

Aioi Nissay Dowa Insurance Europe

MS&AD INSURANCE GROUP

Aioi Nissay Dowa Insurance Company of Europe SE

Solvency and Financial Condition Report

Year ended 31 December 2019

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Summary

1. Business and performance summary

The Company's principal activity is as an insurer and its main business is retail general insurance, with a focus on auto-centric products. The Company operates as a general insurer in Europe through branches in Belgium, France, Germany, Italy, Spain and the United Kingdom, and through freedom of services in several other European countries. The Company also has a credit life insurer subsidiary in Germany, Aioi Nissay Dowa Life Insurance Company of Europe AG ("ANDLIE"). The Company is a subsidiary of Aioi Nissay Dowa Europe Limited ("ANDEL"), a company incorporated in the United Kingdom and part of the Aioi Nissay Dowa Europe Group ("the Group").

The UK left the European Union ("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 European Economic Area ("EEA").

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

- Converting the Company 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;
- 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; 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 will gradually 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.

This is the Company's Solo (company-only) Solvency and Financial Condition Report ("SFCR"). The Group SFCR for ANDEL is prepared separately.

The Company changed its legal form to that of a "Societas Europaea" on 6 August 2018. The Company re-domiciled from the UK to Luxembourg on 1 March 2019. The Company is registered with the Trade and Companies Register of Luxembourg with the number B232302 and has its registered office at 4, rue Lou Hemmer, L-1748 Senningerberg, Grand-Duchy of Luxembourg. The Company is regulated by the Commissariat aux Assurances, 7, boulevard Joseph II, L-1840 Luxembourg, Grand Duchy de Luxembourg.

The Company's parent entity 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.

The Company'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 this strategy over time. The Company's strategic relationship with Toyota is key and the Company's sister company 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. The link with Toyota will be critical to the achievement of the Group's and the Company's ambitions with regards to its underwriting business and realising the potential of telematics, not only in Europe but more widely in support of Toyota and the Group's Japanese parent company ADJ.

The Company 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 Company made a pre-tax loss for the year ended 31 December 2019 of £8.7m (2018: loss of £17.9m). All of the Company's investments, other than that in ANDLIE were distributed in April 2018 to the Company's parent company ANDEL. ANDLIE remains a subsidiary of the Company.

The Company 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 Company 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.

The Company's Toyota-branded business had a strong year in 2019, with an excellent result in its 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 Company'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 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 to the Company's sister company ANDI UK in the second half of the year.

2. System of governance summary

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

On 1 March 2019, the Company re-domiciled to Luxembourg. The re-domiciliation meant that there have been changes to the system of governance during the reporting period. This report describes the system of governance in place at the end of the reporting period, rather than that which was in place in the first two months of 2019 and in previous periods. The changes to the system of governance are not considered to have been material as regards the Company's overall operations. This is because the Company has continued to be part of the Group's risk management system – which remains generally unchanged – and the Company's Three Lines of Defence Model has continued in place. As a result of the move to Luxembourg and the requirements of being a Luxembourg-registered company, the Company has made changes to its Compliance, Risk, Internal Audit and Actuarial functions. In addition, there were changes to the Company's committee structures and to the membership of the Board of Directors. Nonetheless, overall the system of governance has not changed materially from that in place in previous periods.

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

The Board has delegated responsibilities to the Corporate Governance Committees and the Business Committees. The Corporate Governance Committees are: the Audit, Risk and Compliance Committee and the Investment Committee. The Business Committees are the Luxembourg Management Committee, the Reserving Committee and the Underwriting and Pricing Committee.

The Group maintains a risk management system with which the Company is aligned. 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 Company 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 as it pertains to the Company 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 Company, 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.

The Company considers outsourcing arrangements for an activity when it is not cost-effective or possible to carry out the activity internally. The Company 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 Company has an established outsourcing policy.

3. Risk profile summary

Overall responsibility for the management of the Company'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 as at 31 December 2019:

Component	2019 £'000	2018 £'000
Non-life underwriting risk	66,925	66,436
Health underwriting risk	14	10
Market risk	21,645	21,817
Counterparty default risk	16,563	18,009
Diversification credit	(20,094)	(20,645)
Operational risk	13,352	13,304
SCR	98,406	98,930
MCR	37,899	36,732

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 Company'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 Company 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 Company, or the risk that arises from unanticipated or poorly anticipated external events.

Other important risks managed by the Company 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 Company's risk taxonomy. Reputational risk is defined as the risk of losses as a result of damage to the reputation and brands of the Company or of other companies on which the Company's fortunes depend.

Covid-19 outbreak

The Board has considered the risks and uncertainties for the Company 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.

The Company is a non-life insurance company. To date, the non-life insurance industry itself has been relatively isolated from the most significant effects of the crisis. Insurance companies have strong balance sheets and hold sufficient capital in line with regulatory requirements precisely so that they can continue to operate and pay claims even in stressed or extreme scenarios.

In response to the outbreak and the social distancing measures put in place by governments in the countries where the Company operates, the Company 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 Company'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 Company 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 Company 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. The Company's directors have also reviewed the analysis provided to the Group board and have noted that the Company, as the Group's largest operating subsidiary, would bear the largest element of these losses.

The Company is in a strong position to deal with such a scenario. As at 31 December 2019, the Company 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 worst-case impact of the outbreak would be 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 Company 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 and to prosper in the reasonably foreseeable future.

