Aioi Nissay Dowa Europe Limited

Group Solvency and Financial Condition Report

Year ended 31 December 2019

Table of contents

Summary

This is the Group Solvency and Financial Condition Report ("SFCR") for Aioi Nissay Dowa Europe Limited ("ANDEL", "the Company", or "the Group" when referring to the Group as a whole), as at 31 December 2019. It is prepared in accordance with the Solvency II Regulations.

1. Legal disclaimer

This SFCR has been prepared solely to fulfil the obligations arising from the supervisory reporting requirements (Solvency and Financial condition Report under Articles 51 et seq. of the SII Directive 2009/138/EC in conjunction with Articles 290 et seq. of Delegated Regulation (EU) 2015/35 of the Commission of 10 October 2014 and Articles 82 et seq. of the local Law of 7 December 2015 on the insurance sector).

Unless otherwise indicated in this SFCR, all statements and information contained herein are based on facts and knowledge as at the reference date of this report (14 July 2020). The same applies to all forward-looking statements and information contained in this report, such as forecasts, expectations, developments, plans, intentions, assumptions, beliefs or outlooks. Forward-looking statements are subject to many factors and no assurance, warranty or guarantee is given that the forward-looking statements will take place or be fulfilled as expected. Furthermore, new factors with a significant impact on forward-looking statements may arise at any time. It cannot be predicted what these factors are and what influence they have individually or in combination with other circumstances. It is not intended to update any of these forward-looking statements and information due to changed circumstances or new knowledge unless expressly required by applicable laws or regulations.

2. Business and performance summary

The Company's principal activity is that of a holding company for insurance and insurance-related businesses. The Company's key operating subsidiaries focus on motor insurance and other auto-centric insurance products. Through its subsidiary companies, the Group operates as a general insurer in the UK and Europe, and also in Europe as a credit life insurer. The Company also has an insurance intermediary and a managing general agent subsidiary.

ANDEL is a private company incorporated, domiciled and registered in the United Kingdom. The registered number is 11054298 and the registered address is: 7th Floor, 52-56 Leadenhall Street, London, EC3A 2BJ. The independent auditor of the Company is KPMG LLP, 15 Canada Square, London E14 5GL.

ANDEL is a wholly-owned subsidiary of Aioi Nissay Dowa Insurance Company Limited ("ADJ"), a company incorporated in Japan. MS&AD Insurance Group Holdings, Inc., a company incorporated in Japan, is the ultimate parent company and ultimate controlling party. The MS&AD Insurance Group is Japan's largest non-life insurer and one of the largest non-life insurance groups in the world.

Group restructure

The Group's operating model and corporate structure previously relied on so-called "passporting" permissions to function across the European Economic Area ("EEA"), either through freedom of establishment or freedom of services. Since the UK's referendum in June 2016 when the UK voted to leave the European Union ("EU"), the possibility of a so-called "hard Brexit", with no transitional arrangements in place for trading in the EEA after the date when the UK leaves the EU, and no passporting in either direction, posed a threat to this operating model.

The UK left the EU on 31 January 2020 and is in a transition period until the end of 2020 while the UK and EU negotiate their future relationship. During this transition period, the UK will continue to follow all of the EU's rules and its trading relationship will remain the same. It is expected that new rules will take effect on 1 January 2021. In preparation for this, the Group reorganised its corporate structure to enable the business to continue trading within the EEA.

The Group reorganisation of its corporate structure consisted of the following changes:

- Creating a new entity, ANDEL, to replace ANDIE as the holding company for the Group. ANDEL became the Group's holding company on 11 April 2018;
- Converting the Group's existing non-life insurance entity, Aioi Nissay Dowa Insurance Company of Europe ("ANDIE") and its fellow subsidiary, the insurance intermediary Toyota Insurance Management ("TIM"), to "Societas Europaea" ("SE") form and re-domiciling them to Luxembourg. The re-domicile of both companies was completed on 1 March 2019; and
- The creation of a new insurance company in the UK, Aioi Nissay Dowa Insurance UK Limited ("ANDI UK"). This entity was authorised as an insurer by the UK regulatory authorities on 4 July 2019.

The conversion to SE form and the re-domicile to Luxembourg of ANDIE and TIM has enabled the Group's existing business model in the EU and the EEA to continue largely unaffected, with the European branch structures of ANDIE and TIM preserved during the process. Following the migration to Luxembourg, ANDIE and TIM set up freedom of establishment branches in the UK. With the UK branches in place, the two companies will either be able to continue to operate in the UK initially through so-called "passporting" and, after the end of the transition period, through the "temporary permissions regime".

While ANDIE can serve existing and new UK customers through its UK branch, the Group's intention is to write new business in the UK through the new UK insurance company, ANDI UK. This company started to underwrite elements of ANDIE's UK business from 1 January 2020 and is expected gradually to take over the writing of ANDIE's new and renewal UK business during 2020. ANDIE's existing UK policies will be maintained within the company until claims are paid or policies expire.

The aim of the Group's Brexit-driven restructure was to ensure that there would be no disruption to the Group's ability to serve its customers or to the level of cover, expertise and service that those customers received. The Group is pleased to have delivered on this objective and to be able to continue to operate across both the UK and the EEA.

The Group now includes three regulated insurance company subsidiaries:

- ANDIE, a Luxembourg-registered company (registered no. B232302). ANDIE's registered office is: 4 Rue Lou Hemmer, L-1748 Senningerberg, Luxembourg. ANDIE is authorised by the Commissariat aux Assurances ("CAA"), 7 Boulevard Joseph II, L-1840 Luxembourg. ANDIE's independent auditor is KPMG Luxembourg Société coopérative, 39 Avenue John F. Kennedy, L-1855 Luxembourg. Until its migration to Luxembourg on 1 March 2019, ANDIE was authorised by Prudential Regulation Authority ("PRA"), 20 Moorgate, London, EC2R 6DA, United Kingdom and regulated by the Financial Conduct Authority ("FCA"), 12 Endeavour Square, London, E20 1JN, United Kingdom. The independent auditor until 1 March 2019 was KPMG LLP, 15 Canada Square, London, E14 5GL, United Kingdom.
- ANDI UK, a UK-registered company (registered no. 1105895). ANDI UK's registered office is: 7th floor, 52-56 Leadenhall Street, London, England, EC3A 2BJ. ANDI UK's independent auditor is KPMG LLP, 15 Canada Square, London, E14 5GL. ANDI UK is authorised by the PRA and regulated by the FCA and the PRA.
- Aioi Nissay Dowa Life Insurance of Europe AG ("ANDLIE"), a German-registered company. ANDLIE is registered in the Munich administrative district (registered no. HRB 188769). ANDLIE is authorised by the Federal Financial Supervisory Authority the Bundesanstalt für Finanzdienstleistungsaufsicht ("BaFin"), Graurheindorfer Str. 108, 53117, Bonn, Germany. The independent auditor is KPMG AG Wirtschaftsprüfungsgesellschaft, Ganghoferstr. 29, 80339 München, Germany.

The Group's supervisor is the PRA in the UK. Until the licensing of ANDI UK, on 4 July 2019, the CAA in Luxembourg was the Group's supervisor.

S&P Global ratings has assessed the long-term financial strength of the Group's non-life insurance subsidiaries ANDIE and ANDI UK as "A+ / Stable".

Business and performance

The Group's key business is the provision of auto-centric insurance products either directly or on behalf of its strategic partners, with telematics or related offerings expected to be an increasingly important part of the business over time. The Group's strategic relationship with Toyota is key and the Group's subsidiary TIM, which is part-owned by Toyota Financial Services (UK) PLC ("Toyota Financial Services"), provides Toyota's insurance expertise and works in support of Toyota across Europe. In the UK, as well as providing Toyota-branded motor insurance, the Group underwrites through the brands Insure The Box, Tesco Bank Box and Drive Like A Girl, all of which focus on the UK young driver and telematics market.

The Group continues to provide some insurance to Japanese-related business in Europe, (known as Japanese Interests Abroad ("JIA") business). This has diminished as much of this business has been transferred to Mitsui Sumitomo Insurance Co Ltd of Japan and its subsidiaries ("Mitsui Sumitomo"). The majority of the JIA business that remains within the Group is focused on motor fleet cover, so closely linked to the Group's core business of automotive insurance.

The Group made a pre-tax loss for the year ended 31 December 2019 of £23.1m (2018: loss of £40.5m). In the prior year, the loss included the impact of write-downs of intangible assets associated with the acquisition of the Group's subsidiary Box Innovation Group Limited ("BIGL") in April 2015.

The Group's underlying performance continued to show an improvement from the result recorded in the prior year, as the Group continued to improve its underwriting performance and to integrate fully the Insure The Box business.

The Group's result excluding exceptional items was as follows:

	2019 £'000	2018 £'000
Pre-tax loss	**(23,113)**	**(40,451)**
One-off costs		
- **Impairment of intangible assets – software**	-	(8,435)
- **Impairment of intangible assets – customer relationships**	-	(1,791)
Loss prior to one-off costs	**(23,113)**	**(30,225)**

The Group wrote more business in 2019 than in the prior year. This increase was driven by growth in the EU and EEA, offsetting a reduction in the UK. The Group has increased its business in Germany and Spain in particular, while in the UK the focus has been on writing business at a sustainable loss ratio and improving profitability. Total gross written premiums in the Group were £356.4m (2018: £338.1m).

The Group's Toyota-branded business had a strong year in 2019, with an excellent result in the Group's main overseas market, Germany. The quality of the Toyota Motor Insurance German offer is well-recognised in the industry, having won once again the industry award for the best motor insurer from AutoHaus Monitor. The award "VersicherungsMonitor" was established in 2009 in order to analyse the procurement of insurance within the automotive insurance industry. The Company's continued success in this prestigious award is a source of great pride and a mark of the Company's ongoing commitment to excellent service to partners and customers.

The Group's gross written premium ("GWP") for general insurance increased from £316.2m in 2018 to £330.0m in 2019. General insurance premium income includes retail motor and related products, motor fleet and motor-related commercial Japanese Interests Abroad ("JIA"). Retail motor and JIA (excluding the Company's Insure The Box ("ITB") and related UK telematics business) grew by 9.4% from £229.4m to £250.9m due to strong performances in several markets, particularly Germany and Spain. Generally, sales across the Group's non-ITB business were in line with expectations.

ITB underwriting comprises the brands Insure The Box, Tesco Bank Box and Drive Like A Girl. Sales through these brands, all of which focus on the UK young driver and telematics market, contributed £79.2m (2018: £86.8m) to the Company's GWP during the year. Premium for the full year was in line with expectations; once again the Company chose to maintain underwriting discipline in this area of its business rather than seeking to increase volumes.

The Group wrote more life insurance business than in the prior year. The Group's subsidiary ANDLIE writes credit life insurance in Germany and France and also reinsurance business in the Italian, Spanish and Polish market. ANDLIE's total GWP was £26.4m (2018: £21.9m).

3. System of governance summary

The system of governance is considered to be appropriate for the Group taking into account the nature, scale and complexity of the risks inherent in the business. There were no material changes in the system of governance in place at the Group level during the reporting period.

During the reporting period, two of the Group's main operating subsidiaries, the non-life insurance company ANDIE and the insurance intermediary TIM, re-domiciled to Luxembourg. The changes to the system of governance as a result of the move of these two subsidiaries to Luxembourg have not been material as regards the Group's overall operations. This is because the two companies which have migrated to Luxembourg have continued to be part of the Group's risk management system and the Group's Three Lines of Defence Model remains in place.

The Board is ultimately responsible and accountable for the performance and strategy of the Group and for ensuring that the Group complies with all legal, statutory, regulatory and administrative requirements. To support the efficient management of the Group the Board has delegated certain functions to committees, though by doing this the Board does not absolve itself of its ultimate responsibility for the Group.

The Board has delegated responsibilities to the Corporate Governance committees and the Business committees. During the reporting period the Corporate Governance committees were: the Group Risk Assurance Committee, the Group Investment Committee, the Group Risk Modelling Committee (a sub-committee of the Group Risk Assurance Committee) and the Group Remuneration Committee. The main Business committee is the Group Executive Directors' Committee, which has two sub-committees, the Group Outwards Reinsurance Committee and the Group Reserving Committee.

The Group operates an enterprise-wide risk management framework that is designed to identify, evaluate, manage and monitor exposure to risk. The process is subject to continuous review and development. The risk management system must comply with regulatory standards at all times.

The Group operates a Three Lines of Defence Model as part of its overall control environment and its risk management system. The main elements of the Three Lines of Defence Model may be summarised as follows:

- First line: the first level of the control environment is the business operations which perform the day-to-day risk management activity.

- Second line: these are the oversight functions of the Group, such as Risk and Compliance, and also include financial controls. These functions set direction, define policy and provide assurance to the Board regarding the strength of the control environment.
- Third line: internal audit is the third line of defence. Internal Audit offers independent challenge to the levels of assurance provided by business operations and oversight functions.

The Group has Risk Assurance and Internal Audit functions. The Compliance and Actuarial functions operate at the level of the individual insurance companies.

The Group considers outsourcing arrangements for an activity when it is not cost-effective or possible to carry out the activity internally. The Group recognises that it remains responsible for discharging all legal and regulatory responsibilities relating to the outsourced activity. In order to reduce the risks associated with outsourcing, the Group has an established outsourcing policy.

4. Risk profile summary

Overall responsibility for the management of the Group's exposure to risk lies with the Board. To support it in its role, the Board has established an enterprise risk management framework comprising risk identification, risk assessment, control and reporting processes. The Board is assisted in its oversight of the risk management framework by the Corporate Governance and Business committees.

The following table sets out the standard formula risk capital components of the Group's consolidated Solvency Capital Requirement ("SCR") and its Minimum Capital Requirement ("MCR") as at 31 December 2019:

Component	2019 £'000	2018 £'000
Non-life underwriting risk	64,965	66,116
Health underwriting risk	13	9
Life underwriting risk	5,827	4,434
Market risk	22,565	18,946
Counterparty default risk	18,140	17,761
Diversification credit	(25,909)	(22,911)
Operational risk	13,409	13,354
SCR	**99,011**	**97,710**
MCR	**42,254**	**40,050**

The largest component of the SCR is non-life underwriting risk. This is the risk that arises from the inherent uncertainty as to the occurrence, amount and timing of insurance liabilities. It manifests itself in variability in the contribution towards expenses and profits.

Market risk is the risk of external market influences affecting the Group's net asset value, for example changes in interest rates affecting the value of assets, changes in the levels of investment return, changes in exchange rates, etc.

Counterparty default risk is the risk that counterparties will be unable to pay amounts in full when due. Key areas where the Group is exposed to counterparty (or credit) risk are:

- exposure to corporate bonds;
- exposure to the failure of bank counterparties;
- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders; and
- amounts due from insurance intermediaries.

