Sompo Japan Nipponkoa Insurance Company of Europe Limited

31 December 2017

Registered No. 2846429

DIRECTORS	APPOINTED	RESIGNED
J Kuhn	09/11/2017	
D Broome		09/11/2017
J Bithell		09/11/2017
G Evans	09/11/2017	
N Frudd	28/03/2017	13/04/2017
C Gallagher	09/11/2017	
J Giordano	09/11/2017	
R Housley	09/11/2017	
S Koshikawa		
T Kurumisawa	09/11/2017	
J Murray	09/11/2017	29/03/2018
A Page		20/04/2018
P Rooke	09/11/2017	
P Standish		09/11/2017
J Tanaka		31/03/2017
S Takahashi		31/03/2017
P Wakefield		09/11/2017
M Watson		09/11/2017
I Winchester	09/11/2017	

SECRETARY
D Lurie

AUDITORS
Ernst & Young LLP
25 Churchill Place
London
E14 5EY

BANKERS
Mizuho Bank, Ltd
Mizuho House
30 Old Bailey
London
EC4M 7AU

SOLICITORS
Hogan Lovells International LLP
Atlantic House
London
EC1A 2FG

REGISTERED OFFICE
1st Floor
6 Devonshire Square
London
EC2M 4YE

STRATEGIC REPORT

The directors present their strategic report for the year ended 31 December 2017.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The core activity of the Company will remain to underwrite 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.

RESULTS

The key financial and other performance indicators during the year were as follows:

	2017	*2016*
Gross Written Premium	£104.2m	£95.3m
Net Underwriting Profit	£1.3m	£3.9m
Profit on ordinary Activities Before Tax	£2.7m	£3.5m
Shareholder's funds attributable to equity interests	£142.5m	£136.3m
Net Incurred Loss Ratio	56.4%	50.1%
Combined Operating Ratio	85.0%	68.7%
Number of employees	145	142

The firm pursues a prudent investment policy and seeks to minimise credit risk and market risk in its portfolio through allocation of assets primarily to fixed income securities. Investment income (net of investment management expenses) totalled £2.4m (2016: £2.4m).

Profit after tax is £3.4m and total comprehensive income is £6.2m (2016: £3.0m and £6.6m respectively)

PRINCIPAL RISKS AND UNCERTAINTIES

The directors recognise that the Company faces a variety of risks arising out of its operations as an insurer.

The Company has established an Audit & Risk Committee that meets quarterly and evaluates the company's risk appetite. In March 2018 the responsibilities of the Audit & Risk Committee were reassigned to the Audit Committee and the Risk & Compliance Committee.

The principal risks and uncertainties facing the Company are as follow:

Insurance 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.

STRATEGIC REPORT (Continued)

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.

- the Company 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.

Market Risk
Market risk reflects the risk of an adverse movement in the value of the Company'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.

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

To mitigate its exposure to market risk, the Company 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.

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

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

- Insurance debtors – (risk of default by counterparties to whom credit is extended in relation to inwards insurance or reinsurance business (including brokers, co-insurers and 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. In March 2018 the responsibilities of the Counterparty Credit Risk Committee were reassigned to the Underwriting Committee.

- 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

STRATEGIC REPORT (Continued)

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 responsibilities of the Executive Committee were reassigned to the Operational Committee in March 2018.

- 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.

Liquidity Risk

The Company is exposed to Liquidity risk, which is defined as the risk that the Company 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.

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.

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.

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.

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.

Further details around how these risks are managed are included in Note 23 of these financial statements.

STRATEGIC REPORT (Continued)

The Directors assess exposure to and controls designed to mitigate these risks through a system of Risk Registers, and furthermore, continuously assess the level of capital required in the context of prudential regulatory provisions.

EMPLOYMENT REVIEW

The Company seeks to attract and retain staff with excellent skills, experience and commitment in order to meet the requirements of its clientele, and has designed its employment policies and procedures to achieve this objective. The Company is furthermore committed to the principle of equal opportunity in employment taking into account all protected characteristics.

FUTURE DEVELOPMENTS

In March 2017 the Company's ultimate parent, Sompo Holdings, launched the Sompo International Brand with the acquisition of Endurance Specialty Holdings Ltd (later re-named Sompo International Holdings Ltd. ("SIH")).

On 2nd October 2017 it was announced that 100% of the share capital of the Company will be transferred from the Company's immediate parent, Sompo Japan Nipponkoa Insurance Inc., ("SJNKI") to Endurance Specialty Insurance Ltd ("ESIL") . Consent for the change in control has been received from the PRA and the transfer of shares took place on 1 May 2018.

The Company will conduct future business under the Sompo International brand and will continue to focus on profitable underwriting.

On 1st April 2018 the UK employees of the Company were transferred to Endurance Business Services Limited by way of Transfer of Undertakings (Protection of Employment) regulations ("TUPE").

EU membership and access to the single market has enabled the underwriters at the Company to underwrite insurance business in all of the other 27 member states on a cross-border basis. The underwriters write business on a passporting basis which allows them to conduct business throughout the EU while being regulated and supervised by the Prudential Regulation Authority ("PRA"). The loss of passporting rights as a result of Brexit will mean that the Company cannot write insurance business on a cross-border basis in the future. As a result the Company has established a Brexit contingency plan which allows its cross-border business to be underwritten by another Sompo Japan Nipponkoa Holdings, Inc. group company located in Luxembourg.

By order of the Board

S Koshikawa
Director
1 May 2018

DIRECTORS' REPORT

The directors present their report and accounts for the year ended 31 December 2017.

DIRECTORS
The directors of the Company during the year ended 31 December 2017 were those listed on page 1.

DIVIDENDS
The directors do not propose to recommend payment of a dividend for 2017 (2016: nil).

FOREIGN BRANCHES
The Company operates primarily throughout Europe and maintains branches in France, Belgium, Spain, Germany and Italy.

FINANCIAL INSTRUMENTS
The Company does not utilise derivatives or other similar financial instruments. The Company holds listed fixed income securities that are valued on an amortised cost basis. There have been no purchases of fixed income securities during the year due to available bond yields being below the Company's target return. Further information is provided in the Market Risk section of the Strategic Report.

FUTURE DEVELOPMENTS
Future developments are disclosed in the Strategic Report.

AUDITORS
In accordance with section 487(2) of the Companies Act 2006, the auditors, Ernst & Young LLP, will be deemed to be reappointed and therefore continue in office.

DIRECTORS' STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS
The directors who were members of the board at the time of approving the directors' report are listed on page 1.

Having made enquiries of fellow directors and the company's auditors, each of these directors confirms that:

- To the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware; and

- Each director has taken all steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information.

GOING CONCERN DISCLOSURE

The company has considerable financial resources together with long-standing relationships with clients and reinsurers.

As a consequence, the directors believe that the company is well placed to manage its business risks successfully despite the current uncertain economic outlook. Accordingly they continue to adopt the going concern basis in preparing the annual report and accounts.

By order of the Board

S Koshikawa
Director
1 May 2018

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the affairs of the company and the profit or loss of the company for that period.