4. Valuation for solvency purposes summary

ANDIE's valuation for solvency purposes is derived from the Company's financial statements, which are then adjusted in accordance with Solvency II regulation. The most significant adjustments between the financial statement balance sheet and the valuation for solvency purposes are due to the revaluation of technical reserves to Solvency II technical provisions, the elimination of deferred acquisition costs (replaced by future cash flows in the Solvency II technical provisions) and the replacement of the Company's investments in subsidiaries balance with the net asset value (calculated in accordance with Solvency II valuation rules) of the Company's participation in ANDLIE. These differences can be summarised as follows:

	2019 £'000	2018 £'000	Reason
Net asset value per Luxembourg GAAP	206,552	210,457	Per accounts
Revaluation of net technical reserves	24,921	38,040	Differing reserving basis under Solvency II
Deferred acquisition costs	(39,497)	(59,379)	No DAC for Solvency II
Investment in subsidiaries	21,452	18,562	Replaced by participations
Dividend	(25,000)	-	Treated as reasonably foreseeable under Solvency II
Adjustments to other assets and liabilities (net)	(34,680)	(24,578)	Different valuation bases between Solvency II and Lux GAAP
Own funds under Solvency II	153,747	183,102	Solvency II own funds

5. Capital management summary

The SCR coverage ratio as at 31 December 2019 was 156% (2018: 185%), with eligible own funds of £153,747k (2018: £183,102k) and an SCR of £98,406k (2018: £98,930k). The MCR coverage ratio as at 31 December 2019 was 406% (2018: 498%), with eligible own funds of £153,747k (2018: £183,102k) and an MCR of £37,899k (2018: £36,762k). Annual and quarterly reporting throughout 2018 and 2019 has shown that the Company has complied continuously with both the MCR and the SCR throughout the current and prior reporting period.

The Company is funded only by share capital and retained reserves, which, together with a Solvency II reconciliation reserve, comprise Solvency II "own funds". The capital management objective of the Company is to maintain sufficient own funds to cover the SCR and the MCR with an appropriate buffer which takes account of the Company'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 Company prepares solvency projections over a five year period as part of the business planning process.

S&P Global Ratings have assessed the Company's long-term financial strength rating as "A+ / Stable".

On 5 April 2018 the Company's then parent ADJ subscribed for £180m of new share capital in the Company. On 24 April 2018, as part of Group's Brexit restructuring, £90m of this capital was distributed as a dividend to the Company's parent ANDEL.

As the Company transfers the underwriting of its new and renewal UK business to ANDI UK, the Company's SCR is expected to decrease. The Company has approved the return of surplus capital to its parent company, with a dividend of £25m or 0.0597p per ordinary share approved on the basis of the Company's 2019 result and 31 December 2019 solvency position. This dividend is considered foreseeable at the year-end and has been deducted from the Company's own funds.

A. Business and Performance

A1. Information regarding our business

As noted in the “Business and Performance Summary” the Company’s principal activity is insurance and its main business is retail general insurance, with a focus on auto-centric products. The Company’s main strategic relationship is with Toyota. The Company’s sister company Toyota Insurance Management (part-owned by Toyota Financial Services) provides Toyota’s insurance expertise and works in support of Toyota across Europe. The Company’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 is as follows:

Country	2019 gross written premium £'000	2018 gross written premium £'000	2019 % of total GWP (2018 %)
United Kingdom	139,338	145,521	42.2% (46%)
Germany	86,360	78,994	26.2% (25%)
Italy	52,366	48,462	15.9% (15.3%)
France	35,147	33,469	10.6% (10.6%)
Spain	15,672	8,545	4.7% (2.7%)
Belgium	1,155	1,178	0.3% (0.4%)
Total	330,038	316,169	

The Company’s financial year end is 31 December each year. The Company reports its results in Pounds Sterling. Following the Company’s re-domiciliation to Luxembourg on 1 March 2019 and the intention to place the Company’s UK business into run-off, the directors expect that the functional and reporting currency will change to Euros. This change, however, is not expected to occur in 2020, as the majority of the Company’s assets and liabilities will continue to be in Pounds Sterling.

Supervisory authorities

Following the migration to Luxembourg, the Company is now regulated by the Commissariat aux Assurances (“CAA”). Contact details for the CAA can be found on its website: www.caa.lu

Auditor

Following the Company’s migration to Luxembourg, the Company’s auditor is now KPMG Luxembourg, Société coopérative, 39 Avenue John F. Kennedy, L-1855 Luxembourg.

Credit rating

S&P Global ratings have assessed the Company’s long-term financial strength rating as “A+ / Stable”.

