

Sompo Japan Nipponkoa Insurance Company of Europe Limited

Solvency and Financial Condition Report

Year ended 31 December 2016

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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 2016 on a UK GAAP basis were as follows:

- The Company received gross written premiums totalling £95.3m (2015: £84.6m)
- Gross earned premium is £96.4m (2015: £84.8m)
- Net earned premium is £12.5m (2015: £23.1m)
- The proportion retained was 12.9% (2015: 27.2%)
- The net incurred loss ratio is 50.1% (2015: 63.4%)
- The combined ratio improved to 68.7% (2015: 101.0%)
- Investment income (net of investment management expenses) totalled £2.4m (2015: £2.3m)
- Profit after tax is £3.0m and total comprehensive income is £6.6m (2015: £2.0m and £1.8m respectively)

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 SFCR is denoted in brackets:

- Underwriting Risk (£14.0m)
- Market Risk (£6.2m)
- Credit Risk (£16.8m)
- Liquidity Risk
- Operational Risk (£4.1m)

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.

Regulatory Balance Sheet

On a Solvency II ("SII") basis the Company had eligible own funds of £140.2m as at 31 December 2016. This is represented by assets of £292.4m less Technical Provisions of £139.7m and other liabilities of £12.5m.

Eligible Own Funds were £4.0m higher than the UK GAAP net assets reported in the 31 December 2016 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 £6.7m higher than the amortised cost reported in the financial statements as at 31 December 2016. Tangible fixed assets of £0.9m 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 £12.6m higher than GAAP Technical Provisions as at 31 December 2016.

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 2016, the Company had a regulatory surplus of approximately £107.9m above the Solvency Capital Requirement ("SCR"), compared to a surplus of £92.8m above the Insurance Capital Requirement as at 31 December 2015.

The Company's solvency coverage ratio of Own Funds above its SCR is 443%. The ratio of Own funds above the Minimum Capital Requirement ("MCR") is 1,734%.

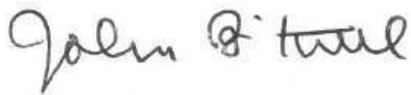
Directors' Statement

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 Prudential Regulation Authority ("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 10th May 2017 and was signed on its behalf



John Bithell
Deputy CEO and Director



Shiho Koshikawa
Deputy CEO and Director

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 Chapter of the PRA Rulebook applicable to Solvency II firms

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

Opinion

Except as stated below, we have audited the following documents prepared by the Company as at 31st December 2016:

- The 'Valuation for Solvency Purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company, ('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; and
- the written acknowledgement by management of their responsibilities, including for the preparation of the capitalisation of 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 2016 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.

This report is made solely to the Directors of the Company in accordance with Rule 2.1 of External Audit Chapter 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. To the fullest permitted by law, we do not accept or assume responsibility to anyone other than the directors, for our work, for this report, or for the opinions we have formed.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & I)), 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 & I) 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 was authorised for issue.

Emphasis of Matter – Basis of Accounting

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. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of 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 & I) 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 SFCR.

Report on Other Legal and Regulatory Requirements.

In accordance with Rule 4.1(3) of the External Audit Chapter of the PRA Rulebook for Solvency II firms we are required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of Sompo Japan Nipponkoa Insurance Company of Europe Limited's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Ernst & Young LLP
London
10th May 2017

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

Sompo Japan Nipponkoa Insurance Company of Europe Limited ("SJNKE") is a wholly owned subsidiary of Sompo Japan Nipponkoa Insurance Inc. ("SJNK"). 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 cities 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.

