MITSUI SUMITOMO INSURANCE COMPANY (EUROPE) LIMITED

DIRECTORS' REPORT

AND

FINANCIAL STATEMENTS

31 December 2018

Contents

Directors and Administration

Directors

Robin John Leaver Adam	(Chief Executive Officer)
Johan Garth Slabbert	(Non-Executive Chairman)
Jean Hellewell	
Heinz Werner Hof	(resigned 31 March 2018)
Akihiko Ikeno	(appointed 20 April 2018)
Shinichi Imayoshi	(resigned 13 July 2018)
Yasuo Inoue	
Jonathan Lester Poole	(resigned 31 January 2019)
Andrew Edward Slater	

Auditor
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Company Secretary
Fumika Yamamoto

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Solicitor
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Registered Number
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Investment Manager (terminated 23 July 2018)
Sumitomo Mitsui Asset Management (London) Ltd
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London
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Strategic Report

The directors present their strategic report for the year ended 31 December 2018.

Activities and Results
Mitsui Sumitomo Insurance Company (Europe), Limited ("the Company") is principally an insurance company underwriting marine, aviation, transport and non-marine business.

Review of operations
The main business of the Company during 2018 was the provision of insurance services to Japanese clients located in the United Kingdom, Republic of Ireland and sub-Saharan Africa. The Company also participated in the aviation pool managed by Global Aerospace Underwriting Managers Limited ("the GAUM pool") ceding all the premium and insurance risks derived therefrom to Mitsui Sumitomo Insurance Company Limited ("MSIJ"), a company incorporated in Japan, in return for reinsurance commission. MSIJ is the Company's immediate parent company.

The Company's key financial performance indicators for the year are as follows:

	2018	2017
	£'000	£'000
Gross Written Premiums	51,732	47,087
Net Written Premiums	3,081	3,750
Balance on Technical Account	(456)	(437)
Investment Income (net of expenses and charges)	912	769
Profit Before Tax	390	290
Net Claims Ratio*	52.9%	36.8%
Combined Ratio*	113.7%	111.2%
Net Assets	81,527	111,191

(*Note: The net claims ratio is calculated by taking the ratio of the net claims incurred to the net premiums earned. The combined ratio is calculated by taking the ratio of the net claims incurred plus operating expenses to the net premiums earned. A lower combined ratio indicates a better performance)

During 2018 the Company saw growth in gross written premiums in all major classes of business due to both the acquisition of new clients and the growth of business from existing clients. The Company has continued to cede a large portion of its business to reinsurers. An increase in the average ceding ratio resulted in a reduction in net written premium and increase in the reinsurance commissions received from reinsurers.

The net claims ratio deteriorated to 52.9% in 2018 compared to 36.8% in 2017. Although still relatively benign by historical standards, this deterioration in the net claim ratio reduced the Company's earnings from underwriting. The deterioration is primarily due to a higher level of attritional claim activity in the Marine, Aviation and Transport and Fire and Other Damage to Property classes of business. The reported claim ratio net of reinsurance recoveries in the Fire and Other Damage to Property class was exceptionally low in 2017 at 5.8% compared to 20.1% in 2018.

The deterioration in the net claims ratio has been largely offset by the growth in gross written premium and consequent increase in reinsurance commission earned from ceding this premium to reinsurers, to leave the balance on the technical account substantially unchanged in 2018 at a loss of £456,000 compared to a loss of £437,000 in 2017.

During the year the Company disposed of its entire corporate bond portfolio with the exception of its investments in bank Commercial Paper. It also disposed of its entire government bond portfolio. At 31 December 2018 its investment portfolio comprises only investments in bank Commercial Paper, Certificates of Deposit, Term Deposits, Money Market Funds and operational cash balances.

During the year the Company reduced its share capital by £80,200,000 to create distributable reserves from which it returned £30,000,000 of capital to MSIJ, its immediate parent company, by way of dividend.

This dividend resulted in a corresponding reduction of £30,000,000 in the Company's investment portfolio. Despite this reduction, the increase in the portfolio's yield in 2018, partly as a result of the increase in the Bank of England base rate in August 2018, resulted in an overall increase in investment income (net of expenses and charges) from £769,000 in 2017 to £912,000 in 2018. This increase resulted in an increase in profit before tax of £100,000 from £290,000 in 2017 to £390,000 in 2018.

Principal risks
The principal risks faced by the Company are as follows:

Credit risk
The risk of financial loss due to a counterparty's failure to honour its obligations arises principally in relation to transactions where the Company provides insurance and reinsurance on deferred terms, seeks to recover amounts under contracts of reinsurance or invests or deposits surplus cash. The counterparty to which the Company has its single largest exposure is MSIJ, its immediate parent company.

Individual exposures are regularly monitored and customer and reinsurer exposures are subject to credit limits. The Company has bad debt provisions of £1,194,000 at 31 December 2018 (2017: £1,304,000).

Strategic Report (continued)

Company policies restrict the counterparties with which funds may be invested to those financial institutions with a high credit rating. A maximum of 20% of the Company's holdings of debt securities and other fixed income securities with terms of more than one year may be invested with counterparties having a Standard and Poor's rating between BBB- and BBB+. All other financial assets and cash are invested or deposited with counterparties having a Standard and Poor's rating of A- or higher, unless special dispensation is given by the Finance Committee due to particular circumstances justifying investment or deposit with a counterparty with a lower credit rating. The Finance Committee regularly monitors investment counterparties and assesses the credit risk of the investment portfolio.

Liquidity risk
The Company monitors its working capital requirements using appropriate forecasts to calculate projected daily cash flows. Excess cash used in managing liquidity is only invested in financial instruments exposed to insignificant risk of change in market value, being placed in accounts which are capable of being liquidated within five working days.

Market risk
The Company is exposed to price or market value risk on any investments it may hold in fixed interest securities. This is regularly monitored by the Finance Committee by reference to volatility measures supplied by the investment asset managers.

Exchange rate risk
The Company regularly monitors foreign exchange risk arising from difference in the value of foreign currency assets and liabilities. Where substantial differences are detected, foreign exchange trades are executed to reduce these differences.

Operational risk
The main operational risks the Company faces relate to its processes, regulatory and legal obligations, systems and potential business disruption. Technical procedures, policies and manuals are prepared for processes. These are audited by the Internal Audit function as part of their programme.

The operational risk associated with business disruption is mitigated through a business continuity plan, which is reviewed and updated annually.

Insurance risk
Insurance risk is the risk that the amount or timing of claims and claim payments differ from expectations. The frequency, severity, and subsequent development of claims are all factors in assessing this risk. To limit the potential for losses, the Company cedes insurance premiums and risks through reinsurance. Reinsurance is managed centrally with regular reviews of amounts retained and ceded. Through strict selection processes, the Company ensures there is diversification of insurance risk across industry sectors and geographical areas.

Sophisticated reserving models are used to limit the potential impact of differences between technical reserves set aside for claims and the actual amounts eventually paid in settlement of those claims.

Capital Management
During the year the Company restructured and reduced its available capital by £30,000,000 by way of a dividend to MSIJ, its immediate parent company, with a corresponding reduction of £30,000,000 in its net assets. This capital reduction was advised to the Company's regulator in advance, and despite the reduction, the Company's estimated solvency margin at 31 December 2018 as calculated in accordance with the Solvency II regulatory regime remains wide at 235%. No further capital reductions are expected in the immediate future.

The Company continues to be subject to the Solvency II regime and is obliged to meet its requirements accordingly. Notwithstanding the United Kingdom's departure from the European Union on 29 March 2019, the Company expects the future regulatory regime to remain broadly unchanged for the foreseeable future and will continue to meet its requirements.

Future Developments
Over the course of 2019 the Company expects to continue to pursue its current strategy focussed on Japanese clients primarily located in the United Kingdom, Republic of Ireland and sub-Saharan Africa, as well as continuing its current participation in the GAUM pool. The Company also intends to commence provision of insurance services to Japanese clients located in Russia and other CIS countries in 2019. The Company expects to lose its licence to undertake business in the European Union following the United Kingdom's departure on 29 March 2019, and hence has taken steps for its clients' risks located in the European Union and European Economic Area to be underwritten by other group companies based in other European Union countries. It is intended that these risks are reinsured back to the Company such that its overall gross written premium is largely unaffected. In undertaking this reinsurance, the Company will pay reinsurance commission to the ceding companies which will have an adverse effect on its profitability. Following 29 March 2019 the risks located in the European Union and European Economic Area currently underwritten by the GAUM pool will be underwritten by a pool made up of companies based in other European Union countries. This business and the Company's associated reinsurance commission earnings will therefore be lost producing a further adverse effect on profitability.