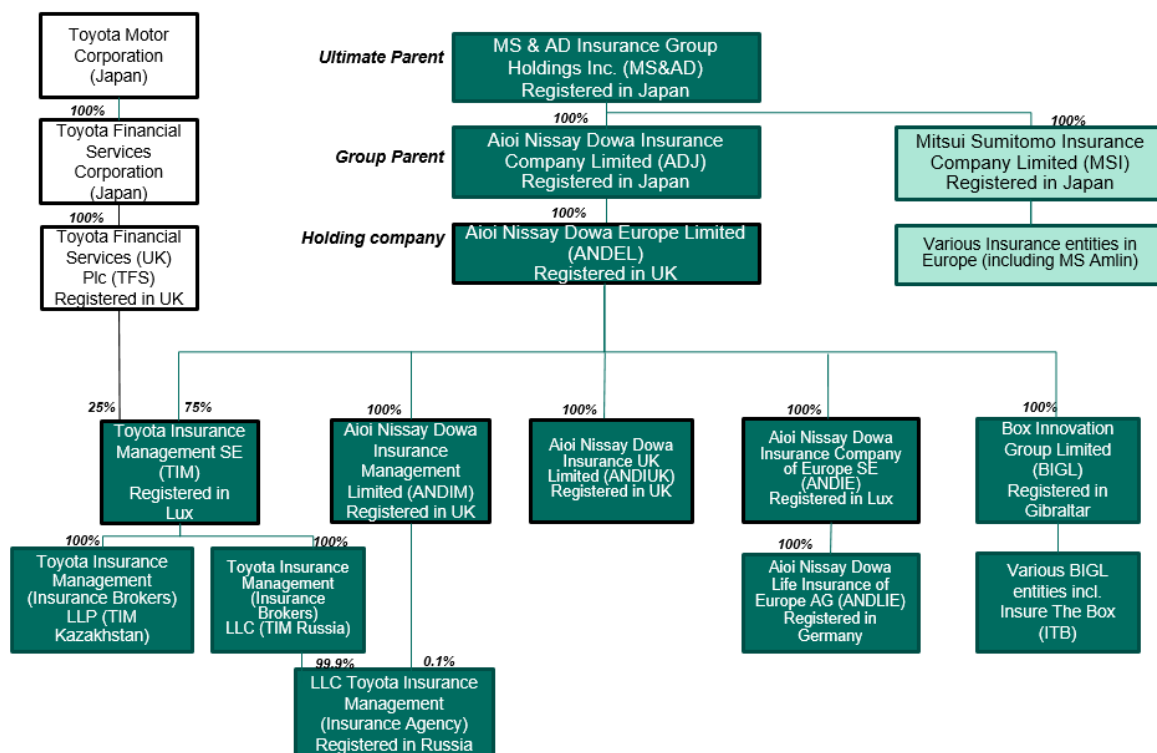
Group structure

ANDIE is a Luxembourg-domiciled company which operates as a general insurer in Europe and the UK. It is authorised and regulated by the CAA. The Company operates through branches in Belgium, France, Germany, Italy, Spain and the UK.

At the year-end, the Company had one wholly-owned subsidiary, ANDLIE, which is incorporated and regulated in Germany and is a credit life insurance company.

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

Group structure



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

Group reorganisation

The UK left the European Union (“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 European Economic Area (“EEA”).

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

- Converting the Company 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;
- 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; 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 will gradually 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 contingency project 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 Company, as per the Company's financial statements:

	2019 £'000	2018 £'000
Gross written premiums	330,038	316,169
Net earned premiums	179,465	187,786
Net claims incurred	115,709	130,519
Loss ratio	64.5%	69.5%

The Company's gross written premium ("GWP") increased from £316.2m to £330m during the year.

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 to the Company's sister company ANDI UK in the second half of the year.

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

	United Kingdom	Germany	Italy	France	Spain	Belgium
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	2019 £'000	2019 £'000	2019 £'000	2019 £'000	2019 £'000	2019 £'000
Gross written premiums	139,338	86,360	52,366	35,147	15,672	1,155
Net earned premiums	69,272	42,113	33,665	26,060	8,355	-
Net claims incurred	61,332	26,796	13,178	8,150	6,253	(7)
Loss ratio	88.5%	63.6%	39.1%	31.3%	74.8%	-

	United Kingdom	Germany	Italy	France	Spain	Belgium
	2018£'000	2018 £'000	2018 £'000	2018 £'000	2018 £'000	2018 £'000
Gross written premiums	145,521	78,994	48,462	33,469	8,545	1,178
Net earned premiums	82,022	39,447	34,547	24,408	7,362	-
Net claims incurred	77,555	24,842	14,004	8,703	5,415	-
Loss ratio	94.6%	63.0%	40.5%	35.7%	73.6%	-

A3. Investment performance

The Company invests principally in high quality corporate, agency and supra-national fixed income securities. The Company also has significant money market holdings with high quality investment managers. The overall portfolio is highly liquid. The Company has outsourced the management of its bond portfolio.

The investment performance as per the Company's financial statements was:

	2019 £'000	2018 £'000
Income from land and buildings	3	4
Income from other investments	13,926	13,888
Gains on the realisation of investments	2,488	49
Investment charges	(3,886)	(3,645)
Total investment income	12,531	10,296

The income from other investments is mainly due to income from corporate, government, agency and supra-national bond holdings. These are fixed income securities, which generate income for the Company through regular interest payments. Other components of income are amounts from loans made to Group companies and interest income from cash and money market holdings.

Unrealised gains and losses on these fixed income securities are recognised directly in equity in the revaluation reserve, so do not directly affect the Company's reported profit and loss account result. The amount taken to the revaluation reserve for the year was an unrealised gain of £1.8m (2018: unrealised loss of £3.9m), reflecting the increase in the fair value of the Company's bond portfolio. These fair value gains do affect the Company's solvency position, as the movements are reflected in the balance sheet values, but are not reported as income in the annual accounts.

Investment management expenses were £0.5m (2018: £0.5m). Other expenses relating to the investment portfolio are value adjustments, which is the unwinding of the difference between the par value of the investment and the discount received or premium paid when the investment was acquired.

The Company continues to invest in high quality fixed income securities with the preservation of capital underpinning the Company's investment strategy.

A4. Performance of other activities

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

	2019 £'000	2018 £'000
Other technical income	1,294	1,597
Administrative expenses	(27,280)	(25,257)
Acquisition costs	(21,402)	(27,710)
Reinsurance commissions	(34,938)	(31,563)
Other charges	(1,180)	(1,169)
Lease costs	(1,491)	(1,355)

Other technical income comprises income directly related to the Company's insurance business which does not constitute insurance premium income, including add-on income and rebates.

Administrative expenses are general expenses related to the management of the Company and its underlying business which cannot be allocated to either the handling of claims or the acquisition of insurance business. Acquisition costs comprises commissions paid for the acquisition of business, including a share of administrative expenses allocated to business acquisition. Reinsurance commissions are the net of commissions taking into account the reinsurers' share. Other charges comprise other non-technical expenses and profit or loss on exchange. Lease costs are mainly for the leasing of general office space and other equipment. Within the financial statements, lease costs are included within the total for acquisition costs.

A5. Any other disclosures

No other information.

B. System of Governance

B1. General governance arrangements

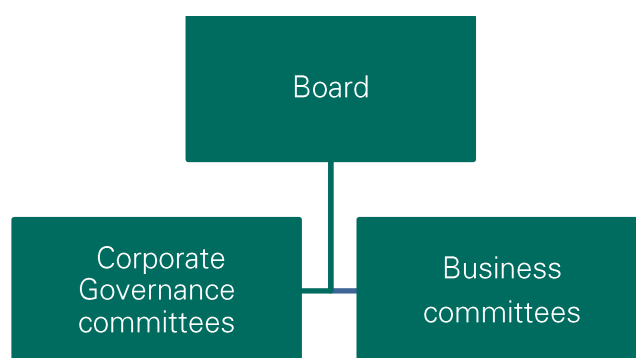
The system of governance, which is set out below, is considered to be appropriate for the Company taking into account the nature, scale and complexity of the risks inherent in the business.