Operational risk is the risk that errors caused by people, processes or systems lead to losses to the Group, or the risk that arises from unanticipated or poorly anticipated external events.

Other important risks managed by the Group are strategic risk and reputational risk. Strategic risk is the current or prospective risk to earnings and capital arising from changes in the business environment and from adverse business decisions, improper implementation of decisions and the lack of responsiveness to changes in the business environment. Reputational risk is a form of strategic risk within the Group's risk taxonomy. Reputational risk is defined as the risk of losses as a result of damage to the reputation and brands of the Group or of other companies on which the Group's fortunes depend.

Covid-19 outbreak

The Board has considered the risks and uncertainties for the Group resulting from the Covid-19 outbreak.

On 11 March 2020, the World Health Organisation declared the Covid-19 outbreak to be a pandemic in recognition of its rapid spread across the globe, with over 150 countries affected. Many governments have taken stringent steps to help contain, and in many jurisdictions, delay, the spread of the virus. These measures have included the self-isolation or quarantine of those potentially affected, the implementation of social distancing measures and the controlling or closing of borders and "lock-down" of cities, regions and even entire countries.

The economic effects of these events are widespread and include:

- disruption to business operations in those countries which are most significantly affected;
- major disruption to businesses in those sectors most exposed to the effects of the control measures taken by governments, such as trade and transportation, travel and tourism, hospitality, entertainment and sport, manufacturing, construction, and retail; and
- a significant increase in economic uncertainty, evidenced by extreme volatility in financial markets, affecting asset prices and currency exchange rates, as well as volatility in government borrowing costs.

In response to the outbreak and the social distancing measures put in place by governments in the countries where the Group operates, the Group has put in place comprehensive business continuity arrangements both to allow staff to work safely and to ensure ongoing service to customers. While these conditions prevail, over 90% of the Group's employees are equipped to work from home, accessing systems remotely and continuing normal operations as far as possible. These business continuity arrangements have been tried and tested and have responded well to the exceptional circumstances that the Group faces. At a time of such uncertainty, there may be some areas where activities could be disrupted over the coming weeks and months. Nonetheless, overall the directors are confident that the Group can continue to offer an excellent service to customers and to settle and deal with claims promptly and efficiently.

At the meeting of the Group Board on 25 March 2020, the Group directors considered the potential economic effects of the outbreak on the Group overall. The scenario analysis reviewed by the directors examined the possible impact on the Group's operations, its investment holdings, reinsurance arrangements, underwriting and its individual subsidiaries. This analysis showed that, under a highly-stressed scenario, the Group could face significant losses, with the largest effects being on the Group's fixed income investment holdings, its existing reinsurance assets and cover and its future ability to obtain excess of loss reinsurance cover. This scenario analysis has been regularly updated and refreshed since the end of March based on the latest information available.

The Group is in a strong position to deal with such a scenario. As at 31 December 2019, the Group had a substantial surplus over its Solvency Capital Requirement. The scenario analysis presented to the Group directors at the meeting on 25 March 2020 showed that a severe but plausible impact of the outbreak would be significantly less than the amount of this surplus and that the Group will have

Solvency II own funds sufficient to remain above 100% of SCR should such a scenario occur. As a result, the directors are confident that the Group will be able to survive the immediate impact of the outbreak and its subsequent effects and that it will be able to continue to operate in the reasonably foreseeable future.

5. Valuation for solvency purposes summary

The Group is not required to prepare consolidated statutory financial statements. Its valuation for solvency purposes is derived from the consolidated balance sheet in its IFRS reporting to its parent company ADJ, which is then adjusted in accordance with Solvency II regulations.

The Group has used the accounting consolidation-based method to prepare its Group Solvency II balance sheet, which is the default method prescribed by the regulations. The consolidation-based method differs from the IFRS consolidation used in the Group's reporting to its parent company because only the holding company, the insurance undertakings (ANDI UK, ANDIE and ANDLIE) and the ancillary services undertaking, Aioi Nissay Dowa Insurance Management Limited ("ANDIM"), are fully consolidated, with intra-group transactions between these five entities eliminated, while the Group's non-insurance subsidiaries are treated as participations, with the net asset value (calculated in accordance with Solvency II valuation rules) included in the Group's balance sheet. Intra-group transactions with the non-insurance subsidiaries are not eliminated.

Other significant adjustments between the IFRS balance sheet and the valuation for solvency purposes are: the elimination of goodwill and intangibles, the revaluation of technical reserves to Solvency II technical provisions and the elimination of deferred acquisition costs (replaced by future cash flows in the Solvency II technical provisions).

These differences can be summarised as follows:

	2019 £'000	2018 £'000	Reason
Net asset value per IFRS	283,383	303,232	Per IFRS reporting
Revaluation of net technical reserves	71,958	70,852	Differing reserving basis under Solvency II
Deferred acquisition cost	(76,178)	(76,112)	No DAC for Solvency II
Goodwill and intangibles	(13,491)	(15,332)	Written off for Solvency II
Holdings in related undertakings	(10,305)	(6,309)	Non-consolidated subsidiaries have a negative impact on Solvency II own funds
Other assets and liabilities	(3,540)	(5,138)	Net impact of adjustments to fair value
Own funds under Solvency II	251,826	271,193	Solvency II own funds

6. Capital management summary

The SCR coverage ratio as at 31 December 2019 was 254% (2018: 278%), with eligible own funds of £251.8m (2018: £271.2m) and an SCR of £99m (2018: £97.7m). The MCR coverage ratio as at 31 December 2019 was 595% (2018: 677%), with eligible own funds of £251.8m (2018: £271.2m) and an MCR of £42.3m (2018: £40.1m). The Group completed its previous Solvency II filing as at 31 December 2018 and quarterly reporting throughout 2019 and these have shown that the Group has complied continuously with both the MCR and the SCR throughout the reporting period.

The Group is funded only by share capital, which, together with a Solvency II reconciliation reserve, comprise Solvency II "own funds". The capital management objective of the Group is to maintain sufficient own funds to cover the SCR and the MCR with an appropriate buffer which takes account of the Group's growth ambitions as set out in its business plan. The Board and the Board Committees consider regularly the ratio of eligible own funds over the SCR and MCR. The Group prepares solvency projections over a five year period as part of the business planning process.

A. Business and Performance

A1. Information regarding our business

As noted in the "Business and Performance Summary" the Group's principal activity is insurance and its main business is retail insurance, with a focus on auto-centric products. The Group's main strategic relationship is with Toyota, and the Group's subsidiary TIM, which is part-owned by Toyota Financial Services, provides Toyota's insurance expertise and works in support of Toyota across Europe. The Group's main line of business is the provision of Toyota-branded motor insurance and this is likely to remain the case for the foreseeable future. The geographical split of gross written premium by country for 2019 with a comparison with the prior year is as follows:

Country	2019 gross written premium £'000	2018 gross written premium £'000	2019 % of total GWP (2018 %)
United Kingdom	139,340	145,514	39.1% (43.0%)
Germany	105,015	100,929	29.5% (29.9%)
Italy	52,402	48,462	14.7% (14.3%)
France	41,711	33,469	11.7% (9.9%)
Spain	16,806	8,545	4.7% (2.5%)
Belgium	1,155	1,178	0.3% (0.3%)
Total	**356,429**	**338,103**	

The Group's financial year end is 31 December each year. The Group reports its results in Pounds Sterling.

Supervisory authorities

Until 1 March 2019, the supervisory authority of the Group was the UK Prudential Regulation Authority ("PRA"). The Group was also regulated by the Financial Conduct Authority ("FCA"). Contact details for the PRA and the FCA can be found on their respective websites: www.bankofengland.co.uk/pra and www.fca.org.uk

Following the migration of ANDIE to Luxembourg on 1 March 2019, the Group was regulated by the Commissariat Aux Assurances ("CAA"). Contact details for the CAA can be found on its website: www.caa.lu

After the licensing of the Group's subsidiary ANDI UK on 4 July 2019, the PRA resumed its role as the Group's supervisory authority.

The supervisory authority for each insurance entity in the Group is:

- ANDIE – the CAA in Luxembourg
- ANDI UK – the PRA in the United Kingdom
- ANDLIE – BaFin in Germany. Contact details for BaFin can be found on its website, www.bafin.de

Auditor

The independent auditor of the Group is KPMG LLP, 15 Canada Square, London, E14 5GL, United Kingdom.

Credit rating

S&P Global ratings has assessed the long-term financial strength of the Group's operating subsidiaries ANDIE and ANDI UK as "A+ / Stable".

Group structure

ANDEL is the holding company for the Aioi Nissay Dowa Europe Group. The Group operates as a general insurer in the UK and Europe through its Luxembourg-incorporated subsidiary, ANDIE, and through its UK-incorporated subsidiary, ANDI UK, and as a life insurer in Europe through its Germany-incorporated subsidiary, ANDLIE.

During the reporting period the Group operated as a non-life insurer in several European countries through ANDIE and ANDIE's branches in Belgium, France, Germany, Italy, Spain and the United Kingdom on both a freedom of establishment and freedom of services basis. The Group's life insurer ANDLIE operated in Germany and in several other continental European countries through freedom of services arrangements. On 1 March 2019 both ANDIE and the Group's insurance intermediary TIM migrated to Luxembourg. At this date the Group set up a freedom of establishment branch in the UK to continue to serve the Group's UK customers.

At the year-end, ANDEL had five subsidiaries:

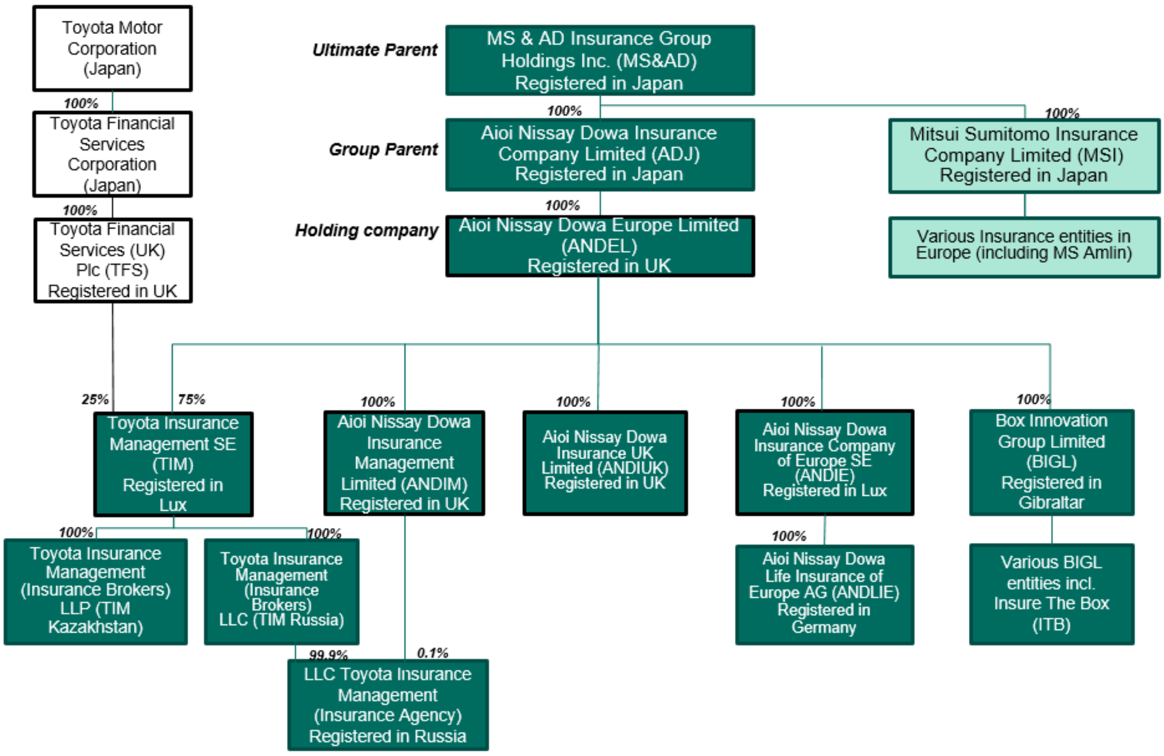
- Aioi Nissay Dowa Insurance Management Ltd, which is incorporated in the United Kingdom and supplies insurance management services to the Company and the Group (100% owned) ("ANDIM");
- Aioi Nissay Dowa Insurance Company of Europe SE, incorporated in Luxembourg (100% owned) ("ANDIE") and which is a general insurance company;
- Aioi Nissay Dowa Insurance UK Limited, incorporated in the UK (100% owned) ("ANDI UK") and which is a general insurance company;
- Toyota Insurance Management SE, incorporated in the United Kingdom and which is a provider of insurance consultancy services (75% owned) ("TIM"); and
- Box Innovation Group Ltd, which is incorporated in Gibraltar and is a holding company for a Group of UK- and Gibraltar-incorporated companies (100% owned) ("BIGL").

Through its subsidiaries, the Group had an interest in the following entities:

- Aioi Nissay Dowa Life Insurance of Europe AG, which is incorporated in Germany and is a credit life insurance company (100% owned by ANDIE; 100% effective interest) ("ANDLIE");
- Toyota Insurance Management (Insurance Brokers) LLC, which is incorporated in Russia and is a provider of insurance consultancy services (100% owned by TIM; 75% effective interest);
- Toyota Insurance Management (Insurance Brokers) LLP, which is incorporated in Kazakhstan and is a provider of insurance consultancy services (100% owned by TIM; 75% effective interest);
- LLC Toyota Insurance Management (Insurance Agency), which is incorporated in Russia and is a provider of insurance consultancy services (99.9% owned by TIM and 0.1% owned by ANDIM; 75% effective interest);
- ITB Web Ltd, which is incorporated in the United Kingdom and is a provider of insurance consultancy services (100% effective interest);
- Insure The Box Ltd, which is incorporated in Gibraltar and is a managing general agent (100% effective interest);
- ITB Services Ltd, which is incorporated in the United Kingdom and is a provider of insurance management services (100% effective interest);
- ITB Telematics Solutions LLP, which is incorporated in the United Kingdom and is a provider of insurance consultancy services (100% effective interest); and
- ITB Premium Finance Ltd, which is incorporated in Gibraltar and which is not currently trading (100% effective interest).

As at the year-end, the Group's structure was as follows:

Group structure



Scope of the Group used for consolidated financial statements and scope for the Group for Solvency II purposes

The Group is exempted from the requirement to prepare statutory consolidated financial statements as it is the wholly-owned subsidiary of a company which is itself included in the publicly-available consolidated financial statements of the MS&AD Insurance Group Holdings.

The Group prepares consolidated financial results for the purpose of reporting its results to its immediate parent company. These financial results are prepared under IFRS. The financial results of the Group consolidate the financial position and results of the holding company ANDEL and all the entities controlled by ANDEL (its subsidiaries, both direct and indirect). Intercompany transactions and balances and between Group companies are eliminated in the consolidated financial results.

