136	Payables (trade, not insurance)
5) Accruals	2,949	(182)		2,767	Any other liabilities, not elsewhere shown
6) Deferred reinsurance commissions	4,012		(4,012)	-	Other technical provisions
	<u>154,749</u>	<u>(17,755)</u>	<u>(5,811)</u>	<u>131,183</u>	

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

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	Valuation for Solvency II purposes
1)	<i>Technical provisions</i>	127,963	121,724	<p>“Technical Provisions” under UK GAAP are recalculated under Solvency II regulations. “Technical Provisions” calculated in accordance with Solvency II regulations take into account debtors due to the Company from brokers and clients that are not past due.</p> <p>Details of valuation differences between technical provisions under UK GAAP and Solvency II are set out in section D.2.</p>
2)	<i>Creditors arising out of direct insurance operations</i>	556	556	<p>“Creditors arising out of direct insurance operations” 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 on to reinsurers.</p> <p>Under UK GAAP they are measured at initial recognition value and are not discounted. This represents the amount at which they are expected to be settled and is deemed to be fair value under Solvency II given their short term nature.</p>
3)	<i>Creditors arising out of reinsurance operations</i>	13,133	-	<p>“Creditors arising out of reinsurance operations” comprise reinsurance premiums payable to reinsurers.</p> <p>Under Solvency II regulations they are included in the calculation of Technical Provisions in the Liabilities section of the balance sheet.</p>



**Differences in valuation of other liabilities under Solvency II regulations and UK GAAP (continued)**

#	Liability	UK GAAP valuation £k	Solvency II valuation £k	Valuation for Solvency II purposes
4)	<i>Other creditors including taxation and social security</i>	6,136	6,136	<p>“Other creditors including taxation and social security” 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.</p> <p>Under UK GAAP they are measured at initial recognition value and are not discounted. This represents the amount at which they are expected to be settled and is deemed to be fair value under Solvency II regulations given their short term nature.</p>
5)	<i>Accruals</i>	2,949	2,767	<p>“Accruals” represent amounts due for services rendered but not invoiced at the balance sheet date.</p> <p>Under UK GAAP these are held at carrying value which is deemed to be fair value under Solvency II regulations given their short term nature.</p> <p><u>Reclassification</u></p> <p>An asset of £182k included in UK GAAP in “Other debtors” and recognised under Solvency II regulations has been netted off against “Accruals” for Solvency II purposes.</p>
6)	<i>Deferred reinsurance commissions</i>	4,012	-	<p>“Deferred reinsurance commissions” are reinsurance commission income relating to outward reinsurance policies in force at the balance sheet date which is carried forward from one reporting period to subsequent reporting periods, relating to the unexpired periods of risk.</p> <p>Under Solvency II regulations they are not recognised as all reinsurance commission income not earned by the reporting date is included in the calculation of technical provisions.</p>
	<b>TOTAL</b>	<b>154,749</b>	<b>131,183</b>	

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 with regard 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 to be written in the future. The current margin and the margin projected twelve months forward of Own Funds over capital requirements are calculated monthly. These margins and projections are reviewed monthly by the Finance Committee and included in reports discussed at Board meetings. Projections of Own Funds and the corresponding margin over capital requirements over the three 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 is determined by the Board in discussion with its current 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 only ordinary share capital and a reconciliation reserve, and are all classified as Tier 1 unrestricted Own Funds on the grounds that in total 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. The type and amount of each component at the end of the current and previous reporting periods is set out in the following table:

	31 December 2017 £k	31 December 2016 £k
Issued and fully paid ordinary shares of £1 each	160,900	160,900
Reconciliation reserve	(60,380)	(60,716)
Total	100,520	100,184

The negative balance in the reconciliation reserve at 31 December 2017 is due to retained losses from previous years. There were no changes in the ordinary share capital over the year to 31 December 2017. Changes in the reconciliation reserve in the year to 31 December 2017, and hence the equivalent changes in 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 2017 are £100,520k (2016: £100,184k). All of these Own Funds are classified as Tier 1 unrestricted Own Funds and therefore all are eligible to meet the Solvency Capital Requirement of £30,234k (2016: £29,217k).

