Sompo Japan Nipponkoa Insurance Company of Europe Limited

Solvency and Financial Condition Report

Year ended 31 December 2017

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Summary

Business and Performance

The principal activity of Sompo Japan Nipponkoa Insurance Company of Europe Limited ("SJNKE" or "the Company") is to underwrite profitably the general insurance risks of Japanese-owned commercial enterprises located in the European Union and to provide a stable supply of general insurance services to such businesses from its UK headquarters and European branch network.

The key financial and other performance indicators during 2017 on a UK GAAP basis were as follows:

	2017	*2016*
Gross Written Premium	£104.2m	£95.3m
Net Underwriting Profit	£1.3m	£3.9m
Profit on ordinary Activities Before Tax	£2.7m	£3.5m
Shareholder's funds attributable to equity interests	£142.5m	£136.3m
Net Incurred Loss Ratio	56.4%	50.1%
Combined Operating Ratio	85.0%	68.7%

System of Governance

Under the Company's corporate governance arrangements, overall responsibility for risk management resides collectively with the Board of Directors. Certain activities in relation to risk management are delegated to the Audit & Risk Committee, the Executive Committee, the Risk Management Function, and Functional Leader Units. Each function has a clearly defined Terms of Reference which sets out its respective risk management responsibilities.

The Board records its Risk Strategy within its annual Strategy Statement. The Risk Strategy defines the Company's risk appetite. The risk appetites are documented in the Company's Risk Register and actual exposure to risk is regularly monitored against the risk appetites and tolerances defined by the Board.

The Risk Management Function, provides a focal point for activities related to the risk assessment, management, and reporting, and is structured using a three lines of defence model. Risk management is also deeply embedded into the first line functional and operational management activities of the Company which are monitored by the third line Internal Audit function.

Risk Profile

SJNKE's Risk Management Policy sets out the Company's risk strategy and appetite, corresponding to the strategy articulated in the Company's Business Plan. It describes how SJNKE identifies and addresses risks within the risk categories defined below, and in sub-categories, according to its functional organisation. The impact of each of the risk categories on the Company's pre-diversified SCR is denoted in brackets:

- Underwriting Risk (£10.5m)
- Market Risk (£7.2m)
- Credit Risk (£15.6m)
- Liquidity Risk
- Operational Risk (£3.7m)

The governance framework underpinning the Risk Management Framework supports the risk management process to ensure that risks are adequately identified, assessed, monitored, managed and reported. The Board, Executive Committee and the Audit & Risk Committee are responsible for ensuring that the risk monitoring processes are operating effectively.

Throughout the process of risk assessment, the current controls addressing perceived risks are maintained or enhanced. Risks identified in the Risk Register form the basis of risks modelled or considered in the context of the SJNKE Own Risk & Solvency Assessment.

Valuation for Solvency Purposes

On a Solvency II ("SII") basis the Company had eligible own funds of £143.6m as at 31 December 2017. This is represented by assets of £281.4m less Technical Provisions of £126.1m and other liabilities of £11.7m.

Eligible Own Funds were £1.1m higher than the UK GAAP net assets reported in the 31 December 2017 financial statements. This is primarily due to the different basis of valuation of Financial Investments and Technical Provisions within UK GAAP and Solvency II as described below.

The fair value of financial investments in the Solvency II Balance Sheet was £5.2m higher than the amortised cost reported in the financial statements as at 31 December 2017. Tangible fixed assets of £0.6m recognised in the financial statements are revalued to nil in arriving at the SII Eligible Own Funds.

Allowing for presentational differences between the UK GAAP and Solvency II Balance Sheets, Solvency II Technical Provisions were £7.7m higher than GAAP Technical Provisions as at 31 December 2017.

Capital Management

The Company is subject to capital requirements enforced by the Prudential Regulation Authority (PRA). Throughout the year the Company has complied with these requirements. The Company has a risk appetite in respect of the available capital resources of at least 130% of the capital requirement over a one year time horizon.

At 31 December 2017, the Company had a regulatory surplus of approximately £114.7m above the Solvency Capital Requirement ("SCR"), compared to a surplus of £107.9m above the SCR as at 31 December 2016.

The Company's solvency coverage ratio of Own Funds above its SCR is 497%. The ratio of Own funds above the Minimum Capital Requirement ("MCR") is 1,987%.

Directors' Statement

We acknowledge our responsibility 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 management determines is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error. We are satisfied that:

a) Throughout the financial year in question, the Company has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable to the Company;

b) The SFCR has been prepared in all material respects in accordance with the PRA Rules and the Solvency II Regulations; and

c) It is reasonable to believe that the Company has continued to comply subsequently and will continue so to comply in future.

The SFCR was approved by the Board of Directors on 30 April 2018 and was signed on its behalf

Shiho Koshikawa
Deputy CEO and Director
1 May 2018

Report of the external independent auditor to the Directors of Sompo Japan Nipponkoa Insurance Company of Europe Limited ('the Company') pursuant to Rule 4.1(2) of the External Audit Part 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 the Company as at 31st December 2017**:**

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31/12/2017 ('the Narrative Disclosures subject to audit'); and

- Company templates S.02.01.02, S.17.01.02, S.23.01.01, S.25.01.21 and S.28.01.01 ('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 S.05.01.02, S.05.02.01 and S.19.01.21;

- the written acknowledgement by management of their responsibilities, including for the preparation of the solvency and financial condition report ('the Responsibility Statement').

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

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of Sompo Japan Nipponkoa Insurance Company of Europe Limited as at 31st 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.

Basis for opinion

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

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 where:

- the Directors' use of the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report is not appropriate; or

- the Directors have not disclosed in the Solvency and Financial Condition Report 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 Solvency and Financial Condition Report is authorised for issue.

Emphasis of Matter – Basis of Accounting & Restriction on Use

We draw attention to the 'Valuation for solvency purposes', 'Capital Management' and other relevant disclosures 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. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority.

This report is made solely to the Directors of the Company in accordance with Rule 2.1 of External Audit Part of the PRA Rulebook for Solvency II firms. Our work has been undertaken so that we might report to the Directors those matters that we have agreed to state to them in this report and for no other purpose.

Our opinion is not modified in respect of these matters.

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, 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 on which they are based.

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.

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

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

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

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: **https://www.frc.org.uk/Our-Work/Audit-and-Actuarial-Regulation/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Auditors-responsibilities-for-audit/Description-of-auditors-responsibilities-for-audit.aspx.** The same responsibilities apply to the audit of the Solvency and Financial Condition Report.

Report on Other Legal and Regulatory Requirements.

In accordance with Rule 4.1(3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the Sompo Japan Nipponkoa Insurance Company of 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.

Ernst & Young LLP
London
2 May 2018

The maintenance and integrity of the Sompo Japan Nipponkoa Insurance Company of Europe Limited web site 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 web site.

Business and Performance

A.1 Business

As at 31 December 2017 Sompo Japan Nipponkoa Insurance Company of Europe Limited ("SJNKE") was a wholly owned subsidiary of Sompo Japan Nipponkoa Insurance Inc. (“SJNK”).

On 1 May 2018 the entire Ordinary Share Capital of the Company was transferred to Endurance Specialty Insurance Ltd, a fellow wholly owned subsidiary within the Sompo Holdings Group.

SJNKE provides general insurance products and services mainly to large commercial clients.

SJNKE is fully integrated into the global network of SJNK and its subsidiaries which form the global Sompo Holdings Group. The Sompo Holdings Group operates from 213 locations in 32 countries and regions and SJNKE works closely with other group companies. Together we deliver client-focused products and services through commitment, innovation and expertise.

With SJNKE's offices in the UK, Belgium, France, Germany, Italy, Spain and using Sompo Holdings Group owned underwriting agencies in the Netherlands and France, SJNKE is able to provide insurance throughout the Europe Economic Area.

SJNKE’s financial stability is indicated by an A+ rating for SJNK and A rating for SJNKE from Standard and Poor's.

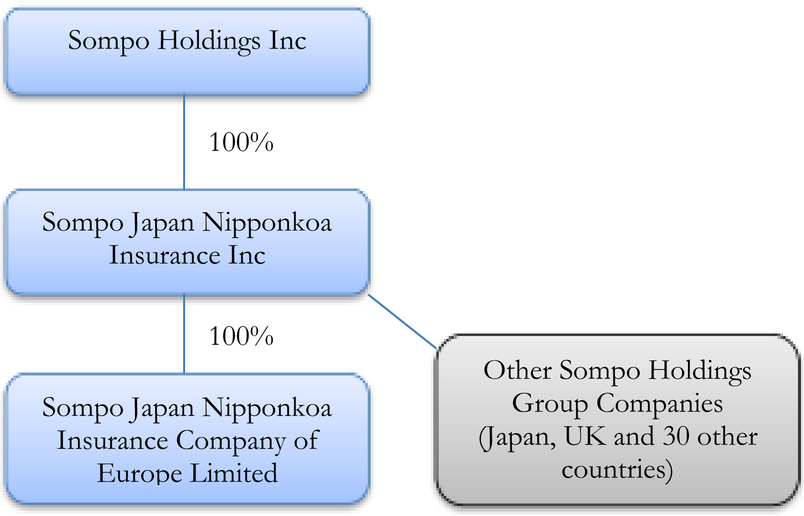
SJNKE offers a wide range of general insurance solutions embracing commercial lines of business such as Property, Casualty, Marine Cargo, and Personal Accident.

SJNKE is a Company incorporated under the laws of England and Wales (Registered Company Number 02846429), and is authorised by the Prudential Regulatory Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

The Registered Office address is 1st Floor, 6 Devonshire Square, London, EC2M 4YE.

The Company’s external auditors are Ernst & Young LLP. 25 Churchill Place, London, E14 5EY

Simplified Group structure chart as at 31 December 2017



Group supervision

The Company has obtained a Direction from the PRA modifying the Group Supervision provisions set out in the PRA Rulebook. The modification to Rule 20.1 significantly reduces the Company's reporting requirements under the PRA's Group Supervision rules. The modification, which is publicly available on the Financial Services Register, sets out the amended reporting and pre-notification requirements relevant to the Company.

A.2 Underwriting Performance

The numbers in this section have been prepared on a UK GAAP basis.

The underwriting profit for the year to 31 December 2017 is £1.3m (2016: £3.9m) and the combined operating ratio is 85.0% (2016: 68.7%).

Premiums

The Company has achieved moderate Gross Written Premium growth with £8.9m more premiums being written than in 2016. Increases have been achieved in every line of business, in particular in the Property and Marine business written through the European branches.

All premiums included in the Profit and Loss Account relate to continuing operations. Written premiums comprise the total premiums receivable for the whole period of cover under contracts incepting during the financial year, together with adjustments arising in the financial year to such premiums receivable in respect of business written in previous financial years.

All premiums are shown gross of commission payable to intermediaries and are exclusive of taxes and duties levied thereon.

For certain insurance contracts premium is initially recognised based on estimates of ultimate premiums. These estimates are judgemental and could result in misstatements of revenue recorded in the financial statements. The main assumption underlying these estimates is that past premium development can be used to project future premium development.

Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related inwards business.

Claims

Gross claims incurred of £74.7m (2016: £58.3m) are favourable to the Company's business plan and equate to a gross ultimate loss ratio of 72.5% (2016: 60.5%). After applying reinsurance, a net ultimate loss ratio of 56.4% has been achieved (2016: 50.1%). The improvement in the gross and net loss ratios is primarily a result of favourable development of reserves established as at 31 December 2016.

Claims incurred comprise of the estimated cost of all claims occurring during the year, whether or not reported, including related direct and indirect claims handling costs and adjustments to claims outstanding from previous years.

The provision for reported claims outstanding is made on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the Balance Sheet date, together with the provision for related claims handling costs.

The provision for reported claims outstanding is based on information available at the Balance Sheet date. Significant delays are experienced in the notification and settlement of certain claims, particularly in respect of marine and liability business, and accordingly the ultimate cost of such claims cannot be known with certainty at the Balance Sheet date. Subsequent settlements are dealt with in the technical account - general business of later years. The provision also includes the estimated cost of claims incurred but not reported at the Balance Sheet date, based on the application of statistical techniques, which explicitly allow for inflation, settlement trends and claims patterns.

Operating Expenses

Gross and net operating expenses equate to £25.9m (2016: £25.2m) and £2.5m (2016: £3.4m) respectively. This can be analysed into net commission receivable of £12.4m (2016: £11.5m) and administrative expenses payable of £14.9m (2016: £14.9m).

Acquisition costs, comprising commission and other costs related to the acquisition of new insurance contracts are deferred to the extent that they are attributable to premiums unearned at the Balance Sheet date.

The below table sets out the Company's underwriting performance, broken down by material line of business and material geographical area.

2017	**Fire & other damage to property** £000	**Marine, aviation and transport** £000	**Third-party liability** £000	**Other** £000	**Total** £000
Gross premiums written					
- UK	12,686	6,355	6,269	454	25,764
- France	10,776	11,411	1,170	-	23,357
- Germany	10,556	12,698	3,354	334	26,942
- Other European Countries	16,452	8,032	3,037	646	28,167
	50,470	38,496	13,830	1,434	104,230
Gross premiums earned	48,986	38,137	14,444	1,417	102,984
Gross claims incurred	(44,857)	(17,283)	(11,934)	(630)	(74,704)
Gross operating expenses	(12,648)	(9,672)	(3,536)	(129)	(25,985)
Gross technical result	(8,519)	11,182	(1,026)	658	2,295
Reinsurance balance	8,113	(10,130)	1,426	(392)	(983)
Net technical result	(406)	1,052	400	266	1,312
Unexpired risk reserve	-	-	-	-	-
Balance on technical account	(406)	1,052	400	266	1,312
Profit / (loss) before Tax	276	1,573	587	286	2,722

The table below provides 2016 numbers for comparison.

2016	Fire & other damage to property £000	Marine, aviation and transport £000	Third-party liability £000	Other £000	Total £000
Gross premiums written					
- UK	11,928	6,765	6,249	438	25,380
- France	10,155	9,734	1,146	-	21,035
- Germany	10,318	12,480	2,971	319	26,088
- Other European Countries	10,827	8,265	3,206	515	22,813
	43,228	37,244	13,572	1,272	95,316
Gross premiums earned	45,456	37,351	12,359	1,281	96,447
Gross claims incurred	(20,639)	(29,967)	(6,800)	(939)	(58,345)
Gross operating expenses	(11,635)	(10,037)	(3,429)	(129)	(25,230)
Gross technical result	13,182	(2,653)	2,130	213	12,872
Reinsurance balance	(11,910)	4,371	(1,322)	(95)	(8,956)
Net technical result	1,272	1,718	808	118	3,916
Unexpired risk reserve	-	-	-	-	-
Balance on technical account	1,272	1,718	808	118	3,916
Profit / (loss) before Tax	1,097	1,567	752	112	3,528

A.3 Investment Performance

The Company invests in a well-diversified, high security rated and low risk portfolio which consists of UK & European government & supranational fixed interest bonds and a liquidity portfolio.

The table below sets out the investment income achieved in the year to 31 December 2017.

	2017 £'000	2016 £'000
Interest income	3,707	3,902
Interest expense	170	(724)
Net losses on realisation of investments	(1,331)	(592)
Total income	2,546	2,586
Investment management expenses	132	140

Other listed fixed interest securities and deposits with credit institutions are held to maturity and are accounted for at amortised cost in the UK GAAP financial statements. Unlisted equity shares are classified as financial assets at fair value through profit or loss. Dividends are included as investment income when the investments to which they relate are declared "ex-dividend". Interest income is recognised on an accruals basis, as are investment expenses. Investment return comprising investment income, realised and unrealised investment gains and losses, and investment expenses are included initially within the non-technical account.

Realised investment gains and losses are calculated as the difference between net proceeds on disposal and their purchase price.

A.4 Performance of other activities

Other income

There are no material non-underwriting income streams.

Administrative Expenses

Administrative expenses for the year to 31 December 2017 total £14.9m (2016: £14.9m). The material components of the Company's expense base are staff costs, legal & professional costs and accommodation costs. Expenses are recognised on an accruals basis.

The table below sets out a comparison of the material components of expenses between 2017 and 2016.

	2017 £'000	2016 £'000
Staff	9,901	9,783
Legal and professional	2,376	2,570
Accommodation	1,159	1,046
Other	1,464	1,473
	14,900	14,872

Dividends

No dividend was paid in 2017 (2016: nil).

A.5 Any other information

Pension schemes

The Company operates a defined benefit scheme for UK employees of the Company which was closed to new members on 1 January 2007. As at 31 December 2017 the net defined benefit pension surplus valued in accordance with FRS 102 equated to £238k.

Assets of the defined benefit pension scheme are held separately from those of the Company. A full actuarial valuation was carried out at 31 December 2015 by a qualified independent actuary. Employer contributions were paid at the rate of 38.9% of basic salaries (2016: 38.9%) in respect of all eligible employees.

New employees joining the Company in the UK can join the defined contribution scheme managed by Aviva. The scheme provides benefits directly determined by the value of the contributions made in respect of each member. Employer contributions during the year amounted to £0.27m (2016: £0.25m). The Company also provides defined contribution pension and social security schemes for its employees in European territories.

Deferred Tax

The Company had an unrecognised deferred tax asset of £13.5m as at 31 December 2017 which has been calculated using a corporation tax rate of 17%. The Company is currently not projecting sufficient future profits and therefore the deferred tax assets remain unrecognised.

Exchange Profit

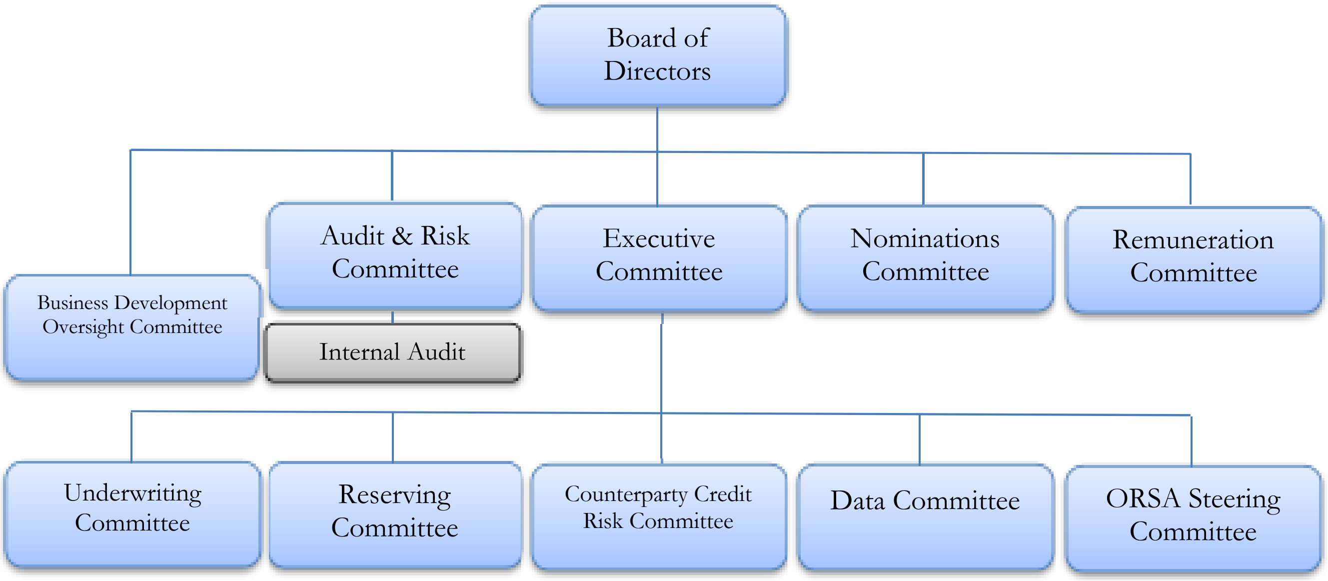
The strengthening of the Euro and US Dollar against the Pound has generated net exchange gains of £0.3m (2016: £2.9m) in the year to 31 December 2017, of which £0.3m (2016: £0.2m) have been realised.

System of Governance

B.1 General information on the system of governance

The Company has a well-established framework for the governance arrangements, systems and controls that it (and its stakeholders) will use to ensure that the Company is managed responsibly and effectively with due regard to the risks affecting the Company, in a manner which is proportionate to the nature, scale and complexity of its operations. No material changes to this framework have occurred over the period covered by this report.

Overview of the Board and sub-committee structure as at 31 December 2017



Changes in Board and sub-committee structure since 31 December 2017

In March 2018 the following refinements were made to the Board and sub-committee structure:

- The Audit and Risk Committee was divided into two separate committees, being the Audit Committee and the Risk & Compliance Committee;
- The ORSA Steering Committee was disbanded and its responsibilities were reallocated to the Risk & Compliance Committee;
- The Counterparty Credit Risk Committee was disbanded and its responsibilities were reallocated to the Underwriting Committee;
- The responsibilities of the Executive Committee were transferred to a newly created Operations Committee;
- The Data Committee was disbanded and its responsibilities were reallocated to the Operations Committee; and
- The outsourced Internal Audit function was bought back 'in-house'. The outsourced service provider continues to be used in a support capacity.

The information provided in this section describes the allocation of responsibilities during the 2017 financial year and as at 31 December 2017.

Board Responsibilities

The Board is ultimately responsible for the performance and strategy of the Company. By selectively delegating authority and certain functions to various committees, the Board does not absolve itself of its own responsibility for the Company.

The Board's responsibilities include, but are not limited to:

- Providing entrepreneurial leadership of the company within a framework of prudent and effective controls which enables risk to be assessed and managed
- Setting the Company's strategic aims, ensure that the necessary financial and human resources are in place for the company to meet its objectives and review management performance
- Developing and executing the business plan in line with the Sompo Holdings Group Strategic Plan
- Setting the Company's values and standards
- Ensuring that its obligations to its shareholder and others are understood and met.