For Solvency II purposes, the Group has used the accounting consolidation-based method to prepare its Group balance sheet, which is the default method prescribed by the regulations. The consolidation-based method differs from the IFRS consolidation used in the Group financial results because only the holding company itself (ANDEL), its insurance undertakings (ANDI UK, ANDIE and ANDLIE) and the ancillary services undertaking ANDIM are fully consolidated, with intra-group transactions between these five entities eliminated, while the Group's non-insurance subsidiaries are treated as participations, with the net asset value (calculated in accordance with Solvency II valuation rules) included in the Group's balance sheet. Intra-group transactions with the non-insurance subsidiaries are not eliminated.

Any significant business or other events that have occurred over the year that have had a material impact on the undertaking

Group reorganisation

The Group's operating model and corporate structure previously relied on so-called "passporting" permissions to function across the European Economic Area ("EEA"), either through freedom of establishment or freedom of services. Since the UK's referendum in June 2016 when the UK voted to leave the European Union ("EU"), the possibility of a so-called "hard Brexit", with no transitional arrangements in place for trading in the EEA after the date when the UK leaves the EU, and no passporting in either direction, posed a threat to this operating model.

The UK left the EU on 31 January 2020 and is in a transition period until the end of 2020 while the UK and EU negotiate their future relationship. During this transition period the UK will continue to follow all of the EU's rules and its trading relationship will remain the same. It is expected that new rules will take effect on 1 January 2021. In preparation for this, the Group reorganised its corporate structure to enable the business to continue trading within the EEA.

The Group reorganisation of its corporate structure consisted of the following changes:

- Creating a new entity, ANDEL, to replace ANDIE as the holding company for the Group. ANDEL became the Group's holding company on 11 April 2018;
- Converting the Group's existing non-life insurance entity, Aioi Nissay Dowa Insurance Company of Europe ("ANDIE") and its fellow subsidiary, the insurance intermediary Toyota Insurance Management ("TIM"), to "Societas Europaea" ("SE") form and re-domiciling them to Luxembourg. The re-domicile of both companies was completed on 1 March 2019; and
- The creation of a new insurance company in the UK, Aioi Nissay Dowa Insurance UK Limited ("ANDI UK"). This entity was authorised as an insurer by the UK regulatory authorities on 4 July 2019.

The conversion to SE form and the re-domicile to Luxembourg of ANDIE and TIM has enabled the Group's existing business model in the EU and the EEA to continue largely unaffected, with the European branch structures of ANDIE and TIM preserved during the process. Following the migration to Luxembourg, ANDIE and TIM set up freedom of establishment branches in the UK. With the UK branches in place, the two companies will either be able to continue to operate in the UK initially through so-called "passporting" and, after the end of the transition period, through the "temporary permissions regime".

While ANDIE can serve existing and new UK customers through its UK branch, the Group's intention is to write new business in the UK through the new UK insurance company, ANDI UK. This company started to underwrite elements of ANDIE's UK business from 1 January 2020 and is expected gradually to take over the writing of ANDIE's new and renewal UK business during 2020. ANDIE's existing UK policies will be maintained within the company until claims are paid or policies expire.

The aim of the Group's Brexit-driven restructure was to ensure that there would be no disruption to the Group's ability to serve its customers or to the level of cover, expertise and service that those customers received. The Group is pleased to have delivered on this objective and to be able to continue to operate across both the UK and the EEA.

A2. Underwriting performance

The following table summarises the underwriting performance of the Group:

	2019 £'000	2018 £'000
Gross written premiums	356,429	338,103
Net earned premiums	205,856	209,720
Net claims incurred	105,934	124,679
Loss ratio	51.5%	59.5%

The Company's gross written premium ("GWP") increased from £316.2m to £330m during the year, while the GWP of the credit life insurance business of its German subsidiary ANDLIE increased, from £21.9m to £26.4m.

GWP includes retail motor and related products, motor fleet and motor-related commercial Japanese Interests Abroad ("JIA"). Retail motor and JIA (excluding the Company's Insure The Box ("ITB") and related UK telematics business) grew by 9.4% from £229.4m to £250.9m due to strong performances in several markets, particularly Germany and Spain. Generally, sales across the Group's non-ITB business were in line with expectations.

ITB underwriting comprises the brands Insure The Box, Tesco Bank Box and Drive Like a Girl. Sales through these brands, all of which focus on the UK young driver and telematics market, contributed £79.2m (2018: £86.8m) to the Company's GWP during the year. Premium for the full year was in line with expectations; once again the Company chose to maintain underwriting discipline in this area of its business rather than seeking to increase volumes.

The net underwriting result in 2019 for retail motor and JIA (excluding ITB) was an improvement on the prior year. This improvement was characterised by a better than expected experience on large losses and a generally positive run-off of reserves from prior years. The Company suffered significant losses from European hailstorms in 2019 in both Germany and Italy, although the impact on the Company's net result was mitigated by its natural catastrophe reinsurance cover.

The ITB underwriting result was better than expectations for the full year. This represents a significant improvement after several years of heavy losses. Large loss experience was much improved and there was also a positive run-off on the reserves held for claims in prior years. Management is confident that the performance should continue to improve in early 2020, with ITB new business and renewals expected to transfer from ANDIE to ANDI UK in the second half of 2020.

Life GWP grew to 7.4% of the Group's GWP (2018: 6.5%). The business is simple life assurance policies, sold as part of the financing of new car sales. Most of the current business remains in Germany, although the business has grown in France and in Spain.

The performance by the main geographical regions is summarised in the tables below:

	United Kingdom	Germany	Italy	France	Spain	Belgium
	2019 £'000	2019 £'000	2019 £'000	2019 £'000	2019 £'000	2019 £'000
Gross written premiums	139,338	105,015	52,402	41,711	16,806	1,155
Net earned premiums	69,272	60,768	33,665	32,624	8,355	-
Net claims incurred	61,332	29,112	13,169	11,028	6,253	(7)
Loss ratio	88.5%	47.9%	39.1%	33.8%	74.2%	-

	United Kingdom	Germany	Italy	France	Spain	Belgium
	2018 £'000	2018 £'000	2018 £'000	2018 £'000	2018 £'000	2018 £'000
Gross written premiums	145,520	100,929	48,462	33,469	8,545	1,178
Net earned premiums	82,023	61,382	34,547	24,408	7,362	-
Net claims incurred	63,646	31,511	14,004	10,103	5,415	-
Loss ratio	77.6%	51.3%	40.5%	41.4%	73.6%	-

A3. Investment performance

The Group invests principally in high quality corporate, agency and supra-national fixed income securities. ANDLIE has a small equity portfolio, but this is not a major part of the Group's holdings. The Group also has significant money market holdings with high quality investment managers. The overall portfolio is highly liquid. The Group has outsourced the management of its bond and equity portfolios, through managers in the UK (for the Group, including ANDIE) and in Germany (for ANDLIE).

Within the Group's IFRS financial reporting, the fixed income and equity securities are treated as "available for sale" ("AFS") financial assets. All unrealised gains and losses on AFS financial assets are recognized through other comprehensive income, so do not directly affect the Group's reported income statement result. The money market holdings are treated as cash equivalents as they are short-term, highly liquid investments which are subject to insignificant changes in value and are readily convertible into known amounts of cash.

Income from the Group's investment portfolio is:

	2019 £'000	2018 £'000
Income from AFS debt securities	5,279	8,179
Income from AFS equity securities	43	37
Cash and cash equivalents interest income	847	1,006
Exchange gains / (losses)	158	714
Income from investment property	20	(6)
Realised gains / (losses)	2,550	(35)
Total investment income	**8,897**	**9,895**

A4. Performance of other activities

The other income and expenses of the Group are as follows:

	2019 £'000	2018 £'000
Service fees	4,070	3,417
Commissions	9,108	9,084
Ancillary income	2,335	1,752
Staff costs	(42,256)	(40,388)
Other operating expenses	(78,487)	(72,574)
Lease costs	(2,415)	(2,387)

The Group's service fee income derives from the provision of administrative services to Toyota. Commissions and ancillary income are generated from two sources: first, from the Group's broking and managing general agent subsidiaries, which receive commission from third parties either for the placing of insurance business or where the Group sells insurance products when it is not acting as underwriter. Secondly, the Group receives commission income where it has agreed quota share arrangements with reinsurers (often the parent company ADJ), whereby the reinsurer pays the Group a commission. Staff costs relate to staff salaries, bonuses and social security costs. Operating expenses are business expenses which are not directly related to the settlement or handling of claims. Lease costs are mainly for the rental of office space.

A5. Other information

No other information.

A6. Group's business and performance

The Group's legal and organisational structure is set out above in section A1. The governance structure which operates at Group level is set out in section B.

Other than the subsidiaries listed in section A1, the key related party for the Group is the Company's parent company (and main reinsurer) ADJ.

B. System of Governance

B1. General governance arrangements

The system of governance is considered to be appropriate for the Group taking into account the nature, scale and complexity of the risks inherent in the business. There were no material changes in the system of governance in place at the Group level during the reporting period.

During the reporting period, two of the Group's main operating subsidiaries, the non-life insurance company ANDIE and the insurance intermediary TIM, re-domiciled to Luxembourg. The changes to the system of governance as a result of the move of these two subsidiaries to Luxembourg have not been material as regards the Group's overall operations. This is because the two companies which have migrated to Luxembourg have continued to be part of the Group's risk management system and the Group's Three Lines of Defence Model remains in place.

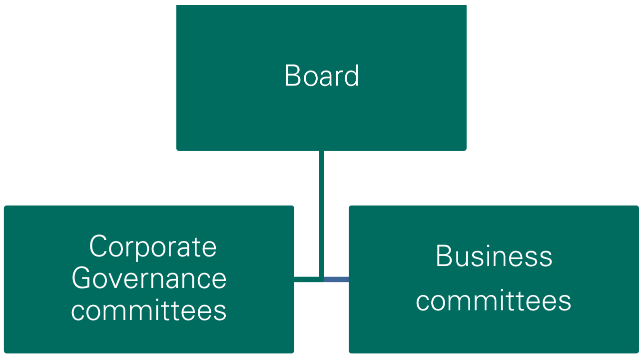
An overview of the changes to the Group's general governance arrangements as a result of the migration of ANDIE and TIM are described below on pages 21-22, as they pertain to ANDEL.

Changes to the membership of the Board are set out below.

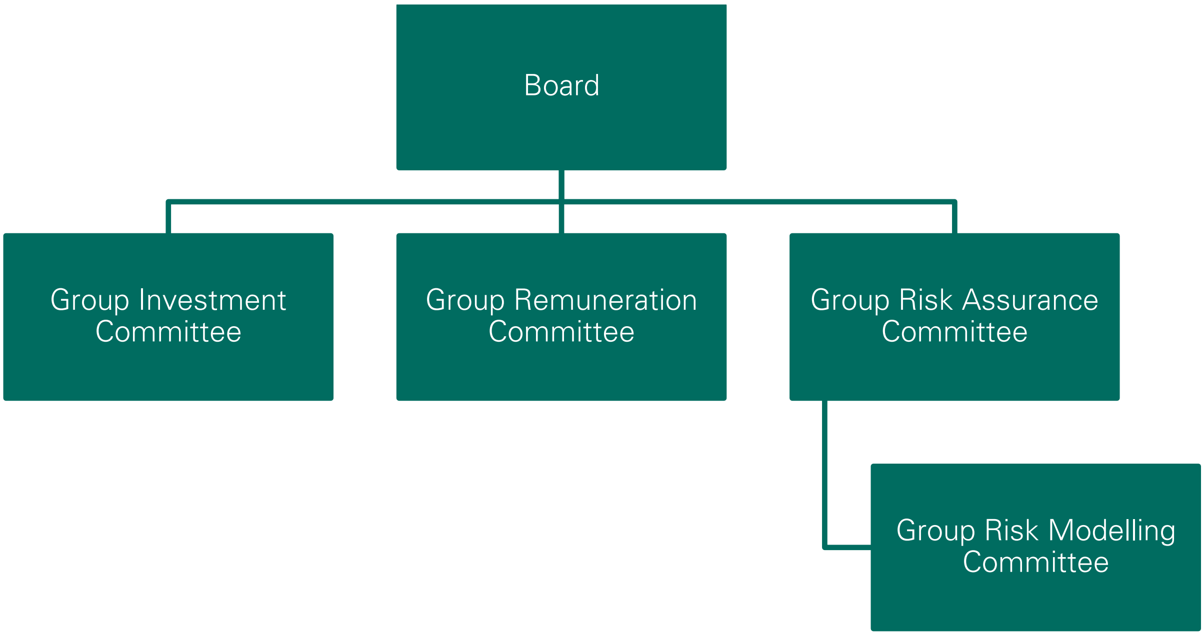
<u>Overview of the Board and its committees</u>

The Board is ultimately responsible and accountable for the performance and strategy of the Group and for ensuring that the Group complies with all legal, statutory, regulatory and administrative requirements. To support the efficient management of the Group the Board has delegated certain functions to committees, though by doing this the Board does not absolve itself of its ultimate responsibility for the Group.

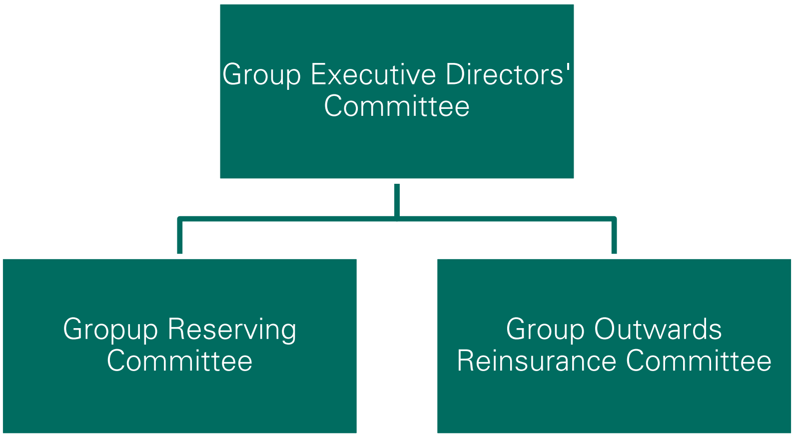
The established corporate governance framework is as follows:



The Corporate Governance committees are structured as follows:



The Business committees are structured as follows:



<u>The Board</u>

The Board functions as the corporate decision-making body and provides leadership of the Group within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board sets the strategic aims of the Group and ensures that the necessary resources, both financial and staff, are in place to allow the Group to meet its objectives. The Board is collectively responsible for the long-term success of the Group and delivery of sustainable value to its shareholder. The Board sets the strategy and risk appetite for the Group and approves capital and operating plans presented by management for the achievement of the strategic objectives it has set. Implementation of the strategy set by the Board is delegated to the Group Executive Directors' Committee, which is led by the Chief Executive Officer.