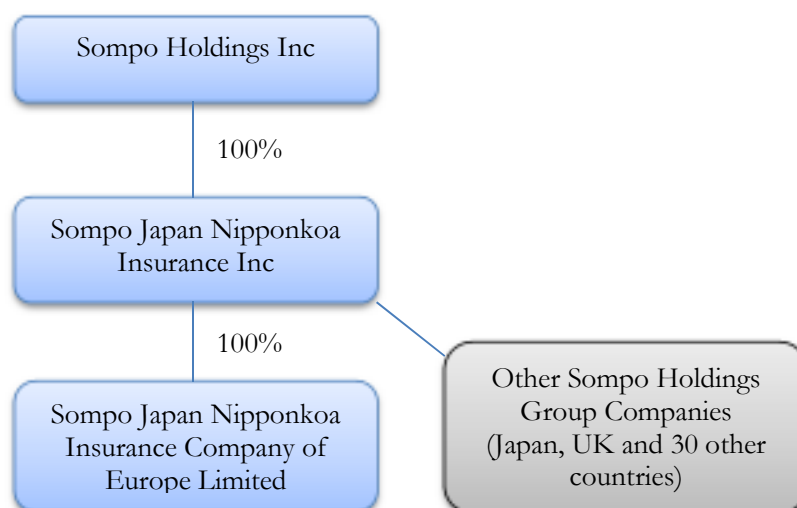
SJNKE offers a wide range of general insurance solutions embracing commercial lines of business such as Property, Casualty, Marine Cargo, and Personal Accident.

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



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 2016 is £3.9m and the combined operating ratio is 68.7%.

Premiums

The Company has achieved moderate Gross Written Premium growth with £10.7m more premiums being written than in 2015. Increases have been achieved in every line of business, but most notably on the Marine book as a result of rate increases following the 2015 Tianjin Port explosion. The premium growth in the Company's European branches has been impacted favourably by the strengthening of the Euro during the year.

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 £58.3m are favourable to the Company's business plan and equate to a gross ultimate loss ratio of 60.5% (2015:115.7%). After applying reinsurance, a net ultimate loss ratio of 41.5% has been achieved (2015: 64.9%). The improvement in the gross and net loss ratios is primarily a result of favourable large loss and attritional experience in respect of reserves established as at 31 December 2015.

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 £25.2m (2015:£22.5m) and £3.4m (2015:£8.3m) respectively. This can be analysed into net commission receivable of £11.5m (2015:£4.5m) and administrative expenses payable of £14.9m (2015:£12.8m).

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.

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
- Europe (excl. UK)	31,300	30,479	7,323	834	69,936
	<u>43,228</u>	<u>37,244</u>	<u>13,572</u>	<u>1,272</u>	<u>95,316</u>
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)
Balance on technical account	<u>1,272</u>	<u>1,718</u>	<u>808</u>	<u>118</u>	<u>3,916</u>
Balance on technical account					
- UK	1,094	(432)	1,562	184	2,408
- Europe (excl. UK)	178	2,150	(754)	(66)	1,508
	<u>1,272</u>	<u>1,718</u>	<u>808</u>	<u>118</u>	<u>3,916</u>
Profit / (Loss) before Tax					
- UK	1,012	(473)	1,548	183	2,270
- Europe (excl. UK)	85	2,040	(796)	(71)	1,258
	<u>1,097</u>	<u>1,567</u>	<u>752</u>	<u>112</u>	<u>3,528</u>
Net technical provisions					
- UK	(3,017)	(1,256)	(10,389)	(80)	(14,742)
- Europe (excl. UK)	(8,913)	(4,565)	(7,842)	(406)	(21,726)
	<u>(11,930)</u>	<u>(5,821)</u>	<u>(18,231)</u>	<u>(486)</u>	<u>(36,468)</u>

The table below provides 2015 numbers for comparison.

2015	Fire & other damage to property £000	Marine, aviation and transport £000	Third- party liability £000	Other £000	Total £000
Gross premiums written					
- UK	12,430	5,362	5,822	429	24,043
- Europe (excl. UK)	29,149	25,055	5,508	835	60,547
	<u>41,579</u>	<u>30,417</u>	<u>11,330</u>	<u>1,264</u>	<u>84,590</u>
Gross premiums earned	42,164	30,810	10,632	1,178	84,784
Gross claims incurred	(15,932)	(78,439)	(3,343)	(366)	(98,080)
Gross operating expenses	(11,585)	(8,119)	(2,725)	(118)	(22,547)
Gross technical result	14,647	(55,748)	4,564	694	(35,843)
Reinsurance balance	(15,588)	54,827	(3,409)	(217)	35,613
Balance on technical account	<u>(941)</u>	<u>(921)</u>	<u>1,155</u>	<u>477</u>	<u>(230)</u>
Balance on technical account					
- UK	18	267	(314)	205	176
- Europe (excl. UK)	(959)	(1,188)	1,469	272	(406)
	<u>(941)</u>	<u>(921)</u>	<u>1,155</u>	<u>477</u>	<u>(230)</u>
Profit / (Loss) before Tax					
- UK	568	441	(243)	206	972
- Europe (excl. UK)	(441)	(583)	1,686	303	966
	<u>127</u>	<u>(142)</u>	<u>1,443</u>	<u>509</u>	<u>1,937</u>
Net technical provisions					
- UK	(2,894)	(382)	(9,321)	(162)	(12,759)
- Europe (excl. UK)	(13,303)	(8,545)	(10,119)	(430)	(32,397)
	<u>(16,197)</u>	<u>(8,927)</u>	<u>(19,440)</u>	<u>(592)</u>	<u>(45,156)</u>