The Board meets on a quarterly basis with additional meetings held as and when circumstances require.

Board Composition

The roles of Chief Executive Officer ("CEO") and Chairman are segregated and allocated to different individuals.

The CEOs main responsibilities are to:

- provide leadership and direction to the Company's executive and to perform or oversee all aspects of the Company's management as well as its long-term strategic direction;
- ensure compliance with all relevant legal and regulatory requirements;
- communicate Group Strategy to the Board and those responsible for the formulation of the Company's Business Plans;
- to oversee the Company's risk management, Compliance and Internal Audit functions;
- to oversee the Company's control of customer relations and client service;
- to ensure proper underwriting, claims management and financial control
- to oversee the Company's Human Resource Management
- to oversee the Chief Information Officer

The Chairman is a Non-executive Director.

The Chairman's main responsibilities are to:

- set the Board's agenda and ensure that adequate time is available for discussion of all agenda items, in particular strategic issues;
- promote a culture of openness and debate by facilitating the effective contribution of Non-executive Directors in particular;
- ensure constructive relations exist between Executive and Non-executive Directors;
- ensure that the Directors receive accurate, timely and clear information; and
- ensure effective communication with the shareholder.

Executive Committee

The main responsibilities of the Executive Committee encompass, but are not limited to, the following:

- To recommend to the Board the Company's business plan;
- To review and monitor the Company's performance against its business plan;
- To adopt, establish, amend or abolish internal policies, procedures, manuals, systems and controls;
- To establish whatsoever means of supervision and control are required to ensure compliance with the Company's statutory and regulatory obligations;
- To review the Company's Own Risk Solvency Assessment ("ORSA");
- To prepare and consider terms of engagement of the Statutory Auditor and Internal Auditor, their fees, and the provision by them of any non-audit services and any questions of their resignation;
- To prepare for Audit and Risk Committee ("ARC") approval the Annual Assurance Activity Plan and Internal Audit and Compliance Verification plans;
- To review and approve reports and management responses to reports delivered by Assurance Services and implementation of actions and recommendations thereafter;
- To report to the ARC on progress as to high priority or overdue actions arising out of Assurance Services;
- To approve recruitment proposals in all units and authorise executives to sign offers and contracts of employment;
- To ensure and monitor the implementation of the Company's Investment Policy including in particular the management and performance of Company investments, managing exposures to exchange rate fluctuation, credit risk and liquidity risk and always ensuring that the Company remains at all times able to meet its liabilities as and when they fall due; and

Audit and Risk Committee

The main responsibilities of the Audit and Risk Committee encompass, but are not limited to, the following:

- to ensure the Company maintains a satisfactory standard of financial reporting;
- to enable Non-Executive Directors to contribute an independent judgement and play a positive role in ensuring that the executive management controls the business operations appropriately and effectively;
- to oversee Assurance Services;
- to advise the Board on risk appetite, tolerance and strategy;
- to oversee Risk Management Function and Risk Management activities.
- to consider and advise the Board on the appointment and terms of engagement of the External Auditor and Internal Auditor;
- to review and approve the Annual Assurance Activity Plan, Internal Audit Plan and Risk & Compliance Review plans;
- to review the external accounts and UK regulatory returns for their subsequent recommendation to the Board for approval; and
- to provide a framework within which the External Auditor can assert their independence in the event of a dispute with management.
- to ensure that the Company maintains a climate of discipline and control, which will reduce the probability of the occurrence of Risk Issues;
- to ensure that the Company maintains effective and proportionate organisation, systems and controls for the identification, assessment, management, mitigation, monitoring and reporting of material risks affecting, or potentially affecting, the Company;

- to contribute to the design, construction and maintenance of the Company's ORSA, including through validation of the key assumptions; to monitor the Company's Risk Register; and
- to monitor Risk Issues and quantify their impact.

Business Development Oversight Committee

The responsibilities of the Business Development Oversight Committee are to

- Oversee, promote and support the activities of the Business Development function in pursuit of the Company strategy and business development objectives.
- Ensure that the Company's marketing strategy demonstrates perception and articulation of the Company's target markets, business proposition and unique selling points.
- Use appropriate management information (MI), monitor the success and performance of the Business Development function and ensure that business development and marketing activities are properly and effectively conducted.
- Monitor the level and quality of activity of resources dedicated to Business development.
- Provide a starting point for the identification and research, within the Company's risk appetite, of:
    - potential new marketing and business development opportunities and activities;
    - potential new lines of business or products or enhancement to existing one.
- Advise the Board on Business Development issues.
- Raise any concerns which may be felt from time to time about any aspect of the Business Development function with the Board.

Nominations Committee

The Nominations Committee is established to fulfil the following roles, in accordance with the Company's Fitness & Propriety Policy:

- On behalf of the Board, to scrutinise the recruitment and/or appointment of candidates for senior positions within the Company with a view to ensuring that the successful appointees are fit and proper, and competent for their roles, having the requisite experience, skill-set, knowledge and integrity to perform their duties (including contractual duties, and the legal and fiduciary duties owed by a director) to the Company;
- When the Committee has completed its scrutiny to choose, depending upon its deliberations, whether to recommend to the Board a candidate for a given position;
- Where the appointment requires regulatory approval, the Committee shall have the authority to order the Company Secretariat to apply for the approval;
- Where the Committee declines to recommend a nominated candidate then they may not be appointed to the post for which they were nominated;
- The Committee may, entirely at its own discretion, chose to apply certain conditions to the recommendation such as, but without limitation:
    - Specific training requirements;
    - An extended probationary period;
    - A handover period from the previous post holder; and
- To make all recommendations to the Board in writing providing the rationale for the Committee's decision.

Remuneration Committee

The Remuneration Committee is responsible for applying the Company's decision-making in accordance with the Company's Remuneration Policy, in relation to remuneration of:

- Directors (Executive and Non-Executive);
- Significant Management Function Holders;
- Key Function Holders; and
- Any other roles which may fall within the scope of the Solvency II remuneration requirements contained in Article 275 of the Delegated Regulation (EU) 2015/35

In accordance with employment contracts with individuals other than those employed within such roles, details of the remuneration of such employees are determined by the Executive Committee in accordance with the Company's Pay Policy and Profit-Related Bonus Policy.

Remuneration Policy

The objectives of Company's remuneration policy are to ensure that:

- a transparent process is in place to determine the appropriate level of remuneration for the Company's directors, senior management and regulated roles;
- the Company is able to attract and retain appropriately qualified and experienced directors, senior management and those employed in regulated roles;
- the Company directors, senior managers and those in regulated roles are remunerated fairly, having regard to their responsibilities and the objectives of the company; and
- the overall remuneration policy is in line with its business strategy, risk profile and objectives

The Company's remuneration policy requirements are:

- The Company will remunerate employees and directors in a manner designed to attract and maintain high quality Board members with the appropriate skills required to lead and govern an organisation such as SJNKE.
- The remuneration levels to be determined under the policy shall be approved by the Board and be based on recommendations made by the Remuneration Committee;
- Directors and the Company Secretary shall be entitled to such remuneration in accordance with the Company's Articles of Association (Article 83);
- The remuneration (actual or deemed) of individuals seconded to the Company by the Company's parent company or other group companies is determined in accordance with the Secondment Agreement dated 24th September 2015, as amended from time to time; and
- Certain Company decisions relating to remuneration are made by or made subject to the consent of the Company's parent company, whether under the Articles of Association or the Group Approval & Reporting Policy, and Secondment Agreement between the Company and the Parent Company. Where a decision relating to remuneration requires the consent of the Company's shareholder(s), the Remuneration Committee is authorised to approve proposals.

All SJNKE employees are primarily remunerated by way of fixed remuneration (salary). The Company also offers variable remuneration by way of annual bonuses. The amount of bonus awarded varies depending on the role and seniority of the individual within the Company and is agreed contractually with each individual. For the majority of employees the amount of bonus awarded is determined by the Company's results in the relevant period. For Executive Directors and certain members of management, both company performance and/or individual performance determine the value of bonus paid.

The annual bonus is intended to focus employees' efforts on key objectives such as customer service, quality and on-time delivery whilst improving employee motivation by establishing a clear link between pay and Company performance. The bonus also supports stakeholder ideals by allowing employees to share in the success of the Company's business.

None of the remuneration arrangements reward excessive risk-taking or poor performance.

Material changes in the system of governance that have taken place over the reporting period

The following directors were appointed in the reporting period:

- Mr. John Kuhn, 9 November 2017
- Mr. Graham Evans, 9 November 2017
- Mr. Nigel Frudd, 28 March 2017
- Mr. Chris Gallagher, 9 November 2017
- Mr. James Giordano, 9 November 2017
- Mr. Richard Housley, 9 November 2017
- Mr. Takashi Kurumisawa, 9 November 2017
- Mr. John Murray, 9 November 2017
- Mr. Philip Rooke, 9 November 2017
- Mr. Ian Winchester, 9 November 2017

The following directors resigned during or after the reporting period up to the date of this report:

- Mr. David Broome, 9 November 2017
- Mr. John Bithell, 9 November 2017
- Mr. Nigel Frudd, 13 April 2017
- Mr. John Murray, 29 March 2018
- Mr. Andrew Page, 20 April 2018
- Mr. Peter Standish, 9 November 2017
- Mr Junichi Tanaka, 31 March 2017
- Mr Shoichi Takahashi, 31 March 2017
- Mr. Paul Wakefield, 9 November 2017
- Mr. Michael Watson, 9 November 2017

B.2 Fit and proper requirements

Board candidates shall be appointed, subject to regulatory approval, following a screening process performed by the Board's Nominations Committee, and by the shareholder on merit, against objective criteria and with due regard for the benefits of diversity on the Board. The Board is satisfied that plans are in place for orderly succession for appointments to the Board and to senior management, so as to obtain an appropriate balance of skills and experience within the Company and on the Board, and to ensure progressive refreshing of the Board.

The Nominations Committee sits, on behalf of the Board, to scrutinise the recruitment and/or appointment of candidates for senior positions within the Company with a view to ensuring that the successful appointees:

- are fit and proper and competent to perform their roles
- have the requisite experience, skill-set, knowledge and integrity to perform their duties (including contractual duties and the legal and fiduciary duties owed by a director) to the Company.

Assessments as to whether appointees are fit and proper are also made with regard to the criteria set out by the UK Regulators, notably in relation to those persons who are approved to perform controlled or key functions or required to be approved under the PRA's Senior Insurance Managers Regime.

The scrutiny process may take whatever form the Committee deems to be necessary and which may include (without limitation):

- Review of the job specification for each position;
- Review of Fit & Proper Checklist forms evidencing due diligence performed;
- Review of candidates' application forms, curricula vitae;
- Formal interview before the Committee;
- References; and
- Psychometric testing.

When the Committee has completed its scrutiny it may choose, depending upon its deliberations, whether to recommend to the Board a candidate for a given position. Where the Committee declines to recommend a nominated candidate, then they may not be appointed for the post for which they were nominated.