In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOMPO JAPAN NIPPONKOA INSURANCE COMPANY OF EUROPE LIMITED

Opinion

We have audited the financial statements of Sompo Japan Nipponkoa Insurance Company of Europe Limited for the year ended 31 December 2017 which comprise the Profit and Loss Account, the Statement of Other Comprehensive income, the Statement of Changes in Equity, the Balance Sheet and the related notes 1 to 24, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting standard 102 "The Financial reporting Standard applicable in UK and Republic of Ireland" and Financial Reporting Standard 103 'Insurance Contracts'.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial reporting Standard applicable in UK and Republic of Ireland" and Financial Reporting Standard 103 'Insurance contracts'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements 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.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements 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 financial statements are authorised for issue.

Overview of our audit approach

Key audit matters	► Valuation of reserves
Materiality	► Overall materiality of £1,042k which represents 1% of Gross Written Premium.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
1. **Valuation of Reserves (IBNR, included within Claims Outstanding) £50.0m; (2016: £43.7m)** *Refer to the Strategic Report (page 2); Judgement and key sources of estimation uncertainty (page 20) and Note 15 of the Financial Statements (page 32).* Valuation or reserves are inherently uncertain and subjective by nature and therefore more susceptible to fraud or error than most other financial statement balances. There is a risk that inappropriate reserve projections are made, whether from the use of inaccurate underlying data, invalid or inappropriate statistical modelling techniques, or the use of unreasonable assumptions. This could lead to reserves falling outside a reasonable range of possible estimates and a misstatement in the financial statements. This balances, by nature, are also subject to a risk of manipulation and given the magnitude of the balance, a	To obtain sufficient audit evidence to conclude on the valuation of the actuarial reserves, we: - Understood, assessed and tested the design and operational effectiveness of the key controls in the reserving process including the review and approval of the reserves, and controls over the extraction of data from the appropriate sources. - Supported by our actuarial specialists we evaluated management's methodology against market practice and challenged management's assumptions and their assessment of major sensitivities, based on our market knowledge and industry data where available. - Using management's data we independently re-projected a proportion of the claims provisions investigating significant differences between our projections and management's booked reserves. Using our own re-projections we then considered whether the provisions for insurance liabilities held at the year-end fall within a reasonable range of estimates.	Taken as a whole, we consider that management's judgements in the areas highlighted are reasonable based on the information available at the date of the report. The Company's provisions lie within what we consider to be a reasonable range of estimates. In addition we consider that the disclosures made are satisfactory, and they provide information that assists in understanding the uncertainty inherent in the valuation of provisions for insurance liabilities.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
small manipulation of an assumption could have a far greater impact on the result for the year.	- Reviewed the disclosures made in the financial statements regarding the sensitivity of the valuation of insurance contract liabilities to changes in the key actuarial assumptions.	

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed.

The Company operates primarily through Europe in the UK, France, Belgium, the Netherlands, Spain, Italy and Germany.

In establishing the overall approach to the Company audit, we determined the type of work that needed to be performed by us, as the Company engagement team, or other EY network firms for tax purposes, operating under our instructions. Where the work was performed by an EY network firm, we determined the level of involvement we needed to have in the audit work to be able to conclude whether sufficient appropriate audit evidence had been obtained. All audit work, excluding the audit of the foreign tax, was performed directly by the audit engagement team.

The Audit Engagement Partner and senior members of the Company engagement team reviewed the work performed by the EY network firms. This, together with audit procedures performed by us, gave us the evidence we needed for our opinion on the Company's financial statements.

In assessing the risk of material misstatement to the financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements. In doing so, we also considered qualitative factors and checked we obtained sufficient coverage across all financial statements line items in the financial statements. This scope provided us with a coverage of 92% for Gross written premium.

In establishing the overall approach to the Company audit, we determined the type of work that needed to be performed at each location by us.

Details of the locations audited by the engagement teams are:

- United Kingdom, Germany, France and the Netherlands – Full scope
- Belgium – Specific scope

Changes from the prior year

We have changed the Netherlands from specific scope to full scope due to the increase in the volume of business in this location.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Company to be £1,042k (2016: £953k) which is 1% of Gross Written Premium (GWP). We believe that Gross Written Premium provides us with a measurement of materiality which is closely aligned to the key focus of the entity and its users of the financial statements. During the course of our audit, we reassessed initial materiality and concluded that the basis for materiality at the planning stages of our audit remained appropriate.

Performance materiality
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 75% (2016: 75%) of our planning materiality, namely £781k (2016: £714k).

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £52k (2016: £47k), which is set at 5% of materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 2 to 7, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements 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 financial statements 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' reports have been prepared in accordance with applicable legal requirements;

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set in page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that give a true and fair view in accordance, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole 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 is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit:

- in respect of fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management; and

- in respect of irregularities, considered to be non-compliance with laws and regulations, are to obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements ('direct laws and regulations'), and perform other audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements. We are not responsible for preventing non-compliance with laws and regulations and our audit procedures cannot be expected to detect non-compliance with all laws and regulations.

Our approach was as follows:

- We obtained a general understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the relevant laws and regulations related to elements of Company law and tax legislation, and the financial reporting framework. Our considerations of other laws and regulations that may have a material effect on the financial statements included permissions and supervisory requirements of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').

- We obtained a general understanding of how the Company is complying with those frameworks by making enquiries of management and those responsible for legal and compliance matters. We also reviewed correspondence between the Company and UK regulatory bodies; reviewed minutes of the Board and Executive Committee; and gained an understanding of the Company's approach to governance, demonstrated by the Board's approval of the Company's governance framework.

- For direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

- For both direct and other laws and regulations, our procedures involved: making enquiry of those charged with governance and senior management for their awareness of any non-compliance of laws or regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, inquiring about the Company's methods of enforcing and monitoring compliance with such policies, inspecting significant correspondence with the FCA and PRA.

- The Company operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the controls that the Company has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgement, including complex transactions, performance targets, external pressures and the impact these have on the control environment. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk (Valuation of reserves). These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.

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/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed as auditor by the Company to audit the financial statements for the year ending 31 December 1994 and for all subsequent financial periods. The period of total uninterrupted engagement, including previous renewals and reappointments is 24 years, covering the years ending 31 December 1994 to 31 December 2017. Our most recent engagement letter was signed on 30 April 2018.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.
- The audit opinion is consistent with our report to the Audit Committee.

Ernst & Young LLP

Stuart Wilson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
2 May 2018

Notes:

1. 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 financial statements since they were initially presented on the web site.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2017

TECHNICAL ACCOUNT - GENERAL BUSINESS	Notes	2017	2016
		£000	£000
Gross premiums written	2,17	104,230	95,316
Outward reinsurance premiums	2	(96,322)	(88,647)
Net premiums written		7,908	6,669
Change in the gross provision for unearned premiums	2	(1,246)	1,131
Change in the provision for unearned premiums reinsurers' share	2	2,067	4,690
Change in the net provision for unearned premiums		821	5,821
Earned premiums, net of reinsurance	2	8,729	12,490
Allocated investment return transferred from the non-technical account		-	-
TOTAL TECHNICAL INCOME		8,729	12,490
Claims paid – gross amount	3	(93,589)	(77,035)
Claims paid – reinsurers' share	3	81,904	66,427
Claims paid – net of reinsurance		(11,685)	(10,608)
Change in provision for claims – gross amount	3	18,885	17,612
Change in provision for claims – reinsurers' share	3	(12,123)	(13,266)
Change in provision for claims – net of reinsurance		6,762	4,346
Claims incurred net of reinsurance	3	(4,923)	(6,262)
Net operating expenses	5	(2,494)	(3,390)
Change in equalisation provision	4	-	1,078
TOTAL CHARGES		(7,417)	(8,574)
BALANCE ON THE GENERAL BUSINESS TECHNICAL ACCOUNT		1,312	3,916
Attributable to continuing operations		1,312	3,916