The Company expects to benefit from a continuing marginal increase in investment yields over the course of 2019. Despite the adverse effects of the loss of its licence to undertake business in the European Union, the Company expects to remain profitable in 2019.

On behalf of the Board

Robin J. C. Adam

Robin John Leaver Adam
Chief Executive Officer
15 March 2019

Registered Number
01063340 England and Wales

Directors' Report

The directors present their report and financial statements for the year ended 31 December 2018.

Results, going concern and dividend
The results for the year are set out on pages 13 and 14.

The profit after tax for the period is £315,000 (2017: £405,000). The Company has sufficient financial resources to pay all insurance liabilities as necessary. These insurance liabilities are also guaranteed by Mitsui Sumitomo Insurance Company Limited ("MSIJ"), a company incorporated in Japan. MSIJ is the Company's immediate parent company. The directors believe the Company is well placed to manage its business risks.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. This expectation takes into account the expected adverse effects of the Company's loss of licence to undertake business in the European Union following the UK's forthcoming departure, and is supported by an expectation of continuing profitability from 2019 onwards. Accordingly the directors continue to adopt the going concern basis in preparing the annual report and accounts.

During 2018 an interim dividend of £30,000,000 was declared by the directors and paid to the Company's sole shareholder, MSIJ. The directors do not recommend payment of a dividend for the year ended 31 December 2018 (2017: Nil).

Future Developments
Expected future developments in the Company's business are discussed in the Strategic Report.

Charitable and political contributions
Charitable contributions of £1,074 were made during 2018 (2017: £513). No political contributions were made during the period (2017: nil).

Internal audit
The Audit Committee is responsible for approving the Internal Audit budget and, as part of the board's overall governance responsibility, the board has satisfied itself that Internal Audit has the appropriate resources to carry out its duties.

Supplier payment policy
The Company aims to agree the terms of payment with its suppliers when agreeing the terms of each transaction. Normally these are within the supplier's own standard payment period. The Company aims to pay all of its suppliers within the agreed terms.

Directors
The directors who were members of the board at the time of approving the Directors' Report are listed on page 2 and their service was throughout the year unless otherwise stated. During the period none of the directors held a disclosable interest in the shares of the Company.

Statement of directors' responsibilities in respect of the strategic report, the directors' report and the financial statements
The directors are responsible for preparing the Strategic Report, the 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* and FRS 103 *Insurance Contracts.*

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 state of affairs of the Company and of its profit or loss for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and 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;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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 its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Directors' Report (continued)

Directors' statement as to disclosure of information to the auditor
Having made enquiries of fellow directors and of the Company's auditor, each of the 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 auditor is unaware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor
In accordance with section 485 of the Companies Act 2006 a resolution proposing the reappointment of KPMG LLP as auditors to the Company will be put to the Annual General Meeting.

On behalf of the Board

Robin J-L. Adam

Robin John Leaver Adam
Chief Executive Officer
15 March 2019

Registered Number
01063340 England and Wales
25 Fenchurch Avenue
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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MITSUI SUMITOMO INSURANCE COMPANY (EUROPE), LIMITED

1 Our opinion is unmodified

We have audited the financial statements of Mitsui Sumitomo Insurance Company (Europe), Limited ("the Company") for the year ended 31 December 2018 which comprise the Statement of Profit or Loss, Statement of Comprehensive Income, Balance Sheet and Statement of Changes in Equity and the related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, as issued in August 2014 and Financial Reporting Standard 103 Insurance Contacts (FRS 103), as issued in March 2014; and
- The financial statements 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 are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the directors on 5 November 2012. The period of total uninterrupted engagement is for the seven financial years ended 31 December 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including 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. We summarise below the key audit matters in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

The impact of uncertainties due to the UK exiting the European Union on our audit *Refer to page 4 (Future Developments) and page 5 (Results, going concern and dividend)*	
The risk	**Our response**
Unprecedented levels of uncertainty All audits assess and challenge the reasonableness of estimates, in particular as described in the valuation of claims reserves, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the Company's future prospects and performance. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: *Our Brexit knowledge* We considered the directors' assessment of Brexit-related sources of risk for the Company's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks. *Sensitivity analysis* When addressing the valuation of claims reserves and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. *Assessing transparency* As well as assessing individual disclosures as part of our procedures on the valuation of claims reserves we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. **Our results** As reported under the valuation of claims reserves, we found the resulting estimates and related disclosures of claims reserves and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Valuation of claims reserves (Claims outstanding £121.1m, 2017: £107.8m; Reinsurers' share £97.4m, 2017: £84.4m) The risk compared to the prior year is unchanged. *Refer to pages 15 and 16 (Balance Sheet), 18 and 19 (Accounting policies) and page 31 (Notes to the Financial Statements)*	
The risk	**Our response**
Subjective valuation The setting of claims reserves, including the methodology adopted and assumptions selected, is the most judgmental aspect of the financial	We used our own actuarial specialists to assist us in performing the following procedures in this area. **Methodology choice:** We have challenged the company's methodology for setting gross claims reserves and claims reserves net of reinsurance

Valuation of claims reserves
(Claims outstanding £121.1m, 2017: £107.8m; Reinsurers' share £97.4m, 2017: £84.4m)
The risk compared to the prior year is unchanged.
Refer to pages 15 and 16 (Balance Sheet), 18 and 19 (Accounting policies) and page 31 (Notes to the Financial Statements)

statements. Valuation of these liabilities is highly judgemental because it requires a number of assumptions to be made with high estimation uncertainty such as ultimate loss ratios and the frequency and severity of claims and, where appropriate, the discount rate for longer tail classes of business by territory and line of business. The determination and application of the methodology and performance of the calculations are also complex. This is also true when the directors set the margin to make allowance for specific risks identified in the assessment of the best estimate. These judgmental and complex calculations for insurance liabilities are also used to derive the valuation of the related reinsurance assets. Consistency of reserving across underwriting years and lines of business is important, particularly ensuring that any releases on back years are both appropriate and that they are made such that a consistent level of confidence and reserving strength is maintained. Judgements within the pricing and reserving processes will be impacted by changes in the volume of business or mix of business.	recoveries, concentrating our work on areas where there are changes in methodology or assumptions, or areas showing significant or unexpected developments of incurred claims. We have assessed the decisions of the reserving committee and the company's selection of loss ratios. **Historical comparisons:** We have assessed the prudence and consistency of reserving, by examining the company's analysis of actual versus expected development and considering accuracy of past estimates and historical development of loss ratios. **Independent re-performance:** We have independently re-projected all classes of business to compute our own projection of reserves (gross and net of reinsurance recoveries) and compared these with the company's own projections to assess their reasonableness. As part of this work we have compared the ultimate loss ratios against our own independently derived ultimate loss ratios and historical experience. **Benchmarking assumptions:** We have benchmarked the company's margin over best estimate against our experience of similar accounts in the marketplace. In addition to the above, the audit team performed procedures to assess the completeness and accuracy of the data: **Tests of details:** We have sampled high value claims outstanding and inspected the claims files to obtain evidence such as loss adjuster reports to assess the appropriateness of the reserve. **Data comparisons:** Agreed the data used for reserving purposes agrees to that used for accounting purposes. This included testing the design and implementation and operating effectiveness of key controls to ensure the completeness and accuracy of the data. **Our results:** We found the resulting gross reserves and the reserves net of reinsurance recoveries to be acceptable (2017 result: acceptable).

3 Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £3.2 million (2017: £3.5 million), determined with reference to a benchmark of net assets (of which it represents 4% (2017: 3.2% of net assets). Net assets was used as the benchmark as profit before tax is not deemed to be an appropriate measure for the company due to the impact that significant levels of reinsurance has on reported profit before tax. We compared our materiality against other relevant benchmarks, such as total assets, total revenue and profit before tax to ensure the materiality selected was appropriate for our audit.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.160 million (2017: £0.175 million), in addition to other identified misstatements that warranted reporting on qualitative grounds. Our audit of the Company was undertaken to the materiality level specified above and was all performed at the Company's head office in London.