The Company sets minimum requirements concerning skills, knowledge and expertise applicable to each person who performs one of the key roles within the Company.

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

The Board takes responsibility for setting and implementing the Company's Risk Strategy and risk appetite, and records these in a Risk Strategy Statement.

As outlined in the Company's Risk Management policy, the major categories of risk SJNKE is exposed to correspond to those in respect of which risk policies are required of insurers authorised by the United Kingdom's Prudential Regulatory Authority ('PRA'):

- Insurance Risk, including Underwriting Risk and Reserving Risk including Reinsurance / alternative Insurance Risk Mitigation
- Credit Risk
- Market Risk
- Liquidity Risk including Asset-Liability Management
- Operational Risk
- Group Risk

Risk appetite and limits – approach

The Company's risk appetite is central to the delivery of the Company's Risk Strategy.

SJNKE's risk appetite is derived from its capacity to bear risk in the context of financial and non-financial considerations. A target level of risk appetite has been established on a qualitative basis for all risks contained within the Company's Risk Register. SJNKE's risk appetite statements are the articulation of the amount of risk that the Board is willing to accept, given its philosophy, its attitude towards risk-taking and the organisation's capacity to bear and manage risk.

At the annual Strategy meeting the Board agrees any changes to high level risk appetite statements for the coming year, and sets new high level appetite statements aligned to the Group's risk appetite. Following review and preparation, the Board subsequently agrees risk appetite and tolerance statements for individual risk types.

The Company adopts ‘the three lines of defence’ governance model:

- The 1st line of defence: Day-to-day risk management by Function Leader Units by means of systems & controls including functional management reviews;
- The 2nd line of defence: Risk management and compliance oversight, monitoring and validation provided by the Company’s Risk & Compliance Department reporting to the Executive Committee and Audit & Risk Committee; and
- The 3rd line of defence: Independent verification of the adequacy and effectiveness of the internal risk and control management systems provided principally by the Internal Auditor, also reporting to the ARC.

Through this process, the Company seeks to identify, define, quantify, monitor and manage the key risks to its business objectives. Details of the risks identified and the appetite, tolerance, limits, exposures, management information, management controls and required actions are set out in the Risk Register.

The Risk Register and other risk management information have been designed to document SJNKE’s risk profile arising from the type and nature of business expected to be written as detailed in the business plan. Risk assessment is an iterative process and updates as to the assessment of risks to the business are performed and documented in the Risk Register.

SJNKE maintains a detailed Risk Management Policy which describes how SJNKE identifies and addresses risks within the risk categories and sub-categories outlined in the Risk Management Policy. Throughout the process of risk selection, it is assumed that the current controls addressing perceived risks will be maintained or enhanced.

The Risk Register is regularly updated, based upon management reports supplemented by internal audit and other assurance reviews. Controls addressing risks are assessed and risk tolerance levels are set for each risk. Currently, the controls in place (having been assessed by the Audit & Risk Committee, and SJNKE’s Internal Auditor) are found to be effective, and there are no material Operational risks where the level of residual risk is deemed by SJNKE to be unacceptable. Nevertheless, where improvements are recommended to further mitigate risk, they are being implemented as part of a scheme of continuous risk management.

The Risk Management Policy and the associated activity of developing and maintaining the Risk Register demonstrate the extent to which capital management is embedded within SJNKE’s day-to-day activities. The risks identified and monitored through the Risk Register form the basis of the risks considered in the ORSA.

The Corporate Governance Arrangements and Risk Management Policy set forth how the Board composes and orders itself and the senior executive management appropriately to deliver the Risk Strategy by operating appropriate systems of governance through appropriately skilled and experienced human resources. A Fitness & Propriety Policy is in place setting out how senior management and other key persons are assessed for their respective parts in this.

Management Information

The Risk Function produces the Risk Dashboard every quarter, in line with the Executive Committee and Audit and Risk Committee meeting cycle. This report is designed to provide the Executive, Audit and Risk Committees and Board with sufficient oversight of the risk framework and risk exposures, focusing on the out of appetite and emerging risks.

The outputs of these annual exercises are also captured in the ORSA report which is owned by the Board and reviewed by the Audit and Risk Committee. The ORSA is reviewed and approved at least annually by the Board, or more frequently if a significant event occurs.

The ORSA process culminates in an annual ORSA report. The Risk Function coordinates the relevant processes with subject matter experts across the business and pulls it together for consumption by the Executive Committee, Audit and Risk Committee and the Board at various points in the year. A full review of the Company's own solvency assessment given the risk profile is performed and compared to the regulatory solvency assessment in order to determine whether additional solvency cover is required. The outcome of this assessment is recorded in the ORSA report and shared with the regulator.

ORSA Governance

Key features of SJNKE's ORSA governance process are:

- SJNKE has in place a robust and appropriate ORSA policy and process;
- Senior management and the Board are aware of the objectives of the ORSA process;
- Senior management and the Board are aware of the risks SJNKE is currently exposed to or may face in the long term, and the capital needs that arise from that risk exposure;
- Senior management and the Board have been actively involved in overseeing and reviewing the production of the ORSA report as well as providing challenge as part of the ORSA sign-off process; and
- SJNKE has in place robust ORSA quality assurance and validation processes.
- Data used within the ORSA is required to be stored and indexed electronically in a central file, and in accordance with the SJNKE Data Policy.
- Recommendations from Internal Audit and other valid external review (for example, the PRA) are incorporated into successive ORSA process and reports, and in each cycle a check sheet is maintained to ensure adherence.

The following committees and FLUs are involved in the production of the ORSA report, namely:

- ORSA Steering Committee;
- Executive Committee;
- Audit & Risk Committee;
- Risk & Compliance;
- Finance;
- Actuarial (supported by Willis Towers Watson);
- Underwriting;
- Data Management Unit.

SJNKE's ORSA process was established to manage SJNKE's ORSA submissions, and has been developed through leveraging existing processes and practices to manage risk and capital effectively. It was first approved by the ARC and the Board in 2013 and has been developed and regularly updated since. The ORSA process is designed to provide management with an effective mechanism through which to assess the risks facing the organisation and the capital required to achieve its business objectives.

The Company uses the Standard Formula without Undertaking-Specific Parameters to assess the solvency capital requirements. A partial or full internal model is not used. Any material change to SJNKE's business operations or risk factors will result in a fresh appraisal of the appropriateness of application of the Standard Formula.

B.4 Internal control system

SJNKE's policy is to maintain effective internal control, compliance and risk management systems which have been established to support delivery of the business plan. This is promoted through a "three lines of defence" model, referred to above, across the business employing risk identification, assessment and mitigating techniques, compliance oversight and monitoring, internal audit, staff training and the use of professional advisers where appropriate.

The Board has overall responsibility for reviewing the effectiveness of the Company's internal control, compliance and risk management systems, and through the Audit & Risk Committee and Internal Audit function reviews, the effectiveness and efficiency of internal controls.

There is an ongoing programme for identifying, assessing and managing significant risks the Company faces. The Company's comprehensive top down risk register is maintained through the performance of regular risk reviews with Functional Leaders and Operational Unit managers to identify and assess qualitatively different risks and mitigating controls.

Each risk on the Risk Register is assigned an owner with clearly defined responsibilities, including escalation of any significant changes in the levels of risk.

Once risks are identified, assessed and understood, it is the responsibility of the risk owner to ensure that adequate processes are in place to manage and control potentially significant exposures. At quarterly Insurance & Credit Risk meetings and regular Risk & Compliance Reviews, breaches of risk appetite are discussed and challenged. Where risk management processes are weak and/or controls are deficient or do not exist, the risk owner is required to put in place corrective action plans and report progress against them at monthly "Integrated Action Log" meetings.

The Risk Register is reviewed and signed off by risk owners on a regular basis to provide assurance that the register is complete and accurate, and presents a reliable profile of all significant risks arising from the type and nature of business expected to be written as detailed in the 2017 Business Plan.

All underwriting staff are issued with individual authority limits and underwriting guidelines appropriate to the class of business for which they are responsible. Claims staff have authority limits and claims procedure manuals. Compliance with underwriting authority limits is monitored by the Underwriting Functional Leader Unit. The performance of each accident year and the adequacy of UK GAAP and best estimate technical provisions is the subject of regular review by the Reserving Committee.

Compliance Function

The Compliance Function is established as an independent second line of defence function and is responsible for reporting to senior management any breaches, or non-compliance with relevant company policies, rules and regulations.

The main Compliance activities are as follows:

- Providing advice and guidance to the business on interpretation of new and existing regulatory rules and requirements, and ensuring new regulatory rules are communicated to the relevant Functional Leader Units and branches.
- Maintaining effective relationships with all relevant regulators and other external bodies.
- Monitoring Regulatory reporting.
- Compliance Monitoring. Producing monitoring plans for sign-off by the Audit Committee to assessing the appropriateness and efficiency of controls, evaluating progress made with the implementation of actions.
- Incident and Breach management. Assessing, managing and reviewing regulatory breaches and reporting incidents to management
- Training. Ensuring all staff receive regulatory training on a regulatory basis.
- Regular reporting to the Audit and Risk Committee.

Risk Culture

SJNKE's systems and controls emphasise the importance of internal control and the need to act with integrity at all times. SJNKE has developed and published an Ethics Policy both internally and on the Company website which reinforces the Company's standards, and encourages and promotes a culture of openness and accountability. To deter and detect wrongdoing in the workplace, the Company also operates a Whistleblowing Policy.

The Risk and Compliance function interacts with Functional Leader Units on a regular basis through Risk Issues meetings (in addition to scheduled ICRs and RCRs). Risk Issues are defined as "specific risk issues or events likely, in the opinion of the Risk Officer, to have a material impact on the Company's ability to deliver its strategic objectives", including without limitation:

- external risk factors (such as macroeconomic or environmental factors)
- governance issues
- operational issues
- actual or potential breaches of legal and regulatory obligations
- actual or potential breaches of the Company's internal control system.

Risk Issues are reported through the matrix of controls and early-warning reporting systems in place via the Risk Issues Reporting Form, those under the Company's Compliance and Fraud Risk Management Policy, and the Whistleblowing Policy.

The Risk & Compliance department convenes regular risk review meetings with Functional Leaders, operational managers and other action owners. Internal reports of various kinds are used; Risk Issue Sheets (for each material Risk Issue identified), a Risk Issues Register (summarising these risk issues), to record, assess and quantify all Risk Issues (both actual, potential and near misses) that the Company experiences.

Additionally, Functional Leader Units often approach the Risk & Compliance department for advice and partnering, most notably on special projects.

To ensure that financial reports are delivered in a timely manner, the Company uses a reporting timetable, which is reviewed on a daily basis by the Finance Manager.

For each Finance process, the Finance Procedures Manual documents the requirements on delegation of responsibilities, reporting lines and segregation of duties.

B.5 Internal audit function

SJNKE's internal audit function is provided by PKF Littlejohn LLP, who are an external and independent Company that provides accountancy services and advice to a broad range of business, corporate and private clients. PKF Littlejohn provides SJNKE with dedicated insurance industry specialists who offer extensive experience and expertise within the London insurance market.