The ratio of eligible Own Funds to the Solvency Capital Requirement at 31 December 2017 is 332.5% (2016: 342.9%).

#### **Eligible amount of Own Funds to cover the Minimum Capital Requirement**

Total available Own Funds to meet the Minimum Capital Requirement at 31 December 2017 are £100,520k (2016: £100,184k). All of these Own Funds are classified as Tier 1 unrestricted Own Funds and therefore all are eligible to meet the Minimum Capital Requirement of £7,558k (2016: £7,304k).



The ratio of eligible Own Funds to the Minimum Capital Requirement at 31 December 2017 is 1,329.9% (2016: 1,371.6%).

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 2017 per the financial statements was £111,191k (2016: £110,772k). The excess of assets over liabilities at 31 December 2017 as calculated for solvency purposes was £100,520k (2016: £100,184k), which is equivalent to the value of the Own Funds. There are no differences between the ordinary share capital reported in the financial statements and that included in basic Own Funds. The difference of £10,671k (2016: £10,588k) between the excess of assets over liabilities as reported in the financial statements and 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:

	December 2017 £k	December 2016 £k
Equity per the financial statements (under UK GAAP)	111,191	110,772
<i>Remove:</i>		
UK GAAP Technical Provisions	24,999	25,394
Debtors included in Solvency II Technical Provisions	(4,440)	(2,684)
Creditors included in Solvency II Technical Provisions	13,133	14,978
Deferred acquisition costs	(2,282)	(2,377)
Deferred reinsurance commissions	4,012	3,630
Intangible assets	(650)	(855)
Other debtors	(157)	-
<i>Include:</i>		
Solvency II Best Estimate	(34,622)	(39,567)
Solvency II Risk Margin	(10,664)	(9,647)
Excess of assets over liabilities (= Own Funds) (under Solvency II rules)	<u>100,520</u>	<u>100,184</u>



## 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 SCR from which the Net Underwriting Risk SCR is deducted to estimate the allowance for reinsurance in the SCR. This amount is then apportioned across the current reinsurance exposures in line with the outstanding amounts recoverable.
- European Natural Catastrophe Risk (part of Underwriting Risk) - The Company has not split the sum insureds of European countries by CRESTA zone as per the Delegated Acts as the additional diversification benefit is not considered to be material.
- Interest Rate Risk (part of Market Risk) - The asset duration has been directly input into the Interest Rate Risk SCR instead of calculating this part of the SCR from the cashflows arising from the assets included within the module.

The final Solvency Capital Requirement of £30,234k at 31 December 2017 is still subject to supervisory assessment. Overall, the Solvency Capital Requirement has increased by £1,017k (3.5%).

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

Line of Business	Net Written Premium (Previous 12 months) £k	Net Best Estimate Technical Provisions £k
Medical Expenses	198	0
Marine, Aviation and Transportation	1,858	5,170
Fire & Other Damage to Property	1,277	9,211
General Liability	416	20,121
Credit and Suretyship	-	-
Miscellaneous Financial Loss	1	124
<b>Total</b>	<b>3,750</b>	<b>34,626</b>

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 £3,914k. However, the final MCR can be no greater than 45% of the SCR (£13,605k = 45% x £30,234k) and no lower than 25% of the SCR (£7,558k = 25% x £30,234k). Consequently, the final MCR is £7,558k (being 25% of the SCR).