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2017

NON-TECHNICAL ACCOUNT	Notes	*2017*	2016
		£000	£000
BALANCE ON THE GENERAL BUSINESS TECHNICAL ACCOUNT		1,312	3,916
Investment income	8	2,546	2,586
Unrealised exchange (losses)		(1,378)	(3,214)
Investment expenses and charges	8	(132)	(140)
Realised exchange gains		302	202
Allocated investment return transferred to the technical account		-	-
		1,338	(566)
Other income		72	178
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX		2,722	3,528
Taxation on profit on ordinary activities	9	683	(535)
PROFIT ON ORDINARY ACTIVITIES AFTER TAX		3,405	2,993
PROFIT FOR THE FINANCIAL PERIOD ATTRIBUTABLE TO MEMBERS OF THE COMPANY		3,405	2,993

STATEMENT OF OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2017

	Notes	*2017*	2016
		£000	£000
Profit on ordinary activities after taxation		3,405	2,993
Re-measurement of the net defined benefit asset / liability	20	1,444	(2,268)
Exchange gains		1,345	5,882
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		6,194	6,607

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2017

	Share Capital	*Capital Contribution*	*Profit and loss account*	*Total*
	£000	£000	£000	£000
At 1 January 2017	173,700	35,740	(73,133)	136,307
Total comprehensive income for the year	-	-	6,194	6,194
At 31 December 2017	173,700	35,740	(66,939)	142,501
At 1 January 2016	173,700	35,740	(79,740)	129,700
Total comprehensive income for the year	-	-	6,607	6,607
At 31 December 2016	173,700	35,740	(73,133)	136,307

BALANCE SHEET
at 31 December 2017

	Notes	2017 £000	2016 £000
ASSETS			
Tangible assets	13	585	899
FINANCIAL INVESTMENTS			
Other financial investments	11	122,779	128,534
		122,779	128,534
REINSURERS' SHARE OF TECHNICAL PROVISIONS			
Provision for unearned premium	2	32,632	28,946
Claims outstanding	15	92,243	102,134
		124,875	131,080
DEBTORS			
Debtors arising out of direct insurance operations - Policyholders		1,189	2,753
Debtors arising out of direct insurance operations - Intermediaries		24,473	21,006
		25,662	23,759
Debtors arising out of reinsurance operations	12	27,450	11,160
Other debtors		2,362	1,334
		55,474	36,253
OTHER ASSETS			
Cash at bank and in hand		37,123	40,476
		37,123	40,476
PREPAYMENTS AND ACCRUED INCOME			
Accrued interest		1,508	1,632
Deferred acquisition costs		3,203	2,884
Other prepayments and accrued income		1,113	1,094
		5,824	5,610
TOTAL ASSETS		346,660	342,852

BALANCE SHEET
at 31 December 2017

	Notes	2017 £000	2016 £000
LIABILITIES			
CAPITAL AND RESERVES			
Called up share capital	14	173,700	173,700
Profit and loss account		(66,939)	(73,133)
Capital contribution reserve		35,740	35,740
Shareholder's funds attributable to equity interests		142,501	136,307
TECHNICAL PROVISIONS			
Provision for unearned premiums	2	35,922	32,902
Claims outstanding	15	118,365	134,646
Equalisation provision	4	-	-
		154,287	167,548
CREDITORS			
Arising out of direct insurance operations		5,420	3,465
Arising out of reinsurance operations	16	33,207	21,987
Other creditors including taxation and social security		1,696	1,012
		40,323	26,464
ACCRUALS AND DEFERRED INCOME			
Deferred acquisition costs – reinsurer's share		7,395	7,820
Accrued expenses		2,392	2,553
		9,787	10,373
LIABILITIES EXCLUDING PENSION SCHEME LIABILITIES		346,898	340,692
PENSION SCHEME (SURPLUS) / LIABILITIES	20	(238)	2,160
TOTAL LIABILITIES		346,660	342,852

The financial statements on pages 15 to 46 were approved by the Board of Directors on 30 April 2018 and were signed on its behalf

S Koshikawa
Director

NOTES TO THE ACCOUNTS
at 31 December 2017

1. ACCOUNTING POLICIES

1.1 Statement of compliance

Sompo Japan Nipponkoa Insurance Company of Europe Limited is a limited liability company incorporated in England. The Registered Office is 6 Devonshire Square, London, EC2M 4YE. The accounts are prepared as at 31 December 2017 and for the year ended 31 December 2017.

The accounts have been prepared in accordance with FRS 102 and FRS 103, being applicable UK Generally Accepted Accounting Practice (UK GAAP), and in accordance with the provisions of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations relating to Insurance Companies.

As a qualifying entity the company has taken advantage of the disclosure exemptions set out in FRS102.1.12, to not prepare a cash flow statement or disclose key management personnel compensation, beyond directors' remuneration. Additionally, related party transactions entered into between two or more members of fellow wholly-owned subsidiaries of Sompo Japan Nipponkoa Insurance, Inc. are not disclosed as permitted by FRS102.33.1A.

The accounts are prepared under the historical cost convention modified to measure financial investments at amortised cost using the effective interest rate method, and the defined benefit pension obligation which is measured under the projected unit credit method.

1.2 Basis of preparation

The accounts for the year ended 31 December 2017 were approved for issue by the Board of Directors on 30 April 2018.

The accounts are prepared in Sterling which is the presentation currency of the Company and rounded to the nearest £'000.

1.3 Judgements and key sources of estimation uncertainty

Insurance contract technical provisions

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

The provision for 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 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.

An analysis of insurance contract technical provisions is provided in note 15 to the accounts.

Estimates of future premiums

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.

Gross and net premium estimates of £8.8m and £2.4m are respectively included in these accounts.

NOTES TO THE ACCOUNTS
at 31 December 2017

1. ACCOUNTING POLICIES (Continued)

Pensions
The Company operates a defined benefit pension scheme. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and are discounted at the current rate of return of a high quality corporate bond of equivalent term and currency to the liabilities. The increase in the present value of the liabilities of the Company's defined benefit pension scheme expected to arise from employee service in the period is charged to operating profit. The expected return on the scheme's assets and the increase during the year in the present value of the scheme's liabilities arising from the passage of time are included in other finance income. Actuarial gains and losses are recognised in Other Comprehensive Income.

Any pension scheme surplus, to the extent it is considered recoverable, or deficit is recognised in full and presented on the face of the Balance Sheet.

Contributions to the defined contribution scheme are recognised in the Profit and Loss Account in the period in which they become payable.

An analysis of pension commitments is provided in note 20 to the accounts.

Deferred Tax
In accordance with FRS102.29 deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less, or to receive more, tax.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. In making this assessment the directors apply judgement, and consideration is given to the level of profits forecast over the business planning period.

1.4 Significant Accounting Policies
Current Tax
Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Company operates and generates taxable income.

Product classification
Insurance contracts are those contracts when the Company (the insurer) has accepted significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

Unearned premiums provision
Written premiums are recognised as earned income over the period of the policy on a time apportionment basis, having regard, where appropriate, to the incidence of risk. The provision for unearned premiums is calculated on the 365ths basis where the incidence of risk is the same throughout the contract. Where the incidence of risk varies during the term of the contract, the time apportionment basis is suitably modified so that the earning pattern matches the risk profile.