PKF Littlejohn undertakes audits that have been set out in their one year internal audit plan and agreed in advance by the Audit & Risk Committee. The one year internal audit plan will comprise mainly audit assignments relating to the internal control framework SJNKE has implemented and includes reviews of the control environment in operation and the operational, corporate and support systems in place.

SJNKE's Compliance Officer is responsible for the administration and oversight of the Internal Audit Function performed by PKF Littlejohn. The Audit and Risk Committee performs an annual effectiveness review of Risk Management including Assurance Services provided by the Internal Audit Function.

As an independent company, PKF Littlejohn is objective and free from the influence of other functions of SJNKE's management and supervisory body.

B.6 Actuarial function

The Chief Financial Officer ("CFO") has responsibility for the Actuarial Function, and is supported by the Company's actuary. The CFO fulfils the "Head of Actuarial Function" as required under Article 48 of the Solvency II Framework Directive. The Actuarial Function is defined and governed by comprehensive Terms of Reference, covering objectives, reporting lines, scope of responsibilities, data quality requirements and a control section on peer review and validation.

The objectives of the Actuarial Function are to:

- Undertake the regular calculation and reporting of Technical Provisions for UK GAAP, Solvency II, IFRS and HMRC purposes
- Express an opinion on the overall underwriting activities and policy
- Express an opinion on the adequacy of reinsurance arrangements
- Contribute to the effective implementation of the risk-management system, in particular with regard to the regular calculation and reporting of the risk modelling and capital model calculations underlying the Solvency Capital Requirement and the Own Risk and Solvency Assessment
- Contribute to the annual Business Planning process
- Assess the quality and consistency of the internal and external data used in the above work
- Produce a written report to be submitted to the Board at least annually. The report shall document the tasks that have been undertaken by the Actuarial Function and results of those tasks, and shall clearly identify any deficiencies and give recommendations as to how such deficiencies shall be remedied.

The process by which the Technical Provisions are calculated is well-defined. Data quality controls are in place around the source data that is input to the process, and the results are challenged and confirmed through a multi-level validation process, which includes review and approval by the Reserving Committee, the Executive Committee, the Audit & Risk Committee, and ultimately, the Board.

The calculation of the Solvency II Technical Provisions and Solvency Capital Requirement are performed by Willis Towers Watson and reviewed by Management. Willis Towers Watson have also provided opinions on the overall underwriting policy and the adequacy of the Company's reinsurance arrangements as part of the annual requirements of the actuarial function under Solvency II. A separate and independent Willis Towers Watson team has performed validation of the Company's Solvency II Technical Provisions in the reporting period.

Management maintains oversight, monitoring and responsibility for the work performed by Willis Towers Watson.

B.7 Outsourcing

In addition to the delegated underwriting authorities granted to Sompo Canopius BV in the Netherlands, and SJNK Martin & Boulart in France, and in order to focus upon its core business activities, SJNKE outsources (in full, or in part) certain functions which require specialised knowledge or skills or those which would otherwise be uneconomic to retain in-house. This process is managed in accordance with the Company's Legal Risk Management Policy which embeds Solvency II standards in the contractual relations and ongoing management of external service providers. In all cases, internal management is resourced to provide adequate oversight of providers.

Key activities where external service providers are used include:

- IT systems development and maintenance (partial) – provided by SeaTech, who are a Company established in the USA, who provide business systems support for the AeGIS policy administration system through their SeaTech Europe Co. Ltd office, based in London;
- Actuarial – Willis Towers Watson provide certain actuarial services as described in 'B.6 Actuarial function';
- Internal Audit – provided by PKF Littlejohn LLP, who are a UK based independent firm of chartered accountants and business advisors (refer to section 'B.5 Internal audit function' above for details of the specialist services that they provide to the Company); and
- Claims and underwriting agents.

B.8 Any other information

There are no other disclosures that the Company considers it necessary to make under this section.

Risk Profile

SJNKE's Risk Management Policy sets out the Company's risk strategy and appetite, corresponding to the strategy articulated in the Company's Business Plan. It describes how SJNKE identifies and addresses risks within the risk categories defined below, and in sub-categories, according to its functional organisation. Throughout the process of risk assessment, the current controls addressing perceived risks will be maintained or enhanced.

Risks identified in the Risk Register form the basis of risks modelled or considered in the context of the SJNKE Own Risk & Solvency Assessment.

C.1 Underwriting risk

Insurance risk refers to fluctuations in the timing, frequency and severity of insured events, relative to the expectations of the firm at the time of underwriting and/or reassessment. Insurance risk can also refer to fluctuations in the timing and amount of claim settlements. For general insurance business some specific examples of insurance risk include variations in the amount or frequency of claims or the unexpected occurrence of multiple claims arising from a single cause. Insurance risk includes the potential for expense overruns relative to pricing or provisioning assumptions.

This risk arises out of ongoing underwriting ('Underwriting Risk') and risks associated with running off claims to settlement ('Reserving Risk').

The Company's appetite is to write profitable insurance risks for firms domiciled in the European Economic Area. Key Reporting Indicators ('KRIs') are set for Gross Written Premium and Loss Ratio targets for each Class and Line of Business. The values are monitored on a quarterly basis at Insurance and Credit Risk reviews, and where necessary, remedial action is taken.

The largest Underwriting risks to which the Company is exposed relate to Natural Catastrophe risk and Man-made Catastrophe risk.

To mitigate these risks,

- a reinsurance programme has been put in place, and Reinsurance risks relating to non-matching reinsurance, exhaustion of reinsurance, the post loss impact on reinsurance cost and availability, the concentration of reinsurers, disputed reinsurance claims etc. are monitored on a regular basis.

- exposure and premium rate change is discussed at the quarterly Underwriting Committee meetings and reported to the Board and appropriate actions taken.
- SJNKE performs claims risk management through on-site assessments and face-to-face contact with our clients' employees and management teams. In this way are able to identify and assess risk and ensure that loss prevention programmes are put in place to protect assets and ensure business continuity.

C.2 Market risk

Market risk reflects the risk of an adverse movement in the value of SJNKE's assets as a consequence of market movements such as interest rates, foreign exchange rates, or equity prices, which is not matched by a corresponding movement in the value of the liabilities. It has various facets, including Interest Rate risk, Currency risk, Equity Risk, Property Risk, Spread Risk & Concentration Risk.

- ***Interest rate risk*** refers to the risk due to fluctuations in interest rates. This has been quantified by applying a stress test on the change in the value of net assets (assets less discounted liabilities) of a defined shift of the yield curve up or down, separately for each currency.
- ***Currency risk*** assesses the risk due to fluctuations in foreign exchange rates. This has been quantified as the impact on the net asset value from applying a stress test of a shift of the exchange rates of all foreign currencies against the local currency of 25% up or down. The local currency is defined as the currency in which the SJNKE prepares its financial statements i.e. GBP.
- ***Equity Risk*** arises from uncertainty in the level or volatility of market prices for equities.
- ***Property risk*** arises from uncertainty related to the market value of these assets – the Company has no property or real estate investments, and therefore has no exposure to any Property risk.
- ***Spread risk*** arises from the sensitivity of the value of assets to changes in the level or in the volatility of credit spreads over the risk free interest rate term structure. The stress test applied by the Standard Formula is the immediate impact on the value of the bond which is expected in the event of an instantaneous decrease in the value of bonds due to the widening of their credit spreads.
  No spread risk is required, within the Standard Formula in respect of exposures to EU Member States' central government and central banks, which is denominated and funded in any domestic currency of an EU member state.
- ***Concentration risk*** is the risk arising from the accumulation of exposures with the same counterparty. Concentration risk is only applicable under the Standard Formula in respect of assets considered in the equity, spread and property risk sub-modules. Assets covered under the counterparty default risk module (such as the concentration risk for holding cash at bank) are not included within concentration risk.

The Company's appetite is to incur minimal exposure to Market risk.

The Investment Policy is predicated on stability of return and low credit risk, and in accordance with the prudent person principle, the Company's policy regarding the investment of assets is:

- to ensure that the Company remains able to meet its regulatory responsibility to meet its liabilities as and when they fall due by managing the business in such a way that decisions on assets and liabilities are coordinated in order to manage the exposure to the risk associated with the variation of their economic value
- to seek positive Investment Returns in the medium to long term while ensuring adequate stability and liquidity
- to prudently manage liquidity risk in the short, medium and long term, taking into account investment strategy, underwriting strategy and claims management strategy

- to minimise both currency risk and liquidity risk by rebalancing the Company's portfolio of assets on a quarterly basis bearing in mind the liability and liquidity forecasts available for each currency (as defined in the SJNKE Asset and Liability Matching Policy).

The Company monitors various Market risk scenarios regularly and these are discussed and reviewed at the periodic Market and Liquidity Risk review. These scenarios include, though are not limited to:

- Foreign Currency Exchange Rate Risks – (risk associated with movements principally in the EUR to GBP exchange rate which causes fluctuations in the GBP value of assets, liabilities, income and outflows)
- Interest Rate Risks – (risk associated with movements principally in EUR and GBP interest rates which affect the performance of the Company's investments)
- Devaluation of assets or adverse currency replacement (risk associated with the currency in which assets are denominated being devalued or replaced by a devalued currency, whilst liabilities are not correspondingly devalued)

To mitigate its exposure to market risk, SJNKE has an established investment strategy to achieve a stable return in base currency by holding fixed income government, government guaranteed and supranational securities with maturity periods of up to 10 years. Investments are held until maturity, unless, either, the securities are downgraded to a level not permitted, or the Company needs liquidity.

C.3 Credit risk

Credit risk refers to the loss resulting from counterparty's failure to repay amounts due in full.

The Company's exposure to credit risk is significant, but well controlled. In particular, reinsurance exposure to the Sompo Holdings Group is very significant, but is to a large degree mitigated by the issue of an irrevocable, evergreen letter of credit in the Company's favour such that, in the event of the reinsurer being unable or unwilling to pay, the Company can recover foreseeable losses.

At quarterly Insurance & Credit Risk meetings the Company monitors various Credit risk scenarios by reviewing management information in respect of each risk identified in the Risk Register including, though not limited to:

- Insurance debtors – (risk of default by counterparties to whom credit is extended in relation to inwards insurance or reinsurance business (including brokers, co-insurers, policyholders))
- Reinsurance debtors – (risk of default by counterparties to whom credit is extended in relation to outwards insurance or reinsurance business (usually reinsurers))
- Securities (risk of default by companies and issuers of securities, such as government or corporate bonds)
- Deposits (risk of default by counterparties holding the Company's monies on deposit)

The above risks are mitigated as follows:

- Counterparty credit ratings are regularly reviewed by the Counterparty Credit Risk Committee which meets quarterly, with ad-hoc meetings where the need arises.