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 2016.

	2016 £'000	2015 £'000
Interest income	3,902	3,832
Interest expense	(724)	(774)
Net losses on realisation of investments	(592)	(627)
Total income	<u>2,586</u>	<u>2,431</u>
Investment management expenses	140	134

Investments are held to maturity and are accounted for at amortised cost in the UK GAAP financial statements. 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 2016 total £14.9m (2015:£12.8m). 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 2016 and 2015.

	2016	2015
	£'000	£'000
Staff	9,783	8,551
Legal and professional	2,570	1,621
Accommodation	1,046	899
Other	1,473	1,764
	<u>14,872</u>	<u>12,835</u>

Dividends

No dividend was paid in 2016 (2015: 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 2016 the net defined benefit pension liability valued in accordance with FRS 102 equated to £2.16m.

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 (2015: 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 £0.25m (2015: £0.22m). 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 £14.6m as at 31 December 2016 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

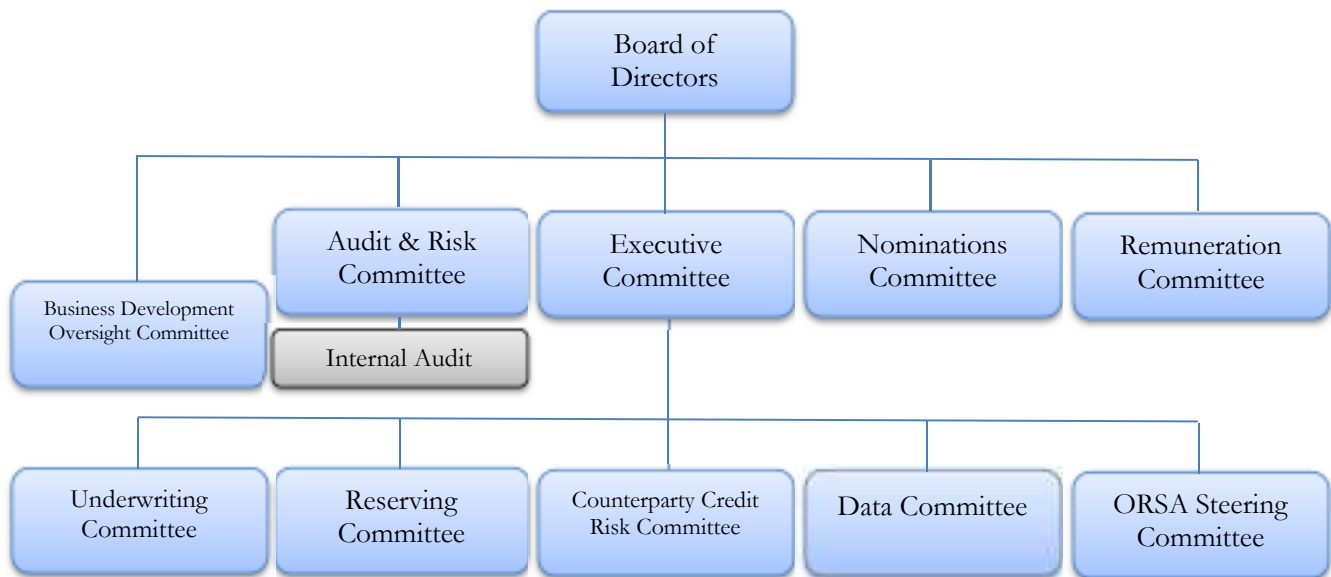
The strengthening of the Euro and US Dollar against the Pound has generated net exchange gains of £2.9m in the year to 31 December 2016, of which £0.2m have been realised.