4 We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease their operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model, including the impact of Brexit, and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We evaluated those risks and concluded that they were not significant enough to require us to perform additional audit procedures.

Based on this work, we are required to report to you if we have anything material to add or draw attention to in relation to the director's statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements.

We have nothing to report in this respect, and we did not identify going concern as a key audit matter.

5 We have nothing to report on the strategic report and the directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in those reports;
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements 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.

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities
As explained more fully in their statement set out on page 5, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities
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 other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect
We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the directors and other management (as required by auditing standards), and from inspection of the company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of company's licence to operate. We identified the following areas as those most likely to have such an effect: regulatory capital and liquidity and certain aspects of company legislation recognising the financial and regulated nature of the company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

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

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.

Timothy Butchart (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London, E14 5GL
15 March 2019

Statement of Profit or Loss : Technical Account - General Business
For the Year Ended 31 December 2018

	Note	2018 £'000	2018 £'000	2017 £'000	2017 £'000
Earned premium, net of reinsurance					
Continuing operations					
Gross premiums written	4	51,732		47,087	
Outward reinsurance premiums		(48,651)		(43,337)	
		3,081		3,750	
Change in the provision for unearned premiums					
Gross amount	5	(2,193)		(1,993)	
Reinsurers' share	5	2,443		2,153	
		250		160	
Earned premiums, net of reinsurance			3,331		3,910
Total technical income			3,331		3,910
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(25,671)		(51,573)	
Reinsurers' share		24,201		49,445	
		(1,470)		(2,128)	
Change in provision for claims					
Gross amount	5	(11,940)		26,403	
Reinsurers' share	5	11,648		(25,712)	
		(292)		691	
Claims incurred, net of reinsurance			(1,762)		(1,437)
Net operating expenses					
Acquisition costs		(5,968)		(5,344)	
Movement in deferred acquisition costs		312		(74)	
Reinsurance commissions and profit participation		10,320		9,080	
Movement in deferred reinsurance costs		(583)		(408)	
Administrative expenses		(5,940)		(6,173)	
Other technical income and expenses		(166)		9	
			(2,025)		(2,910)
Balance on the technical account - general business					
Continuing operations	4		(456)		(437)

The notes on pages 18 to 36 form part of these financial statements

Statement of Profit or Loss : Non-Technical Account - General Business
For the Year Ended 31 December 2018

	Note	2018		2017	
		£'000	£'000	£'000	£'000
Balance on the technical account - general business					
Continuing operations			(456)		(437)
Investment income	6	965		869	
Investment expenses and charges	7	(53)		(100)	
Loss on foreign exchange		(88)		(57)	
Other income and expenses		22		15	
			846		727
Profit on ordinary activities before tax	8		390		290
Tax on Profit on ordinary activities	11		(75)		115
Profit for the financial year			315		405

Statement of Comprehensive Income	2018	2017
	£'000	£'000
Profit for the financial year	315	405
Currency translation differences on foreign currency net assets	20	13
Total comprehensive income for the year attributable to shareholders	335	418

The notes on pages 18 to 36 form part of these financial statements

Balance Sheet
As at 31 December 2018

	Note	2018		2017	
		£'000	£'000	£'000	£'000
ASSETS					
Investments					
Financial investments	12	111,033		142,192	
			111,033		142,192
Reinsurers' share of technical provisions					
Provision for unearned premiums	5	21,078		18,568	
Claims outstanding	5	97,433		84,396	
			118,511		102,964
Debtors					
Debtors arising out of direct insurance operations	13	9,094		11,584	
Debtors arising out of reinsurance operations	14	5,194		3,350	
Other debtors	15	13		262	
			14,301		15,196
Other assets					
Intangible assets	16	445		650	
Cash at bank and in hand	17	4,285		2,002	
			4,730		2,652
Prepayments and accrued income					
Deferred acquisition costs		2,600		2,282	
Other prepayments and accrued income		473		654	
			3,073		2,936
Total Assets			251,648		265,940

The notes on pages 18 to 36 form part of these financial statements

Balance Sheet
As at 31 December 2018

	Note	2018		2017	
		£'000	£'000	£'000	£'000
LIABILITIES					
Capital and reserves					
Called up share capital	18	80,700		160,900	
Profit and loss account		827		(49,709)	
Shareholders' funds attributable to equity interests			81,527		111,191
Technical provisions					
Provision for unearned premiums	5	22,460		20,197	
Claims outstanding	5	121,127		107,766	
			143,587		127,963
Creditors					
Creditors arising out of direct insurance operations	20	261		556	
Creditors arising out of reinsurance operations	21	14,296		13,133	
Other creditors including taxation and social security	22	4,015		6,136	
			18,572		19,825
Accruals and deferred income					
Accruals		3,359		2,949	
Deferred reinsurance commissions		4,603		4,012	
			7,962		6,961
Total Liabilities and Shareholders' Funds			251,648		265,940

These financial statements were approved by the board of directors and were signed on its behalf by:

Robin J.L. Adam

Robin John Leaver Adam
Chief Executive Officer
15 March 2019
25 Fenchurch Avenue
London
EC3M 5AD

The notes on pages 18 to 36 form part of these financial statements

Statement of Changes in Equity
As at 31 December 2018

	Note	Called - up share capital £'000	Profit and loss account £'000	Total £'000
At 1 January 2017		160,900	(50,128)	110,772
Profit for the financial year		-	405	405
Currency translation differences on foreign currency net assets		-	13	13
At 31 December 2017		160,900	(49,709)	111,191
Reduction of Share Capital	18	(80,200)	80,200	-
Dividend Payment	19	-	(30,000)	(30,000)
Profit for the financial year		-	315	315
Currency translation differences on foreign currency net assets		-	20	20
At 31 December 2018		80,700	827	81,527

The notes on pages 18 to 36 form part of these financial statements

Notes to the Financial Statements

1. Accounting policies

Basis of preparation

The Company's financial statements have been prepared in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102), as issued in August 2014, and Financial Reporting Standard 103 Insurance Contracts (FRS 103), as issued in March 2014.

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

The financial statements have been prepared on the historical cost basis, except for financial assets held at fair value through profit or loss that are measured at fair value.

The financial statements are presented in Pound Sterling (GBP), which is the Company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

The Company's ultimate parent undertaking MS&AD Insurance Group Holdings, Inc. a company incorporated in Japan, includes the Company in its consolidated financial statements that are publicly available and may be obtained from the address given in note 25. In these financial statements the Company is considered to be a qualifying entity (for the purposes of FRS102) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to the end of the period
- Cash flow statement and related notes.

Under FRS 102, the Company is exempt from the requirement to disclose related party transactions with the MS&AD Insurance Group and its associated undertakings on the grounds that it is a wholly owned subsidiary of MS&AD Insurance Group Holdings, Inc., which prepares consolidated financial statements.

Use of judgements and estimates

In preparing these financial statements, the Directors of the Company have made judgements, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis and revisions to estimates are recognised prospectively.

The measurement of the provision for claims outstanding involves judgements and assumptions about the future that have a significant effect on the amounts recognised in the financial statements.

The provision for claims outstanding comprises the estimated cost of settling all claims incurred but unpaid at the balance sheet date, whether reported or not. This is a judgemental and complex area due to the subjectivity inherent in estimating the impact of claims events that have occurred but for which the eventual outcome remains uncertain. In particular, judgement is applied when estimating the value of amounts that should be provided for claims that have been incurred at the reporting date but have not yet been reported to the Company ("IBNR").

The ultimate cost of outstanding claims is estimated using a range of techniques including actuarial and statistical projections, benchmarking, case by case review and judgement. Statistical techniques assume that past claims development experience can be used as a basis to project ultimate claims costs. Judgement is used to assess the extent to which past trends may not apply in the future. Case estimates are generally set by skilled claims technicians applying their experience and knowledge to the circumstances of individual claims.