The MCR estimated as at 31 December 2016 was also equal to 25% of the SCR (£7,304k = 25% x £29,217k). Therefore, the MCR has increased by £254k which is driven by the £1,017k increase 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**

## 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 2017
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
- S.05.02.01 - Premiums, claims and expenses by country
- 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	
<b>Assets</b>	
R0030 Intangible assets	
R0040 Deferred tax assets	
R0050 Pension benefit surplus	
R0060 Property, plant & equipment held for own use	0
R0070 Investments (other than assets held for index-linked and unit-linked contracts)	142,769
R0080 <i>Property (other than for own use)</i>	0
R0090 <i>Holdings in related undertakings, including participations</i>	0
R0100 <i>Equities</i>	0
R0110 <i>Equities - listed</i>	
R0120 <i>Equities - unlisted</i>	
R0130 <i>Bonds</i>	51,546
R0140 <i>Government Bonds</i>	2,781
R0150 <i>Corporate Bonds</i>	48,765
R0160 <i>Structured notes</i>	0
R0170 <i>Collateralised securities</i>	0
R0180 <i>Collective Investments Undertakings</i>	17,557
R0190 <i>Derivatives</i>	
R0200 <i>Deposits other than cash equivalents</i>	73,666
R0210 <i>Other investments</i>	0
R0220 Assets held for index-linked and unit-linked contracts	
R0230 Loans and mortgages	0
R0240 <i>Loans on policies</i>	0
R0250 <i>Loans and mortgages to individuals</i>	
R0260 <i>Other loans and mortgages</i>	
R0270 Reinsurance recoverables from:	76,438
R0280 <i>Non-life and health similar to non-life</i>	76,438
R0290 <i>Non-life excluding health</i>	76,467
R0300 <i>Health similar to non-life</i>	-29
R0310 <i>Life and health similar to life, excluding index-linked and unit-linked</i>	0
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	0
R0360 Insurance and intermediaries receivables	7,144
R0370 Reinsurance receivables	3,350
R0380 Receivables (trade, not insurance)	0
R0390 Own shares (held directly)	0
R0400 Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410 Cash and cash equivalents	2,002
R0420 Any other assets, not elsewhere shown	0
R0500 <b>Total assets</b>	<b>231,703</b>

## S.02.01.02

## Balance sheet

Solvency II value	
C0010	
	121,724
R0510	121,751
R0520	0
R0530	111,089
R0540	10,662
R0550	-27
R0560	0
R0570	-29
R0580	2
R0590	0
R0600	0
R0610	0
R0620	
R0630	
R0640	
R0650	0
R0660	
R0670	
R0680	
R0690	0
R0700	
R0710	
R0720	
R0740	0
R0750	
R0760	
R0770	
R0780	
R0790	
R0800	
R0810	
R0820	556
R0830	
R0840	6,136
R0850	0
R0860	
R0870	0
R0880	2,767
R0900	131,183
R1000	100,520

S.05.01.02

Premiums, claims and expenses by line of business

Non-life

Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)													Line of business for: accepted non-proportional reinsurance				Total
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	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	C0200	
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160		
<b>Premiums written</b>																	
R0110	Gross - Direct Business	248				15,561	13,080	7,793	432			1					37,115
R0120	Gross - Proportional reinsurance accepted	1				4,306	5,300	366									9,972
R0130	Gross - Non-proportional reinsurance accepted																0
R0140	Reinsurers' share	51				18,008	17,103	7,742	432								43,337
R0200	Net	198				1,858	1,277	416	0			1					3,750
<b>Premiums earned</b>																	
R0210	Gross - Direct Business	239				15,609	12,687	6,267	363			1					35,166
R0220	Gross - Proportional reinsurance accepted	1				4,258	5,367	303	0			0					9,928
R0230	Gross - Non-proportional reinsurance accepted																0
R0240	Reinsurers' share	49				18,004	16,627	6,141	363								41,184
R0300	Net	191				1,863	1,427	429	0			1					3,911
<b>Claims incurred</b>																	
R0310	Gross - Direct Business	-5				10,632	1,260	5,804	189								17,879
R0320	Gross - Proportional reinsurance accepted	0				3,370	3,800	150	0								7,319
R0330	Gross - Non-proportional reinsurance accepted																0
R0340	Reinsurers' share	-3				12,573	4,556	6,415	189								23,732
R0400	Net	-3				1,429	503	-462	0			0					1,466
<b>Changes in other technical provisions</b>																	
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	87				330	1,943	578	52			0					2,991
R1200	Other expenses																-9
R1300	Total expenses																2,982