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



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 Somp 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.

CEO responsibilities are jointly assumed on a temporary basis by two Deputy CEOs, both of whom are Executive Directors with significant business experience relevant to the Company's strategic objectives. Both Deputy CEOs possess the skills necessary to support all the functions of CEO, in particular to support the exercise of proper control over all the operations of the Company through appropriate appointment and oversight.

The Deputy 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. Junichi Tanaka, 18 March 2016
- Ms. Shiho Koshikawa, 01 July 2016
- Mr. Michael Watson, 01 October 2016
- Mr. Nigel Frudd, 28 March 2017

The following directors resigned in the reporting period:

- Mr. Takashi Yoshino, 31 March 2016
- Mr. Shigeru Ehara, 31 March 2016
- Mr. Hans Verstraete, 31 March 2016
- Mr. Koji Uehara, 08 April 2016
- Mr. Atsushi Kaneko, 01 July 2016
- Mr. Junichi Tanaka, 31 March 2017
- Mr. Shoichi Takahashi, 31 March 2017
- Mr. Nigel Frudd, 13 April 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 Financial Controller.

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 Canopus 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.

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 2016 on a UK GAAP and Solvency II basis.

£'000	UK GAAP	SII Valuation Adjustment	Re-classification	Solvency II
Financial Investments	128,534	6,660	1,632	136,826
Reinsurers share of Technical Provisions	131,080	(53,306)	12,881	90,655
Insurance Receivables	23,759		(12,881)	10,878
Reinsurance Receivables	11,160			11,160
Cash and Short Term deposits	40,476			40,476
Other (including DAC, prepayments and accrued interest)	7,843	(3,783)	(1,632)	2,428
Total Assets	342,852	(50,429)	-	292,423

UK GAAP financial investments consist of fixed interest securities of £101,170k, unlisted equity securities of £75k and deposits with credit institutions of £27,289k. Fixed interest securities are valued at amortised cost in the financial statements and at fair value under Solvency II, being the quoted market price, including any interest accrued. All fixed interest securities held as at 31 December 2016 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 2016 the fair value of bonds held was £6,660k higher than their amortised

cost and accrued interest amounted to £1,632k. Equities are valued at fair value under UK GAAP and Solvency II.

Cash and short term deposits are valued at carrying value under UK GAAP. Under Solvency II cash and short term deposits are valued at carrying value including any accrued interest.

Insurance receivables that were not due at the balance sheet date have been transferred to the Reinsurers share of Technical Provisions for Solvency II purposes. The Reinsurers share of Technical Provisions has been revalued in accordance with the Delegated Regulations (EU 2015/35), as described more fully in section D.2 Technical Provisions below. 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.

Other assets under UK GAAP include deferred acquisition costs and tangible assets of £2,884k and £899k respectively. Deferred acquisition costs are eliminated in arriving at the Solvency II balance sheet. Tangible assets are recorded at cost less accumulated depreciation in UK GAAP, and at re-measured at fair value under Solvency II. The fair value of the Company's tangible assets is nil. Solvency II other assets include other debtors and of £1,334k prepayments of £1,094k which are materially valued in accordance with the valuation principles set out in the 2009 Directive.

The Company does not have any intangible assets.

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	36,468
Removal of Management Margins	(4,842)
Removal of UPR	(3,956)
Inclusion of Premium Provision (Incepted)	3,159
Credit for Future Premiums (Incepted)	5,821
Inclusion of Premium Provision (BBNI)	3,791
Credit for Future Premiums (BBNI)	(4,515)
Future Int & Ext XoL Costs	482
Net ENIDs	524
RI Bad Debts	226
Allowance for Discounting	(44)
Solvency II Expenses	9,527
Risk Margin	2,393
Solvency II Net Technical Provisions	49,033

Management margins of £4,842k 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 Best Estimate has been calculated in accordance to Article 77 (2) of the Solvency II Directive ("the Directive").