NOTES TO THE ACCOUNTS
at 31 December 2017

1. ACCOUNTING POLICIES (Continued)

Premiums
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.

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

Unexpired risks
Provision is made where the cost of claims and expenses arising after the end of the financial year from contracts concluded before that date is expected to exceed the provision for unearned premiums, net of deferred acquisition costs, and premiums receivable. The assessment of whether a provision is necessary is made by considering separately each category of business accounted for on the annual basis of accounting on the basis of information available as at the Balance Sheet date, after offsetting surpluses and deficits arising on products which are managed together. Investment income is taken into account in calculating the provision.

Deferred acquisition costs
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.

Reinsurance assets
The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recorded in the Profit and Loss Account.

Insurance Receivables
Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the Profit and Loss Account.

Insurance receivables are derecognised when the de-recognition criteria for financial assets have been met.

Insurance Payables
Insurance payables are recognised when due and 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 amortised cost using the effective interest rate method. Insurance payables are derecognised when the obligation under the liability is settled, cancelled or expired.

NOTES TO THE ACCOUNTS
at 31 December 2017

1. ACCOUNTING POLICIES (Continued)

Investment income and expenses
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.

Investments
As permitted by FRS 102 the Company has elected to apply the recognition and measurement provisions of IAS 39 – Financial Instruments (as adopted for use in the EU) to account for all its financial instruments.

Other listed fixed interest securities and deposits with credit institutions are included in the Balance Sheet at amortised cost. Unlisted equity shares are classified as financial assets at fair value through profit or loss. These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are re-measured at fair value at each reporting date. Fair value adjustments and realised gains and losses are recognised in the Profit and Loss Account.

For financial assets not held at fair value through profit or loss, the company assesses at each reporting date whether the financial asset or group of financial assets is impaired

Unrealised investment gains and losses are calculated as the difference between the valuation at the Balance Sheet date and their valuation at the last Balance Sheet date or purchase price, if acquired during the year. Unrealised investment gains and losses include adjustments in respect of unrealised gains and losses recorded in prior years which have been realised during the year and are reported as realised gains and losses in the current Profit and Loss Account.

A financial asset is derecognised when the rights to the cash flows from the asset have expired.

Foreign currencies
The company's presentational currency is Sterling. The functional currencies of the UK and overseas operations are Sterling and Euro respectively. Transactions denominated in foreign currencies are translated into Sterling at the rates of exchange prevailing at the time of the transactions. Exchange differences from settled transactions are taken to the Non-Technical Account.

Monetary assets and liabilities held in foreign currencies are translated to Sterling at rates of exchange ruling at the Balance Sheet date. Exchange differences arising on the translation of balances denominated in foreign currencies to functional currencies are taken to the Non-Technical Account. Exchange differences arising on the translation of Euro functional currency balances of overseas operations to Sterling are taken to the Statement of Other Comprehensive Income.

Non-monetary items denominated in a foreign currency are translated into Sterling using the exchange rate ruling at the time that the items were initially recognised in the Balance Sheet.

Cash Flow Statement
As the company is a qualifying entity it has not prepared a cash flow statement as permitted by FRS 102.1.9 and FRS 102.1.12(b).

NOTES TO THE ACCOUNTS
at 31 December 2017

1. ACCOUNTING POLICIES (Continued)

Equalisation Provision
Prior to 1 January 2016 equalisation provisions were provided in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date and, in accordance with section 6 of, and Schedule 3 to, the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 are included within technical provisions. The movement in the equalisation provision for the period is taken to the technical account - general business.

Tangible Assets
Expenditure on motor vehicles, office equipment and computer equipment is capitalised and depreciated over the estimated useful lives of the assets on a straight line basis. Leasehold Improvements are depreciated over the term of the lease.

The periods used are as follows:

Motor vehicles	4 Years
Office equipment	4 Years
Computer equipment	3 Years
Leasehold improvements	10 Years

Depreciation is charged to the technical account and is included in administrative expenses.

Operating Leases
Operating leases are charged to the Profit and Loss Account in equal annual instalments over the period of the lease.

2. EARNED PREMIUMS NET OF REINSURANCE

	Gross	Reinsurance	Net
	£000	£000	£000
2017			
Premiums written	104,230	(96,322)	7,908
Unearned premiums carried forward	35,922	(32,632)	3,290
Unearned premiums brought forward	32,902	(28,946)	3,956
Revaluation of unearned premium brought forward	1,774	(1,619)	155
	(1,246)	2,067	821
Premiums earned	102,984	(94,255)	8,729
2016			
Premiums written	95,316	(88,647)	6,669
Unearned premiums carried forward	32,902	(28,946)	3,956
Unearned premiums brought forward	28,299	(19,199)	9,100
Revaluation of unearned premium brought forward	5,734	(5,057)	677
	1,131	4,690	5,821
Premiums earned	96,447	(83,957)	12,490

NOTES TO THE ACCOUNTS
at 31 December 2017

3. CLAIMS INCURRED NET OF REINSURANCE

	Gross	Reinsurance	Net
	£000	£000	£000
2017			
Claims paid	93,589	(81,904)	11,685
Outstanding claims carried forward	118,365	(92,243)	26,122
Outstanding claims brought forward	134,646	(102,134)	32,512
Revaluation of outstanding claims brought forward	(2,604)	2,232	(372)
	(18,885)	12,123	(6,762)
Claims incurred	74,704	(69,781)	4,923
2016			
Claims paid	77,035	(66,427)	10,608
Outstanding claims carried forward	134,646	(102,134)	32,512
Outstanding claims brought forward	138,188	(103,210)	34,978
Revaluation of outstanding claims brought forward	(14,071)	12,190	(1,881)
	(17,612)	13,266	(4,346)
Claims incurred	59,423	(53,161)	6,262

4. EQUALISATION PROVISION

These provisions, which were in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date, were required by Schedule 3 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 to be included within technical provisions in the Balance Sheet, notwithstanding that they do not represent liabilities at the Balance Sheet date.

From 1 January 2016 there is no longer a requirement to maintain equalisation provisions as a result of the introduction of Solvency II. The provisions held have subsequently been released. The release of the equalisation provision during the 2016 year resulted in an improvement in the general business technical account result and increased the profit before taxation by £1,077,724.