- The investment policy sets out minimum acceptable ratings for investments, being: AA-/Aa3 (S&P/Moody's, with the lower rating being applied). If the rating of any security held within the investment portfolio should fall below the minimum rating permitted, the Executive Committee shall immediately evaluate the security and its fundamentals, and decide whether to either continue to hold the security, or dispose of it.

- The Reinsurance Policy sets out minimum acceptable ratings for reinsurers of S&P A- or higher. There is no tolerance for reinsurers rated below S&P A-. It is the responsibility of the Chief Underwriting Officer to ensure, before inception and completion of the reinsurance arrangement, that the security of reinsurers meets the minimum requirements set out in the Reinsurance policy.

C.4 Liquidity risk

The Company is exposed to Liquidity risk, which is defined as the risk that SJNKE is unable to meet its financial obligations as and when they fall due, or can secure such resources only at excessive cost. The Company has no appetite or tolerance for Liquidity risk.

The Finance function is responsible for managing the day-to-day liquidity risk through considering current balances and estimated disbursements of various categories of liquid assets

.
The Company holds the following three categories of liquid assets:

1. Category 0 assets: Almost riskless/risk-free assets which can be liquidated immediately including cash and bank deposits

2. Category 1 assets: Assets which can be liquidated in less than a month, such as time deposits (with a duration of less than one month), short-term investments and Treasury Bonds.

3. Category 2 assets: Assets such as notes and bonds issued or guaranteed by the U.K. Government, German Government and Supranational issuer (Approved Financial Institutions as defined by the PRA), and time deposits (with a duration of one month or longer).

At periodic Market & Liquidity Risk reviews the Company monitors various Liquidity risk scenarios by reviewing management information in respect of each risk identified in the Risk Register

In addition to the above monitoring activities the following risk mitigation is in place:

- Reliance on advance reinsurance recoveries to fund cash payments to policyholders is provided for under the Reinsurance Policy.

- Under the terms of the Liquidity Risk Management Policy, the Liquidity of Investments is evaluated and “re-balanced” on a quarterly basis, and whilst the objective is to achieve a reasonable return on investments, the priority is to restrict the term of such investment to ensure adequate liquidity exceeding the following month’s requirements. This evaluation is made against forecast cash requirements, and therefore any potential problem under this scenario would need to be of a significant value, and also represent a material deviation from the forecast. Even in extreme circumstances, the Company holds highly liquid assets (generally UK or German or EU Supranational organisation debt securities) which can be sold for cash at short notice.

- Should all of the above provisions fail, the Company could rely on its Parent Company to provide an emergency loan to fund a payment. A Net Worth Agreement is in place which provides for the Parent Company to provide cash sufficient to pay valid claims under insurance policies issued by the Company and valid claims of other financial creditors as and when they fall due.

Therefore the Company considers that in the scenarios identified, its exposure is adequately mitigated by the arrangements described above.

C.5 Operational risk

Operational risk refers to the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. Risks not considered within the other risk categories mentioned above arising in relation to administration, control, compliance, disaster recovery, governance, HR, strategic and technological (I.T.) risks are covered within this section.

The Company monitors various Operational risk scenarios including, though not limited to:

- Legal Risk (Contract) – risk of unenforceable or otherwise defective contracts being written, or inadvertent or unauthorised legally binding commitments or unforeseen liabilities in relation to contracts
- Legal Risk (Legal Environment) – risk of uncertainties arising in relation to the legal environment, including adverse changes to the law, its interpretation, or its application
- Compliance Risk – risks associated with failure to comply, whether through misconduct, error, or incompetence, with applicable laws including criminal and civil law, rules and regulations, orders, requirements, returns, deadlines and directions etc. including financial services regulation, tax, accounting, data protection, conduct, sanctions, commercial or personal data confidentiality, health & safety, employee relations, immigration, financial sanctions, copyright, competition law, anti-money laundering and anti-corruption, reporting and supervisory requirements, including criminal/civil liability, financial and non-financial penalties
- Inaccurate financial statements – risk that the Company's financial reports to third parties including the Report & Accounts, Regulatory returns, tax or other authorities are inaccurate due to human, methodical, data or systems error
- Ineffectual budgetary control – risk that expenditure exceeds budgets as a result of management failure to control costs or to ensure expenditure is and properly assessed and consistent with business objectives
- Fraud (risks associated with an employee defrauding the Company regarding expenses, or a claimant making a fraudulent claim/s etc.)
- Erroneous claims (risk associated with the Company paying invalid or excessive claims)
- Employee Incompetence – risk that employee(s), whether as a result of failures in systems and controls or through error or incompetence, fail to perform effectively in safeguarding the Company's reputation (with clients and/or the regulator) and/or business and financial interests
- Information Technology – risks related to the security of the Company's IT systems including unauthorised access or activity, theft, loss or misuse of sensitive Company, client or personal data; virus attack; back-up failure
- Key Man / Succession (risks associated with reliance on a small number of key individuals responsible for the delivery of business or operational objectives, including their loss through controllable or uncontrollable circumstances)
- Fit and Proper (risks related to the fitness and propriety (including competence) of holders of key management or professional positions including without limitation Approved Persons
- Geo-political uncertainty – the unknown impacts of Brexit on insurers

The Company has a Brexit Steering Committee which periodically meets to review and assess the business impacts of Brexit and evaluate the Company's options.

At quarterly Operational Risk and Compliance reviews the Company monitors various Operational risk scenarios by reviewing management information in respect of each risk identified in the Risk Register. Where risk management processes are weak and/or controls are deficient or do not exist, the risk owner is required to put in place corrective action plans and report progress against them at monthly "Integrated Action Log" meetings.

C.6 Other material risks

Pension scheme risk

The Company operates a defined benefit scheme in the UK which was closed to new members on 1 January 2007. Pension scheme risk refers to the effect on the Company's capital of both the pension scheme asset liability duration mismatch, the capital charge, and funding requirement.

The Company monitors pension risk in accordance with its Risk Management Policy.

In accordance with EIOPA's June 2014 consultation paper the Company has taken the pension scheme into account in the calculation of the capital requirements for counterparty default risk and for the sub-modules in the market risk module.

Asset Liability Mismatch risk

An Asset & Liability Matching policy is in place. The processes defined within the policy are fully embedded within SJNKE's day-to-day activities. All risks associated with the occurrence of mismatches between the Company's assets and liabilities continue to be managed through the Risk Register and the procedures detailed in section 'B4 Internal Control System'.

C.7 Any other information

There are no other disclosures that the Company considers it necessary to make under this section.

Valuation for Solvency Purposes

D.1 Assets

The below table sets out the assets held by the Company as at 31 December 2017 on a UK GAAP and Solvency II basis.

£'000	UK GAAP	SII Valuation Adjustment	Re-classification	Solvency II
Financial Investments	122,779	5,168	1,508	129,455
Reinsurers share of Technical Provisions	124,875	(18,151)	(31,043)	75,681
Insurance Receivables	25,662		(17,725)	7,937
Reinsurance Receivables	27,450			27,450
Cash and Short Term deposits	37,123			37,123
Other (including DAC, prepayments and accrued interest)	8,771	(3,790)	(1,508)	3,473
Defined benefit pension surplus	238			238
Total Assets	346,898	(16,773)	(48,768)	281,357
Reallocate surplus to liabilities	(238)			
Total Assets per financial statements	346,660			

Financial Investments are included at fair value under Solvency II and consist of fixed interest securities of £95,769k, unlisted equity securities of £75k and deposits with credit institutions of

£33,611k. Fixed interest securities are valued at fair value under Solvency II, being the quoted market price, including any interest accrued. All fixed interest securities held as at 31 December 2017 are traded on active markets and quotations are readily available.

The Company assesses whether markets are active by monitoring the frequency of price changes. As at 31 December 2017 the fair value of bonds held was £5,168k higher than their amortised cost and accrued interest amounted to £1,508k. Equities are valued at fair value under Solvency II.

In line with Article 10 of the Delegated Act, cash and short term deposits are valued in line with their quoted market price, which under Solvency II includes accrued interest.

Insurance receivables under SII only include past due items and recoveries in respect of paid claims. Insurance receivables of £17,725k that were not due at the balance sheet date form part of Solvency II Technical Provisions.

The Reinsurers share of Technical Provisions has been valued in accordance with the Delegated Regulations (EU 2015/35). There have been no material changes in the assumptions made in the calculation of Reinsurers share of technical provisions compared to the previous reporting period.

Solvency II other assets include other debtors of £2,362k and prepayments of £1,110k and tangible assets, which are materially valued in accordance with the valuation principles set out in the 2009 Directive. The fair value of the Company's tangible assets is nil.

The Company does not have any intangible assets.

The Company operates a defined benefit scheme in the UK which was closed to new members on 1 January 2007. Assets of the pension scheme are held separately from those of the Company. A full actuarial valuation was carried out at 31 December 2015 by a qualified independent actuary. The net defined benefit pension surplus of £238k has been calculated by the actuary based on the most recent full actuarial valuation rolled forward to 31 December 2017. The net defined benefit pension surplus represents the difference between the fair value of scheme assets and present value of funded obligations. The funded obligations are measured on an actuarial basis using the projected unit method and discounted at the current rate of return of a high quality corporate bond of equivalent term and currency to the liabilities. The valuation approach adopted is consistent with Article 75 of the Directive.

The fair value of assets of the company's defined benefit pension scheme are composed as follows:

Asset class	**Asset value as at 31/12/2017 £000**
Equities	11,511
Gilts	7,498
Bonds	4,033
Cash (including the scheme bank account)	48
Total	23,090

There has been no change made to recognition or valuation bases used to measure the defined benefit pension scheme or other liabilities during the reporting period.

D.2 Technical provisions

The Solvency II Technical Provisions have been calculated in accordance with the Delegated Regulation (EU 2015/35) as adopted by the European Commission on 10 October 2014.

The table below reconciles UK GAAP net technical provisions to Solvency II net technical provisions:

	£'000
UK GAAP Net Technical Provisions	29,411
Removal of Management Margins	(3,934)
Removal of UPR	(3,289)
Inclusion of Premium Provision (Incepted)	2,543
Credit for Future Premiums (Incepted)	13,318
Inclusion of Premium Provision (BBNI)	2,883
Credit for Future Premiums (BBNI)	(3,602)
Future Int & Ext XoL Costs	710
Net ENIDs	540
RI Bad Debts	640
Allowance for Discounting	(25)
Solvency II Expenses	8,810
Risk Margin	2,379
Solvency II Net Technical Provisions	50,384

Material adjustments made to the UK GAAP technical provisions to arrive at Solvency II technical provisions and the key assumptions underlying them are outlined below:

- Management margins of £3,934k represent the difference between the prudent best estimate technical provisions reported in the UK GAAP financial statements and management's best estimate technical provisions. The calculation of the best estimate technical provisions relies on the application of statistical techniques, which explicitly allow for inflation, settlement trends and claims patterns. The Best Estimate has been calculated in accordance to Article 77 (2) of the Solvency II Directive ("the Directive").