The table below sets out the Solvency II Technical Provisions as at 31 December 2016 by material line of business:

£'000	General Liability	Fire and other damage to property	Marine, aviation and transport	Other	Total
UK GAAP Gross Technical Provisions	41,423	78,764	46,041	1,320	167,548
Solvency II Adjustments	(7,993)	(11,835)	(10,138)	(287)	(30,253)
Solvency II Best Estimate Liabilities	33,430	66,929	35,903	1,033	137,295
Risk Margin	709	1,195	451	37	2,393
Solvency II Technical Provisions	34,139	68,124	36,355	1,070	139,688
Ceded Solvency II Technical Provisions	13,768	49,794	26,905	189	90,655
Net Solvency II Technical Provisions	20,372	18,330	9,450	881	49,033

Other material adjustments made to the UK GAAP technical provisions to arrive at Solvency II technical provisions are outlined below:

- Net UPR of £3,956k is removed from the UK GAAP balance sheet and replaced with provisions for unearned incepted and bound but not incepted (“BBNI”) premiums of £3,159k and £3,791k 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 £5,821k credit for future premiums incepted. This represents the net effect of the reclassification of £12,881k of insurance receivables and £18,701k of reinsurance payables not due at the balance sheet date for the respective lines in the Solvency II balance sheet.
- Inclusion of £4,515k credit for future premiums on BBNI business.
- Inclusion of Net Events Not In Data (“ENIDs”) of £524k, calculated using a scenario based approach which considers extreme events that could impact the Company.
- Inclusion of £9,527k 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.
- Inclusion of £2,393k 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 2016.

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

Uncertainty relates primarily to how future actual experience will differ from the best estimate assumptions used to calculate the technical provisions. The key assumptions are future claims handling expenses, loss ratios, discount rates, credit risk and future premium levels. A robust assumption setting process is followed in order to ensure the uncertainty is well understood.

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.

D.3 Other liabilities

The below table sets out the Company's liabilities as at 31 December 2016 on a UK GAAP and Solvency II basis.

£'000	UK GAAP	Solvency II Valuation Adjustment	Solvency II Re- classification	Solvency II
Insurance Payables	3,465			3,465
Reinsurance Payables	21,987		(18,701)	3,286
Pension Liability	2,160			2,160
Other (Including RI DAC and deferred income)	11,385	(7,818)		3,567
Total Liabilities (excluding technical provisions)	38,997	(7,818)	(18,701)	12,478
Technical Provisions	167,548	(46,561)	18,701	139,688
Total Liabilities	206,545	(54,379)	-	152,166

Insurance payables of £18,701k were not due at the balance sheet date and subsequently transferred to technical provisions for Solvency II purposes. 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.

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 liability of £2,160k has been calculated by the actuary based on the most recent full actuarial valuation rolled forward to 31 December 2016. The net defined benefit pension liability 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 and is consistent with Article 75 of the Directive.

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

Asset class	Asset value as at 31/12/2016 £000
Equities	10,453
Gilts	6,715
Bonds	3,615
Cash (including the scheme bank account)	90
Total	20,873

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.

Other liabilities under UK GAAP include ceded deferred acquisition costs of £7,818k which is eliminated in arriving at the Solvency II balance sheet. Solvency II other liabilities include other creditors of £1,012k and £2,555k of accruals.

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 £1,838k 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 2016 comprise the following:

Solvency II Own Funds	£'000
Ordinary Share Capital	173,700
Reconciliation Reserve	<u>(33,443)</u>
Own Funds	140,257

The issue of own funds in the form of ordinary shares is subject to the clear requirements set out in the Companies Act 2006 and the Company's Articles of Association. There has been no change in the ordinary share capital during the reporting period and no fungibility restrictions exist within the Company.

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 Company's Ordinary Share Capital and Reconciliation Reserve are both available 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 Company has no Tier 1 restricted own funds (per Article 80 of the Delegated Regulations), no Tier 2 own funds (per Article 72 of the Delegated Regulations) and no Tier 3 own funds (per Article 76 of the Delegated Regulations), and no Ancillary Own Funds.