Whilst the directors consider that the gross provision for claims and the related reinsurance recoveries are fairly stated based on the information currently available to them, the ultimate liability will vary as a result of subsequent information and events.

Notes to the Financial Statements (continued)

1. Accounting policies (continued)

Basis of accounting
The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Gross premiums written
Gross premiums written comprise contracts commencing in the financial year, together with any differences between premiums booked for prior years and those previously accrued, and estimates of premiums due but not yet receivable or notified to the Company. All premiums are shown gross of commission payable to intermediaries and exclude any taxes or duties based on premiums.

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

Unearned premiums
The provision for unearned premiums comprises the amounts representing that part of gross premiums written and outwards reinsurance premiums that relate to unexpired terms of policies in force at the balance sheet date. The provision is calculated using a time apportionment method.

Deferred acquisition costs
Acquisition costs comprise the expenses, both direct and indirect, of acquiring insurance policies written during the financial year. Deferred acquisition costs represent the proportion of acquisition costs incurred which corresponds to the proportion of gross premiums written that are unearned at the balance sheet date.

Claims
Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported ("IBNR") and related expenses, together with any adjustments to claims from prior years. Where applicable, deductions are made for salvage and other recoveries.

The provision for claims outstanding represents the ultimate cost of settling all claims (including direct and indirect claims settlement expenses) arising from events that have occurred up to the balance sheet date, including provision for IBNR, less any amounts paid in respect of those claims.

The ultimate cost of outstanding claims is estimated using a range of techniques including actuarial and statistical projections, benchmarking, case by case review and judgement. Statistical techniques assume that past claims development experience can be used as a basis to project ultimate claims costs. Judgement is used to assess the extent to which past trends may not apply in the future. Case estimates are set by skilled claims technicians applying their experience and knowledge to the circumstances of individual claims. Provisions are calculated allowing for reinsurance recoveries and a separate asset is recorded for the reinsurers' share, having regard to recoverability.

Whilst the directors consider that the gross provision for claims and the related reinsurance recoveries are fairly stated based on the information currently available to them, the ultimate liability will vary as a result of subsequent information and events. Adjustments to the amounts of provision are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

Unexpired risks provision
Provision is made where the cost of claims and expenses arising after the balance sheet date from contracts concluded before that date is expected to exceed the provision for unearned premiums and claims, 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 using the information available at the balance sheet date, after offsetting surpluses and deficits arising on categories which are managed together. Investment income is taken into account in calculating the provision.

Notes to the Financial Statements (continued)

1. Accounting policies (continued)

Foreign currency translation
Transactions in all foreign currencies are translated to the functional currency using the exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the rates of exchange at the balance sheet date.

Non-monetary items denominated in foreign currencies that are measured at historic cost are translated to the functional currency using the exchange rate at the date of the transaction. For the purposes of foreign currency translation, unearned premiums and deferred acquisition costs are treated as if they are monetary items.

Differences arising on translation of foreign currency amounts relating to insurance operations are included in the non-technical account.

The results and financial position of business units which have a different functional currency to the presentation currency have been translated from their functional currency into the presentation currency as follows:

- assets and liabilities are translated at the rates of exchange at the balance sheet date
- income and expenses are translated using the exchange rates at the dates of the transactions; and
- all resulting exchange differences are recognised in other comprehensive income.

Financial assets and liabilities
In applying FRS 102, the Company has chosen to apply the recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement (as adopted for use in the EU).

Classification
The accounting classification of financial assets and liabilities determines the way in which they are measured and changes in those values are presented in the statement of profit or loss. Financial assets and liabilities are classified on their initial recognition and subsequent reclassifications are permitted only in restricted circumstances.

Debtors are classified as loans and receivables.

Recognition
Financial instruments are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control of substantially all risks and rewards of the asset. A financial liability is derecognised when its contractual obligations are discharged, cancelled, or expire.

Regular purchases and sales of financial assets are recognised and derecognised, as applicable, on the trade date, i.e. the date that the Company commits itself to purchase or sell the asset.

Measurement
Financial assets at fair value through profit or loss are measured at fair value with fair value changes recognised immediately in profit or loss. Net gains or net losses on financial assets measured at fair value through profit or loss include foreign exchange gains or losses arising on their translation to the functional currency, but exclude interest and dividend income.

Loans and receivables are measured at amortised cost. Creditors are measured at amortised cost.

Company investments consist of bonds, deposits with credit institutions, and investments in regulated collective investment schemes. Bonds with a term more than one year are included in the balance sheet at bid price using prices supplied by the custodian or by the investment managers, who obtain market data from numerous independent pricing services. The prices used are reconciled against a common market pricing source. Bonds with a term of one year or less that are to be held to maturity are included at cost plus the time apportioned income. Deposits with credit institutions are included at cost.

Investments in regulated collective investment schemes are valued on the net asset values (NAVs) of each of the individual funds as published by the managers. Investments in collective investment schemes include Money Market Funds which are valued on a stable NAV basis. All funds invested in are independently validated and repriced by the fund manager daily, and hence stated at fair value.

Notes to the Financial Statements (continued)

1. Accounting policies (continued)

Identification and measurement of impairment
At each reporting date the Company assesses whether there is objective evidence that financial assets not at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of an asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

A recognised impairment loss reduces directly the carrying amount of the impaired asset. All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

Off-setting
Financial assets and financial liabilities are set off and the net amount presented in the balance sheet when, and only when, the Company currently has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Investment income
Investment income comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, gross of investment expenses, charges and interest. Interest and related expenses are accounted for on an accruals basis.

Realised gains and losses on investments carried at fair value are calculated as the difference between net proceeds and purchase cost.

Unrealised gains and losses on investments represent the difference between the fair value at the balance sheet date and their purchase cost. Movements in unrealised investment gains and losses comprise the increase or decrease in the reporting period in the value of the investments held at the reporting date and the reversal of unrealised investment gains and losses recognised in earlier reporting periods in respect of investment disposals in the current period.

Investment income is recorded in the non-technical account.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in fair value, and are used by the Company in the management of its short-term commitments.

Taxation
Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit or loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that is it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Intangible assets
Intangible assets comprise computer software. Expenditure on intangible assets is capitalised and depreciated using the straight-line method over the estimated useful life of the assets.

The estimated useful life of computer software assets is five years.

Computer software development costs are capitalised as computer software additions, and are depreciated once brought into use, over a period of five years.

Pension Costs
The Company operates a defined contribution pension scheme. Pension contributions are charged to the Statement of Profit or Loss as incurred and are included within net operating expenses.

Notes to the Financial Statements (continued)

2. Risk management

The Company is exposed to a range of financial risks through its financial assets and financial liabilities. The key financial risk is that the proceeds from financial assets will not be sufficient to fund the obligations arising from insurance policies as they fall due. The main components of financial risk are credit risk, liquidity risk and market risk. These risks arise from the Company's investment and reinsurance assets and its insurance liabilities.

(a) Market risk

Market risk refers to the risks arising from adverse movements in the financial markets. These include potential changes in interest rates or credit spreads and adverse foreign exchange movements.

Management of market risk
Market risk is monitored and regularly reviewed by the Finance Committee with any actions required being implemented by the finance department.

The Company regularly performs both qualitative and quantitative analysis to monitor market risk exposures, particularly their potential impact upon investment balances. The Company pursues a conservative investment strategy and its investments in bonds have been in high quality, liquid, government and corporate bonds. These bonds typically have relatively short duration so that changing interest rates have a relatively low impact on investment balances. The holdings in collective investment schemes comprise underlying units with very short duration and hence are exposed to negligible market risk.

(i) Foreign currency risk

The Company holds its assets and liabilities predominantly in Pounds Sterling, Euros and US dollars (and currencies pegged to the US dollar). It is the Company's policy to match assets and liabilities in the currencies it is exposed to on a monthly basis in order to minimise foreign currency risk. The table below details the Company's assets and liabilities, converted into Pounds Sterling, by currency at 31 December 2018.