- Net UPR of £3,289k is removed from the UK GAAP balance sheet and replaced with provisions for unearned incepted and bound but not incepted ("BBNI") premiums of £2,543k and £2,883k respectively. These premium provisions relate to claims occurring after the valuation date and during the remaining in-force coverage period of policies and have been calculated for each Solvency II class, accident year and country on a gross and net basis. The Company's business plan loss ratios have been used to determine unearned exposures.

- Inclusion of £13,318k credit for future premiums incepted. This represents the net effect of the reclassification of £17,725k of insurance receivables and £31,043k of reinsurance payables not due at the balance sheet date for the respective lines in the Solvency II balance sheet. Inclusion of £3,602k credit for future premiums on BBNI business. Allowance has been made for EEA contracts which incept in 2019 but have tacitly renewed by 31 December 2017. All contracts which incept on 1 January 2018, including outwards Excess of Loss ("XoL") contracts are included in the calculation, as well as an allowance for a share of the cost of XoL contracts which have not yet been renewed at the review date, but which current unearned business is likely to benefit from.

- Inclusion of Net Events Not In Data ("ENIDs") of £540k, calculated using a scenario based approach which considers extreme events that could impact the Company. For each scenario the gross impact is modelled and a probability factor based on claims frequency is applied. Extreme events are generally assumed to have a frequency of 1 in 250 years. The exception to this rule is the assumed frequency of 1 in 5 years for an extreme latent event. The cost of this has been modelled on actual incurred claims which have arisen from historical Noise Induced Hearing Loss ("NIHL") exposures. For the latent scenario it has been assumed that reinsurance is only available to cover the event in part.

- Inclusion of £8,810k Solvency II expenses which represent all allocated and unallocated expenses that would be incurred in running off the existing business. These expenses include claims management and administration expenses arising from claims events, and a share of relevant overheads and investment management expenses. These expenses are in excess of the claims handling provision established in the UK GAAP technical provisions and have been assessed on the basis that the Company continues to write new business. Solvency II expenses have been calculated as 2% of gross earned and unearned claims reserves plus 13.3% of gross UPR and BBNI premiums.

- Inclusion of £2,379k risk margin representing the cost of providing the capital necessary to support the obligations, on the assumption that they are transferred to a "reference undertaking" in accordance with the approach set out in Article 38 of the Delegated Acts.

Projected cash-flows have been discounted using the published EIOPA risk free rates as at 31 December 2017.

There have been no material changes in the assumptions made in the calculation of technical provisions compared to the previous reporting period.

The Company has not made use of any matching adjustments referred to in Article 77b of the Directive. Likewise the Company also has not made use of any volatility adjustments referred to in Article 77d of the Directive.

The Company does not use of any transitional arrangements referred to in Article 308c and 308d of the Directive.

The table below sets out the Solvency II Technical Provisions as at 31 December 2017 by material line of business:

£'000	General Liability	Fire and other damage to property	Marine, aviation and transport	Other	Total
Solvency II Best Estimate Liabilities	31,860	61,965	29,047	814	**123,686**
Risk Margin	814	958	577	30	**2,379**
Solvency II Technical Provisions	32,674	62,923	29,624	844	**126,065**
Ceded Solvency II Technical Provisions	15,748	42,158	17,446	329	**75,681**
Net Solvency II Technical Provisions	16,926	20,765	12,178	515	**50,384**

D.3 Other liabilities

The below table sets out the Company's liabilities as at 31 December 2017 on both a UK GAAP and Solvency II basis.

£'000	UK GAAP	Solvency II Valuation Adjustment	Solvency II Re-classification	Solvency II
Insurance Payables	5,420			5,420
Reinsurance Payables	33,207		(31,043)	2,164
Other (Including RI DAC and deferred income)	11,483	(7,395)		4,088
Total Liabilities (excluding technical provisions)	50,110	(7,395)	(31,043)	11,672

Insurance and reinsurance payables are measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value with no adjustment for changes in own credit standing. Insurance and reinsurance payables are derecognised when the obligation under the liability is settled, cancelled or expired.

Solvency II other liabilities include other creditors of £1,696k and £2,394k of accruals. Other creditors and accruals have been valued at fair value, in accordance with the Solvency II Directive.

D.4 Alternative methods for valuation

No material investments have been valued using any alternative valuation methods as referred to in Article 10(5) of Solvency II Delegated Regulation.

D.5 Any other information

The Company does not operate any share option plans or other long term incentive schemes.

The Company's only material lease obligation is for its offices at 6 Devonshire Square. The undiscounted total future minimum lease rentals payable under non-cancellable operating leases equate to £1,348k over the next 3 years.

The Company has not been party to any arrangement which is not reflected in its balance sheet.

Capital Management

E.1 Own funds

Own funds as at 31 December 2017 comprise the following:

Solvency II Own Funds	2017 £'000	2016 £'000
Ordinary Share Capital	173,700	173,700
Reconciliation Reserve	(30,079)	(33,443)
Own Funds	**143,621**	**140,257**

The issue of own funds in the form of ordinary shares is subject to the clear requirements set out in the Company's Articles of Association. The Articles provide for ordinary shares as the most deeply subordinated element of the firm's capital. There has been no change in the ordinary share capital during the reporting period.

The Company manages its own funds to generate income and capital growth. The Company's objective is to maintain, at all times, own funds which are at least 130% of the SCR. The Company monitors the ratio of own funds to 130% of SCR and reports the position to the ARC and Board on a quarterly basis. The business planning time horizon used for managing capital extends for five years, and the Company's ORSA sets out the forecast capital requirement by category of risk over the five year time horizon.

The reconciliation reserve consists of an amount equivalent to the UK GAAP retained income adjusted for technical provision valuation differences under Solvency II. The reconciliation reserve is entirely included within tier one unrestricted capital.

Both components of the Company's capital, being Ordinary Share Capital and the Reconciliation Reserve, are available and eligible to cover the MCR and SCR as Tier 1 unrestricted own funds as per Article 69 (a)(i) and (vi) respectively of the Delegated Regulation.

The table below reconciles the 31 December 2017 UK GAAP capital and reserves to Solvency II own funds:

	£'000
UK GAAP Capital & Reserves	142,501
Financial Investments – adjustment	5,168
Revaluation of tangible fixed assets	(585)
Removal of DAC – Gross	(3,203)
Removal of DAC – Ceded	7,395
Technical Provisions –adjustments	(7,655)
Solvency II Own Funds	143,621

Financial investments and tangible fixed assets are recorded at amortised cost in UK GAAP and are recorded at fair value in Solvency II. Gross and ceded DAC balances are not applicable under Solvency II.

Technical provisions adjustments include:

- Removal of implicit or explicit margins from GAAP reserves to arrive at a true best estimate reserve.

- Unearned premium reserves are removed and replaced by an allowance for unearned claims on legally obliged business, including an allowance for a share of the cost of XoL contracts which have not yet been renewed at the review date, but which current unearned business is likely to benefit from.

- Inclusion of best estimates of very extreme high severity, low probability claims (ENIDs).

- Allowance for expenses that would be incurred in running off the existing business – both unallocated and allocated loss adjustment expenses.

- Discounting adjustment to take account of the time value of money using the relevant risk-free interest rate.

- Allowance for the cost of providing an amount of capital necessary to support the obligations on the assumption that they are transferred to a third party in accordance with the approach set out in Article 38 of the Delegated Act (the "Risk Margin").

- Amounts recoverable from reinsurers are adjusted for expected losses due to counterparty default.

The Company's solvency coverage ratio of Own Funds to its Solvency Capital Requirement is 497%.

The Company has a risk appetite in respect of the available capital resources of at least 130% of the capital requirement over a one year time horizon. This internal benchmark of the Company is covered by a ratio of 382% by its Own Funds.

The Company has not utilised any transitional arrangements with regard to the valuation of Own Funds.

No fungibility restrictions exist within the Company.

The Company has no Ancillary Own Funds.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

The table below sets out the Solvency Capital Requirement ("SCR") and Minimum Capital Requirement ("MCR") as at 31 December 2017:

	2017 £'000	**2016 £'000**
Market risk	7,152	6,227
Counterparty default risk	15,601	16,820
Non-life underwriting risk	9,462	12,442
Health underwriting risk	1,083	1,585
Operational risk	3,711	4,119
Diversification	(8,103)	(8,831)
SCR	**28,906**	**32,361**
MCR	**7,226**	**8,090**

The above figures are calculated in accordance with the Standard Formula model, and do not include the use of any Company-specific parameters. No capital add-on has been applied to any of the above SCR values and no simplified calculations have been used for any of the risk modules within the Standard Formula, other than the simplified calculation of the risk mitigating effect within the counterparty default risk calculation which has been partially incorporated.

A linear MCR of £5,780k has been calculated by applying factors prescribed by Annex XIX of the Delegated Acts to the net SII Technical Provisions (excluding risk margin) and net written premiums during the previous 12 months. In accordance with the Delegated Acts a 'floor' and a 'cap' of 25% and 45% of the SCR have then been applied to determine the minimum and maximum permitted post-corridor MCR amounts of £7,226k and £13,008k respectively. The Company's MCR as at 31 December 2017 of £7,226k represents the 'floor' post corridor MCR.

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

The duration-based equity risk sub-module does not apply to the Company.

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

The Company does not use an internal model to determine its SCR.

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

The Company has at all times throughout the reporting period held capital in excess of both the Minimum Capital Requirement and Solvency Capital Requirement.

E.6 Any other information

There are no other disclosures that the Company considers it necessary to make under this section.