The Board meets at least four times a year. It comprises of executive members (the Chief Executive Officer, the Chief Operating Officer and the Deputy Chief Executive Officer), independent non-executives, including the Chair, and non-executive members who are employees of the Company's parent ADJ and who act as shareholder representatives.

As at 31 December 2019, the members of the Board are as follows (all were appointed 8 November 2017 unless stated):

- R McCorriston — Chair
- M Swanborough — Chief Executive
- H Clarke — Senior independent non-executive director
- J Crotty — Independent non-executive director (appointed 8 October 2018)
- M Kainzbauer — Chief Operating Officer
- M Kitahara — Non-executive director, shareholder representative (appointed 8 October 2018)
- S Ogura — Non-executive director, shareholder representative (appointed 1 April 2019)
- K Ohnishi — Deputy Chief Executive
- M Yamaguchi — Non-executive director, shareholder representative (appointed 8 October 2018)

Previously H Matsui was a director of ANDEL, having been appointed on 8 November 2017. He resigned on 30 April 2018.

Group Risk Assurance Committee

The Group Risk Assurance Committee ("GRAC") is a key element of the Group's internal control framework. The Committee controls and monitors the Group's risk and assurance activities. These are the key oversight and assurance functions at the core of the Group's second and third lines of defence. The Committee is responsible for providing focused support and advice on risk governance to the board, for ensuring that the material risks facing the Group have been identified and that appropriate arrangements are in place to manage those risks effectively in accordance with the risk appetite set by the Board. The Committee is also responsible for Internal Audit, the Group's audited accounts and financial and other statutory and regulatory reporting, oversight of the relationship with the Group's external auditors, and Compliance.

The Committee meets at least four times a year. It is chaired by the senior independent non-executive director. There are two further independent non-executive director members of the Committee, including the Group's Chair. Other directors and members of the executive management attend as appropriate.

Group Investment Committee

The Group Investment Committee is responsible for the management and administration of the Group's investments, for oversight of all treasury activity and the funding of all operating units. The Committee considers the investment and treasury strategies of the Group, translates the investment risk appetite of the Group into an investment policy, and monitors the cash flow and working capital of the Group. The Committee also oversees the performance of the Group's outsourced investment management providers.

The Committee meets at least four times a year. The Committee is chaired by the Group's Chief Executive Officer. In addition to the Chief Executive Officer, the Committee's members are the Deputy Chief Executive Officer, the Dirigeant Agréé of ANDIE and four members of executive management, including the Group's Chief Financial Officer and the Group Head of Actuarial.

Group Remuneration Committee

The Remuneration Committee is responsible for considering and approving the remuneration and benefits of all locally employed executive directors of the Group. The Committee comprises the Group's Chair, the Deputy CEO and two non-executive directors who are employed by the Company's parent ADJ. The Committee is chaired by the Group's Chair. The Committee meets at least once per year.

Group Risk Modelling Committee

The Group Risk Modelling Committee is a sub-committee of the GRAC. Its responsibility is to propose, for approval by the GRAC, policies, specifications and schedules of activity relating to the appropriate modification, application and validation of risk modelling techniques utilised by the Group and its subsidiaries (collectively, the "adopted risk modelling approach") and to provide oversight of risk modelling activity relative to that adopted approach.

The Committee typically meets four times a year. The Committee is chaired by the senior independent non-executive director. In addition to the non-executive director, the Committee's members are the Chief Executive Officer and four members of executive management, including the Group Risk Assurance Director, the Group Chief Financial Officer and the Group Head of Actuarial.

Group Executive Directors' Committee

The purpose of the Group Executive Directors' Committee ("EDC") is to manage generally the business of the Group within the agreed financial limits and risk parameters set by the Board. Subject to these financial limits, the Committee has primary authority for the day to day management of the Group's operations save for those matters which are reserved for the Board and the Board's committees.

The Committee comprises three members, Chief Executive Officer, the Chief Operating Officer and the Deputy Chief Executive Officer. The Committee is chaired by the Chief Executive Officer. Meetings typically take place eleven times a year. The Group Risk Assurance Director, the Group Chief Financial Officer and the Group Head of IT typically attend each meeting, while other members of executive management are invited to attend as required.

Group Reserving Committee

The purpose of the Group Reserving Committee is to set the reserving policy for the Group's non-life subsidiaries ANDI UK and ANDIE and to monitor ongoing compliance with that policy. The Committee receives reserve reports from the Actuarial function, covering best estimates and risks and provides input and challenge to the best estimates and the risk assessment. The Committee determines the amount of reserves to be booked in the Group's IFRS results and the level of Solvency II technical provisions. It provides a quarterly written report to the GRAC on the current level of reserving risk faced by the Group, the Group's adherence to reserving risk appetite and the reserving risks which may arise in the future.

The Committee meets at least six times a year. The Chair of the Committee is the Chief Executive Officer. In addition to the Chief Executive Officer, the Committee members are the Deputy Chief Executive Officer and three members of executive management, including the Chief Financial Officer and the Group Head of Actuarial.

ANDLIE has its own actuarial function, which is responsible for calculating ANDLIE's actuarial reserves in accordance with legal and regulatory requirements. The monitoring of ANDLIE's reserves is carried by ANDLIE's own board of directors and ultimately by the ANDIE Board.

Group Outwards Reinsurance Committee

The purpose of the Group Outwards Reinsurance Committee is to ensure that the Group's outwards reinsurance programme is enacted correctly and in line with the Board approved risk appetite and other relevant policies. The Committee is charged with formulating and placing the most appropriate reinsurance programme and monitoring the programme to ensure the Group remains protected.

The Committee reports to the Executive Directors' Committee and the GRAC and meets at least four times a year. The Committee is chaired by the Chief Executive Officer. Members of the Committee include the Chief Financial Officer, the Dirigeant Agréé of ANDIE and the Group Head of Actuarial.

Remuneration Policy

The Group remuneration policy is designed so as to attract and retain suitable employees to assist the Group in meeting its aims. The Group seeks to provide a base salary together with a benefits package that will ensure the long-term security and health of its employees. Salaries and benefits are reviewed regularly to take account of the performance of the Group and the latest employment trends. The Group is committed to being a fair and equal employer and the remuneration policy is designed in order to support this objective. In the UK, there are two employing entities, ANDEL, the Group's holding company and regional headquarters, and ANDIM, the management services company. In those countries where the Group has branches, the branches themselves (of either ANDIE or TIM) are the employing entities, while ANDLIE also has employees.

The most important element of remuneration for the Group's employees is base salary. The Group considers that its base salaries are competitive in the market and appropriate for attracting and retaining the right staff. All salaries are reviewed in accordance with market practice and with any statutory, regulatory or taxation requirements in the individual country.

Depending on local market practice, the Group operates an annual bonus plan based on business unit and individual employee performance. The objective of the bonus scheme is to offer participants an incentive to contribute to the Group's performance by linking pay to performance in areas within the employee's influence and control. The bonus amount payable for each employee depends on the achievement of set financial objectives relative to the business plan, evaluation of performance against a competency matrix and evaluation on the contribution to the Group's performance through the successful completion of individual objectives. The variable element of remuneration is capped at a percentage of fixed salary, such as to promote sound and effective risk management and to avoid excessive risk taking.

The Group also offers a range of benefits to employees, which vary by individual country. In the UK, where the majority of the Group's employees are based, the Group operates a company pension scheme and pays contributions to the scheme on behalf of employees based on a percentage of salary. The scheme is a defined contribution scheme and the assets of the scheme are held separately from the Group in independently administered funds. Employees contribute additional voluntary contributions to suit their circumstances. Pension arrangements also exist in other countries. The Group has no defined benefit pension liabilities.

Other benefits depend on the country in question and vary according to local custom and practice, statutory and regulatory requirements, taxation treatments and individual employee needs. Among the benefits offered are life assurance, private medical insurance, permanent health insurance, company car, sports club memberships, salary sacrifice options and long service awards.

The Group does not operate any share option schemes and no shares in the Group are held by employees or directors. There is a cash-based long-term incentive plan for local executive directors. This is capped at a level well within regulatory codes. From time to time there may be specific project-based bonuses for staff involved in critical multi-year projects.

The Group's system of governance from 1 March 2019

There were several changes to the Group's system of governance as a result of the migration of ANDIE and TIM to Luxembourg and the establishment of ANDI UK as the Group's UK insurance company.

The key changes are:

- Each of ANDIE and ANDI UK has its own Underwriting and Pricing Committee.
- Each of ANDIE and ANDI UK has its own Audit, Risk and Compliance Committee.
- As set out above, ANDEL itself now has a Group Risk Assurance Committee, replacing the Group Audit and Compliance Committee and the Group Risk Committee which existed previously at the Group level.
- The Group Outwards Reinsurance Committee oversees the reinsurance arrangements for the Group as a whole, including the non-life insurance subsidiaries ANDIE and ANDI UK.
- The Group EDC considers those matters which pertain to the Group as a whole or are sufficiently material to require a Group-level discussion. Each of ANDIE and ANDI UK has its own management committee, which consider matters which pertain to each of those entities specifically.

Overall these changes have not had a material impact on the way that the Group operates or on its system of governance.

B2. Fit and proper policy

The Group is committed to ensuring that all its staff have the appropriate skills, knowledge and experience to perform their roles and this is set out in the Group's governance manual and in its policies and procedures.

Assessment of fitness and propriety

When appointing any member of staff, including members of the Board, senior management and other certification functions, as part of the process the Group considers whether the candidate is fit and proper to undertake the required role. This means that the following in particular are considered:

- honesty, integrity and reputation;
- competence and capability (including professional qualifications, knowledge and experience); and
- financial soundness.

In addition staff should be sufficiently qualified to enable them to discharge their duties. In significant areas of responsibility, senior management and those undertaking other certification functions should be qualified to provide sound and prudent management of the Group.

Appropriate policies and processes have been established for assessing and ensuring ongoing compliance with fitness and propriety requirements.

Technical and professional development

All employees' training needs are assessed upon joining and at regular intervals thereafter (including if their role changes). Appropriate training and support is provided to ensure that any relevant training needs are satisfied. The quality and effectiveness of such training is reviewed by the Human Resources department.

All employees' competence is reviewed on a regular and frequent basis and appropriate action is taken to ensure that they remain competent for their role. Maintaining competence will take into account, where relevant, such matters as:

- Technical knowledge and its application;
- Skills and expertise; and
- Changes in the market to products, legislation and regulation.

"Competence" means having the skills, knowledge and expertise needed to discharge the responsibilities of an employee's role. This includes achieving a good standard of ethical behaviour.

B3. Risk Management System

As an insurance group, the Group is fundamentally concerned with the management of risk and the Group maintains a risk management system.

<u>Enterprise risk management framework</u>

The Group operates an enterprise-wide risk management framework that is designed to identify, evaluate, manage and monitor exposure to risk. The process is subject to continuous review and development. The risk management system must comply with regulatory standards at all times.

The risk management systems and processes at the Group are required to cover all risks included in the calculation of the Solvency Capital Requirement ("SCR"), and so must cover the following areas:

- Underwriting and reserving;
- Asset-liability management;
- Investment activity;
- Liquidity and concentration risk;
- Operational risk; and
- Reinsurance and other risk mitigation techniques.

Group, branch and departmental management are required to identify, assess, manage and monitor their key risks, within the risk management framework overseen by the GRAC. The Head Office risk management team is responsible for making available appropriate risk management tools to support the business in the evaluation and reporting of risks. Risk management tools are designed to be easy to understand and capable of being applied consistently at all levels of the organisation. The overall risk management system provides for the aggregation of risk management information as required by the Board and the Board committees.

The risk management framework covers the management of the risk categories and sub-categories as detailed in the Board's Risk Appetite Statement.

The high-level risk categories currently set out in that document are:

- Strategic risk (including reputational risk);
- Insurance risk;
- Credit risk;
- Market risk;
- Operational risk;
- Liquidity risk; and
- Financial risk.

The assessment of capital requirements (for both internal and regulatory capital measures) is based explicitly on the risks identified and evaluated through the processes. For regulatory purposes, the Group uses the standard formula without undertaking-specific parameters to assess the solvency capital requirements and an internal model is not used.

The risk management framework supports the achievement of the Group's objectives by providing a structured mechanism for assessing the impact of decisions on capital requirements and capital efficiency, and the range of outcomes from each potential decision.

Risk and capital management principles are required to be embedded into a number of business processes and decision frameworks, including pricing assessment, asset allocation, reinsurance purchase, counterparty selection, reserve assessment and capital planning.

Business change initiatives that require senior manager or Board level approval are required to include an assessment of the inherent risks involved and any anticipated change to the Group's overall risk profile.

Three Lines of Defence Model

The Group operates a Three Lines of Defence Model as part of its overall control environment and its risk management system. The main elements of the Three Lines of Defence Model may be summarised as follows:

- First line: the first level of the control environment is the business operations which perform the day-to-day risk management activity.
- Second line: these are the oversight functions of the Group, such as Risk and Compliance, and also include financial controls. These functions set direction, define policy and provide assurance.
- Third line: Internal Audit is the third line of defence. Internal Audit offers independent challenge to the levels of assurance provided by business operations and oversight functions.

There is a regular flow of information across the three lines of defence and from the three lines to the governing bodies (Board and Committees). Likewise, executive decisions and directions flow in the opposite direction from the governing bodies.

B4. Own Risk and Solvency Assessment

The Own Risk and Solvency Assessment ("ORSA") process is part of the Group's risk management system. Insurance undertakings are required to assess their own short- and long-term risks and the amount of own funds necessary to cover them. The ORSA is the process used to assess the Group's overall solvency needs based on a forward-looking assessment of the Group's risk profile, risk tolerance and business plan. It is used to identify, quantify, monitor, manage and report on the risks that the Group may face. The process includes the use of an Internal Capital Model, the parameterisation and validation of which is overseen by the Risk Modelling Committee.

The Group has not completed a full capital model which combines its non-life and life insurance subsidiaries. While there is a theoretical additional level of precision which could be derived from combining the ANDI UK, ANDIE and ANDLIE figures, the benefit would be marginal compared to the level of effort required to model risks fully on a combined basis. Instead, the Board has approved an approach which, for ORSA purposes, combines the capital requirements calculated on a solo basis for ANDIE but with a recalculation of the diversification benefit. ANDI UK will be included within the calculation in due course; at the date of the last ORSA exercise ANDI UK had yet to start underwriting.

For the Group standard formula SCR, the Group has performed a full consolidation of the data of ANDEL, ANDI UK, ANDIE, ANDLIE and ANDIM, as required by the Solvency II regulations (see section E4 for further details).

The ORSA considers all the key risks that face the business including those not in the SCR such as liquidity, group, reputational and regulatory risks, as well as those in the SCR. Both internal and external risks are considered.

The full ORSA process is performed at least annually, and a report is produced by the Risk Management function on the results. Many of the structures and analyses which underlie the ORSA process are on-going parts of the risk management framework; nonetheless the Board considers that an annual review cycle is proportionate to the nature and scale of the risks which the Group faces.