NOTES TO THE ACCOUNTS
at 31 December 2017

5. NET OPERATING EXPENSES

	2017	*2016*
	£000	*£000*
Acquisition costs		
- commissions in respect of direct business	11,214	10,343
- commissions in respect of reinsurance business	(22,655)	(23,870)
	(11,441)	(13,527)
Change in gross deferred acquisition costs	(129)	15
Change in reinsurance deferred acquisition costs	(836)	2,030
Administrative expenses	14,900	14,872
	2,494	3,390

	Gross	*Reinsurance*	*Net*
	£000	*£000*	*£000*
2017			
Commissions	11,214	(22,655)	(11,441)
Deferred acquisition costs carried forward	3,203	(7,395)	(4,192)
Deferred acquisition costs brought forward	2,884	(7,819)	(4,935)
Revaluation of deferred acquisition costs brought forward	190	(412)	(222)
	(129)	(836)	(965)
Commissions earned	11,085	(23,491)	(12,406)
2016			
Commissions	10,343	(23,870)	(13,527)
Deferred acquisition costs carried forward	2,884	(7,819)	(4,935)
Deferred acquisition costs brought forward	2,259	(4,468)	(2,209)
Revaluation of deferred acquisition costs brought forward	640	(1,321)	(681)
	15	2,030	2,045
Commissions earned	10,358	(21,840)	(11,482)

NOTES TO THE ACCOUNTS
at 31 December 2017

5. NET OPERATING EXPENSES (Continued)

Auditor's remuneration:	*2017*	*2016*
	£000	*£000*
Fee payable to the company's auditor for the audit of the company's annual accounts	323	286
Fee payable to the company's auditor for other services:		
- Other services pursuant to legislation	98	82
- Tax compliance services	-	135
- Other assurance services	59	189

Administrative expenses also include:	*2017*	*2016*
	£000	*£000*
Depreciation	315	312

6. STAFF COSTS

	2017	*2016*
	£000	*£000*
Wages and salaries	8,172	8,281
Social security costs	1,048	970
Other pension costs	681	532
	9,901	9,783

The average monthly number of employees, including executive directors, during the year was as follows:

	2017	*2016*
	No.	*No.*
Management	5	5
Underwriting	37	42
Claims	22	22
Administration	81	73
	145	142

NOTES TO THE ACCOUNTS
at 31 December 2017

7. DIRECTORS' EMOLUMENTS

	2017	*2016*
	£000	*£000*
Remuneration for qualifying services	686	694
Pension contributions	70	83
	756	777

In 2017, the highest paid director received remuneration and pension contributions of £244,036 (2016: £244,117). Retirement benefits accrued in the year to one (2016: one) director under the company's defined benefit pension scheme.

The aggregate amount of consideration paid to the parent company for making available the services of directors to the company was £104,490 (2016: £221,000).

8. INVESTMENT INCOME AND EXPENSES

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

NOTES TO THE ACCOUNTS
at 31 December 2017

9. TAXATION

	2017	2,016
	£000	£000
UK Corporation Tax		
Adjustments in respect of prior years	-	-
Group relief (receivable) / payable	-	-
Adjustment in respect of previous period	-	-
Double tax relief	-	-
Foreign Tax		
Current tax	-	-
Adjustments in respect of prior years	(683)	535
Total Current Tax	(683)	535
Deferred Tax	-	-
Tax on profit on ordinary activities	(683)	535

Factors affecting the tax charge / (credit) for the period

	2017	*2016*
	£000	*£000*
Profit on ordinary activities before tax	2,722	3,528
Profit on ordinary activities multiplied by standard rate of the U.K. Corporation tax of 19.25% (2016: 20%)	524	706
Effect of:		
Non-deductible expenditure	13	15
Movement in unrecognised deferred tax asset	(668)	(614)
Overseas tax	(683)	535
Overseas tax deducted as expenses	131	(107)
Current tax charge / (credit) for the year	(683)	535

NOTES TO THE ACCOUNTS
at 31 December 2017

10. DEFERRED TAXATION

The company's deferred tax asset comprises:

	2017 (recognised) £000	2017 (unrecognised) £000	2016 (recognised) £000	2016 (unrecognised) £000
Decelerated capital allowances	-	170	-	215
Pension scheme (surplus) / deficit	-	(40)	-	367
Losses	-	13,592	-	14,049
	-	13,722	-	14,631

Deferred tax assets are recoverable subject to the company making sufficient future profits to utilise the assets. The company is currently not projecting sufficient future profits and therefore the above deferred tax assets remain unrecognised.

A reduction in the UK corporation tax rate from 20% to 19% took effect from 1 April 2017. There will be a further reduction in the UK tax rate to 17% from 1 April 2020. The closing deferred tax asset has been calculated using a corporation tax rate of 17% (2016 - 17%).

11. FINANCIAL INVESTMENTS

	2017 *£000*	*2016* *£000*
Other financial investments		
Other listed fixed interest securities measured at amortised cost	89,093	101,170
Unlisted equity shares designated at fair value through profit and loss	75	75
Deposits with credit institutions measured at amortised cost	33,611	27,289
Total investments	122,779	128,534

	Historical Cost *2017* *£000*	*Historical Cost* *2016* *£000*
Other financial investments		
Other listed fixed interest securities measured at amortised cost	93,774	106,016
Unlisted equity shares designated at fair value through profit and loss	150	150
Deposits with credit institutions measured at amortised cost	33,611	27,289
Total investments	127,535	133,455

The nominal value of investments valued at amortised cost is £85,765,000 (2016: £96,680,901).

NOTES TO THE ACCOUNTS
at 31 December 2017

11. FINANCIAL INVESTMENTS (Continued)

Unlisted equity shares measured at fair value through profit and loss of £75,000 (2016: £75,000) are categorised as level 3 in the fair value hierarchy. Level 3 assets are those assets whereby observable inputs are not available, and unobservable inputs are used to measure fair value by use of valuation techniques. The objective of using the valuation technique is to estimate what the fair value would have been on the measurement date. The fair value has been calculated as the net asset value less a market value adjustment for liquidity.

12. DEBTORS

Included in debtors are the following:	*2017*	*2016*
	£000	*£000*
Debtors arising out of reinsurance operations due within one year		
- Immediate Parent	18,944	9,848
- Non-group	8,506	1,312
	27,450	11,160

13. TANGIBLE ASSETS

	Motor Vehicles	Office Equipment	Computer Equipment	Leasehold Improvements	Total
	£000	*£000*	*£000*	*£000*	*£000*
Cost at 1 January 2017	453	742	4,670	909	6,774
Additions	-	6	-	-	6
Disposals	(55)	-	-	-	(55)
Cost at 31 December 2017	398	748	4,670	909	6,725
Depreciation at 1 January 2017	271	688	4,399	517	5,875
Charge for the year	77	35	112	91	315
Disposals	(50)	-	-	-	(50)
Depreciation at 31 December 2017	298	723	4,511	608	6,140
Net Book Value at 31 December 2017	100	25	159	301	585
Net Book Value at 31 December 2016	182	54	271	392	899

14. SHARE CAPITAL

	2017	*2016*
	£000	*£000*
Issued and fully paid		
17,370,000 (2016: 17,370,000) ordinary shares of £10	173,700	173,700

NOTES TO THE ACCOUNTS

at 31 December 2017

15. CLAIMS OUTSTANDING

	Gross	*Reinsurance*	*Net*
	£000	*£000*	*£000*
2017			
Notified outstanding claims	66,400	53,348	13,052
Provision for claims incurred but not reported	49,959	38,895	11,064
	116,359	92,243	24,116
Claims handling expense	2,006	-	2,006
Total	118,365	92,243	26,122
2016			
Notified outstanding claims	88,638	70,934	17,704
Provision for claims incurred but not reported	43,725	31,200	12,525
	132,363	102,134	30,229
Claims handling expense	2,283	-	2,283
Total	134,646	102,134	32,512

There has been a net improvement of £3.2m in prior year reserves during 2017 (2016: £6.5m).