Annex - Quantitative reporting templates

Sompo Japan Nipponkoa Insurance Company of Europe Limited

Solvency and Financial Condition Report

Disclosures

31 December

2017

(Monetary amounts in GBP thousands)

General information

Undertaking name	Sompo Japan Nipponkoa Insurance Company of Europe Limited
Undertaking identification code	2138007R7XTJ34CF8V20
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
	Assets	C0010
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	238
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	129,455
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	75
R0110	*Equities - listed*	
R0120	*Equities - unlisted*	75
R0130	*Bonds*	95,769
R0140	*Government Bonds*	95,769
R0150	*Corporate Bonds*	0
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	0
R0190	*Derivatives*	
R0200	*Deposits other than cash equivalents*	33,611
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	75,681
R0280	*Non-life and health similar to non-life*	75,681
R0290	*Non-life excluding health*	75,434
R0300	*Health similar to non-life*	247
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	
R0330	*Life excluding health and index-linked and unit-linked*	
R0340	*Life index-linked and unit-linked*	
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	7,937
R0370	Reinsurance receivables	27,450
R0380	Receivables (trade, not insurance)	2,362
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	37,123
R0420	Any other assets, not elsewhere shown	1,110
R0500	**Total assets**	281,357

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	126,065
R0520	*Technical provisions - non-life (excluding health)*	125,429
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	123,070
R0550	*Risk margin*	2,359
R0560	*Technical provisions - health (similar to non-life)*	636
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	615
R0590	*Risk margin*	20
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	
R0630	*Best Estimate*	
R0640	*Risk margin*	
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	0
R0660	*TP calculated as a whole*	
R0670	*Best Estimate*	
R0680	*Risk margin*	
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	
R0710	*Best Estimate*	
R0720	*Risk margin*	
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	5,420
R0830	Reinsurance payables	2,164
R0840	Payables (trade, not insurance)	4,088
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	
R0900	**Total liabilities**	137,737
R1000	**Excess of assets over liabilities**	143,621

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	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	Gross - Direct Business	7	1,208				36,123	43,216	12,653				215					93,422
R0120	Gross - Proportional reinsurance accepted	0	5				2,370	6,457	1,034				0					9,866
R0130	Gross - Non-proportional reinsurance accepted														142	2	798	942
R0140	Reinsurers' share	6	944				35,380	46,807	12,101				172		142	1	768	96,322
R0200	Net	1	268				3,113	2,866	1,586				43		0	0	30	7,908
	Premiums earned																	
R0210	Gross - Direct Business	7	1,189				35,957	41,250	13,278				216					91,897
R0220	Gross - Proportional reinsurance accepted	0	5				2,162	6,793	1,018				0					9,978
R0230	Gross - Non-proportional reinsurance accepted														148	18	942	1,108
R0240	Reinsurers' share	6	929				34,965	44,764	12,417				173		141	15	845	94,255
R0300	Net	1	265				3,154	3,279	1,879				43		7	4	97	8,729
	Claims incurred																	
R0310	Gross - Direct Business	11	185				15,783	39,327	9,278				110					64,694
R0320	Gross - Proportional reinsurance accepted	0	0				-16	4,582	919				0					5,485
R0330	Gross - Non-proportional reinsurance accepted																	0
R0340	Reinsurers' share	24	174				15,391	42,357	9,291				84					67,321
R0400	Net	-13	11				375	1,552	907				25		0	0	0	2,858
	Changes in other technical provisions																	
R0410	Gross - Direct Business																	0
R0420	Gross - Proportional reinsurance accepted																	0
R0430	Gross - Non-proportional reinsurance accepted																	0
R0440	Reinsurers' share																	0
R0500	Net	0	0				0	0	0				0		0	0	0	0
R0550	**Expenses incurred**	-1	68				2,064	2,837	623				-22		9	4	56	5,637
R1200	**Other expenses**																	
R1300	**Total expenses**																	5,637

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
R0010			DE	FR	NL	IT	BE	
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	Gross - Direct Business	28,295	23,759	21,054	10,948	3,047	3,058	90,160
R0120	Gross - Proportional reinsurance accepted	2,016	798	1,894	47	183	80	5,018
R0130	Gross - Non-proportional reinsurance accepted	942	0	0	0	0	0	942
R0140	Reinsurers' share	27,180	21,969	21,889	10,391	2,712	2,680	86,821
R0200	Net	4,072	2,588	1,059	603	518	458	9,299
	Premiums earned							
R0210	Gross - Direct Business	28,119	24,272	21,199	9,682	2,739	3,183	89,193
R0220	Gross - Proportional reinsurance accepted	1,975	876	1,797	71	166	103	4,988
R0230	Gross - Non-proportional reinsurance accepted	1,108	0	0	0	0	0	1,108
R0240	Reinsurers' share	27,259	22,314	21,944	10,560	2,708	2,774	87,559
R0300	Net	3,943	2,834	1,052	-807	196	512	7,730
	Claims incurred							
R0310	Gross - Direct Business	6,630	19,791	34,119	1,035	1,411	1,537	64,523
R0320	Gross - Proportional reinsurance accepted	-449	1,096	-261	-15	104	129	603
R0330	Gross - Non-proportional reinsurance accepted	0	0	0	0	0	0	0
R0340	Reinsurers' share	6,766	21,205	31,045	990	1,382	1,258	62,646
R0400	Net	-585	-318	2,812	30	133	408	2,481
	Changes in other technical provisions							
R0410	Gross - Direct Business							0
R0420	Gross - Proportional reinsurance accepted							0
R0430	Gross - Non-proportional reinsurance accepted							0
R0440	Reinsurers' share							0
R0500	Net	0	0	0	0	0	0	0
R0550	**Expenses incurred**	1,401	1,101	1,029	493	145	141	4,309
R1200	**Other expenses**							18
R1300	**Total expenses**							4,327

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Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				
		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	Total Non-Life obligation
		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	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	0				0	0	0				0		0	0	0	0
	Technical provisions calculated as a sum of BE and RM																	
	Best estimate																	
	Premium provisions																	
R0060	Gross	1	-121				2,598	14,606	249				34		0	0	0	17,367
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	-3	-224				-5,068	1,594	-1,975				-31		0	0	0	-5,708
R0150	**Net Best Estimate of Premium Provisions**	4	103				7,667	13,012	2,224				65		0	0	0	23,075
	Claims provisions																	
R0160	Gross	139	597				26,449	47,358	31,611				164		0	0	0	106,318
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	75	400				22,515	40,565	17,723				113		0	0	0	81,389
R0250	**Net Best Estimate of Claims Provisions**	64	197				3,934	6,794	13,889				51		0	0	0	24,929
R0260	**Total best estimate - gross**	139	476				29,047	61,965	31,860				198		0	0	0	123,685
R0270	**Total best estimate - net**	68	300				11,601	19,806	16,112				117		0	0	0	48,004
R0280	**Risk margin**	2	19				577	958	814				11		0	0	0	2,379
	Amount of the transitional on Technical Provisions																	
R0290	Technical Provisions calculated as a whole	0	0				0	0	0				0		0	0	0	0
R0300	Best estimate	0	0				0	0	0				0		0	0	0	0
R0310	Risk margin	0	0				0	0	0				0		0	0	0	0
R0320	**Technical provisions - total**	141	495				29,624	62,923	32,673				209		0	0	0	126,065
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**	72	176				17,446	42,158	15,747				82		0	0	0	75,681
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**	69	319				12,178	20,764	16,926				127		0	0	0	50,384

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Non-Life insurance claims

Total Non-life business

Z0010 Accident year / underwriting year: Accident year

Gross Claims Paid (non-cumulative)

(absolute amount)

	Year	C0010 0	C0020 1	C0030 2	C0040 3	C0050 4	C0060 5	C0070 6	C0080 7	C0090 8	C0100 9	C0110 10 & +	C0170 In Current year	C0180 Sum of years (cumulative)
R0100	Prior											231	231	231
R0160	2008	4,437	10,661	4,450	322	375	124	310	1	12	100		100	20,792
R0170	2009	5,514	4,819	541	161	50	-30	196	74	-63			-63	11,263
R0180	2010	7,721	6,008	1,083	604	-31	51	120	45				45	15,603
R0190	2011	6,711	1,997	5,067	-169	207	305	-47					-47	14,071
R0200	2012	9,472	6,500	1,587	822	1,650	-12						-12	20,018
R0210	2013	23,581	12,709	1,409	1,443	332							332	39,474
R0220	2014	15,156	39,961	17,828	1,455								1,455	74,400
R0230	2015	58,586	35,987	17,660									17,660	112,233
R0240	2016	15,367	25,496										25,496	40,862
R0250	2017	43,607											43,607	43,607
R0260												Total	88,803	392,554

Gross Undiscounted Best Estimate Claims Provisions

(absolute amount)

	Year	C0200 0	C0210 1	C0220 2	C0230 3	C0240 4	C0250 5	C0260 6	C0270 7	C0280 8	C0290 9	C0300 10 & +	C0360 Year end (discounted data)
R0100	Prior											3,868	3,858
R0160	2008	0	0	0	0	0	0	0	522	590	217		216
R0170	2009	0	0	0	0	0	0	837	758	608			609
R0180	2010	0	0	0	0	0	1,364	1,097	793				793
R0190	2011	0	0	0	0	2,296	1,947	1,496					1,496
R0200	2012	0	0	0	11,659	8,382	7,048						7,047
R0210	2013	0	0	9,753	6,413	4,032							4,017
R0220	2014	0	43,660	18,307	20,877								20,903
R0230	2015	60,950	31,932	12,363									12,349
R0240	2016	57,011	12,751										12,688
R0250	2017	42,449											42,341
R0260												Total	106,318

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Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	173,700	173,700		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	-30,079	-30,079			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0				
R0290	**Total basic own funds after deductions**	143,621	143,621	0	0	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	143,621	143,621	0	0	0
R0510	Total available own funds to meet the MCR	143,621	143,621	0	0	
R0540	Total eligible own funds to meet the SCR	143,621	143,621	0	0	0
R0550	Total eligible own funds to meet the MCR	143,621	143,621	0	0	
R0580	**SCR**	28,906				
R0600	**MCR**	7,226				
R0620	**Ratio of Eligible own funds to SCR**	496.85%				
R0640	**Ratio of Eligible own funds to MCR**	1987.42%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	143,621
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	173,700
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	-30,079
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	0
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	84
R0790	**Total Expected profits included in future premiums (EPIFP)**	84

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Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0080	C0090
R0010	Market risk	7,152		
R0020	Counterparty default risk	15,601		
R0030	Life underwriting risk	0		
R0040	Health underwriting risk	1,083		
R0050	Non-life underwriting risk	9,462		
R0060	Diversification	-8,103		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	25,195		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	3,711
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
R0200	**Solvency Capital Requirement excluding capital add-on**	28,906
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	28,906
	Other information on SCR	
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

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

	Linear formula component for non-life insurance and reinsurance obligations	C0010
R0010	MCR_{NL} Result	5,780

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0020	Medical expense insurance and proportional reinsurance	68	1
R0030	Income protection insurance and proportional reinsurance	300	216
R0040	Workers' compensation insurance and proportional reinsurance	0	0
R0050	Motor vehicle liability insurance and proportional reinsurance	0	0
R0060	Other motor insurance and proportional reinsurance	0	0
R0070	Marine, aviation and transport insurance and proportional reinsurance	11,601	3,244
R0080	Fire and other damage to property insurance and proportional reinsurance	19,806	3,592
R0090	General liability insurance and proportional reinsurance	16,112	1,880
R0100	Credit and suretyship insurance and proportional reinsurance	0	0
R0110	Legal expenses insurance and proportional reinsurance	0	0
R0120	Assistance and proportional reinsurance	0	0
R0130	Miscellaneous financial loss insurance and proportional reinsurance	117	43
R0140	Non-proportional health reinsurance	0	0
R0150	Non-proportional casualty reinsurance	0	0
R0160	Non-proportional marine, aviation and transport reinsurance	0	36
R0170	Non-proportional property reinsurance	0	0

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCR_{L} Result	0

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits		
R0220	Obligations with profit participation - future discretionary benefits		
R0230	Index-linked and unit-linked insurance obligations		
R0240	Other life (re)insurance and health (re)insurance obligations		
R0250	Total capital at risk for all life (re)insurance obligations		

	Overall MCR calculation	C0070
R0300	Linear MCR	5,780
R0310	SCR	28,906
R0320	MCR cap	13,008
R0330	MCR floor	7,226
R0340	Combined MCR	7,226
R0350	Absolute floor of the MCR	3,251
R0400	**Minimum Capital Requirement**	7,226