We would run elements of the ORSA process and produce an appropriate set of documentation as soon as practically possible following any significant change in the Group's risk profile. The documentation set must inform the Board of the nature of change in the risk assessment and the implications for Solvency under standard and stressed operating scenarios. Significant changes may arise in both the internal and external risk environments.

Examples of changes that may have the potential to significantly alter AND-E's overall risk profile include:

- The start of a new line of business;
- A capital injection;
- A change in risk tolerance limits;
- Changes to reinsurance or other risk mitigation arrangements;
- Major changes in asset mix;
- Long term market disruption resulting in changes to our business plans;
- Occurrence of risk events leading to a significant change in available capital and solvency; and
- Other external changes which significantly affect the viability of AND-E's business model.

For a fundamental change, we may choose to follow a full ORSA process. The Risk Management function will assess the impact of a change in risk profile and advise the Board whether a full ORSA process needs to be run and a full set of documentation produced. The Board can request the Risk Management team to run the full ORSA process, even if the Risk Management function determines it is not necessary.

The Board reviews the ORSA report and uses this to guide key decisions for the business, such as:

- Deciding the Group's strategy and setting the risk appetite;
- Agreeing the business plan for the Group;
- Any necessary risk mitigation actions;
- Forward looking identification and assessment of material risks arising from the business strategy or in the business plan;
- Challenging the results of the standard formula SCR calculation; and
- Assessing the Group's short- and long-term capital position.

In relation to the SCR, the Group produces a five-year projection of the Group's SCR position in line with the Group's business plan horizon. The ORSA, which is prepared on a three-year basis, is compared to the results of the SCR projection at the three-year point to determine whether additional solvency cover is required. The outcome of this assessment is recorded in the ORSA report and shared with the regulator as required.

B5. Overview of Internal Control System

Internal controls are the processes established by the Board to provide reasonable assurance of effectively and efficiently meeting, inter alia, the Group's various operational, financial and compliance objectives.

The system of internal control includes all policies and procedures adopted by management to assist in achieving the Group's objective of ensuring, as far as practicable, the orderly and efficient conduct of its business.

The system of internal control relates to every aspect of the Group's operations, including but not limited to the:

- Adherence to management policies;
- Safeguarding of assets;
- Prevention and detection of fraud and error;

- Accuracy and completeness of accounting records; and
- Timely preparation of reliable financial information.

System of internal control objectives

Senior managers are charged with the responsibility for designing, implementing and communicating a network of procedures and processes. These have the objective of controlling the operations of the Group in a manner which provides the Board with reasonable assurance that:

- Data and information published either internally or externally is accurate, reliable, complete and timely;
- The actions of all employees follow the Group's policies, standards, plans and procedures, and all relevant laws and regulations;
- The Group's resources (including its people, systems, data / information bases, and client goodwill) are adequately protected; and
- The Group's internal controls promote the achievement of the Group's plans, programs, goals and objectives.

Components of internal control

The following components make up the Group's system of internal control and help to achieve the objectives of controlling the operations of the Group:

a) Control Environment
b) Risk Assessment
c) Control Activities
d) Information and Communication
e) Monitoring

a. Control Environment

The control environment is set by the Board and senior management in line with the Group's risk appetite as well as its priorities and direction. The control environment sets the tone for the Group. It provides discipline and structure and strongly influences the control consciousness of all staff. Key factors in the control environment include the integrity, ethical values and competence of all personnel.

The Board is responsible for:

- Approving and periodically reviewing the overall business strategies and significant policies of the Group;
- Understanding the major risks run by the Group, setting acceptable levels for these risks and ensuring that senior management takes the steps necessary to identify, measure, monitor and control these risks;
- Approving the organisational structure; and
- Ensuring that senior management is monitoring the effectiveness of the internal control system.

The Board is ultimately responsible for ensuring that an adequate and effective system of internal control is established and maintained.

Senior management is responsible for:

- Implementing the strategies and policies approved by the Board;
- Developing processes that identify, measure, monitor and control risks incurred by the Group;
- Maintaining an organisational structure that clearly assigns responsibility, authority and reporting relationships;

- Ensuring that delegated responsibilities are effectively carried out;
- Setting appropriate internal control policies; and
- Monitoring the adequacy and effectiveness of the internal control system.

Both the Board and senior management are responsible for promoting high ethical and integrity standards, and for establishing and communicating a culture within the Group that emphasises and demonstrates to all levels of personnel the importance of internal controls.

b. Risk Assessment

Risk assessment is the identification and analysis of relevant risks which may prevent the Group or a specific business unit from meeting its operational, financial and compliance objectives. The GRAC identifies risks affecting the Group, both internally and externally, and recommends risk strategy to the Board.

c. Control Activities

Control activities are the policies and procedures established to ensure that Board and senior management's directives are implemented, and risks identified are mitigated. All employees need to be aware of the Group's policies and procedures. Managers should supplement these with departmental guidance where necessary.

Control is a function of management and is an integral part of the overall process of managing operations. As such, it is the responsibility of managers at all levels of the Group to:

- Identify and evaluate the exposures to loss relating to their sphere of operations;
- Specify and establish policies, plans, and operating standards, procedures, systems, and other disciplines to be used to minimise, mitigate, and/or limit the risks associated with the exposures identified;
- Establish practical controlling processes that require and encourage all employees to carry out their duties and responsibilities in a manner that achieves the control objectives outlined above; and
- Maintain the effectiveness of the controlling processes established and foster continuous improvement to these processes.

d. Information and Communication

Pertinent information must be identified, captured and communicated in a form and timeframe that enables staff to carry out their responsibilities. Continuous communication is essential to the effectiveness of the system of internal control and reaching its objectives.

e. Monitoring

Monitoring is the process that assesses the quality of the internal control system and follows the three lines of defence philosophy. The Group requires the following monitoring to take place:

- Managers are responsible for monitoring activities performed within their department;
- The Compliance Function assesses the appropriateness of and compliance with the Group's policies and procedures;
- Internal Audit is responsible for examining and evaluating the functioning and adequacy of the internal controls and compliance with policies and procedures; and
- The GRAC reviews the effectiveness of monitoring actions.

Compliance Function

The Compliance Function is responsible for:

- Ensuring that the Group complies with all applicable laws and regulatory requirements as well as with all internal policies, processes and procedures; and
- Reporting to management and the GRAC on the appropriateness of the Group's compliance procedures; following up identified deficiencies and suggesting improvements as necessary.

The Compliance Function comprises the Group Risk Assurance Director, supported by the Head of Compliance UK and the Head of Compliance Luxembourg. There are further employees in the branches who have specific compliance responsibilities and there is also a central Risk Assurance team in the UK. The Group Risk Assurance Director reports to the Chief Executive Officer and has independent access to the GRAC. The Group Risk Assurance Director also attends the Group EDC.

As noted above on pages 21-22, the changes to the Group's system of governance following the Brexit-driven restructure mean that there is no longer a Group Audit and Compliance Committee. An Audit, Risk and Compliance Committee now exists for each of ANDIE and ANDI UK, and each of these entities has its own Head of Compliance. The Head of Compliance for each entity has independent access to the entity's Audit, Risk and Compliance Committee.

B6. Internal Audit Function

The Board has established an Internal Audit Function, which is the third line of defence in the Group. Internal Audit is independent from all operational activities.

The primary role of Internal Audit is to help the Board and Executive Management to protect the assets, reputation and sustainability of the organisation. It does this by assessing whether all significant risks are identified and appropriately reported by management and the Risk function to the Board and Executive Management; assessing whether they are adequately controlled; and by challenging Executive Management to improve the effectiveness of governance, risk management and internal controls.

The Group's Internal Audit Function is overseen by the GRAC. In this capacity, the GRAC is responsible for agreeing an annual programme of internal audit activity, overseeing the performance of internal audits and determining that all major issues reported by the Internal Audit Function have been satisfactorily addressed.

On a day-to-day basis the internal audit activity is overseen by the Director of Internal Audit. Where appropriate, the Group makes use of specialist resource from external providers or internally where there are no conflicts of interest. The use of specialist external resources helps to ensure the independence of the Function and provides the business with a wider range of skills for carrying out audit activities than is available from suitably independent internal staff. Internal Audit reports through the GRAC quarterly but also has a regular reporting line to the Chief Executive Officer. Internal Audit is also able to report directly to the GRAC outside the regular committee meetings.

B7. Actuarial Function

During the reporting period, the Group has made changes to its arrangements for actuarial function holders. These changes have been in response to having three licensed insurance companies within the Group.

- ANDI UK – the role of actuarial function holder is outsourced to a specialist third party provider, Insight Risk Consulting. The Actuarial Function Holder for ANDI UK has a direct reporting line to the Chief Executive Officer. The day-to-day actuarial work in support of the holder of the function is carried out by the Group's Actuarial team.

- ANDIE – the Actuarial Function Holder is part of the Group's Actuarial team. The Actuarial Function Holder is a qualified member of the Institute of Actuaries in Belgium and has complied continuously with the specific professional obligations that the Institute requires.
- ANDLIE – the Actuarial Function Holder is a qualified actuary who is a member of the ANDLIE board of directors.

Each of the Actuarial Function Holders has suitable ability, experience, resources and independence to carry out the prescribed tasks of the function holder. The appointment of each Actuarial Function Holder is approved by the relevant regulator.

The wider Actuarial team is made up of qualified members and associated members of the UK Institute and Faculty of Actuaries, equivalent international actuarial bodies, analysts and data management specialists, all of whom comply with relevant professional obligations.

The Actuarial Functions are responsible for:

- Co-ordinating the calculation of technical provisions;
- Reviewing the appropriateness of the models and assumptions and considering the sufficiency and quality of data used in the Company's risk and solvency assessments;
- Providing an opinion to the on the Company's underwriting policy and effectiveness of reinsurance; and
- Producing the annual actuarial reports for the PRA, the CAA and BaFin, the regulators of the three insurance entities.

B8. Outsourcing

The Group considers outsourcing arrangements for an activity when it is not cost-effective or possible to carry out the activity internally. The Group recognises that it remains responsible for discharging all legal and regulatory responsibilities relating to the outsourced activity.

To reduce the risks associated with outsourcing, the Group has an established outsourcing policy. This policy covers the following:

- Assessment of outsourcing risks;
- Selection and due diligence of outsource service provider;
- Definition of contractual requirements and confidentiality arrangements; and
- Schedule of audits and compliance monitoring controls.

The EDC is responsible for designating suitable owners for each outsourced arrangement, overseeing the outsourced activities and ensuring that the outsourcing policy is followed. Each outsourced business process has an owner, responsible for ensuring that appropriate controls to manage the risks from outsourcing are in place and that there is regular monitoring of performance. Outsourced business process owners work in conjunction with Risk Management, Compliance and other functions including IT, Legal and Human Resources.

The Group is currently using several service providers to undertake critical or important functions on its behalf. Details of these are as follows:

a. Underwriting

The Group has engaged with third party organisations, typically through delegated underwriting authority, for the underwriting of certain products and / or business lines. Outsourced underwriting is performed in several countries, the most significant of which are with the Group's subsidiary Insure the Box in the UK, with Lloyd Latchford in the UK, with Liberty Seguros in Spain, and with Gjensidige in Norway.

b. Claims

There are outsourced claims handling and settlement arrangements, again typically through delegated claims authority, for claims for certain products and / or business lines. Outsourced claims handling is performed in France, Belgium, Germany, Holland, Norway, Finland, Denmark, Italy, Spain and the UK. The most significant of these arrangements are with the Group's subsidiary Insure the Box and FMG Group in the UK, with Liberty Seguros in Spain, and with Gjensidige in Norway.

c. Audits

Day-to-day internal audit activity is overseen by the Group's Internal Audit Director. Where appropriate, the Internal Audit Director engages third parties to provide specialist skills to support with audit activity.

d. Business continuity planning

The Group has an established and tested Business Continuity Policy, which sets out the requirements for local BCP plans and coordination with Disaster Recovery (e.g. in the event of a major systems or network outage). Depending upon the size and nature of each local operation, contracts are in place with dedicated workplace recovery sites. Where the nature of the local operations allows, staff are equipped to work securely from home. This capability has recently been proven over an extended period due to the COVID-19 crisis, during which over 95% of our employees were able to continue business as usual.

e. Human Resources

The Group uses outsourced payroll services providers in several the countries in which it operates.

f. Investment management

The Group has outsourced the management of its bond portfolio to Goldman Sachs Asset Management, based in London (for ANDI UK and ANDIE), and to DEVK Asset Management GmbH in Germany (for ANDLIE only).

B9. Adequacy of system of governance

The system of governance is considered appropriate for the Group taking into account the nature, scale and complexity of the risks inherent in the business.

B10. Other information

No other information.

B11. Group's system of governance

The Group operates an enterprise-wide risk management framework, and this is applied consistently across all the Group undertakings within the scope of group supervision. The risk management framework is described in section B3.

The Group's management services provider, ANDIM, provides management services to ANDI UK, ANDIE and TIM within the UK. In the European branches of ANDIE, the employees are employed by ANDIE itself. The employees of ANDIE provide management services (including IT, facilities, finance and risk) to ANDLIE, with these arrangements being governed by service level agreements.

The sum of the SCRs for the insurance entities within the Group (ANDIE and ANDLIE) is greater on an aggregation and deduction basis (the alternative method for calculating group solvency) than it is using the accounting consolidation approach, the default method and the one used by the Group. On an aggregation and deduction basis, the combined solo SCRs of ANDIE (£98.4m) and ANDLIE (£8.7m) are £107.1m, whereas the Group SCR calculated on a consolidation basis is £99m. The difference is due to several diversification effects of calculating a consolidated Group SCR using the standard formula. More detail on the diversification effects is provided in Section E4.

C. Risk Profile

Overall responsibility for the management of the Group's exposure to risk lies with the Board. To support it in its role, the Board has established an enterprise risk management framework comprising risk identification, risk assessment, control and reporting processes. The Board is assisted in its oversight of the risk management framework by the Corporate Governance and Business committees.

The Group's risk profile has not changed materially because of its Brexit-driven restructure.

C1. Insurance risk

Nature of the risk

This is the risk that arises from the inherent uncertainty as to the occurrence, amount and timing of insurance liabilities. It manifests itself in variability in the contribution towards expenses and profits.

The risk arises both from current year activity (premium risk) and the run-off of claims which occurred in the current year and prior years (reserving risk).

Methods used to assess and quantify the risk

The Group also assesses its underwriting risk through experience analysis (analysis of actual performance against the performance expected according to the Group's business plan) and through its reserving process, which is overseen by the Reserving Committee.

Insurance risks are quantified using a simulation model which is used to assess variability of the contribution compared to the business plan. Our approach, which was revised in 2019, has been independently verified as being standard practice in the market.