## S.05.02.01

## Premiums, claims and expenses by country

## Non-life

	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
		CH	DE	MG	FR	IT	
	C0080	C0090	C0100	C0110	C0120	C0130	C0140
<b>Premiums written</b>							
R0110 Gross - Direct Business	29,608	376	1,390	0	1,133	865	33,372
R0120 Gross - Proportional reinsurance accepted	434	1,232	195	1,317	59	-59	3,178
R0130 Gross - Non-proportional reinsurance accepted							0
R0140 Reinsurers' share	26,996	1,590	1,568	1,251	1,058	796	33,260
R0200 Net	3,045	18	17	66	135	10	3,290
<b>Premiums earned</b>							
R0210 Gross - Direct Business	27,657	391	1,355	0	1,112	1,047	31,563
R0220 Gross - Proportional reinsurance accepted	342	1,236	185	902	55	-40	2,681
R0230 Gross - Non-proportional reinsurance accepted							0
R0240 Reinsurers' share	24,858	1,610	1,526	857	1,031	994	30,876
R0300 Net	3,142	17	15	45	136	12	3,367
<b>Claims incurred</b>							
R0310 Gross - Direct Business	14,558	165	36	0	478	665	15,901
R0320 Gross - Proportional reinsurance accepted	5,923	-1	183	0	31	-23	6,114
R0330 Gross - Non-proportional reinsurance accepted							0
R0340 Reinsurers' share	19,265	164	218	0	509	638	20,795
R0400 Net	1,216	0	0	0	0	4	1,220
<b>Changes in other technical provisions</b>							
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	1,872	83	226	258	31	-43	2,428
R1200 Other expenses							-9
R1300 Total expenses							2,419

## 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
<b>Technical provisions calculated as a sum of BE and RM Best estimate</b>																		
<b>Premium provisions</b>																		
R0060	Gross	-29					4,956	860	2,610	49			-2					8,443
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	-24					4,848	-1,494	3,540	44			-2					6,912
R0150	Net Best Estimate of Premium Provisions	-6					109	2,354	-931	5			0					1,531
<b>Claims provisions</b>																		
R0160	Gross	1					28,622	22,422	50,741	207			624					102,617
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	-5					23,561	15,565	29,689	215			500					69,526
R0250	Net Best Estimate of Claims Provisions	6					5,061	6,857	21,052	-8			124					33,091
R0260	Total best estimate - gross	-29					33,579	23,282	53,351	256			622					111,060
R0270	Total best estimate - net	0					5,170	9,211	20,121	-3			124					34,622
R0280	Risk margin	2					1,631	2,210	6,784	-3			40					10,664
<b>Amount of the transitional on Technical Provisions</b>																		
R0290	Technical Provisions calculated as a whole																	0
R0300	Best estimate																	0
R0310	Risk margin																	0
R0320	Technical provisions - total	-27					35,209	25,491	60,135	253			662					121,724
R0330	Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	-29					28,409	14,071	33,230	259			498					76,438
R0340	Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	2					6,800	11,421	26,905	-6			164					45,286