16. CREDITORS

	2017	*2016*
Included in creditors are the following:	*£000*	*£000*
Creditors arising out of reinsurance operations due within one year		
- Immediate Parent	24,038	14,202
- Non-group	9,169	7,785
	33,207	21,987

NOTES TO THE ACCOUNTS
at 31 December 2017

17. ANALYSIS BY CLASS OF BUSINESS

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

NOTES TO THE ACCOUNTS
at 31 December 2017

17. ANALYSIS BY CLASS OF BUSINESS (Continued)

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

18. PARENT COMPANY

As at 31 December 2017 the immediate Parent Company was Sompo Japan Nipponkoa Insurance, Inc., a company incorporated in Japan. On 1 May 2018 the entire Ordinary Share Capital of the Company was transferred to Endurance Speciality Insurance Ltd, a company incorporated in Bermuda.

Sompo Japan Nipponkoa Insurance, Inc. is a wholly owned subsidiary of Sompo Holdings, Inc., which is the Company's ultimate parent company. A copy of Sompo Holdings, Inc. accounts can be obtained from the registered office at 1-26-1 Nishi-Shinjuku, Shinjuku-ku, Tokyo, Japan.

NOTES TO THE ACCOUNTS
at 31 December 2017

19. RELATED PARTY TRANSACTIONS

The Company is taking advantage of the exemption under FRS102.33.1A. The consolidated accounts of the Ultimate Parent Company are publicly available. All material related party transactions are conducted under normal market conditions. Amounts due to and from related parties at the balance sheet date are described below.

Amounts due to and from the Immediate Parent Company (SJNKI) include reinsurer's share of notified outstanding claims of £48,389,000, debtors arising out of reinsurance operations due within one year of £18,944,000 and creditors arising out of reinsurance operations due within one year of £24,038,000.

Also included in the Balance Sheet are amounts due to and from group owned underwriting agents of £232,000 and £1,684,000 respectively.

20. PENSION COMMITMENTS

The Company operates a defined benefit scheme in the UK. 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 disclosures required under FRS 102 have been calculated by the actuary based on the most recent full actuarial valuation rolled forward to 31 December 2017. The scheme was closed to new members on 1st January 2007.

Employer contributions were paid at the rate of 38.9% of basic salaries (2016: 38.9%) in respect of all eligible employees.

In addition the Company paid the first of three equal annual deficit reduction payments of £1,050,000 during the year.

The major assumptions used by the actuary were (in nominal terms):

	2017	*2016*
Discount rate	2.50%	2.65%
Inflation assumption	3.55%	3.60%
Rate of increase in salaries	2.75%	2.80%
Rate of increase of pensions in payment*	3.65%	3.70%
Rate of increase of pensions in deferment	3.55%	3.60%

*To represent RPI subject to a minimum of 3% pa and a maximum of 5% pa

Amounts recognised in the Balance Sheet

	2017	*2016*
	£000	*£000*
Equities	11,511	10,453
Bonds and Gilts	11,531	10,330
Cash	48	90
Fair value of plan assets	23,090	20,873
Present value of funded obligations	(22,852)	(23,033)
Surplus / (deficit) in the scheme	238	(2,160)

NOTES TO THE ACCOUNTS
at 31 December 2017

20. PENSION COMMITMENTS (Continued)

	2017	*2016*
	£000	*£000*
Current service cost	(382)	(292)
Expected return on pension scheme assets	557	651
Interest on pension scheme liabilities	(596)	(642)
Charge to other finance assets	(421)	(283)

Analysis of amount recognised in other comprehensive income (OCI)	*2017*	*2016*
	£000	*£000*
Actuarial gains and (losses) on assets	1,388	3,131
Actuarial gains and (losses) on liabilities	56	(5,399)
Actuarial gains and (losses) recognised in OCI	1,444	(2,268)

Changes in the fair value of plan assets	*2017*	*2016*
	£000	*£000*
Opening fair value of plan assets	20,873	17,165
Interest on assets	557	651
Return on plan assets less interest	1,388	3,131
Contributions by employer	1,375	326
Contributions by employees	60	68
Benefits paid	(1,163)	(468)
Closing fair value of plan assets	23,090	20,873

Changes in the present value of defined benefit obligations	*2017*	*2016*
	£'000	*£'000*
Opening defined benefit obligation	23,033	17,100
Service cost	382	292
Interest cost	596	642
Experience (gain)/loss on defined benefit obligation	-	(337)
Changes to demographic assumptions	(533)	671
Changes to financial assumption	477	5,065
Benefits paid	(1,163)	(468)
Employee contributions	60	68
	22,852	23,033

NOTES TO THE ACCOUNTS
at 31 December 2017

20. PENSION COMMITMENTS (Continued)

History of experience gains and losses	*2017*	*2016*
	£000	*£000*
Present value of defined benefit obligation	(22,852)	(23,033)
Scheme Assets	23,090	20,873
Surplus / (deficit)	238	(2,160)
Actuarial gains/(losses) on scheme assets	1,388	3,131
Actuarial (losses)/gains on scheme liabilities	56	(5,399)

The expected return on assets is calculated with reference to the discount rate used to value the liabilities (i.e. the returns available on high quality corporate bonds) with no allowance made for any outperformance expected from the Scheme's actual asset holding.

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. Employers' contributions during the year amounted to £265,308 (2016: £252,331). The Company also provides defined contribution pension and social security schemes for its employees in European territories.

21. OPERATING LEASE COMMITMENTS

Undiscounted total future minimum rentals payable under non-cancellable operating leases are as follows:

	2017	*2016*
	£000	*£000*
Less than one year	490	490
One to five years	858	1,348
More than five years	-	-
	1,348	1,838

Lease payments recognised in expenses during the year equate to £406,127 (2016: £407,240). These amounts differ from the £490,000 obligation shown in the table above as the initial lease free period is spread over the lease term in arriving at the amount recognised in expenses.

22. OFF-BALANCE SHEET ITEMS

The Company has not been party to any arrangement which is not reflected in its Balance Sheet.

NOTES TO THE ACCOUNTS
at 31 December 2017

23. RISK MANAGEMENT

(a) Governance framework

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 functional and operational management activities of the Company.

(b) Capital management objectives, policies and approach

The Company is subject to capital requirements imposed 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 130% of the capital requirement over a one year time horizon.

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

The capital of the Company is composed as follows:

	2017 *£'000*	*2016* *£'000*
Capital & reserves per the financial statements	142,501	136,307
Regulatory valuation adjustments		
Financial Investments	5,168	6,660
Technical Provisions	(7,656)	(6,745)
Tangible Fixed Assets	(585)	(899)
Elimination of deferred acquisition costs		
Gross amount	(3,205)	(2,844)
Reinsurers' share	7,395	7,819
Solvency II Own Funds	143,618	140,257

(c) Insurance risk

Insurance risk relates to fluctuations in the timing, frequency and severity of insured events, relative to the expectations of the Company at the time of underwriting and/or reassessment. Insurance risk can also refer to fluctuations in the timing and amount of claim settlements.

NOTES TO THE ACCOUNTS
at 31 December 2017

23. RISK MANAGEMENT (Continued)

Risk appetites and tolerances are set annually and monitored and adjusted where necessary throughout the year. Ongoing assessment of insurance risk is conducted through the Risk Register which is reported to the Executive Committee and Audit & Risk Committee on a quarterly basis and covers all the different types of insurance risk set out below.

Underwriting risk

The Underwriting Director produces a quarterly Underwriting report for the Board outlining, inter alia, underwriting related issues, including pricing and risk assessment.

Claims reserving

The incurred but not reported claims ("IBNR") are reported to the Board within the Management Accounts on a quarterly basis. Large claims or important developments are reported to the Board as part of the quarterly claims report.