Risk parameters are selected for the following variables, for each portfolio individually, and the simulation model is used to create a distribution of values for each portfolio to identify the portfolios with the greatest contribution to the overall insurance risk:

- Volume of business;
- Current year loss ratio;
- Claim frequency;
- Natural catastrophe; and
- Reserve run-off.

a. Volume of business

The risk of the volume of business being higher or lower than expected, for example due to higher or lower levels of new business, or changes in the rate at which customers renew their policies.

b. Current year loss ratio

The risk of the current loss ratio being different from the expected level, due to market wide trends or company specific variability.

Some examples of market-wide trends are claims inflation, changes in the level of competition, etc. In effect this represents the variability that exists within each market's insurance cycle.

Separate risk parameters are selected for frequency and severity of small, large and natural catastrophe claims. Deviation from plan can occur due to natural random variability but can also be because of variation in the Company's success at achieving planned claims savings. The most significant natural catastrophe exposures faced by the Group are hail in Germany and Italy, windstorm in Germany, and UK and flood in Germany and UK.

The mitigating impact of excess of loss and quota-share reinsurance is incorporated into the model, to ensure that the result net of reinsurance can be estimated appropriately.

c. Claim frequency

For both small and large claims (greater than £100k), we model the typical variation in the frequency and severity of claims.

d. Natural catastrophe

We model the typical variation in frequency and severity of losses due to Natural Catastrophe events. Our greatest exposure to Natural Catastrophes differs by geographic location. Our exposures include Hail Damage in the UK, Germany, Italy, France and Denmark; Windstorm in the UK, Germany, France, Norway and Denmark and Flood in the UK and Germany.

The mitigating impact of excess of loss and quota-share reinsurance is incorporated into the model, to ensure that the result net of reinsurance can be estimated appropriately.

e. Reserve run-off

The risk of changes in the estimated ultimate cost of claims, for example due to unexpected levels of incurred cost development, unexpected levels of late-developing large claims, higher than expected inflation, emergence of new information that, if known earlier, would have led to the selection of a different ultimate cost, etc.

Risk mitigation

Disciplined underwriting including appropriate risk management and pricing control is essential to the Group's success. The Group maintains underwriting and claims policies which define the approach in respect of risk selection and management and each underwriter has an individual mandate governing the acceptance of risks based on their competence. The Group makes use of its own data in making such decisions supplemented by data and advice from expert third parties and insurance partners. In addition, the Group has a centrally managed forum reviewing underwriting issues and performance, including the approval of new products.

Reinsurance is used to manage insurance risk. Much of the reinsurance is placed with the Group's parent, ADJ, which is A+ rated. The Group also enters into quota share and co-insurance arrangements with third parties. These arrangements vary depending on the product and country in question. The Group also places an excess of loss programme with a high-quality panel of reinsurers, including its parent company. The risk of default by reinsurers is discussed in the section on Credit risk.

Risk sensitivity for underwriting risks

The risk sensitivity for underwriting risks can be considered by assessing the impact of an increase in the Group's net loss ratio. For each 1% increase in the net loss ratio the Group's year-end solvency would be reduced by £1.8m. We anticipate a 14% or greater deterioration in net loss compared to plan, equivalent to a £19m reduction in solvency, on average 1 in 10 years.

The Group holds sufficient assets above the SCR to absorb a loss at this level.

C2. Market risk

Nature of the risk

This is the risk of external market influences affecting the Group's net asset value, for example changes in interest rates affecting the value of assets, changes in the levels of investment return, changes in exchange rates, etc.

At the end of 2019, the Group's investments consisted of £1m in equities, £269.9m in bonds, £160.4m in money market fund holdings and £69.4m in cash. The Group also has subsidiary companies as detailed in the group structure chart in Section A1 and there is a risk that the valuations of these companies (treated as participations within the Solvency II balance sheet) will change because of their performance.

The bond portfolio is expected to be held until maturity. As mark-to-market pricing is required when drawing up the Solvency II balance sheet day-to-day market values have an effect on the available Solvency II capital. However, the mark-to-market movements do not affect the Group's cash flows from investments. The risk of being required to sell bonds at a loss to cover unexpected liabilities is considered under liquidity risk.

An alternative to investing in fixed income bonds is to invest in cash or money market funds. As at the end of 2019 the Group's cash holdings were £69.4m and money market fund holdings of £160.4m. Cash, deposits and money market funds are not typically affected by market value fluctuations and are therefore more secure from a capital point of view. However, investing in cash and money market funds introduces greater uncertainty as to the level of income that can be achieved, as this is affected by fluctuating (and, recently, persistently low) interest rates.

Other than subsidiaries held for strategic purposes, the Group's investment policy is to limit the amount of equities it holds. This is subject to ongoing review. Currently only ANDLIE has non-subsidiary equity investments, and these amount to £1m.

The Group has assets and liabilities in three main currencies: GBP, EUR and NOK. The Company also has some assets and liabilities in other currencies, but these are not material. Where there is a requirement to hold a certain level of capital in local currency for an overseas subsidiary (other than GBP, EUR and NOK) the approach is to hold the minimum required plus sufficient for projected operating cash flow requirements. As a result, Group's exposure to movements in currencies other than EUR and NOK is not significant.

Methods used to assess and quantify the risk

Market risks are quantified using a simulation model, separate from that used for insurance risks. Variability parameters for interest rates, bond yields and exchange rates for each currency are selected and the model is then used to create a distribution of the change in net asset and liability values due to each risk, from which the capital requirement can be measured.

- Bond yields – a range of potential movements in yields are chosen and the model calculates for each movement the impact on the value of each bond held;
- Exchange rates – a range of potential movements in exchange rates is chosen and the model calculates for each movement the impact on the GBP value of the Group's net assets; and
- Risk-free yields – a range of risk-free yields is chosen, and the model calculates the impact on the value of technical provisions and on investments.

Risk mitigation

The Group manages its market risk in several ways, among which the following can be highlighted:

- The Group has an asset liability management ("ALM") framework that has been developed to achieve investment returns in excess of obligations under insurance contracts. The principal technique of the ALM framework is to match assets to the liabilities arising from insurance contracts by reference to the expected timing of settlement of liabilities. The assets of ANDLIE are managed separately from the general business but according to the same principles. The ALM framework is integrated with the management of the financial risks associated with the Group's other financial assets and liabilities not directly associated with insurance and investment liabilities;

- The Group monitors interest rate risk by calculating the mean duration of the investment portfolio and of the policyholder liabilities. The mean duration is an indicator of the sensitivity of the assets and liabilities to changes in current interest rates. Any gap between the mean duration of the assets and the estimated mean duration of the liabilities is minimised by means of buying and selling fixed interest securities of different durations;
- The Group has a defined investment policy which sets limits on exposure to securities both in aggregate terms and by geography, industry and counterparty. Investment management meetings are held quarterly. The Group invests principally in high quality corporate bonds in the UK and Europe, with the average rating of the bond portfolio of A+ (2018: A+) and duration of 3.9 years (2018: 4.5 years). Corporate bonds below investment grade are not permitted.
- ANDIE maintains the outsourced management of its bond portfolio with Goldman Sachs Asset Management, while ANDLIE uses DEVK Asset Management.
- The Group seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency.

The Group does not use derivative financial instruments. This is kept under regular review.

Risk sensitivity for market risks

The Group's SCR is sensitive to movements in underlying foreign currency exchange rates. The Group is exposed to currency risk to the extent that the foreign currency denominated assets it holds do not match its liabilities in those currencies. The Group seeks to minimise this risk by matching its assets and liabilities by currency. The Group does not use hedging instruments to control the foreign exchange risk. At the balance sheet date, the Group had exposures in the following currencies:

	2019		2018	
	€'000	NOK'000	€'000	NOK'000
Assets	264,124	110,067	270,109	105,364
Liabilities	235,973	68,992	284,236	79,379
Unmatched exposure	28,151	41,075	14,127	25,985
Sterling equivalent	24,904	3,669	12,680	2,356

The impact of a 10% change in the value of Euros to Sterling is £2.5m (2018: £1.3m) and the impact of a 10% change in the value of NOK to Sterling is £0.4m (2018: £0.2m).

The Group is exposed to movements in interest rates, which affect the value of the Group's mark-to-market financial investment holdings and the value of its technical provisions. The standard formula SCR calculation includes upward and downward interest rate shock scenarios. Neither the upward nor the downward shock has a material effect on the Group's SCR.

C3. Credit risk

Nature of the risk

Credit risk is the risk that counterparties will be unable to pay amounts in full when due. Key areas where the Group is exposed to credit risk are:

- exposure to corporate bonds;
- exposure to the failure of bank counterparties;
- reinsurers' share of insurance liabilities;

- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders; and
- amounts due from insurance intermediaries.

Methods used to assess and quantify the risk

The Group measures the capital requirement for credit risk using a simulation model to determine the distribution of the total amount of defaults. For each exposure, a probability of default, based on credit rating, is assumed and there is an assumed recovery percentage on default. We also make assumptions about the correlation between exposures, for example allowing for a 50% positive correlation between reinsurance counterparties due to the interconnected nature of the reinsurance market in which one event can hit many reinsurers simultaneously. Some debts are with counterparties which do not have credit ratings – for example, overdue premiums owed by insurance customers or intermediaries – and in this case the assumed default probabilities are higher, albeit the risk is diversified due to the number of policyholders and intermediaries. For the purposes of the Solvency II balance sheet, premium debtors over three months past due are written off in accordance with the requirements.

Risk mitigation

The Group's risk appetite places limits on credit risk by specifying the minimum credit rating that counterparty must have for us to do business with them. Reinsurers must have a credit rating of at least A-, and investment counterparties must have a rating of at least A- with the exception that the risk appetite permits a limited exposure to BBB bonds. In some cases, a counterparty's credit rating changes after a debt has been accrued, and the Group considers the appropriate response to this occurrence on a case by case basis. Typically, balances are minimised in response to a downgrade, and in some cases, we would no longer allow debt to accrue with a counterparty. The Group also considers the advice of its investment managers Goldman Sachs Asset Management and DEVK Asset Management (for ANDLIE).

The Group places limits on its exposure to a single counterparty, or groups of counterparties, and to geographical and industry segments. The Group does not have an explicit limit on reinsurance with its parent ADJ. However, all intra-group reinsurance transactions are conducted on an arm's length basis and as such counterparty credit risk is assessed and managed.

The existence of reinsurance arrangements does not discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim, the Group remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract. In addition, the recent payment history of reinsurers is used to update the reinsurance purchasing strategy. Much of the reinsurance is placed with the Group's parent company, which is A+ rated.

Risk sensitivity for credit risks

The Group's largest single exposure is to its parent ADJ, which is A+ rated.

The Group has some exposure to BBB rated bonds. The total amount is not permitted to be more than 15% of the ANDIE bond portfolio and individual holdings in BBB investments are typically restricted to 1.25% of the ANDIE bond portfolio. All BBB investments are closely monitored with the assistance of Goldman Sachs Asset Management. As at the balance sheet date, the total BBB investment exposure was £23.2m (2018: £39.6m). This equates to 8.6% of the total Group bond portfolio (2018: 12.8%).

C4. Liquidity risk

Nature of the risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of borrowing facilities that should be in place to cover anticipated liabilities and unexpected levels of demand. The Group's portfolio is kept in highly liquid marketable securities to meet liabilities as they fall due.

Liquidity risk affects the Group in two main ways:

- Cash flow uncertainty. There can be an uncertainty in the liability, either in terms of its value or its timing. In either case, insufficient funds would be available to meet the requirement. This can arise because of claims (the most significant area), through a mismatch between the timing of gross claims being paid and reinsurance recoveries collected, from creditor invoices and expenses and from country risk and currency controls (where a sovereign may restrict the cross-border movement of cash).
- Asset values. There are several circumstances which can prevent or restrict the sale of an asset or access to liquid funds. These include the downgrade or failure of a counterparty, bank failure or market or segment downturn. However, given the nature of the Group's investment portfolio this risk is deemed to be low.

Methods used to assess and quantify the risk

Liquidity risk is not considered to be a significant risk for the Group. Although there are scenarios in which the Group would not be able to meet its cash flow requirements as they fall due these are considered extreme.

Risk mitigation

The Group carries out the following to mitigate liquidity risk:

- Cash flow forecasting. The Group monitors its cash flows closely across all branches to ensure they are correctly funded and matches the cash flow of its assets and liabilities.
- A significant proportion of liquid assets are held at all times to meet expected liabilities.
- The investment policy has been set to avoid concentration risk and to ensure high quality liquid assets.
- Liquidity is regularly monitored by the Finance department and quarterly by the Investment Committee.

Risk sensitivity for liquidity risks

Cash, deposits and money market funds at the year-end totalled £229.8m (2018: £214.4m). The insurance business is broadly cash neutral, with some fluctuations over the year. There are also £269.9m (2018: £308.4m) of fixed income bonds which are highly liquid in most market circumstances. It would therefore require an extreme cash flow shock for a material liquidity risk to arise.

C5. Operational risk

Nature of the risk

This is the risk that errors caused by people, processes or systems lead to losses to the Group, or the risk that arises from unanticipated or poorly anticipated external events.

Among the most important contributors to operational risk considered by the Group are:

- Internal and external fraud;
- Legal action against the Group;
- Significantly higher than expected inflation of costs;

- Changes in employment law;
- Improper market practices;
- Failure to comply with regulations;
- Project overruns or failures;
- Poor performance or failure of an outsourced provider;
- Business disruption and system failures;
- Damage to physical assets (e.g. due to natural catastrophe);
- Loss of key personnel;
- Pandemic; and
- Unexpected subsidiary funding requirements.

Methods used to assess and quantify the risk

The Group maintains a record of significant materialised risk events and takes account of materialised risk events within the wider market.

The Group maintains risk registers for each significant business function and unit. These are used to inform the approach for modelling operational risk, which relies on expert judgement on the likelihood and severity of various scenarios. The resulting risk profile for operational risk is assessed quantitatively and is incorporated in the assessment of solvency requirements.

Risk mitigation

The Group manages operational risk mainly through the use of detailed procedure manuals and a structured programme of testing of processes and systems, carried out by Internal Audit and by the parent company's Compliance and Internal Audit departments. The Group's enterprise risk management framework also requires all key functions and units to maintain risk registers, which are reviewed and challenged by the Risk Management Function, with a process of escalation of key issues to the Group's Risk Committee.

Risk sensitivity for operational risks

The operational risk per the SCR standard formula calculation is 13.5% (2018: 13.7%) of the Group SCR as at the balance sheet date. However, the Group's ORSA includes a higher amount for operational risk to reflect management and the Board's view that the Group's operational risk is higher than the SCR standard formula indicates. The increased operational risk derives from the acquisition of BIGL by the Group in 2015, the ongoing work on the integration of BIGL, the increased exposure of the business to the UK since the BIGL acquisition and the potential disruptions to the Company's business model as a result of Brexit. The analysis of operational risk carried out for the ORSA completed in September 2019 (based on data as at 31 December 2018) has arrived at an operational risk of £21.1m (2018: £21.1m), which is 57% (2018: 54%) higher than the amount calculated according to the SCR standard formula. The SCR coverage ratio would be sufficient to absorb a loss at this level.