On 1 March 2019, the Company re-domiciled to Luxembourg. The re-domiciliation meant that there have been changes to the system of governance during the reporting period. This report describes the system of governance in place at the end of the reporting period, rather than that which was in place in the first two months of 2019 and in previous periods. The changes to the system of governance are not considered to have been material as regards the Company's overall operations. This is because the Company has continued to be part of the Group's risk management system – which remains generally unchanged – and the Company's Three Lines of Defence Model has continued in place. As a result of the move to Luxembourg and the requirements of being a Luxembourg-registered company, the Company has made changes to its Compliance, Risk, Internal Audit and Actuarial functions. In addition, there were changes to the Company's committee structures and to the membership of the Board of Directors. Nonetheless, overall the system of governance has not changed materially from that in place in previous periods.

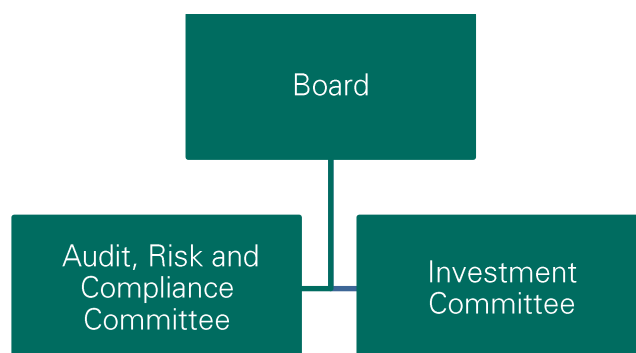
Overview of the Board and its committees

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

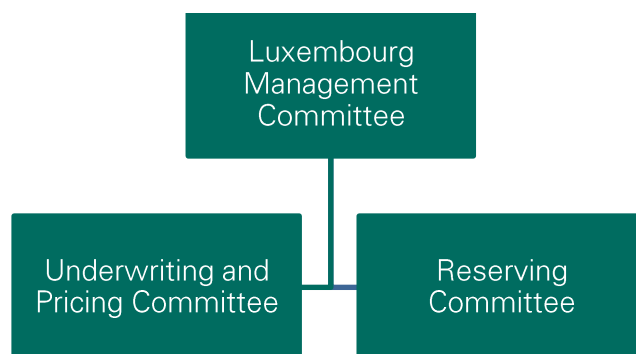
The established corporate governance framework is as follows:



The Corporate Governance committees are structured as follows:



The Business Committees are structured as follows, with the Luxembourg Management Committee reporting to the Board:



The Board

The Board functions as the corporate decision-making body and provides leadership of the Company within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board sets the strategic aims of the Company and ensures that the necessary resources, both financial and staff, are in place to allow the Company to meet its objectives. The Board is collectively responsible for the long-term success of the Company and delivery of sustainable value to its shareholder. The Board sets the strategy and risk appetite for the Company 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 Luxembourg Management Committee which is led by the Dirigeant Agréé.

The Board meets at least four times a year. It comprises of one executive member (the Dirigeant Agréé), an independent Chairman, two non-executive directors (the Group's Chief Executive Officer and the Group's Chief Operating Officer) who act as representatives of the Company's shareholder, and one non-executive director who is an employee of the Company's parent ADJ and who acts as a representative of the ultimate shareholder.

As at 31 December 2019, the members of the Board are:

- C Alt Dirigeant Agréé (appointed 1 March 2019)
- R McCorriston Chairman, independent non-executive director
- M Kume Non-executive director, ADJ representative (appointed 1 March 2019)
- M Kainzbauer Non-executive director, Group Chief Operating Officer
- M Swanborough Non-executive director, Group Chief Executive Officer

Several directors resigned when the Company moved to Luxembourg. These were Mr. H. Clarke, Mr. J. Crotty, Mr. M. Kitahara, Mr. H. Matsui and Mr. M. Yamaguchi. They all resigned on 1 March 2019.

Audit, Risk and Compliance Committee

The Audit, Risk and Compliance Committee is a key element of the Company's internal control framework. The Committee controls and monitors the activities of the Company's Audit, Risk and Compliance activities, which are the key oversight and assurance functions at the core of the Company'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 material risks facing the Company 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 Company's audited accounts and financial and other statutory and regulatory reporting, oversight of the relationship with the Company's external auditors, and Compliance.

To ensure independence, the Internal Audit function is directly accountable to the Chairman of the Audit, Risk and Compliance Committee but reports on a daily basis to the Dirigeant Agréé through the Group Director of Internal Audit.

The Committee receives and reviews the report of the independent auditors. Furthermore the non-executive members of the committee have the opportunity to discuss in private with the external auditors any matters arising or any matters the auditors feel should be brought to their attention.

The Committee meets at least four times a year. It comprises of the Company's independent non-executive directors, with other directors and members of executive management attending as appropriate.

Investment Committee

The Group has a centralised Treasury function and an outsourced investment management provider which operates on behalf of both the Company and its fellow subsidiary ANDI UK. The Board has authorised the Group Investment Committee to oversee the investments and treasury activity of the Company and to ensure that these comply with ANDIE's investment risk appetite, investment strategy and regulatory requirements. Ultimate responsibility for the Company's investments lies with the Company's Board. The Board has delegated to the Investment Committee the responsibility for ensuring that the Group's Investment Committee has carried out its activities effectively. These activities include the management and administration of the Company's investments, oversight of all treasury activity and the funding of all operating units. The Group Investment Committee considers the investment and treasury strategies of the Company, translates the investment risk appetite of the Company into an investment policy, and monitors the cash flow and working capital of the Company. The Group Investment Committee also oversees the performance of the Company's outsourced investment management provider.