Reinsurance

The Underwriting Director reports to the Board in advance of treaty renewals or new treaty placements for review and authorisation to proceed to contract.

Where an underwritten risk falls outside of the Company's risk appetite but is otherwise acceptable under SJNKI's criteria, the Company cedes the risk 100% to SJNKI under facultative proportional reinsurance arrangements. Risks which fall within the Company's risk appetite are ceded 80% to SJNKI through a whole account quota share. Treaty Excess of Loss protection is provided on all classes by SJNKI and additional Property layers are provided by the open market. In addition, per risk Excess of Loss and Catastrophe cover provides further protection.

The table below sets out the concentration of outstanding claim liabilities by type of contract:

31 December 2017	*Gross liabilities £'000*	*Reinsurance liabilities £'000*	*Net liabilities £'000*
Fire and other damage to property	50,043	43,852	6,191
Marine, aviation and transport	28,745	24,991	3,754
Third party liability	38,675	22,794	15,881
Other	902	606	296
Total	118,365	92,243	26,122

31 December 2016	*Gross liabilities £'000*	*Reinsurance liabilities £'000*	*Net liabilities £'000*
Fire and other damage to property	61,060	51,208	9,852
Marine, aviation and transport	37,321	32,461	4,860
Third party liability	35,457	18,041	17,416
Other	808	424	384
Total	134,646	102,134	32,512

NOTES TO THE ACCOUNTS
at 31 December 2017

23. RISK MANAGEMENT (Continued)

The geographical concentration of the outstanding claim liabilities is noted below. The disclosure is based on the countries where business is written. The analysis would not be materially different if based on the countries in which the counterparties are situated.

31 December 2017	*Gross liabilities £'000*	*Reinsurance liabilities £'000*	*Net liabilities £'000*
United Kingdom	29,157	18,828	10,329
EEA	89,208	73,415	15,793
Total	118,365	92,243	26,122

31 December 2016	*Gross liabilities £'000*	*Reinsurance liabilities £'000*	*Net liabilities £'000*
United Kingdom	38,073	24,299	13,774
EEA	96,573	77,835	18,739
Total	134,646	102,134	32,512

The claim liabilities are sensitive to the key assumptions that follow. The analysis is performed for reasonably possible movements in the key assumptions, with all other assumptions held constant. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but the analysis below demonstrates the sensitivity of each assumption in isolation.

31 December 2017	*Change in assumptions*	*Impact on gross liabilities £'000*	*Impact on net liabilities £'000*	*Impact on profit before tax £'000*	*Impact on equity £'000*
IELR moved down	10%	(5,262)	(1,036)	(1,036)	(1,036)
IELR moved up	10%	5,263	1,037	1,037	1,037
Liability class tail development factor increased	10%	2,895	1,440	1,440	1,440
NIHL claims move to best estimate		(1,346)	(1,333)	(1,333)	(1,333)

31 December 2016	*Change in assumptions*	*Impact on gross liabilities £'000*	*Impact on net liabilities £'000*	*Impact on profit before tax £'000*	*Impact on equity £'000*
IELR moved down	10%	(4,512)	(1,218)	(1,218)	(1,218)
IELR moved up	10%	4,513	1,218	1,218	1,218
Liability class tail development factor increased	10%	2,741	1,420	1,420	1,420
NIHL claims move to best estimate		(1,791)	(1,314)	(1,314)	(1,314)

NOTES TO THE ACCOUNTS
at 31 December 2017

23. RISK MANAGEMENT (Continued)

The following tables show the estimates of cumulative incurred claims, including both claims notified and IBNR for each accident year. The Company has taken advantage of the transitional rules of FRS 103.6.3 that permit the disclosure of a reduced number of years during the transitional period.

Gross insurance contract outstanding claims provisions as at 31 December 2017:

Accident year	*Before 2011 £'000*	*2011 £'000*	*2012 £'000*	*2013 £'000*	*2014 £'000*	*2015 £'000*	*2016 £'000*	2017 £'000	*Total £'000*
Estimate of cumulative claims incurred									
At end of accident year		23,731	30,189	47,314	111,079	121,830	77,134	93,701	
One year later		19,019	25,035	44,609	98,222	126,815	57,365		
Two years later		18,249	23,836	42,104	91,437	127,252			
Three years later		17,201	23,382	40,561	96,708				
Four years later		16,482	22,248	39,210					
Five years later		16,380	21,877						
Six years later		15,877							
Part VII Transfer In		1,407	7,282	6,417	1,543	720			
Current estimate		17,284	29,159	45,627	98,251	127,972	57,365	93,701	
Cumulative claims paid									
At end of accident year		(7,089)	(9,865)	(23,925)	(15,656)	(59,238)	(16,052)	(44,250)	
One year later		(9,625)	(16,948)	(37,337)	(56,851)	(96,529)	(42,832)		
Two years later		(14,946)	(18,783)	(39,003)	(75,380)	(114,689)			
Three years later		(14,906)	(19,806)	(40,708)	(77,242)				
Four years later		(15,196)	(21,714)	(41,250)					
Five years later		(15,544)	(21,931)						
Six years later		(15,499)							
Total gross outstanding claims provision per the Balance Sheet	6,699	1,785	7,228	4,377	21,009	13,283	14,533	49,451	118,365
% surplus/(deficiency) of initial gross reserve (excluding impact of Part VII Transfer in)		33.1%	27.5%	17.1%	12.9%	-4.5%	25.6%		

NOTES TO THE ACCOUNTS
at 31 December 2017

23. RISK MANAGEMENT (Continued)

Net insurance contract outstanding claims provisions as at 31 December 2017:

Accident year	*Before 2011 £'000*	*2011 £'000*	*2012 £'000*	*2013 £'000*	*2014 £'000*	*2015 £'000*	*2016 £'000*	2017 £'000	*Total £'000*
Estimate of cumulative claims incurred									
At end of accident year		10,746	13,015	9,455	17,184	17,758	14,181	8,305	
One year later		8,194	9,467	6,565	14,221	14,611	9,728		
Two years later		7,817	8,676	5,773	12,004	15,226			
Three years later		7,313	8,165	5,249	13,003				
Four years later		6,904	7,758	5,146					
Five years later		6,997	7,523						
Six years later		6,769							
Part VII Transfer In		460	1,423	1,559	135	555			
Current estimate		7,229	8,946	6,705	13,138	15,781	9,728	8,305	
Cumulative claims paid									
At end of accident year		(3,140)	(3,362)	(2,697)	(2,623)	(3,438)	(2,392)	(2,549)	
One year later		(4,737)	(5,807)	(4,175)	(7,828)	(8,715)	(6,286)		
Two years later		(6,054)	(6,191)	(4,631)	(8,698)	(11,317)			
Three years later		(6,064)	(6,609)	(5,092)	(9,472)				
Four years later		(6,201)	(6,868)	(5,317)					
Five years later		(6,348)	(6,919)						
Six years later		(6,315)							
Total net outstanding claims provision per the Balance Sheet	4,465	914	2,027	1,388	3,666	4,464	3,442	5,756	26,122
% surplus/(deficiency) of initial net reserve (excluding impact of Part VII Transfer in)		37.0%	42.2%	45.6%	24.3%	14.3%	31.4%		

The claims paid in the tables above are shown at the exchange rate ruling at the date of each claim transaction. The total gross and net outstanding claims provisions per the balance sheet are shown at the rate of exchange applicable at the end of each year of development.