The table below reconciles the 31 December 2016 UK GAAP capital and reserves to Solvency II own funds:

	£'000
UK GAAP Capital & Reserves	136,307
Financial Investments – Solvency II valuation adjustment	6,660
Revaluation of tangible fixed assets	(899)
Removal of DAC - Gross	(2,884)
Removal of DAC - Ceded	7,818
Technical Provisions – Solvency II adjustments	(12,565)
Less amounts reclassified into Technical Provisions	5,820
Solvency II Own Funds	140,257

An explanation of each of the components above has been provided in sections D1 to D3 of this report.

The Company's solvency coverage ratio of Own Funds above its Solvency Capital Requirement is 443%.

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. The Company's coverage ratio of Own Funds above 130% of its Solvency Capital Requirement is 334%.

The Company has not utilised any transitional arrangements with regard to the valuation of 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 2016:

	2016
	£'000
Market risk	6,227
Counterparty default risk	16,820
Non-life underwriting risk	12,442
Health underwriting risk	1,585
Operational risk	4,119
Diversification	(8,831)
SCR	32,361
MCR	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 pre-corridor MCR of £5,827k 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 £8,090k and £14,562k

respectively. The Company's MCR as at 31 December 2016 of £8,090k 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

2016

(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 2016
Currency used for reporting	GBP
Accounting standards	The undertaking is using local GAAP (other than IFRS)
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

- S.02.01.02 - Balance sheet
- S.05.01.02 - Premiums, claims and expenses by line of business
- S.05.02.01 - Premiums, claims and expenses by country
- S.17.01.02 - Non-Life Technical Provisions
- S.19.01.21 - Non-Life insurance claims
- S.23.01.01 - Own Funds
- S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula
- S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

S.02.01.02

Balance sheet

		Solvency II value
		C0010
Assets		
R0030	Intangible assets	0
R0040	Deferred tax assets	0
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	136,826
R0080	<i>Property (other than for own use)</i>	0
R0090	<i>Holdings in related undertakings, including participations</i>	0
R0100	<i>Equities</i>	75
R0110	<i>Equities - listed</i>	0
R0120	<i>Equities - unlisted</i>	75
R0130	<i>Bonds</i>	109,462
R0140	<i>Government Bonds</i>	109,462
R0150	<i>Corporate Bonds</i>	0
R0160	<i>Structured notes</i>	0
R0170	<i>Collateralised securities</i>	0
R0180	<i>Collective Investments Undertakings</i>	0
R0190	<i>Derivatives</i>	0
R0200	<i>Deposits other than cash equivalents</i>	27,289
R0210	<i>Other investments</i>	0
R0220	Assets held for index-linked and unit-linked contracts	0
R0230	Loans and mortgages	0
R0240	<i>Loans on policies</i>	0
R0250	<i>Loans and mortgages to individuals</i>	0
R0260	<i>Other loans and mortgages</i>	0
R0270	Reinsurance recoverables from:	90,655
R0280	<i>Non-life and health similar to non-life</i>	90,655
R0290	<i>Non-life excluding health</i>	90,507
R0300	<i>Health similar to non-life</i>	148
R0310	<i>Life and health similar to life, excluding index-linked and unit-linked</i>	0
R0320	<i>Health similar to life</i>	0
R0330	<i>Life excluding health and index-linked and unit-linked</i>	0
R0340	<i>Life index-linked and unit-linked</i>	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	10,878
R0370	Reinsurance receivables	11,160
R0380	Receivables (trade, not insurance)	1,334
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	40,476
R0420	Any other assets, not elsewhere shown	1,094
R0500	Total assets	292,422