The Company's Investment Committee meets at least twice a year. The Committee is chaired by the Dirigeant Agréé. The other members are the Head of Finance, the Head of Risk, the Company's Actuarial Function Holder and the ADJ representative non-executive director.

Luxembourg Management Committee

The purpose of the Luxembourg Management Committee is to manage generally the business of the Company 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 Company's operations save for those matters which are reserved for the Board and the Board's committees.

The Committee comprises four members, the Dirigeant Agréé, the Head of Finance, the Head of Compliance and the Head of Risk. Members of the Company's executive management, including its branch managers, are invited as appropriate to attend the meetings, as are the Company's other directors. Meetings take place ten times a year.

Reserving Committee

The Group has a centralised Actuarial team which carries out actuarial reserving on behalf of both the Company and its fellow subsidiary ANDI UK. The Board has authorised the Group Reserving Committee to oversee reserving activity and to ensure that this is carried out in accordance with the Company's reserving policy. Ultimate responsibility for the Company's reserves lies with the Company's Board.

The Board has delegated to the Reserving Committee the responsibility for ensuring that the Group's Reserving Committee has carried out its activities effectively. The purpose of the Reserving Committee is to set the reserving policy for the Company 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 Company's annual accounts and the level of Solvency II technical provisions.

The Committee meets at least twice a year. The Chair of the Committee is the Dirigeant Agréé. Other members are the Chief Underwriting Officer, the Head of Finance, the Actuarial Function Holder and a member of the Group's Actuarial team.

Underwriting and Pricing Committee

The Committee is responsible for putting in place the pricing and underwriting policies for the Company and for monitoring compliance with those policies. The Committee agrees performance benchmarks for the Company's insurance portfolios and monitors compliance with those benchmarks. It also reviews and approves new underwriting products or portfolios. The Committee provides a written report to the Audit, Risk and Compliance Committee on the current underwriting risks faced by the Company, the Company's adherence to underwriting risk appetite and the underwriting risks which may arise in the future.

The Committee meets at least four times a year. Membership of the Committee comprises at least one representative from each of the Company's branches or underwriting business units and one representative from each of the Finance, Actuarial and Pricing functions. The Committee is chaired by the Company's Chief Underwriting Officer.

Relevant Group Committees

As noted above, the Group has centralised Treasury and Reserving functions and the Company's Investment and Reserving Committees oversee the regular activity of the Group Investment and Reserving Committees as they carry out their responsibilities.

Other relevant Group committees are the Outward Reinsurance Committee and the Risk Modelling Committee.

The purpose of the Outward 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 Outward Reinsurance Committee considers the specific needs of both the Company and ANDI UK as part of its activities. The Committee reports to the Group Executive Directors' Committee and ANDEL's Group Risk and Assurance Committee and meets at least four times a year. The Committee is chaired by the Chief Executive Officer. Members of the Committee include the Group Chief Financial Officer, the Group Head of Actuarial and the Dirigeant Agréé.

The Risk Modelling Committee is a sub-committee of ANDEL's Group Risk and Assurance Committee. Its responsibility is to propose, for approval by the Group Risk and Assurance Committee, 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 an independent non-executive director. In addition to the non-executive director, the Committee's members are the Group Chief Executive Officer and four members of executive management, including the Company's Actuarial Function Holder.

Remuneration Policy

The Company remuneration policy is designed so as to attract and retain suitable employees to assist the Company in meeting its aims. The Company 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 success of the Company and the latest employment trends. The Company is committed to being a fair and equal employer and the remuneration policy is designed in order to support this objective. In the UK, the Company's sister company ANDIM is the employing entity, in accordance with regulatory requirements in the UK. In Luxembourg and in those countries where the Company has branches the Company itself is the employing entity.

The most important element of remuneration for the Company's employees is base salary. The Company 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 Company'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 Company also offers a range of benefits to employees, which vary by individual country. Depending on local practice, the Company 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 Company in independently administered funds. Employees contribute additional voluntary contributions to suit their circumstances. The Company 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 Company and the Group do not operate any share option schemes and no shares in the Company are held by employees. 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.

B2. Fit and proper policy

The Company 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 Company'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 key functions, as part of the process the Company 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 key functions should be qualified to provide sound and prudent management of the Company.

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 in each country.

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 company, ANDIE is fundamentally concerned with the management of risk. The Group maintains a risk management system with which the Company is aligned.

Enterprise risk management framework

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 ANDIE 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.

Company, branch and departmental management are required to identify, assess, manage and monitor their key risks, within the risk management framework overseen by the Audit, Risk and Compliance Committee. 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 Company 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 several 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 ANDIE's overall risk profile.

Three Lines of Defence Model

The Company 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 as it pertains to the Company 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 Company, 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 ANDIE'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 Company's overall solvency needs based on a forward looking assessment of the Company's risk profile, risk tolerance and business plan. It is used to identify, quantify, monitor, manage and report on the risks that ANDIE may face as a solo entity. The process includes the use of an Internal Capital Model, the parameterisation and validation of which is overseen by the Risk Modelling Committee.

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 Company faces. In addition, a full ORSA process would be run and report produced as soon as practically possible following any significant change in the Company's risk profile. These changes could affect both the internal and external risk environment. These changes could include, but are not limited to the following events, where they have the potential to significantly alter ANDIE's overall risk profile:

- The start of a material or significant new line of business;
- A change in risk tolerance limits;
- A change to reinsurance or other risk mitigation arrangements;
- A portfolio transfer;
- Major changes in asset mix;
- Changes to our business or capital plans;
- Occurrence of risk events leading to a significant change in available capital and solvency; and
- An external change which significantly affects the risk profile of either ANDIE or the markets in which it operates.

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 that the ORSA process is run 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 Company's strategy and setting the risk appetite;
- Agreeing the business plan for the Company;
- 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 Company's short- and long-term capital position.