C6. Other risks

Strategic risk

Strategic risk is the current or prospective risk to earnings and capital arising from changes in the business environment and from adverse business decisions, improper implementation of decisions and the lack of responsiveness to changes in the business environment.

Much of the Group's business relies on the parent company's relationship with Toyota. This mono-customer strategy (which applies to much of the business other than that written through the Insure The Box brand in the UK) is the Group's most significant strategic risk, as according to our reverse stress testing exercise it is considered to be the risk that is most likely to render the business model unviable. While the Group has diversified its product base and its business lines the relationship with

Toyota is likely to remain the largest single distribution channel for some time. This risk is mitigated by the close relationship at all levels with Toyota and in the medium-term by the diversification in our client base and distribution channels.

Reputational risk

Reputational risk is a form of strategic risk within the Group's risk taxonomy. Reputational risk is defined as the risk of losses because of damage to the reputation and brands of the Group or of other companies on which the Group's fortunes depend.

The main forms of reputational risk affecting the Group are:

- Damage to the Toyota brand, as much of the Company's business is Toyota branded;
- The Group's own reputation with Toyota and credibility as an insurance partner;
- Reputational damage to the Insure The Box brand; and
- Damage because of failures by out-sourced providers, co-insurance partners of problems in the wider MS&AD Insurance Group.

Issues from a Toyota perspective are largely confined to reductions in car sales and hence lower levels of new insurance business. This has been demonstrated by the effect on the business of various safety recalls that have been instigated by Toyota over the past few years. Retention was unaffected across all countries as customers were able to distinguish between the issues relating to the safety recall and the insurance product. In these circumstances the short-term financial impact is small, growing only over an extended period. The Group uses a wide range of outsourced suppliers, including co-insurance arrangements. Brand damage to a co-insurer would potentially be more visible and could have an impact on our operations although the focus of the branding is Toyota. Problems at other MS&AD group entities could also potentially affect relationships with regulators or other partners.

In terms of our own competitiveness and customer service the most important mitigation is to promote strong relationships at all levels to ensure problems are addressed and explained at an early stage to prevent escalation into more serious issues. This starts with regular reviews of key performance indictors and complaints to external management meetings at various levels to ensure that we are strategically and operationally aligned with Toyota.

With regard to the Insure The Box brand, specific actions have been taken to strengthen the management, governance and control structures since the acquisition and to begin to align the control environment with that of the Group. These changes are likely to help mitigate the potential for reputational damage.

C7. Other information

No other information.

C8. Group's risk profile

There are no other significant risk concentrations at the level of the Group beyond those detailed above.

D. Valuation for Solvency Purposes

The following table sets out the Group's assets and liabilities as at 31 December 2019:

	Statutory Accounts value	Reclassification/ valuation	Solvency II value
Assets:	**£'000**	**£'000**	**£'000**
Deferred acquisition costs	76,178	(76,178)	-
Intangible assets	13,491	(13,491)	-
Property, plant & equipment	15,484	(13,638)	1,846
Holdings in related undertakings	-	(10,305)	(10,305)
Equities	944	71	1,015
Bonds	266,161	5,331	271,492
Collective investment undertakings	12,366	147,996	160,362
Reinsurance recoverables	270,457	(42,959)	227,498
Insurance receivables	33,866	13,101	46,967
Cash and cash equivalents	232,565	(163,082)	69,483
Other assets	14,272	3,150	17,422
Total assets	**935,784**	**(150,004)**	**785,780**
Liabilities:			
Technical provisions – non-life	529,529	(64,346)	465,183
Technical provisions – health and life	41,803	(29,433)	12,370
Provisions other than technical provisions	-	3,219	3,219
Deferred tax	-	4,604	4,604
Insurance payables	10,212	6,569	16,781
Reinsurance payables	29,945	(28,230)	1,715
Other liabilities	40,912	(10,830)	30,082
Total liabilities	**652,401**	**(118,447)**	**533,954**
Excess assets over liabilities	**283,383**	**(31,557)**	**251,826**

D1. Assets

Below is set out the Solvency II valuation basis for each class of asset. Any significant differences in the valuation under Solvency II and the valuation under IFRS are explained for the class of asset in question. Technical provisions are discussed in section D2 and liabilities are considered in section D3.

Deferred acquisition costs

Under IFRS, deferred acquisition costs are earned over the term of the policy, in proportion to the earning of premium. Deferred acquisition costs are shown separately as an asset. Under Solvency II, however, there is no concept of deferred acquisition costs and the asset is written off. This is because although the amounts may not yet have been earned under IFRS they related to acquisition cash flows that have already been paid.

Intangible assets

Under Solvency II intangible assets are assigned a value only when they can be sold separately and a valuation can be derived from an active market for a similar intangible. As the intangibles of the Group do not meet these requirements no value is assigned to them for Solvency II reporting.

Property, plant and equipment

The Group's plant and equipment is held in the IFRS reporting at cost less depreciation. Solvency II requires them to be held at fair value. As active market valuations for the assets in question could not easily be obtained, the Group has written these assets off for the purposes of Solvency II. The remaining amount of £1.8m (2018: £1.9m) relates to property, which is held at fair value in the IFRS reporting and has been maintained at this value in the Solvency II balance sheet.

Holdings in related undertakings, including participations

The Group's IFRS consolidated financial reporting consolidates the assets and liabilities of ANDEL and its subsidiaries. ANDEL directly owns 100% of the issued share capital of ANDIE, ANDIM, ANDI UK, BIGL and 75% of the issued share capital of TIM. ANDIE, BIGL and TIM have subsidiaries, so that the Group has an indirect investment in these subsidiary entities. Within the IFRS consolidation, ANDEL's investments in subsidiaries (both direct and indirect) are replaced by the underlying assets and liabilities of these subsidiaries.

The Group has used the accounting consolidation-based method to prepare its Group Solvency II balance sheet, which is the default method prescribed by the regulations. The consolidation-based method differs from the IFRS consolidation used in the Group financial statements because only the holding company itself (ANDEL), its insurance undertakings (ANDI UK, ANDIE and ANDLIE) and the ancillary services undertaking ANDIM are fully consolidated, with intra-group transactions between these five entities eliminated, while the Group's non-insurance subsidiaries are treated as participations, with the net asset value (calculated in accordance with Solvency II valuation rules) included in the Group's balance sheet. Intra-group transactions with the non-insurance subsidiaries are not eliminated.

The holdings in TIM and BIGL are valued using the adjusted equity method referred to in Article 13(b) of the Delegated Regulation as valuation in accordance with Article 10(2) of the Delegated Regulation is not possible:

- The valuation of ANDEL's 75% holding in TIM per the adjusted equity method is £3m (2018: £(0.3)m).
- The valuation of ANDEL's 100% holding in BIGL is £(13.3m) (2018: £(5.8)m). The negative valuation for BIGL is due to the removal of intangible assets and those fixed assets which cannot quickly be converted into cash, leaving BIGL with net liabilities on a Solvency II valuation basis.

Equities

As at the reporting date the Group held equity investments of £1m (2018: £0.8m). The equity investments are held at fair values. Fair values are quoted prices, unadjusted, in active markets for identical assets. The Group can access these quoted prices at the measurement date.

Bonds

As at the reporting date the Group held investments in fixed income securities of £271.5m (2018: £312.2m). The holdings are split between the asset classes government bonds, corporate bonds and collateralised securities. As at the reporting date, the balance held in each of these asset classes is £35.8m in government and agency bonds (2018: £52.9m), £234.1m in corporate bonds (2018: £257.7m) and £1.6m in collateralised securities (2018: £1.6m).

The bond portfolio is valued at fair value based on the market price as at the reporting date, which are either quoted prices in active markets for identical assets or quoted prices for similar assets in active markets. Quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The appropriate quoted market price for an asset held is usually the current bid price. Changes in the market value of the bonds are included in the reported value. There are no material estimates, assumptions or judgements made when reporting the value of the bonds. Under Solvency II the value reported includes any interest accrued on each holding as at the reporting date. In the annual accounts this accrued interest is reported as a separate asset under "Accrued interest".

Collective investments undertakings

Under IFRS assets held in short term deposits or collective investment schemes are reported as a component of cash and cash equivalents. Under Solvency II these are reported separately as collective investments undertakings.

As at the reporting date, the Group had £160.4m held in collective investments undertakings (2018: £142m). The collective investments undertakings are valued at fair value based on the market price as at the reporting date, which are quoted prices in active markets for identical assets. Quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. The appropriate quoted market price for an asset held is usually the current bid price. Changes in the market value of the collective investments undertakings are included in the reported value. There are no material estimates, assumptions or judgements made when reporting the value of the collective investments undertakings.

Reinsurance recoverables

As at the balance sheet date the Group had reinsurance assets totalling £227.5m (2018: £215.7m). Technical provisions include the cash flows from amounts recoverable under programmes of reinsurance. The Group uses quota-share (proportional) reinsurance and excess of loss reinsurance:

- For the quota-share reinsurance arrangements, the cash flows are the relevant percentage of the gross cash flows. Where actuarial methods have been used for the gross best estimates, these are implicitly used to calculate quota share recoveries. A delay is included between the gross cash flows and the corresponding reinsurance recoveries; and
- For our excess of loss treaty, the expected recoveries are not determined using traditional actuarial methods. They are based on an individual assessment of each large claim by the relevant Branch claims manager with the cash flows modelled from the terms of the applicable reinsurance treaty.

Allowance has also been made for the possible default of a reinsurer, as prescribed under Solvency II, using the second highest credit rating for each reinsurance counterparty.

The reinsurance recoverables calculated as part of the Solvency II technical provisions replace the IFRS reinsurance recoverables, which are valued in accordance with the reinsurers' share of the IFRS insurance liabilities. Please refer to the technical provisions section D2 for further details.

Insurance and intermediaries receivables

As at the reporting date, the Group had £47m (2018: £55.1m) in insurance and intermediaries receivables. Insurance and intermediaries receivables comprise mostly of insurance premiums past due from policyholders or amounts due from intermediaries in relation to amounts collected from policyholders. The Group maintains a provision for doubtful debts, based on prior loss experience.

Receivables are initially recognised at transactional value plus directly related costs. They are subsequently measured at amortised cost using the effective interest rate method. As the majority of receivables are short-term in nature (and doubtful balances are provided for) the carrying value in the IFRS reporting is considered to approximate to fair value. Any discounting for the time value of money would not have a material effect. There are no material estimates, assumptions or judgements when reporting the value.

Cash and cash equivalents

As at the reporting date, the Group had £69.5m (2018: £48.8m) held as cash and cash equivalents. Cash and cash equivalents are valued at fair value as reported to the Group by the relevant financial institutions as at the reporting date. As these are cash amounts held in bank accounts the valuation does not rely on market prices. There are no material estimates, assumptions or judgements when reporting the value of cash and cash equivalents.

Any other assets, not elsewhere shown

As at the reporting date, the Group had £17.4m (2018: £12.6m) of other assets. These other assets include taxation debtors, prepayments and other debtors. As the majority of these assets are short-term in nature the carrying value in the IFRS accounts is considered to approximate to fair value. Any discounting for the time value of money would not have a material effect. There are no material estimates, assumptions or judgements when reporting the value of these assets.

D2. Technical provisions

The technical provisions comprise the claims technical provision, the premium technical provision (which together form the best estimate liability) and the risk margin. They are set in accordance with Solvency II regulations. As at 31 December 2019, the technical provisions were:

Class of business	2019 Net best estimate £'000	2019 Risk Margin £'000	2018 Net best estimate £'000	2018 Risk margin £'000
Motor third party liability	137,142	15,758	146,952	14,001
Motor other	58,816	2,284	58,714	2,922
Other life insurance	11,621	710	11,258	599
Other	21,814	2,116	22,066	1,762
Total	**229,392**	**20,868**	**238,990**	**19,284**

The technical provisions are split into the two largest Solvency II classes of business (both motor), the other life business (written by ANDLIE), with all other business (ANDIE and ANDLIE) grouped together in "Other". The majority of the business grouped into "Other" is the Solvency II class "Miscellaneous non-life insurance", which includes Guaranteed Asset Protection cover and Extended Warranty.

The basis on which the technical provisions is calculated is outlined below. While premium and claims patterns have been updated for another year's worth of business, there have been no material changes in assumptions made in the technical provisions calculation since the prior year. There are no material differences in bases, methods or assumptions for the different classes of business set out above.

Under Solvency II, the provision for outstanding claims is the best estimate of the cost of all existing open cases and all possible future claims. This contrasts with the value for technical provisions in the IFRS financial statements which is the undiscounted best estimate of all open cases plus future claims as far as they are represented in the claims history (or market history, depending on the method).

The difference between these two bases has been termed "Events Not In Data" or ENIDs. An allowance for ENIDs has been added to the Solvency II technical provisions by loading each future cash flow by a percentage which increases as the length of time to the cash flow increases. Due to the inherent difficulty of estimating the impact of events which have not occurred in the past and which have an extremely low likelihood, these percentages are extremely subjective. However, a previous benchmarking exercise carried out by an independent third party indicated that the Group's approach to ENIDs was broadly in line with that of peer entities.

The undiscounted best estimates in both cases (IFRS and Solvency II) have been calculated using standard deterministic actuarial models. For most classes, development factor (or "chain-ladder") methods have been used. For some liability classes, Bornheutter-Ferguson models (or similar methods which combine our own experience with an average market claims experience) have been used.

Future inflation is implicitly assumed to follow historic inflation except in the case of models based on market average experience where inflation is explicitly considered.

For each homogenous underwriting risk group, a premium payment pattern has been derived using historical data about policy lengths and frequency of premium payments. Future premium payments are calculated by applying these patterns to anticipated gross written premium.

The premium provision includes not only the unearned exposures at the balance sheet date but also the value of policies the Group has committed to writing at a future date but that have not incepted at that date. The contracts written by the Group are non-life business, do not include guaranteed renewals (either explicit or implicit), neither do they include any options or guarantees with a significant financial impact on the company. The contract boundary used is usually one year after inception, although there are contracts with shorter or longer terms. There is allowance for ENIDs for future claims in the premium provisions in the same way as for the outstanding claims provisions.

In some cases, there is insufficient historical data to derive the necessary cash-flow patterns for both premiums and claims. In these cases, cash flows are modelled in proportion to similar accounts where we do have sufficient data. These classes do not make up a significant proportion of the net best estimate as at 31 December 2019.

The technical provisions include a risk margin. A simplification has been used for the calculation of the margin, as permitted, by approximating the whole SCR for each future year using a ratio to technical provisions. This simplification is deemed appropriate because there are no negative best estimates at the valuation or subsequent dates, the Group's reinsurers are A- rated or better and there are no unavoidable market risks.