2018	GBP	EUR	USD (and pegged)	Other	Total
	£'000	£'000	£'000	£'000	£'000
Assets	162,097	31,148	46,577	11,826	**251,648**
Liabilities	(79,908)	(30,608)	(48,658)	(10,947)	**(170,121)**
Net Assets	82,189	540	(2,081)	879	**81,527**

2017	GBP	EUR	USD (and pegged)	Other	Total
	£'000	£'000	£'000	£'000	£'000
Assets	187,351	28,634	42,085	7,870	**265,940**
Liabilities	(73,715)	(27,688)	(44,775)	(8,571)	**(154,749)**
Net Assets	113,636	946	(2,690)	(701)	**111,191**

The table below shows the impact on the Company's net assets of a 5% appreciation or depreciation of each currency relative to sterling, as at 31 December 2018

2018	GBP	EUR	USD (and pegged)	Other	Total
	£'000	£'000	£'000	£'000	£'000
5% Appreciation	-	27	(104)	44	(33)
5% Depreciation	-	(27)	104	(44)	33

2017	GBP	EUR	USD (and pegged)	Other	Total
	£'000	£'000	£'000	£'000	£'000
5% Appreciation	-	47	(135)	(35)	(123)
5% Depreciation	-	(47)	135	35	123

(ii) Interest rate risk

The Company has held investments in its balance sheet that are sensitive to movements in interest rates. The sensitivity of the Company's investment portfolio to movements in interest rates is monitored by the Finance Committee.

The table below shows the estimated immediate impact on the Company's profit or loss and shareholder's funds of a 1% increase in the UK, US and Euro interest rates on the market value of the Company's investments:

	2018	2017
	£'000	£'000
Profit (Loss) produced by 1% increase in UK interest rates	-	(231)
Profit (Loss) produced by 1% increase in US interest rates	-	(7)
Profit (Loss) produced by 1% increase in Euro interest rates	-	-

Notes to the Financial Statements (continued)

2. Risk management (continued)

(b) Credit risk

Credit risk refers to the risk of loss as a result of failure by another party to meet its contractual obligations or failure to perform them in a timely fashion. This risk arises where the Company provides insurance and reinsurance on deferred terms, seeks to recover amounts under contracts of reinsurance, or invests or deposits surplus cash.

In uncertain market conditions the inherent level of credit risk from all business counterparties is heightened.

Credit risk arising from insurance assets is managed and monitored by the Credit Committee (which reports into the Finance Committee). Credit risk arising from reinsurance assets is managed and monitored by the Underwriting and Operations Committee ("UOC"). Credit risk arising from investment assets is managed and monitored by the Finance Committee.

The Company reinsures only with reinsurers that have a minimum credit rating of A- from either S&P or AM Best, and takes account of the latest information and assessments from independent advisers. The UOC monitors all reinsurers and reviews the reinsurance programme annually. It also monitors exposures against agreed limits.

The latest available information for all new brokers is assessed and a credit limit assigned prior to accepting any business. The Credit Committee monitors outstanding debts due from brokers and clients on an ongoing basis.

Credit risk in respect of cash and invested assets is mitigated by the Company's investment policy and by strict guidelines given to investment managers. These restrict the proportion of assets invested in or deposited with lower rated entities and prohibit investment in sub-investment grade entities.

These restrictions also limit the amount invested with any one counterparty with which the Company can trade, ensuring that exposures are spread across a number of approved entities. In order to avoid compounding insurance-related credit risk, investment in insurance companies is prohibited. The credit profile of the investments and large exposure to individual counterparties is monitored and regularly reviewed by the Finance Committee.

The table below details the Company's exposure to credit risk by asset type, with reference to the credit rating of the counterparties.

2018	AAA £'000	AA £'000	A £'000	<A £'000	Not Rated £'000	Total £'000
Reinsurers' share of outstanding claims and IBNR	-	6,672	90,761	-	-	97,433
Financial Investments:						
Debt securities and other fixed income	-	4,999	24,871	-	-	29,870
Deposits with credit institutions	-	-	64,993	-	-	64,993
Holdings in collective investment schemes	16,170	-	-	-	-	16,170
Insurance debtors	-	-	-	-	9,094	9,094
Reinsurance debtors	-	152	5,042	-	-	5,194
Other debtors	-	-	-	-	13	13
Cash at bank and in hand	-	-	4,276	9	-	4,285
	16,170	11,823	189,943	9	9,107	227,052

2017 (restated)	AAA £'000	AA £'000	A £'000	<A £'000	Not Rated £'000	Total £'000
Reinsurers' share of outstanding claims and IBNR	-	8,154	76,242	-	-	84,396
Financial Investments:						
Debt securities and other fixed income	6,235	7,439	30,354	7,256	-	51,284
Deposits with credit institutions	-	6,500	66,858	-	-	73,358
Holdings in collective investment schemes	17,550	-	-	-	-	17,550
Insurance debtors	-	-	-	-	11,584	11,584
Reinsurance debtors	-	36	3,314	-	-	3,350
Other debtors	-	-	-	-	262	262
Cash at bank and in hand	-		254	1,748	-	2,002
	23,785	22,129	177,022	9,004	11,846	243,786

The 2017 analysis has been re-presented so as to be comparable with 2018 by correctly analysing reinsurance debtors by the credit rating of counterparties.

Notes to the Financial Statements (continued)

2. Risk management (continued)

(b) Credit risk (continued)

The Company has debtors arising from direct insurance and reinsurance operations that are overdue but not impaired at the reporting date. The Company also has debtors arising from direct insurance operations that are impaired at the reporting date. These debtors have been individually assessed for impairment by considering information such as the occurrence of significant changes in the counterparty's financial position, patterns of historical payment and disputes with counterparties.

An analysis of the carrying amounts of overdue or impaired debtors is presented in the table below:

2018	Direct insurance receivables £'000	Reinsurance receivables £'000	Total £'000
Past due but not impaired debtors:			
Past due by:			
0-3 months	6,331	2,908	9,239
4-6 months	1,091	638	1,729
7-9 months	648	-	648
10-12 months	124	-	124
13-18 months	304	-	304
over 18 months	-	-	-
Past due but not impaired debtors	8,498	3,546	12,044
Impaired financial debtors	756	438	1,194
Gross value of past due and impaired debtors	9,254	3,984	13,238
Neither past due nor impaired debtors	596	1,648	2,244
Net carrying value	9,094	5,194	14,288

2017	Direct insurance receivables £'000	Reinsurance receivables £'000	Total £'000
Past due but not impaired debtors:			
Past due by:			
0-3 months	6,251	2,315	8,566
4-6 months	2,164	292	2,456
7-9 months	889	-	889
10-12 months	71	-	71
13-18 months	227	-	227
over 18 months	-	-	-
Past due but not impaired debtors	9,602	2,607	12,209
Impaired financial debtors	888	416	1,304
Gross value of past due and impaired debtors	10,490	3,023	13,513
Neither past due nor impaired financial debtors	1,982	743	2,725
Net carrying value	11,584	3,350	14,934

Notes to the Financial Statements (continued)

2. Risk management (continued)

(c) Liquidity risk

Liquidity risk is the risk that the Company does not have sufficient financial resources available to meet its obligations as they fall due, or is able to secure them only at excessive cost. Liquidity risk has been categorised into two main types:

- Funding liquidity risk: the risk of unexpected unfunded short term cash out flow on a day-to-day basis
- Realistic disaster scenarios ("RDS") and asset liquidity risk: the risk of insufficient liquid financial resources in stressed markets.

Liquidity risk is monitored and regularly reviewed by the Finance Committee.

Funding liquidity risk is managed by the close monitoring and modelling of cash positions and working capital requirements. In order to ensure that the Company can meet its obligations to policyholders, sufficient assets to meet the worst RDS claim event net of reinsurance recoveries are held in cash, cash equivalents or government bonds. This liquidity stress test is reported to the Finance Committee. In addition, the Company's policyholders benefit from a credit support guarantee in place with Mitsui Sumitomo Insurance Company Limited, the immediate parent company.

The table below analyses the undiscounted cash flows of the Company's monetary liabilities into their relevant maturity groups based on the period remaining at the year end to their contractual maturities or expected settlement dates.