In relation to the SCR, the Company produces a five year projection of the Company's SCR position. The ORSA, which is also prepared on a three year basis, is compared to the results of the SCR projection in order to determine whether additional solvency cover is required. The outcome of this assessment is recorded in the ORSA report and shared with the regulator 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 Company'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 Company'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 Company'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 Company 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 are in compliance with the Company's policies, standards, plans and procedures, and all relevant laws and regulations;
- The Company's resources (including its people, systems, data / information bases, and client goodwill) are adequately protected; and
- The Company's internal controls promote the achievement of the Company's plans, programs, goals and objectives.

Components of internal control

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

- 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 Company's risk appetite as well as its priorities and direction. The control environment sets the tone for the Company. 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 Company;
- Understanding the major risks run by the Company, 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 Company;
- 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 Company 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 Company or a specific business unit from meeting its operational, financial and compliance objectives. The Audit, Risk and Compliance Committee identifies risks affecting the Company, 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 Company'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 Company to:

- Identify and evaluate the exposures to loss relating to their particular 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 Company 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 Company'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 Audit, Risk and Compliance Committee reviews the effectiveness of monitoring actions.

Compliance Function

The Compliance Function is responsible for:

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

The Compliance Function comprises the Head of Compliance in Luxembourg supported by employees in the branches and the central Risk Assurance team in the UK, which includes the Head of Compliance for the UK and is led by the Group Risk Assurance Director. The Head of Compliance reports to the Dirigeant Agréé locally and to the Group Risk Assurance Director on a functional basis. The Head of Compliance also has independent access to the 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 Company. 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 Company's Internal Audit Function is overseen by the Audit, Risk and Compliance Committee. In this capacity, the Audit, Risk and Compliance Committee 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 Head of Internal Audit. Where appropriate, the Company 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 Audit, Risk and Compliance Committee quarterly but also has a regular reporting line to the Dirigeant Agréé locally and to the Group's Internal Audit Director functionally. Internal Audit is also able to report directly to the Audit, Risk and Compliance Committee outside the regular committee meetings.

B7. Actuarial Function

The Company's 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. 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 Function Holder has suitable ability, experience, resources and independence to carry out the prescribed tasks of the function holder.

The Actuarial Function is 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 Audit, Risk and Compliance Committee on the Company's underwriting policy and effectiveness of reinsurance; and
- Producing the annual actuarial reports for the CAA.

In addition to the prescribed responsibilities, the Actuarial Function Holder is a member of the Company's Investment and Reserving Committees and of their Group equivalents.

B8. Outsourcing

The Company considers outsourcing arrangements for an activity when it is not cost-effective or possible to carry out the activity internally. The Company 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 Company 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.

The Luxembourg Management Committee 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 Company is currently using a number of service providers to undertake critical or important functions on its behalf. Details of these are as follows:

a. Underwriting

The Company 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 the UK, Norway and Spain. These arrangements are with the Group's subsidiary Insure The Box and 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, Italy, Spain and the UK. The most significant of these arrangements are with the Company's subsidiary Insure The Box, Ageas and FM Global 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 Company's Head of Internal Audit. Where appropriate, the Head of Internal Audit 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 Company uses outsourced payroll services providers in a number of the countries in which it operates, including in Luxembourg.

f. Management services

In the UK the Group companies Aioi Nissay Dowa Europe Limited and Aioi Nissay Dowa Insurance Management Limited provide management services to the Company including the recharge of expenses incurred on the Company's behalf.

g. Investment management

The Company has outsourced the management of its bond portfolio to Goldman Sachs Asset Management, based in London.

B9. Adequacy of system of governance

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

B10. Any other information

No further information.

C. Risk Profile

Overall responsibility for the management of the Company'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. This enterprise risk management framework is aligned with that of the Group. The Board is assisted in its oversight of the risk management framework by the Corporate Governance and Business committees.

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 Company also assesses its underwriting risk through experience analysis (analysis of actual performance against the performance expected according to the Company'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 in order to identify the portfolios with the greatest contribution to the overall insurance risk:

- Volume of business;
- Current year loss ratio;
- Claim frequency;
- Natural catastrophe;
- 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 Company are hail in Germany and Italy, and windstorm and flood in Germany and the 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.

Risk mitigation

Disciplined underwriting including appropriate risk management and pricing control is essential to the Company's success. The Company 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 Company 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 Company 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 Company's parent, ADJ, which is A+ rated. The Company also enters into quota share and co-insurance arrangements with third parties. These arrangements vary depending on the product and country in question. The Company 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 Company's net loss ratio. For each 1% increase in the net loss ratio the Company'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 Company 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 Company'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, ANDIE's investments consisted of £226.8m in bonds and £150.3m in cash, deposits and money market funds. The Company also has a subsidiary company, ANDLIE, as detailed in the group structure chart in Section A1 and there is a risk that the valuations of this company will change as a result of its 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 Company'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 Company's cash holdings were £65.6m and money market fund holdings £84.7m. 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 in recent years persistently low) interest rates.

The Company's investment policy is to limit the amount of equities it holds. This is subject to ongoing review.

The Company 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, ANDIE'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 Company'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 Company manages its market risk in a number of ways, among which the following can be highlighted:

- The Company 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 Company's ALM framework is to match assets to the liabilities arising from insurance contracts by reference to the expected timing of settlement of liabilities. Assets of the German Life subsidiary, ANDLIE, are managed separately from the general business but according to the same principles. The Company's 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 Company 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 Company 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 Company invests principally in high quality agency and 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). Bond holdings below investment grade are not permitted.
- The Company maintains the outsourced management of its bond portfolio with Goldman Sachs Asset Management in London.
- The Company seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency.