S.02.01.02

Balance sheet

		Solvency II value
		C0010
Liabilities		
R0510	Technical provisions - non-life	139,688
R0520	<i>Technical provisions - non-life (excluding health)</i>	138,709
R0530	<i>TP calculated as a whole</i>	0
R0540	<i>Best Estimate</i>	136,349
R0550	<i>Risk margin</i>	2,360
R0560	<i>Technical provisions - health (similar to non-life)</i>	979
R0570	<i>TP calculated as a whole</i>	0
R0580	<i>Best Estimate</i>	946
R0590	<i>Risk margin</i>	32
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	<i>Technical provisions - health (similar to life)</i>	0
R0620	<i>TP calculated as a whole</i>	0
R0630	<i>Best Estimate</i>	0
R0640	<i>Risk margin</i>	0
R0650	<i>Technical provisions - life (excluding health and index-linked and unit-linked)</i>	0
R0660	<i>TP calculated as a whole</i>	0
R0670	<i>Best Estimate</i>	0
R0680	<i>Risk margin</i>	0
R0690	Technical provisions - index-linked and unit-linked	0
R0700	<i>TP calculated as a whole</i>	0
R0710	<i>Best Estimate</i>	0
R0720	<i>Risk margin</i>	0
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	0
R0760	Pension benefit obligations	2,160
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	0
R0790	Derivatives	0
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	3,465
R0830	Reinsurance payables	3,286
R0840	Payables (trade, not insurance)	3,566
R0850	Subordinated liabilities	0
R0860	<i>Subordinated liabilities not in BOF</i>	0
R0870	<i>Subordinated liabilities in BOF</i>	0
R0880	Any other liabilities, not elsewhere shown	0
R0900	Total liabilities	152,166
R1000	Excess of assets over liabilities	140,256

Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance											Accepted non-proportional reinsurance				Total Non-Life obligation		
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance		Non-proportional property reinsurance	
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180	
R0010	Technical provisions calculated as a whole	0	0				0	0	0				0		0	0	0	0	0
	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
R0050		0	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	40				-1,501	5,822	1,143				15		0	0	0	0	5,519
	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default						-3,590	1,440	-778				-6		0	0	0	0	-3,158
R0150	Net Best Estimate of Premium Provisions	2	263				2,089	4,382	1,921				21		0	0	0	0	8,677
	Claims provisions																		
R0160	Gross	200	707				37,420	61,106	32,287				56		0	0	0	0	131,777
	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default						30,511	48,353	14,545				30		0	0	0	0	93,813
R0250	Net Best Estimate of Claims Provisions	135	399				6,909	12,753	17,742				26		0	0	0	0	37,964
R0260	Total best estimate - gross	199	747				35,919	66,929	33,430				71		0	0	0	0	137,295
R0270	Total best estimate - net	136	662				8,998	17,135	19,663				47		0	0	0	0	46,640
R0280	Risk margin	6	26				451	1,195	709				5		0	0	0	0	2,393
	Amount of the transitional on Technical Provisions																		
R0290	Technical Provisions calculated as a whole	0	0				0	0	0				0		0	0	0	0	0
R0300	Best estimate	0	0				0	0	0				0		0	0	0	0	0
R0310	Risk margin	0	0				0	0	0				0		0	0	0	0	0
R0320	Technical provisions - total	206	773				36,371	68,124	34,139				76		0	0	0	0	139,688
	Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total						26,921	49,794	13,768				24		0	0	0	0	90,655
R0330		63	85				26,921	49,794	13,768				24		0	0	0	0	90,655
R0340	Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	143	688				9,449	18,330	20,372				51		0	0	0	0	49,033

S.19.01.21

Non-Life insurance claims

Total Non-life business

Z0010 Accident year / underwriting year

Gross Claims Paid (non-cumulative)														
(absolute amount)														
Year	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180	
	Development year										In Current year	Sum of years (cumulative)		
	0	1	2	3	4	5	6	7	8	9			10 & +	
R0100	Prior											-411	-411	-411
R0160	N-9	4,939	6,061	2,482	552	335	229	-9	-225	151	76	76	14,591	
R0170	N-8	4,437	10,661	4,450	322	375	124	310	1	12		12	20,692	
R0180	N-7	5,514	4,819	541	161	50	-30	196	74			74	11,326	
R0190	N-6	7,721	6,008	1,083	604	-31	51	120				120	15,557	
R0200	N-5	6,711	1,997	5,067	-169	207	305					305	14,118	
R0210	N-4	9,472	6,500	1,587	822	1,650						1,650	20,031	
R0220	N-3	23,581	12,709	1,409	1,443							1,443	39,142	
R0230	N-2	15,156	39,961	17,828								17,828	72,945	
R0240	N-1	58,586	35,987									35,987	94,573	
R0250	N	15,367										15,367	15,367	
R0260												Total	72,451	317,931