2018	**Carrying amount £'000**	**Up to 1 year £'000**	**1-3 years £'000**	**3-5 years £'000**	**Over 5 years £'000**	**Total £'000**
Financial Liabilities:						
Insurance creditors	261	261	-	-	-	261
Reinsurance creditors	14,296	14,296	-	-	-	14,296
Other creditors	4,015	4,015	-	-	-	4,015
Financial Liabilties	**18,572**	**18,572**	-	-	-	**18,572**
Net claims outstanding	23,694	8,492	7,159	3,092	4,951	23,694
	42,266	**27,064**	**7,159**	**3,092**	**4,951**	**42,266**

2017	**Carrying amount £'000**	**Up to 1 year £'000**	**1-3 years £'000**	**3-5 years £'000**	**Over 5 years £'000**	**Total £'000**
Financial Liabilities:						
Insurance creditors	556	556	-	-	-	556
Reinsurance creditors	13,133	13,133	-	-	-	13,133
Other creditors	6,136	6,136	-	-	-	6,136
Financial Liabilties	**19,825**	**19,825**	-	-	-	**19,825**
Net claims outstanding	23,370	7,649	5,602	5,200	4,919	23,370
	43,195	**27,474**	**5,602**	**5,200**	**4,919**	**43,195**

Notes to the Financial Statements (continued)

2. Risk management (continued)

(d) Insurance risk

The acceptance of insurance risk is the basis of the business undertaken by the Company and is therefore the principal source of its assets and liabilities.

Insurance risk refers to fluctuations in the timing, frequency and severity of insured events relative to expectations at the time of underwriting and includes consideration of the frequency and severity of claim settlements (claims risk), and the sufficiency of claims estimates (reserving risk). This may be exacerbated by an incorrect understanding of the risks assumed, a failure to price the exposures properly, a failure to prudently manage the portfolio insurance risk or ineffective management of underwriting delegated to third parties.

The Board, with support from the Underwriting and Operations Committee and the Risk and Capital Committee, manages insurance risk by setting the risk appetite and strategy which form the framework for the annual business plan. Performance against the business plan is monitored throughout the year by:

- Measuring and reporting against defined limits
- Identifying and reporting insurance risk issues and losses
- Developing appropriate corrective action plans.

A key component of the management of underwriting risk for the Company is a disciplined underwriting strategy. Product pricing is designed to incorporate appropriate premiums for each type of assumed risk. Risk aggregations are monitored across the portfolio in order to avoid excessive accumulation of exposure to individual loss events or systemic loss generating issues.

The Company makes use of reinsurance to mitigate the risk of incurring significant losses linked to one event, including excess of loss reinsurance, enabling the Company to manage underwriting risk within its risk appetite.

The Board delegates responsibility for oversight of all aspects of the Company's claims and reserving activities to the Underwriting and Operations Committee and Reserving Committee respectively.

(i) Concentration

The table below details the Company's risk exposures by geographical region and class of business:

2018	Gross premiums written £'000	Outward reinsurance premiums £'000	Net premiums written £'000
UK	34,425	(32,408)	2,017
Europe	10,649	(9,997)	652
Other	6,658	(6,246)	412
	51,732	(48,651)	3,081

2017	Gross premiums written £'000	Outward reinsurance premiums £'000	Net premiums written £'000
UK	32,768	(30,735)	2,033
Europe	8,515	(7,952)	563
Other	5,804	(4,650)	1,154
	47,087	(43,337)	3,750

Both gross premiums written and outward reinsurance premiums are analysed by reference to the location of risk.

The concentration of non-life insurance by the type of contract of the underlying risk is summarised below by reference to premium written and net technical provisions:

2018	Gross premiums written £'000	Outward reinsurance premiums £'000	Net premiums written £'000	Net Technical Provisions £'000
Fire and other damage to property	20,590	(19,428)	1,162	3,401
Marine, aviation and transport	21,626	(20,005)	1,621	3,941
Third party liability	8,515	(8,237)	278	17,545
Miscellaneous	1,001	(981)	20	189
	51,732	(48,651)	3,081	25,076

2017	Gross premiums written £'000	Outward reinsurance premiums £'000	Net premiums written £'000	Net Technical Provisions £'000
Fire and other damage to property	17,965	(16,974)	991	2,442
Marine, aviation and transport	19,865	(18,003)	1,862	2,940
Third party liability	8,160	(7,742)	418	19,479
Miscellaneous	1,097	(618)	479	138
	47,087	(43,337)	3,750	24,999

Notes to the Financial Statements (continued)

2. Risk management (continued)

(d) Insurance risk (continued)

(ii) Sensitivity analysis

The liabilities as calculated at the reference date could prove to be lower or higher than the ultimate cost of settling claims arising. This level of uncertainty varies between the risks underwritten, and subsequent increases or decreases in liabilities can arise from developments in the reserves set for a particular case or from changes in estimates for claims incurred but not reported.

A 5% increase or decrease in the net incurred claims ratio would have the following effect on the profit or loss account and equity:

2018	**5% increase £'000**	**5% decrease £'000**
Fire and other damage to property	(63)	63
Marine, aviation and transport	(84)	84
Third party liability	(17)	17
Miscellaneous	(3)	3
	(167)	167

2017	**5% increase £'000**	**5% decrease £'000**
Fire and other damage to property	(64)	64
Marine, aviation and transport	(93)	93
Third party liability	(22)	22
Miscellaneous	(17)	17
	(196)	196

(iii) Claims development

Claims development is shown in the tables below, both gross and net of reinsurance ceded, on an underwriting year basis. Balances have been translated at exchange rates prevailing at 31 December of each calendar year.

Analysis of claims development (cumulative) - gross

Underwriting year	**2011 £'000**	**2012 £'000**	**2013 £'000**	**2014 £'000**	**2015 £'000**	**2016 £'000**	**2017 £'000**	**2018 £'000**	**Total £'000**
Estimate of ultimate claims:									
at end of underwriting year	37,394	20,640	18,779	18,336	15,034	17,314	19,491	27,665	
One year later	46,801	26,315	51,850	24,660	25,171	29,491	36,480		
Two years later	52,076	24,228	56,740	25,944	22,586	28,748			
Three years later	50,206	23,751	59,214	26,277	21,793				
Four years later	43,991	22,984	55,171	22,809					
Five years later	43,704	23,664	54,408						
Six years later	42,109	23,490							
Seven years later	41,684								
Less gross claims paid	30,946	20,163	49,993	15,622	14,779	17,118	13,256	3,506	
Gross ultimate claims reserve	10,738	3,327	4,415	7,187	7,014	11,631	23,224	24,159	91,695
Provision for prior financial years									29,432
Gross claims reserves									121,127

Analysis of claims development (cumulative) - net

Underwriting year	**2011 £'000**	**2012 £'000**	**2013 £'000**	**2014 £'000**	**2015 £'000**	**2016 £'000**	**2017 £'000**	**2018 £'000**	**Total £'000**
Estimate of ultimate claims:									
at end of underwriting year	3,549	7,020	7,434	5,145	2,840	2,205	2,503	3,861	
One year later	6,768	6,889	8,982	5,264	3,425	2,788	2,363		
Two years later	8,146	6,645	8,428	5,228	2,749	1,998			
Three years later	7,392	6,288	8,329	6,582	2,488				
Four years later	7,101	5,882	6,294	6,232					
Five years later	7,388	6,894	6,324						
Six years later	5,800	6,381							
Seven years later	5,644								
Less net claims paid	4,142	4,864	5,883	1,999	1,085	1,382	518	97	
Net ultimate claims reserve	1,502	1,517	441	4,234	1,403	616	1,844	3,764	15,321
Provision for prior financial years									8,373
Net claims reserves									23,694

Notes to the Financial Statements (continued)

2. Risk management (continued)

(e) Operational risk

Operational risk refers to the risk of loss to the business from inadequate or failed internal processes, people or systems, or from certain external events.

Operational risk is monitored and regularly reviewed by the Underwriting and Operations Committee.

The Company seeks to manage exposure to operational risks by the implementation of a robust set of systems and controls, including consideration of business continuity management.

(f) Group risk

Group risk refers to the potential impact of risks arising from being part of the MS&AD Insurance group.

Group risk is monitored and regularly reviewed by the Underwriting and Operations Committee.

The directors and senior managers maintain a close working relationship with the Company's parent group. There are formal regular meetings and a small team of head-office representatives are permanently based in London who attend all relevant board, management and oversight committees.