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

Risk sensitivity for market risks

The Company's SCR is sensitive to movements in underlying foreign currency exchange rates. The Company 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 Company seeks to minimise this risk by matching its assets and liabilities by currency. The Company does not use hedging instruments to control the foreign exchange risk. At the balance sheet date the Company had exposures in the following currencies:

	2019		2018	
	€'000	NOK'000	€'000	NOK'000
Assets	189,110	109,937	192,528	103,151
Liabilities	150,649	65,163	178,946	79,365
Unmatched exposure	38,461	44,774	13,652	23,786
Sterling equivalent	34,026	3,999	12,254	2,159

The impact of a 10% change in the value of Euros to Sterling is £3.4m (2018: £1.2m) and the impact of a 10% change in the value of NOK to Sterling is £0.4m (2018: £0.2m).

The Company is exposed to movements in interest rates, which affect the value of the Company'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 Company's SCR.

Following the Company's re-domiciliation to Luxembourg on 1 March 2019 and the intention to place the Company's UK business into run-off, the directors expect that the functional and reporting currency will change to Euros. This change, however, is not expected to occur in 2020, as the majority of the Company's assets and liabilities will continue to be in Pounds Sterling.

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 Company 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 Company 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 Company'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 Company 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 Company considers the advice of its investment manager Goldman Sachs Asset Management.

The Company 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 Company's liability as primary insurer. If a reinsurer fails to pay a claim, the Company 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 parent company, which is A+ rated.

Risk sensitivity for credit risks

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

The Company has some exposure to BBB rated bonds. The total amount is not permitted to be more than 15% of the overall bond portfolio and individual holdings in BBB investments are typically restricted to 1.25% of the 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 £22.2m or 8.4% of the total portfolio (2018: £39.6m /14%).

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 Company's portfolio is kept in highly liquid marketable securities to meet liabilities as they fall due.

Liquidity risk affects the Company 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 as a result 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 a number of 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 Company'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 Company. Although there are scenarios in which the Company would not be able to meet its cash flow requirements as they fall due these are considered extreme.

Risk mitigation

The Company carries out the following to mitigate liquidity risk:

- Cash flow forecasting. The Company 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 Treasury department and quarterly by the Investment Committee.

Risk sensitivity for liquidity risks

Cash, deposits and money market funds at the year-end totalled £150.3m (2018: £95.6m). The insurance business is broadly cash neutral, with some fluctuations over the year. There are also £226.8m (2018: £273.8m) 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 Company, or the risk that arises from unanticipated or poorly anticipated external events.

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

- Internal and external fraud;
- Legal action against the Company;
- 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 Company maintains a record of significant materialised risk events experienced within ANDIE, and also takes account of materialised risk events within the wider market.

The Company 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 Company 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 Company'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 Company's Risk Committee.

Risk sensitivity for operational risks

The operational risk per the SCR standard formula calculation is 13.5% (2018: 13.8%) of the SCR as at the balance sheet date. However, the Company's ORSA includes a higher amount for operational risk in order to reflect management and the Board's view that the Company's operational risk is higher than the SCR standard formula indicates. The increased operational risk derives from the acquisition of the Box Innovation Group Limited ("BIGL") by the Group in 2015, the ongoing work on the integration of BIGL and 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 £15m, which is 12% 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 Company'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 considered to be the Company's most significant strategic risk, as according to our reverse stress testing exercise it is the risk that is most likely to render the business model unviable. While the Company 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 Company's risk taxonomy. Reputational risk is defined as the risk of losses as a result of damage to the reputation and brands of the Company or of other companies on which the Company's fortunes depend.

The main forms of reputational risk affecting the Company are:

- Damage to the Toyota brand, as much of the Company's business is Toyota branded;
- The Company's own reputation with Toyota and credibility as an insurance partner;
- Reputational damage to the Insure The Box brand; and
- Damage as a result of failures by out-sourced providers, co-insurance partners or 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 of time. The Company 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 main 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 indicators 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 by the Group and to begin to align the control environment with that of the rest of the Group. These changes are likely to help mitigate the potential for reputational damage.

C7. Other information

No other information.

D. Valuation for Solvency Purposes

D1. Assets

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

	Annual Accounts value	Reclassification/ Valuation	Solvency II Value
	£'000	£'000	£'000
Assets:			
Deferred acquisition costs	39,497	(39,497)	-
Intangible assets	823	(823)	-
Property, plant & equipment	4,879	(3,033)	1,846
Holdings in related undertakings	4,717	21,452	26,169
Bonds	226,788	3,398	230,186
Collective investment undertakings	-	84,680	84,680
Deposits with credit institutions	118,003	(118,003)	-
Other investments	122	(122)	-
Reinsurance recoverables	261,481	(34,188)	227,293
Insurance receivables	50,897	(5,814)	45,083
Cash and cash equivalents	32,318	33,323	65,641
Other assets	47,319	(31,874)	15,445
Total assets	786,844	(90,501)	696,343
Liabilities:			
Technical provisions	524,331	(59,019)	465,222
Insurance payables	15,512	28	15,540
Reinsurance payables	5,332	(3,616)	1,716
Other liabilities	35,118	-	35,118
Total liabilities	580,292	(62,658)	517,596
Excess assets over liabilities	206,552	(27,803)	178,747

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 in the annual accounts 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

In the annual accounts, 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 in the annual accounts they relate 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 Company do not meet these requirements no value is assigned to them for Solvency II reporting.

Property, plant and equipment

The Company's plant and equipment is held in the annual accounts 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 Company has written these assets off for the purposes of Solvency II. The remaining amount of £1,846k relates to property, which is held at fair value in the annual accounts and has been maintained at this value in the Solvency II balance sheet.

Holdings in related undertakings, including participations

As at the reporting date the Company had holdings in related undertakings, including participations of £26,169k.

As at the year-end, ANDIE directly owned 100% of ANDLIE. The holding in ANDLIE is 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. ANDLIE is a regulated insurer which reports to the German regulator under Solvency II rules. The participation's assets and liabilities are valued in the same way by ANDIE as they are by ANDLIE according to the Solvency II regulations and guidelines. The adjustment from the annual accounts balance sheet valuation to Solvency II is £21,452k.