S.19.01.21

Non-Life insurance claims

Total Non-life business

Z0020 Accident year / underwriting year

Gross Claims Paid (non-cumulative)														
(absolute amount)														
Year	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180	
	Development year										In Current year	Sum of years (cumulative)		
	0	1	2	3	4	5	6	7	8	9			10 & +	
R0100	Prior											278	278	278
R0160	2008	1,175	5,156	3,409	2,424	1,545	2,551	220	545	405	133		133	17,563
R0170	2009	4,329	4,296	4,037	1,308	928	669	761	272	194			194	16,794
R0180	2010	5,002	20,751	4,953	22,853	1,316	1,072	528	287				287	56,762
R0190	2011	4,329	16,630	10,116	1,658	-3,991	825	1,341					1,341	30,907
R0200	2012	1,000	10,462	4,017	2,434	1,172	603						603	19,688
R0210	2013	4,678	4,779	2,398	8,945	29,467							29,467	50,266
R0220	2014	2,143	6,643	3,876	1,883								1,883	14,546
R0230	2015	2,392	5,097	5,074									5,074	12,564
R0240	2016	1,397	10,967										10,967	12,364
R0250	2017	1,345											1,345	1,345
R0260													51,573	233,077
	<b>Total</b>													

Gross Undiscounted Best Estimate Claims Provisions													
(absolute amount)													
Year	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360	
	Development year											Year end (discounted data)	
	0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior												13,481
R0160	2008	0	0	0	0	0	0	0	266	63		13,128	
R0170	2009	0	0	0	0	0	0	7,291	6,810			8	
R0180	2010	0	0	0	0	0	3,666	3,367				6,688	
R0190	2011	0	0	0	0	14,669	13,324					3,238	
R0200	2012	0	0	0	3,834	2,756						13,131	
R0210	2013	0	0	0	39,500	6,823						2,573	
R0220	2014	0	0	14,025	10,545							6,415	
R0230	2015	0	19,068	10,772								10,180	
R0240	2016	16,333	18,381									10,425	
R0250	2017	19,263										17,935	
R0260												18,896	
	<b>Total</b>											102,617	



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
<b>R0220</b>	<b>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</b>
<b>R0230</b>	<b>Deductions for participations in financial and credit institutions</b>
<b>R0290</b>	<b>Total basic own funds after deductions</b>

**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
<b>R0400</b>	<b>Total ancillary own funds</b>

**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
<b>R0760</b>	<b>Reconciliation reserve</b>

**Expected profits**

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

Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
C0010	C0020	C0030	C0040	C0050
160,900	160,900		0	
0	0		0	
0	0		0	
0		0	0	0
0	0			
0		0	0	0
0		0	0	0
-60,380	-60,380			
0		0	0	0
0				0
0	0	0	0	0
0				
100,520	100,520	0	0	0

0				
0				
0				
0				
0				
0				
0				
0				
0				
0			0	0

100,520	100,520	0	0	0
100,520	100,520	0	0	
100,520	100,520	0	0	0
100,520	100,520	0	0	