(g) Regulatory and compliance risk

Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. The Company must comply with all laws and regulations governing the Company's operations, including the requirements of the Prudential Regulation Authority and the Financial Conduct Authority.

Regulatory risk is monitored and regularly reviewed by the Board and its relevant committees while the Compliance Department monitors regulatory developments and carries out a compliance monitoring programme on an ongoing basis.

3. Capital management

(a) Available capital

All of the Company's assets less liabilities are available to meet its capital requirement, and hence the Company's available capital is calculated as the surplus of these assets over liabilities. The Company's capital structure is solely comprised of issued, fully paid, ordinary shares and retained profits.

(b) Capital requirement

The Company is a regulated undertaking and subject to the supervision of the Prudential Regulation Authority. Since 1 January 2016 this supervision has been in accordance with the Solvency II Framework. Under this supervisory regime the Company is obliged to calculate the surplus of its available capital over its regulatory capital requirements in accordance with the prevailing rules. Since 1 January 2016, these rules have been as specified in the Solvency II Framework. The Company uses the Standard Formula as defined in these rules to calculate its regulatory capital requirement. For purposes of comparison to this capital requirement, assets and liabilities and hence available capital are valued in accordance with these rules.

(c) Management of capital

The Company's available capital and the excess over its capital requirements are reported quarterly to the Prudential Regulation Authority. Any decision to redeploy or withdraw capital or any injection of new capital is discussed in advance with the Company's shareholder and regulators. During 2018 the Company returned £30,000,000 of capital to its immediate parent company, Mitsui Sumitomo Insurance Company Limited, a company incorporated in Japan. Notwithstanding this return of capital, throughout both 2017 and 2018 the Company has maintained a wide surplus of available capital over its regulatory capital requirements.

Notes to the Financial Statements (continued)

4. Analysis of underwriting result

An analysis of gross premiums written, gross premiums earned, gross claims incurred, gross operating expenses and the reinsurance balance by class of business is shown in the tables below:

2018	**Marine Aviation and Transport**	**Fire and other damage to property**	**Third Party Liability**	**Miscellaneous**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Gross premiums written					
Risks located in UK	19,368	7,153	7,057	847	34,425
Risks located in Europe	1,448	7,958	1,206	37	10,649
Risks located in other countries	810	5,479	252	117	6,658
	21,626	20,590	8,515	1,001	51,732
Gross premiums earned	20,547	19,411	8,425	1,156	49,539
Gross claims incurred	(17,456)	(5,835)	(7,498)	(6,822)	(37,611)
Gross operating and technical expenses	(2,675)	(2,117)	(779)	(251)	(5,822)
Gross technical result	416	11,459	148	(5,917)	6,106
Reinsurance balance	501	(9,586)	2,436	6,027	(622)
Net technical result	917	1,873	2,584	110	5,484
Operating expenses					(5,940)
Balance on Technical Account					(456)
Net technical provision	(3,941)	(3,401)	(17,545)	(189)	(25,076)

2017	**Marine Aviation and Transport**	**Fire and other damage to property**	**Third Party Liability**	**Miscellaneous**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Gross premiums written					
Risks located in UK	17,971	6,569	7,506	722	32,768
Risks located in Europe	420	7,354	565	176	8,515
Risks located in other countries	1,474	4,042	89	199	5,804
	19,865	17,965	8,160	1,097	47,087
Gross premiums earned	19,866	17,356	6,571	1,301	45,094
Gross claims incurred	(13,994)	(4,584)	(5,950)	(642)	(25,170)
Gross operating and technical expenses	(2,436)	(1,928)	(739)	(306)	(5,409)
Gross technical result	3,436	10,844	(118)	353	14,515
Reinsurance balance	(2,059)	(8,623)	1,982	(79)	(8,779)
Net technical result	1,377	2,221	1,864	274	5,736
Operating expenses					(6,173)
Balance on Technical Account					(437)
Net technical provision	(2,940)	(2,442)	(19,479)	(138)	(24,999)

This analysis reflects the management information used by the chief operating decision maker.

Notes to the Financial Statements (continued)

4. Analysis of underwriting result (continued)

An analysis of gross premiums written, profit/(loss) on ordinary activities before tax and net assets by geographical split is shown in the table below:

	2018 £'000	2017 £'000
Gross premiums written		
Risks underwritten in UK	51,693	47,016
Risks underwritten in Europe	-	-
Risks underwritten in other countries	39	71
Total Gross Premiums Written	51,732	47,087

All premiums written are for contracts with external customers.

	2018 £'000	2017 £'000
Profit/(Loss) on ordinary activities before tax		
Sourced in UK	406	212
Sourced in Europe	42	(20)
Sourced in other countries	(58)	98
Total Profit/(Loss) on ordinary activities before tax	390	290
Net Assets/(Liabilities)		
Sourced in UK	83,059	112,746
Sourced in Europe	42	(20)
Sourced in other countries	(1,574)	(1,535)
Total Net Assets	81,527	111,191

Notes to the Financial Statements (continued)

5. Technical provisions

	Provision for unearned premiums £'000	Claims outstanding £'000	Total technical provisions £'000
Gross Amount			
As at 31 December 2017	20,197	107,766	127,963
Additions	21,908	33,837	55,745
Utilised during the year	(19,715)	(21,897)	(41,612)
Foreign exchange	70	1,421	1,491
As at 31 December 2018	22,460	121,127	143,587
Reinsurance amount			
As at 31 December 2017	18,568	84,396	102,964
Additions	20,541	28,523	49,064
Utilised during the year	(18,098)	(16,875)	(34,973)
Foreign exchange	67	1,389	1,456
As at 31 December 2018	21,078	97,433	118,511
Net amount			
As at 31 December 2018	1,382	23,694	25,076
As at 31 December 2017	1,629	23,370	24,999

6. Investment income

	2018 £'000	2017 £'000
Income from listed investments	651	845
Income from other investments	571	641
	1,222	1,486
Net realised investment losses	(257)	(300)
Net unrealised investment losses	-	(317)
Total investment income	965	869

7. Investment expenses and charges

	2018 £'000	2017 £'000
Investment management expenses	(53)	(100)
Total investment expenses and charges	(53)	(100)

Notes to the Financial Statements (continued)

8. Operating profit/(loss)

	2018 £'000	2017 £'000
The operating profit/(loss) is stated after charging:		
Depreciation of intangible assets	205	205
Operating lease payments – premises	225	262
Auditors' remuneration including irrecoverable VAT		
In respect of audit of financial statements	84	83
In respect of other audit-related services	6	62
In respect of other assurance services	41	42

9. Key management personnel compensation

	2018 £'000	2017 £'000
Directors' emoluments	774	611
Company contribution to money purchase pension schemes	6	11
	780	622

The aggregate emoluments of the highest paid director were £383,759 (2017: £249,886). These emoluments included pension and other benefits of £6,350 (2017: £5,118). None of the directors received retirement benefits under money purchase schemes or defined benefit schemes.

Key management personnel are taken to be the Company's directors.

10. Staff numbers and costs

The average number of permanent staff employed by the Company in the UK during the year was as follows:

	2018 No.	2017 No.
Accounting	7	7
Administration	12	11
Claims	8	9
Underwriting	9	9
	36	36

Additionally, the average number of UK contract and agency staff during the year was 1 (2017: 2).

The aggregate payroll in respect of all permanently employed personnel was as follows:

	2018 £'000	2017 £'000
Wages and salaries	3,500	3,327
Social security costs	241	272
Other pension costs	359	326
	4,100	3,925

Notes to the Financial Statements (continued)

11. Taxation

Total tax recognised in the profit or loss account

	2018 £'000	2017 £'000
Current tax		
Current tax credit in the period	-	115
Adjustments in respect of prior periods	(75)	-
Total Tax	(75)	115

	2018 £'000	2017 £'000
Current Tax (charge) / credit	(75)	115
Deferred Tax	-	-
Recognised in Profit and Loss account	(75)	115

Analysis of current tax recognised in profit or loss

	2018 £'000	2017 £'000
UK corporation tax (charge) / credit	(75)	115
Foreign tax	-	-
Total current tax recognised in profit or loss	(75)	115

Reconciliation of effective tax rate

	2018 £'000	2017 £'000
Profit or loss for the year	390	290
Total tax (charge) / credit	(75)	115
Profit or loss for the year	315	405
Tax using the UK corporation tax rate of 19.0% (2017 : 19.25%)	(75)	(56)
Under/(over) provided in prior years	(75)	-
Non-deductible expenses	27	(85)
Temporary differences	-	256
Utilisation of carried forward losses	48	-
Foreign Tax	-	-
Group relief	-	-
Total tax (charge) / credit included in profit or loss	(75)	115

Reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. These will reduce the Company's future current tax charge accordingly.