23. RISK MANAGEMENT (Continued)

(d) Financial risk

Credit Risk

Credit risk relates to the risk of default by counterparties, principally insurance debtors (including brokers, policyholders), reinsurance debtors, issuers of securities within the Company's investment assets portfolio, and banks with whom the Company has monies on deposit.

The Company has a credit risk policy setting out the assessment and determination of what constitutes credit Risk for the Company. Compliance with the policy is monitored through the Risk Register which is reported to the Executive Committee and Audit & Risk Committee on a quarterly basis.

The tables below show the maximum exposure to credit risk for each Balance Sheet item.

31 December 2017	*Neither past due nor impaired £'000*	*Past due £'000*	*Impaired £'000*	*Total £'000*
Other listed fixed interest securities	89,093	-	-	89,093
Unlisted equity shares	75	-	-	75
Deposits with credit institutions	33,611	-	-	33,611
Debtors arising out of direct insurance operations	17,725	7,937	-	25,662
Debtors arising out of reinsurance operations	19,542	7,908	-	27,450
Reinsurer's share of notified claims outstanding	53,348			53,348
Other debtors	2,362	-	-	2,362
Cash at bank and in hand	37,123	-	-	37,123
	252,879	15,845	-	268,724

Of the assets which are past due but not impaired £15,673,074 have been in arrears for less than 3 months.

31 December 2016	*Neither past due nor impaired £'000*	*Past due £'000*	*Impaired £'000*	*Total £'000*
Other listed fixed interest securities	101,170	-	-	101,170
Unlisted equity shares	75	-	-	75
Deposits with credit institutions	27,289	-	-	27,289
Debtors arising out of direct insurance operations	12,881	10,878	-	23,759
Debtors arising out of reinsurance operations	8,747	2,413	-	11,160
Reinsurer's share of notified claims outstanding	70,934			70,934
Other debtors	1,334	-	-	1,334
Cash at bank and in hand	40,476	-	-	40,476
	262,906	13,291	-	276,197

NOTES TO THE ACCOUNTS
at 31 December 2017

23. RISK MANAGEMENT (Continued)

The table below provides information regarding the credit risk exposure of the Company as at 31 December 2017 by classifying assets according to Standard & Poor's credit ratings of the counterparties. AAA is the highest possible rating. Debtors, other than amounts due from reinsurers, have been excluded from the table as these are not rated.

31 December 2017	*AAA* *£'000*	*AA* *£'000*	*A* *£'000*	*BBB* *£'000*	*NR* *£'000*	*Total* *£'000*
Other listed fixed interest securities	50,875	38,218	-	-	-	89,093
Unlisted equity shares	-	-	-	-	75	75
Deposits with credit institutions	-	-	33,611	-	-	33,611
Debtors arising out of reinsurance operations	-	6	21,371	-	6,073	27,450
Reinsurer's share of notified claims outstanding	-	93	50,902	28	2,325	53,348
Cash at bank and in hand	-	-	37,081	42	-	37,123
	50,875	38,317	142,965	70	8,473	240,700

31 December 2016	*AAA* *£'000*	*AA* *£'000*	*A* *£'000*	*BBB* *£'000*	*NR* *£'000*	*Total* *£'000*
Other listed fixed interest securities	62,593	38,577	-	-	-	101,170
Unlisted equity shares	-	-	-	-	75	75
Deposits with credit institutions	-	-	27,289	-	-	27,289
Debtors arising out of reinsurance operations	-	211	10,109	-	840	11,160
Reinsurer's share of notified claims outstanding	-	31	69,151	-	1,752	70,934
Cash at bank and in hand	-	-	40,441	35	-	40,476
	62,593	38,819	146,990	35	2,667	251,104

Liquidity risk

Liquidity risk relates to the potential that the Company may be unable to meet its obligations as they fall due as a consequence of having a timing mismatch. The Company has made arrangements with the Parent Company to mitigate Liquidity risk in the remote scenario where a temporary cash-flow problem arises. Liquidity risk is therefore not considered to be significant at this time.

NOTES TO THE ACCOUNTS
at 31 December 2017

23. RISK MANAGEMENT (Continued)

The table below summarises the maturity profile of the company's financial liabilities based on remaining undiscounted contractual obligations, including interest payable, and outstanding claim liabilities based on the estimated timing of claim payments resulting from recognised insurance liabilities.

31 December 2017	Carrying amount £'000	Up to a year £'000	1-2 years £'000	2-5 years £'000	5-10 years £'000	Over 10 years £'000
Claims outstanding	118,365	91,036	14,720	10,628	1,981	-
Creditors	40,323	40,323	-	-	-	-

31 December 2016	Carrying amount £'000	Up to a year £'000	1-2 years £'000	2-5 years £'000	5-10 years £'000	Over 10 years £'000
Claims outstanding	134,646	103,557	16,745	12,090	2,254	-
Creditors	26,464	26,464	-	-	-	-

Market risk

Market risk is the risk that as a result of market movements a firm may be exposed to fluctuations in the value of its assets, the amount of its liabilities, or the income from its assets. Sources of general market risk include movements in interest rates, equities, exchange rates and real estate prices.

From the perspective of the Company, market risk refers to the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices. Market risk is comprised primarily of Currency Risk and Interest risk.

The Company monitors market risk through a number of reports including market risk reports presented by the Chief Financial Officer and the Investment Department to the Board. Ongoing assessment of market risk is conducted through the Risk Register which is reported to the Executive Committee and the Audit & Risk Committee on a quarterly basis.

Policy changes in respect of market risk are reported to the Board annually when the Company's Investment Policy is reviewed and updated for the coming year. The annual strategy statement and mid-term business plan projections take account of market risk and are reported to the Board.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company is exposed to currency risk (Euro) in respect of certain liabilities under policies of insurance written through the Company's European branch network. The Company seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency.

NOTES TO THE ACCOUNTS
at 31 December 2017

23. RISK MANAGEMENT (Continued)

The table below summarises the exposure of the financial assets and liabilities to foreign currency exchange risk at the reporting date, as follows:

	2017 Euro exposure £'000	2016 Euro exposure £'000
Other financial investments	-	3,251
Debtors	44,790	29,035
Cash at bank and in hand	15,003	13,115
	59,793	45,401
Net claims outstanding	16,125	18,857
Creditors	33,216	22,604
Other net assets / liabilities	7,417	9,064
	56,758	50,525

At 31 December 2017, if the exchange rate of the Euro had varied by 5% against Sterling with all other variables held constant, the profit for the year and equity would have been lower or higher by £145,000 (2016: £270,000) and £160,000 (2016: £244,000) respectively.

Interest risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company's financial investments comprise of fixed interest bonds and deposits held with credit institutions which are held to maturity and valued at amortised cost. As a result the exposure to interest risk on the Company's investment portfolio is minimal.

Insurance liabilities are not discounted and therefore not exposed to interest rate risk.

24. POST BALANCE SHEET EVENTS

On 2nd October 2017 it was announced that 100% of the share capital of the Company will be transferred from the Company's immediate parent, Sompo Japan Nipponkoa Insurance Inc., ("SJNKI") to ESIL. Consent for the change in control has been received from the PRA and the transfer of shares took place on 1 May 2018.

On 1st April 2018 the UK employees of the Company were transferred to Endurance Business Services Limited by way of Transfer of Undertakings (Protection of Employment) regulations ("TUPE").