Technical provisions include the cash flows from amounts recoverable under programmes of reinsurance. The Group uses quota-share (proportional) reinsurance and Excess of Loss reinsurance.

- For the quota-share reinsurance arrangements, the cash flows are the relevant percentage of the gross cash flows. Where actuarial methods have been used for the gross best estimates, these are implicitly used to calculate quota share recoveries. A delay is included between the gross cash flows and the corresponding reinsurance recoveries.
- For our excess of loss treaty, the expected recoveries are not determined using traditional actuarial methods. They are based on an individual assessment of each large claim by the relevant branch claims manager with the cash flows modelled from the terms of the applicable reinsurance treaty.

Allowance has also been made for the possible default of a reinsurer, as prescribed under Solvency II, using the second highest credit rating for each reinsurance counterparty.

For the life business underwritten by ANDLIE, the actuarial reserves are calculated separately for each insurance contract, considering the month of commencement. The calculation is carried out prospectively. The best estimate of the value of the reserves is calculated using the best estimate of the value of the termination rates and recovery rates. The risk-free yield curve is used for discounting. Costs that can be directly allocated to insurance obligations and allocated overheads are incorporated into the projection of the future costs. The risk margin is calculated as per section 58(b) of the Delegated Regulation, using the duration approach (level 3 in the hierarchy of simplifications for the calculation of the risk margin).

D3. Other liabilities

The following table sets out the Group's liabilities (other than technical provisions) as at 31 December 2018:

	2019 £'000	2018 £'000
Provisions other than technical provisions	3,219	1,119
Deferred tax	4,604	3,766
Insurance and intermediaries payable	16,781	6,976
Reinsurance payables	1,716	4,120
Any other liabilities	30,082	22,244

Below is set out the Solvency II valuation basis for each material class of liability. Any significant differences in the valuation under Solvency II and the valuation under IFRS is explained for the class of liability in question.

The Group does not have any material leasing arrangements.

<u>Provisions other than technical provisions</u>

Includes a provision for profit commission for reinsurance programmes and miscellaneous expense accruals.

<u>Deferred tax</u>

The deferred tax liability arises on temporary timing differences on the valuation of assets and liabilities under Solvency II. The liability has been calculated with reference to applicable regulations, tax laws and applicable tax rates.

<u>Insurance and intermediaries payable</u>

As at the reporting date, the Group had £16.8m (2018: £7m) of insurance and intermediaries payable. These comprise of direct insurance creditors and other insurance payables. The insurance payables are valued in the IFRS accounts initially at fair value and subsequently at amortised cost using the effective interest rate method. However, as these liabilities represent the amounts to be paid to insurance claimants these amounts are not revalued to amortised cost as they are typically settled in the short-term, with the settlement amount rarely differing from the initial valuation. The IFRS valuation therefore substantially equates to fair value and there is no adjustment made for Solvency II valuation purposes. Similarly, there is no adjustment for the valuation of other insurance payables between the IFRS accounts and Solvency II. There are no material estimates, assumptions or judgements when reporting the value of insurance and intermediaries payable.

<u>Reinsurance payables</u>

As at the reporting date, the Group had £1.7m (2018: had £4.1m) of reinsurance payables. Reinsurance payables represent premiums due to reinsurers. They are valued initially at transaction value plus attributable costs. They are subsequently measured at amortised cost using the effective interest rate method. As the majority of payables are short-term in nature the carrying value in the IFRS accounts is considered to approximate to fair value. Any discounting for the time value of money would not have a material effect. There are no material estimates, assumptions or judgements when reporting the value.

<u>Any other liabilities, not elsewhere shown</u>

As at the reporting date, the Group had £30.1m (2018: £22.2m) of other liabilities, not elsewhere shown. These amounts represent accruals and other liabilities. Accruals are recognised in line with

IFRS, so the Group accrues when it is probable that the Group will be required to settle an obligation and a reliable estimate can be made of the amount of the obligation. Other liabilities are recognised initially at transaction value plus directly attributable costs. As the majority of liabilities are short-term in nature the carrying value in the IFRS accounts is considered to approximate to fair value. Any discounting for the time value of money would not have a material effect. There are no material estimates, assumptions or judgements when reporting the value.

D4. Alternative methods for valuation

There are no alternative methods of valuation employed.

D5. Other information

No other information.

D6. Group's valuation for solvency purposes

There are no differences between the valuation for solvency purposes used at group level for the valuation of the Group's assets, technical provisions and other liabilities and those used by the Group's subsidiaries. The valuations used for ANDIE's assets, technical provisions and other liabilities for group solvency purposes are the same as those used on a solo (company-only) basis. The valuations used for ANDLIE's assets, technical provisions and other liabilities are also consistent with the ANDLIE solo basis. The assets and liabilities of the other entities within the Group are valued in accordance with Solvency II valuation principles for both the solo and the group reporting.

E. Capital Management

E1. Own funds

The capital management objective of the Group is to maintain sufficient own funds to cover the SCR and the MCR with an appropriate buffer which takes account of the Group's growth ambitions as set out in its business plan. The Board and the Board Committees consider at least quarterly the ratio of eligible own funds over the SCR and MCR. The Group prepares solvency projections over a five-year period as part of the business planning process. The ORSA, which is prepared on a three-year basis, is compared to the results of the SCR projection at the three-year point to determine whether additional solvency cover is required. The outcome of this assessment is recorded in the ORSA report and shared with the regulator as required.

Own funds are the regulatory capital resources of an insurance undertaking or group under Solvency II. Own funds for the Group consist of the excess of assets over liabilities (including technical provisions), all of which are valued in accordance with Solvency II regulations.

As described in section D1, the Group has used the accounting consolidation-based method to calculate group solvency. Using this method, the own funds of the Group are calculated on the basis of consolidated data, being the line-by-line aggregation of the assets and liabilities of ANDEL, ANDI UK, ANDIE, ANDLIE and ANDIM. The Group's non-insurance and non-regulated undertakings are consolidated as single-line participations. Details of the contributions of these participations to the Group's own funds are provided in section D1.

The Group's own funds comprise of paid in ordinary share capital and the reconciliation reserve. The share capital as at 31 December 2019 is fully paid up and comprises 350,010,000 ordinary shares with a par value of £1 each. There is a negative reconciliation reserve of £98.2m (2018: negative reconciliation reserve of £78.8m) as noted below:

	2019 £'000	2018 £'000
Excess of assets over liabilities	251,826	271,193
Less: ordinary share capital	(350,010)	(350,010)
Reconciliation reserve	(98,184)	(78,817)

The difference in the reconciliation reserve from the prior year is due to the Group's loss during the year.

All the Group's capital is tier one. The entirety of the Group's own funds are eligible to cover the SCR and the MCR. None of the Group's own funds are subject to transitional arrangements and the Group has no ancillary own funds. No deductions are applied to own funds and no own shares held. There are no significant restrictions affecting the availability and transferability of own funds within the Group, to cover either the SCR or the MCR. More detail on the transferability and fungibility of the Group's own funds is provided in section E4.

As at 31 December 2019, the net asset value of the Group as calculated under IFRS for reporting purposes was £283.4m. This is a £19.9m decrease since 31 December 2018. The table below shows the IFRS movement in net asset value:

	2019 £'000	2018 £'000
Brought forward 1 January	303,233	173,803
Capital increase	-	180,000
Result for the year	(24,854)	(45,844)
Movement in reserves	5,004	(4,726)
Carried forward 31 December	283,383	303,233

For Solvency II purposes, eligible own funds to meet the MCR and SCR were £251.8m (2018: £271.2m). The main differences between eligible own funds and the net asset value under IFRS are set out below.

	2019 £'000	2018 £'000	Reason
Net asset value per IFRS	283,383	303,232	Per IFRS reporting
Revaluation of net technical reserves	71,958	70,852	Differing reserving basis under Solvency II
Deferred acquisition cost	(76,178)	(76,112)	No DAC for Solvency II
Goodwill and intangibles	(13,491)	(15,332)	Written off for Solvency II
Holdings in related undertakings	(10,305)	(6,309)	Non-consolidated subsidiaries have a negative impact on Solvency II own funds
Other assets and liabilities	(3,540)	(5,138)	Net impact of adjustments to fair value
Own funds under Solvency II	251,826	271,193	Solvency II own funds

The movement of own funds on a Solvency II basis during 2019 was as follows:

	2019 £'000	2018 £'000
Own funds brought forward 1 January	271,193	129,227
Capital injection	-	180,000
Movement in year	(19,367)	(38,034)
Own funds as at 31 December	251,826	271,193

The SCR coverage ratio as at 31 December 2019 was 254% (2018: 278%), with eligible own funds of £251.8m (2018: £271.2m) and an SCR of £99m (2018: £97.7m). The MCR coverage ratio as at 31 December 2019 was 595% (2018: 677%), with eligible own funds of £251.8m (2018: £271.2m) and an MCR of £42.3m (2018: £40.1m). The Group completed its previous Solvency II filing as at 31 December 2018 and quarterly reporting throughout 2019 and these have shown that the Group has complied continuously with both the MCR and the SCR throughout the reporting period.

E2. Solvency Capital Requirement and Minimum Capital Requirement

The standard formula is used to calculate the SCR, without modification for undertaking specific parameters. Other than the calculation of the risk margin in ANDLIE (which is not material to the Group, see section D2 for further details), the Group has not used any simplifications permitted by the regulations.

The table below shows the components of the SCR as at 31 December 2019:

Component	2019 £'000	2018 £'000
Non-life underwriting risk analysed by:		
- **Premium and reserve risk**	62,812	64,577
- **Catastrophe risk**	4,225	1,992
- **Lapse risk**	11,159	11,526
- **Diversification credit**	(13,231)	(11,979)
Health underwriting risk	13	9
Life underwriting risk analysed by:		-
- **Mortality risk**	1,792	1,500
- **Disability risk**	2,143	1,873
- **Life expense risk**	48	373
- **Lapse risk**	2,548	210
- **Catastrophe risk**	2,855	2,508
- **Diversification credit**	(3,558)	(2,031)
Market risk analysed by:		-
- **Interest rate risk**	2,278	5,161
- **Equity risk**	223	279
- **Property risk**	462	478
- **Spread risk**	13,460	15,588
- **Currency risk**	14,020	4,808
- **Concentration risk**	-	-
- **Diversification credit**	(7,878)	(7,369)
Counterparty default risk	18,140	17,761
Diversification credit	(25,909)	(22,911)
Operational risk	13,409	13,354
SCR	**99,011**	**97,710**
MCR	**42,254**	**40,050**

The inputs used to calculate the MCR are the net technical provisions and the net written premiums in the last twelve months. The Group's MCR is the sum of the MCRs for ANDIE and ANDLIE.

E3. Material changes to the SCR and MCR over the reporting period

At the end of the reporting period the Group's MCR is £42,254k (2018: £40,050k) an increase of £2,204k. The increase reflects the greater exposure to insurance risk as a result of the increase in the Group's underwriting volumes.

The Group's SCR was £99,011k as at the end of 2019 (2018: £97,710k), an increase of £1,301k over the year. Most components of the SCR have remained consistent with the prior year. Those areas which have moved more significantly are:

- The components linked to life underwriting risk due to the greater underwriting volumes by ANDLIE;
- A fall of £2.9m in the interest rate risk due to duration matching of assets and liabilities and the movement on market-wide interest rates;
- A fall in spread risk as the Group has reduced its bond holdings;
- An increase in currency risk due to increased holdings in EUR and NOK vs liabilities in these currencies; and
- Consequent movements in diversification credits.

E4. Any other information

The Group does not use the duration-based equity risk sub-module in the calculation of the SCR.

The Group applies the standard formula and does not use an internal model for the purposes of calculating the SCR.

The Group has complied continuously with both the MCR and the SCR throughout the reporting period.

No other information.

E5. Group's capital management

The Group has used the accounting consolidation-based method to calculate the group solvency, which is the default method prescribed by the regulations. The consolidation-based method includes ANDEL, ANDI UK, ANDIE, ANDLIE and ANDIM within the data on which the Group's SCR is calculated. Intra-group transactions between these five entities are eliminated. In effect, this method treats the insurance entities within the Group as if they were a single economic unit and allows for diversification benefits based on the consolidated data. The Group's non-insurance subsidiaries are treated as participations and intra-group transactions with them are not eliminated.

The Group has performed an analysis of the fungibility and transferability of the own funds within the Group. In order to be considered available to the Group, an item of own funds of a related insurance undertaking must be fungible (able to absorb any kind of loss wherever it arises in the Group) and transferable (capable of being transferred from one undertaking to another in the Group). The own funds must also be fungible and transferable within a maximum period of nine months.

Following this analysis, the Group does not consider that there are any significant restrictions to the fungibility and transferability of own funds eligible for covering the Group SCR or the MCR. In the event of needing to transfer own funds between entities in the Group, the Group would, in the case of ANDLIE and ANDIM, be able to pay dividends up to the parent entity, either ANDEL or ANDIE. Moreover, the Group carries a negative charge for its investments in BIGL and TIM because these entities have net liabilities on a Solvency II basis. In practice, however, were capital to be needed elsewhere in the Group, the Group would not need to provide own funds to these entities as they are not subject to Solvency II capital requirements and they have net assets on an IFRS basis.

Treating ANDEL, ANDI UK, ANDIE, ANDLIE and ANDIM as a single economic unit has some diversification effects on the Group SCR. There are no diversification effects on underwriting risk because ANDIE writes non-life business whereas ANDLIE is a life insurer. However, there are diversification effects on market risk, particularly on spread risk, concentration risk, counterparty default risk and the related diversification credits, as including the assets of ANDEL, ANDI UK, ANDLIE and ANDIM and ANDIE means that the Group's assets are spread over a wider range of investments and counterparties than those of ANDIE and ANDLIE are when considered on a standalone basis. Nonetheless, the impact of including all of ANDEL, ANDI UK, ANDIE, ANDLIE and ANDIM in the calculation of the Group SCR only has a small effect when compared with the Solo SCRs of ANDIE and ANDLIE. ANDIE's SCR on a solo basis is £98.4m and ANDLIE's is £8.7m, which when combined are £107.1m. The Group's SCR is £99m, so the diversification impact is £8.1m.

F. Templates

The following reporting templates are provided as appendices to this document, as required by the regulations:

Template name	Template code
Balance sheet	S.02.01.02
Premiums, claims and expenses by line of business – non-life	S.05.01.02
Premiums, claims and expenses by line of business – life	S.05.01.02
Premiums, claims and expenses by country – non-life	S.05.02.01
Premiums, claims and expenses by country – life	S.05.02.01
Own funds	S.23.01.22
Solvency capital requirement – on groups on standard formula	S.25.01.22
Undertakings in the scope of the Group	S.32.01.22