Deferred Tax

A net deferred tax asset of £2,425,367 (2017: £2,317,179) has not been recognised in the accounts in respect of losses carried forward and timing differences on accelerated depreciation over capital allowances. There is uncertainty as to whether the Company will generate sufficient taxable profits in the future to utilise the net deferred tax asset. The net deferred tax asset has been calculated on the rate of 17% enacted at the balance sheet date.

Notes to the Financial Statements (continued)

12. Financial investments

	2018		2017	
	Market Value	Cost	Market Value	Cost
	£'000	£'000	£'000	£'000
Debt securities and other fixed-income securities:				
Government and supranational securities	-	-	1,306	1,306
Government agency and regional government	-	-	4,232	4,348
Corporate bonds	29,870	29,757	45,746	46,044
Holdings in collective investment schemes	16,170	16,170	17,550	17,550
Deposits with credit institutions	64,993	64,993	73,358	73,358
Cash at bank and in hand	4,285	4,285	2,002	2,002
	115,318	115,205	144,194	144,608

Fair value

Financial instruments that are classified as fair value through the profit or loss account are assigned a level using a fair value hierarchy that reflects the significance of the factors used in their measurement.

Level 1 financial instruments comprise government bonds that are regularly traded and deposits with credit institutions and collective investment schemes.

- Bonds have been valued at fair value using quoted prices in an active market.
- Deposits with credit institutions are included at cost
- Holdings in collective investment schemes are valued on a stable Net Asset Value basis. These are readily convertible into cash, are subject to an insignificant risk of changes in fair value, and are used by the Company in the management of its short-term commitments.

Level 2 financial instruments are less regularly traded government and agency bonds, supranational bonds, corporate bonds, currency derivatives, bond futures, and fund investments.

Bonds with a term more than one year are included in the balance sheet at bid price using prices supplied by the custodian or by the investment managers, who obtain market data from numerous independent pricing services. The prices used are reconciled against a common market pricing source. Bonds with a term of one year or less that are held to maturity are included at cost plus time apportioned income.

Level 3 financial instruments have a fair value derived from inputs that are not based on observable market data. The Company does not currently hold any level 3 financial instruments.

2018	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Debt securities and other fixed-income securities				
Government and supranational securities	-	-	-	-
Government agency and regional government securities	-	-	-	-
Corporate bonds	-	29,870	-	29,870
Holdings in collective investment schemes	16,170	-	-	16,170
Deposits with credit institutions	64,993	-	-	64,993
Cash at bank an in hand	4,285	-	-	4,285
	85,448	29,870	-	115,318

2017	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Debt securities and other fixed-income securities				
Government and supranational securities	-	1,306	-	1,306
Government agency and regional government securities	-	4,232	-	4,232
Corporate bonds	-	45,746	-	45,746
Holdings in collective investment schemes	17,550	-	-	17,550
Deposits with credit institutions	73,358	-	-	73,358
Cash at bank an in hand	2,002	-	-	2,002
	92,910	51,284	-	144,194

Notes to the Financial Statements (continued)

13. Debtors arising out of direct insurance operations

Debtors arising out of direct insurance operations of £9,094,004 (2017: £11,583,735) represent amounts owed by intermediaries.

14. Debtors arising out of reinsurance operations

The directors are satisfied that the provision of £437,657 (2017: £416,323) for non-recoverability of debtors arising out of reinsurance operations is adequate.

15. Other debtors

	2018 £'000	2017 £'000
Current taxation recoverable	-	180
Other debtors	13	82
	13	262

16. Intangible assets

	Software development costs £'000	Total £'000
Cost or valuation		
At 1 January 2018	1,026	1,026
Exchange movement	-	-
Additions	-	-
Disposals	-	-
At 31 December 2018	1,026	1,026
Amortisation		
At 1 January 2018	(376)	(376)
Exchange movement	-	-
Disposals	-	-
Amortisation charge for year	(205)	(205)
At 31 December 2018	(581)	(581)
Net Book Value		
At 31 December 2018	445	445
At 31 December 2017	650	650

17. Cash at bank and in hand

Cash at bank and in hand held by the Company includes £604,393 (2017: £565,512) pledged by way of letters of credit in favour of Royal Bank of Scotland.

18. Called up share capital

Issued share capital:	2018 £'000	2017 £'000
Issued and fully paid ordinary shares of £1 each	80,700	160,900

At 31 December 2018, the paid share capital comprised of 80,700,000 (2017: 160,900,000) ordinary shares of £1 each.

Ordinary shareholders appoint and approve the company directors and have one vote for each share held and are entitled to dividends when these are declared by the board of directors. On winding up, they have last claim on the assets and income after other creditors have been paid.

In 2018 the paid share capital was reduced by 80,200,000 ordinary shares of £1 each. This reduction was effected by means of a solvency statement signed by all of the Company's directors and a special resolution of the Company's sole shareholder, Mitsui Sumitomo Insurance Company Limited, a company incorporated in Japan. In making the solvency statement each of the directors affirmed that they were satisfied that there was no ground on which the Company could be found to be unable to pay its debts on the date the statement was made, and that the Company would be able to pay its debts as they fall due in the twelve months immediately following the statement. Following the signing of the solvency statement and the passing of the special resolution the necessary documents were delivered to Companies House to record the reduction in paid share capital and the value of the reduction in paid share capital was credited to the profit and loss account.

Notes to the Financial Statements (continued)

19. Dividend payment

During 2018 an interim dividend of £30,000,000 was declared by the directors to the Company's sole shareholder, Mitsui Sumitomo Insurance Company Limited, a company incorporated in Japan. The dividend was paid in 2018 by means of a cash transfer of £30,000,000 from the Company to its shareholder.

20. Creditors arising out of direct insurance operations

Creditors arising out of direct insurance operations amounted to £261,257 (2017 : £556,035)

21. Creditors arising out of reinsurance operations

	2018 £'000	2017 £'000
Amounts owed to parent company	5,909	6,334
Amounts owed to other cedants	8,387	6,799
	14,296	13,133

22. Other creditors including taxation and social security

	2018 £'000	2017 £'000
Other taxes	1,092	1,335
Amounts due to fellow subsidiary undertakings	2,923	4,801
	4,015	6,136

23. Trust fund

At 31 December 2018 there existed a trust fund of USD 2,500,000 (2017: USD 2,500,000) established by means of a Letter of Credit guarantee at Bank of Tokyo-Mitsubishi Trust Company (Corporate Trust Department), New York as security in respect of business emanating from the United States of America. This Letter of Credit guarantee has been issued by MS&AD Insurance Group Holding, Inc. (a company incorporated in Japan). Additionally a trust fund of USD 5,400,000 (2017: USD 5,400,000) is pledged by way of letters of credit in favour of Sumitomo Mitsui Banking Corporation, as security in respect of business emanating from the United States of America.

24. Lease commitments

Annual commitments held in respect of Land and Buildings make up leases which expire as follows:

Premises	2018 £'000	2017 £'000
Expiring within 1 year	3	1
Expiring between 1-2 years	-	-
Expiring between 2-5 years	-	-
More than 5 years	-	-
	3	1

25. Ultimate holding company

As at 31 December 2018, the smallest and largest group of undertakings of which the company was a member and for which group financial statements are prepared is headed up by MS&AD Insurance Group Holdings, Inc., a company incorporated in Japan, which is the ultimate parent undertaking. A copy of the consolidated financial statements is available from the Registered Office of MS&AD Insurance Group Holding, Inc., Tokyo Sumitomo Twin Building (West Tower), 27-2, Shinkawa 2-Chome, Chuo-Ku, Tokyo, Japan.

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