30,234
7,558
332.48%
1329.91%

C0060
100,520
0
160,900
0
-60,380

2,177
2,177

S.25.01.21

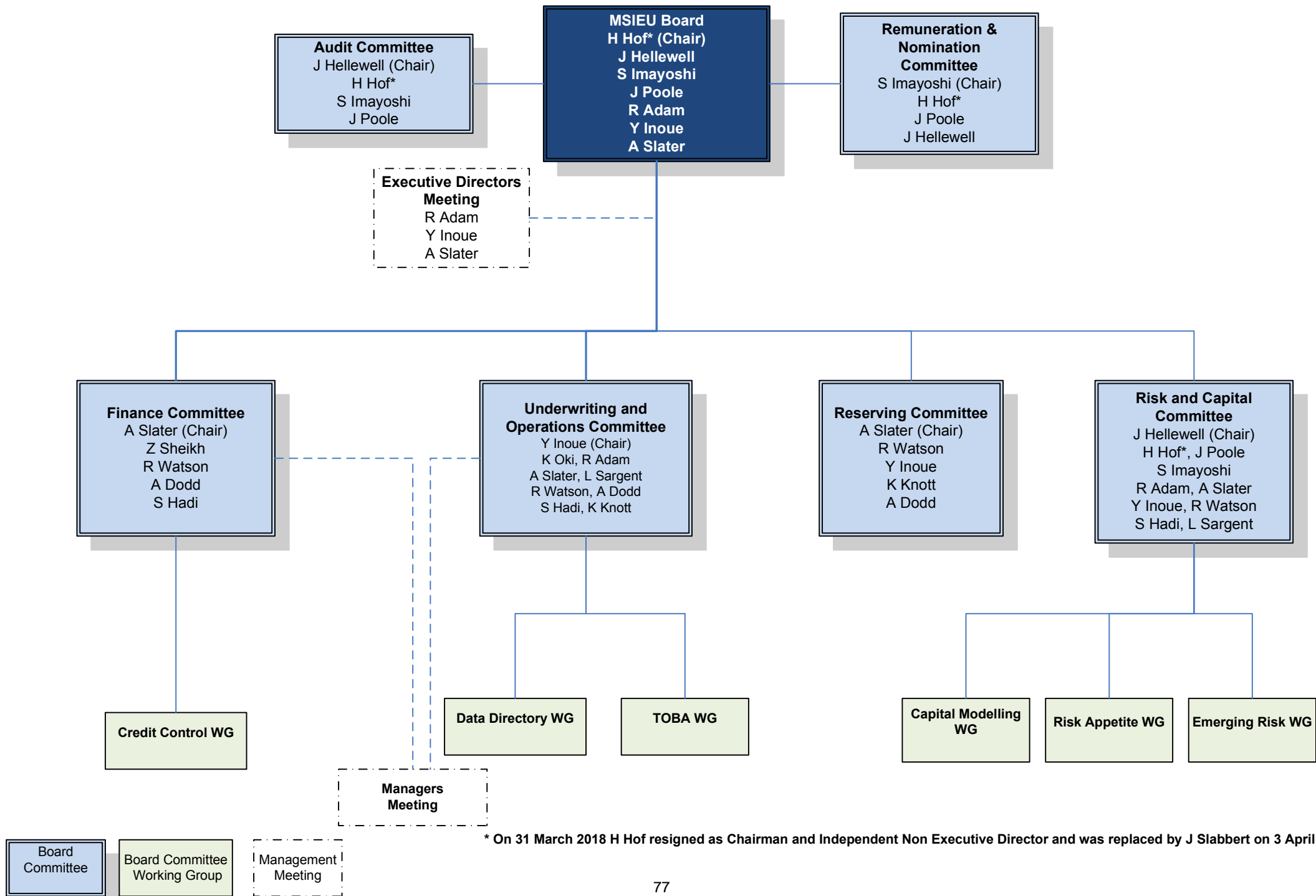
**Solvency Capital Requirement - for undertakings on Standard Formula**

	Gross solvency capital requirement	USP	Simplifications
	C0110	C0090	C0120
R0010 Market risk	2,630		
R0020 Counterparty default risk	18,601		
R0030 Life underwriting risk	0	9	
R0040 Health underwriting risk	28	9	
R0050 Non-life underwriting risk	11,141	9	
R0060 Diversification	-5,499		
R0070 Intangible asset risk	0		
<b>R0100 Basic Solvency Capital Requirement</b>	<b>26,902</b>		
<b>Calculation of Solvency Capital Requirement</b>			
R0130 Operational risk	3,332		
R0140 Loss-absorbing capacity of technical provisions	0		
R0150 Loss-absorbing capacity of deferred taxes	0		
R0160 Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0		
<b>R0200 Solvency Capital Requirement excluding capital add-on</b>	<b>30,234</b>		
R0210 Capital add-ons already set	0		
<b>R0220 Solvency capital requirement</b>	<b>30,234</b>		
<b>Other information on SCR</b>			
R0400 Capital requirement for duration-based equity risk sub-module	0		
R0410 Total amount of Notional Solvency Capital Requirements for remaining part	0		
R0420 Total amount of Notional Solvency Capital Requirements for ring fenced funds	0		
R0430 Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0		
R0440 Diversification effects due to RFF nSCR aggregation for article 304	0		





## Appendix 2



\* On 31 March 2018 H Hof resigned as Chairman and Independent Non Executive Director and was replaced by J Slabbert on 3 April 2018.