Gross Undiscounted Best Estimate Claims Provisions													
(absolute amount)													
Year	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360	
	Development year										Year end (discounted data)		
	0	1	2	3	4	5	6	7	8	9		10 & +	
R0100	Prior											4,685	4,675
R0160	N-9	0	0	0	0	0	0	0	650	609		607	
R0170	N-8	0	0	0	0	0	0	522	590			590	
R0180	N-7	0	0	0	0	0	837	758				759	
R0190	N-6	0	0	0	0	1,364	1,097					1,097	
R0200	N-5	0	0	0	0	2,296	1,947					1,948	
R0210	N-4	0	0	0	11,659	8,382						8,382	
R0220	N-3	0	0	9,753	6,413							6,398	
R0230	N-2	0	43,660	18,307								18,335	
R0240	N-1	60,950	31,932									31,971	
R0250	N	57,011										57,015	
R0260												Total	131,777

S.23.01.01

Own Funds

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

R0010	Ordinary share capital (gross of own shares)
R0030	Share premium account related to ordinary share capital
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings
R0050	Subordinated mutual member accounts
R0070	Surplus funds
R0090	Preference shares
R0110	Share premium account related to preference shares
R0130	Reconciliation reserve
R0140	Subordinated liabilities
R0160	An amount equal to the value of net deferred tax assets
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above
R0220	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as solvency II own funds
R0230	Deductions for participations in financial and credit institutions
R0290	Total basic own funds after deductions

Ancillary own funds

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

Available and eligible own funds

R0500	Total available own funds to meet the SCR
R0510	Total available own funds to meet the MCR
R0540	Total eligible own funds to meet the SCR
R0550	Total eligible own funds to meet the MCR
R0580	SCR
R0600	MCR
R0620	Ratio of Eligible own funds to SCR
R0640	Ratio of Eligible own funds to MCR

Reconciliation reserve

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

Expected profits

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

Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
C0010	C0020	C0030	C0040	C0050
173,700	173,700		0	
0	0		0	
0	0		0	
0		0	0	0
0	0			
0		0	0	0
0		0	0	0
0		0	0	0
-33,444	-33,444			
0		0	0	0
0		0	0	0
0		0	0	0
0		0	0	0
0		0	0	0
0		0	0	0
140,256	140,256	0	0	0

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

140,256	140,256	0	0	0
140,256	140,256	0	0	
140,256	140,256	0	0	0
140,256	140,256	0	0	

32,362
8,090
433.40%
1733.62%

C0060
140,256
0
173,700
0
-33,444

0
70
70

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

	Gross solvency capital requirement	USP	Simplifications
	C0110	C0080	C0090
R0010 Market risk	6,228		
R0020 Counterparty default risk	16,820		
R0030 Life underwriting risk	0		
R0040 Health underwriting risk	1,585		
R0050 Non-life underwriting risk	12,442		
R0060 Diversification	-8,832		
R0070 Intangible asset risk	0		
R0100 Basic Solvency Capital Requirement	28,243		
Calculation of Solvency Capital Requirement	C0100		
R0130 Operational risk	4,119		
R0140 Loss-absorbing capacity of technical provisions	0		
R0150 Loss-absorbing capacity of deferred taxes			
R0160 Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC			
R0200 Solvency Capital Requirement excluding capital add-on	32,362		
R0210 Capital add-ons already set			
R0220 Solvency capital requirement	32,362		
Other information on SCR			
R0400 Capital requirement for duration-based equity risk sub-module			
R0410 Total amount of Notional Solvency Capital Requirements for remaining part			
R0420 Total amount of Notional Solvency Capital Requirements for ring fenced funds			
R0430 Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios			
R0440 Diversification effects due to RFF nSCR aggregation for article 304			

S.28.01.01

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

Linear formula component for non-life insurance and reinsurance obligations

C0010

R0010 MCR_{NL} Result

5,520

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

C0030

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

136	1
662	271
0	0
0	0
0	0
8,999	3,228
17,135	617
19,663	2,143
0	0
0	0
0	0
47	43
0	0
0	6
0	167
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
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C0050

C0060

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

Overall MCR calculation

C0070

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

5,520
32,362
14,563
8,090
8,090
2,657
8,090