In the annual accounts the Company's participation is treated as an investment in a subsidiary and is valued at cost less any impairment. The value in the accounts is £4,717k.

Bonds

As at the reporting date the Company held investments in fixed income securities of £230,186k. 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 £33,115k in government bonds, £195,499k in corporate bonds and £1,573k in collateralised securities.

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

In the annual accounts, assets held in short-term deposits or collective investment schemes (known as "money market funds") are reported as "Deposits with credit institutions". Under Solvency II, these amounts are treated either as cash when they are short-term deposits held with banks or collective investment undertakings when they are money market funds.

As at the reporting date, the Company had £84,680k held in collective investments undertakings. 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.

Other investments

The annual accounts include £122k in deposits (other than bank deposits). The Company has written these assets off for the purposes of Solvency II.

Reinsurance recoverables

Technical provisions include the cash flows from amounts recoverable under programmes of reinsurance. The Company 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 the excess of loss treaty contracts, 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 reinsurance recoverables in the annual accounts, which are valued in accordance with the reinsurers' share of the insurance liabilities. Please refer to the technical provisions section D2 for further details.

Insurance receivables

As at the reporting date, the Company had £50,897k 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 Company 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 the lower of their nominal and probable realisation value. As the majority of receivables are short-term in nature (and doubtful balances are provided for) the carrying value in the annual 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.

Cash and cash equivalents

As at the reporting date, the Company had £65,641k held as cash and cash equivalents. Cash and cash equivalents are valued at fair value as reported to the Company 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. The amount under Solvency II differs from the annual accounts because short-term deposits held with banks are presented as "deposits with credit institutions" in the annual accounts and as cash and cash equivalents under Solvency II. 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 Company had £14,056k of other assets. These other assets include amounts due from group companies, taxation debtors and prepayments. As the majority of these assets are short-term in nature the carrying value in the annual 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.

The balance of other assets differs by £33,263k from the value in the annual accounts. As noted above, accrued interest on the bond portfolio is included as part of the overall bond valuation for Solvency II, so is removed from the equivalent balance in the annual accounts. The Company has also reduced the other assets balance in the annual accounts by £4,351k for prepayments which the Company would not be able to use to meet any solvency needs arising.

In addition, the Company has provided several loans to its fellow group company BIGL. The value in the annual accounts is £25,497k. There is no quoted market price available for the valuation of these assets. In the opinion of the directors, it would not be possible to request payment of the outstanding loan balance from BIGL to meet any short-term solvency needs which arose for the Company. There is also no quoted market price available for the valuation of the assets and, in the opinion of the directors, it would not be possible to sell the assets to a third party. As a result, these assets have been disregarded in the Company's Solvency II reporting and the value ascribed to them is zero.

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	21,814	2,116	22,066	1,762
Total	217,771	20,158	227,732	18,685

The technical provisions are split into the two largest Solvency II classes of business (both motor), with all other business 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 are 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 annual accounts which are 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 Company's approach to ENIDs was broadly in line with that of peer entities.

The undiscounted best estimates in both cases (annual accounts 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 Company has committed to writing at a future date but that have not incepted at that date. The contracts written by the Company 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 Company'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 Company 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 the excess of loss contracts, 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.

D3. Other liabilities

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 in the annual accounts is explained for the class of liability in question.

The Company does not have any material leasing arrangements.

Insurance and intermediaries payable

As at the reporting date, the Company had £15,540k of insurance and intermediaries payable. These are valued in the annual accounts at expected settlement value. 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 annual accounts 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 annual accounts and Solvency II. There are no material estimates, assumptions or judgements when reporting the value of insurance and intermediaries payable.

Reinsurance payables

As at the reporting date, the Company had £1,716k 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 expected settlement value. As the majority of payables are short-term in nature the carrying value in the annual 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.

Any other liabilities, not elsewhere shown

As at the reporting date, the Company had £33,729k of other liabilities, not elsewhere shown. These amounts represents accruals and other liabilities. Accruals are recognised in line with generally accepted accounting principles, so the Company accrues when it is probable that the Company 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 annual 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

The Company has not used any alternative valuation methods.

D5. Other information

No other information.

E. Capital Management

E1. Own funds

The capital management objective of the Company is to maintain sufficient own funds to cover the SCR and the MCR with an appropriate buffer which takes account of the Company'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 Company 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 in order to determine whether additional solvency cover is required. The outcome of this assessment is recorded in the ORSA report and shared with the regulator as required.

The Company's eligible own funds are primarily invested in high quality fixed income securities, in cash in bank accounts or in money market funds. The Company does not intend to change its investment policy in the short term or to make any change to the disposition of own fund items.

The Company is funded only by share capital and retained reserves. The share capital as at 31 December 2019 is £36.7m. The share capital is fully paid up and comprises 418,757,000 ordinary shares with a nominal value of €0.10 each. There is a reconciliation reserve of £117m.

None of the Company's own funds are subject to transitional arrangements and the Company has no ancillary own funds. No deductions are applied to own funds. There are no own shares held. The Company has a foreseeable dividend payment of £25m, based on a dividend of 0.0597p per ordinary share. This has been deducted from the Company's own funds as at the year-end.

As at 31 December 2019, the net asset value of the Company as calculated for the annual accounts was £206.6m. This is a £3.9m decrease since 31 December 2018. The table below shows the annual account movement in net asset value:

	2019 £'000	2018 £'000
Brought forward 1 January	210,457	175,340
Issue of new share capital	-	180,000
Dividends paid	-	(116,664)
Loss for the year	(9,269)	(22,833)
Movement in other reserves	5,364	(5,386)
Carried forward 31 December	206,552	210,457

For Solvency II purposes, eligible own funds to meet the MCR and SCR were £153,747k. The main differences (the reconciliation reserve) between eligible own funds and the net asset value in the annual accounts are set out below.

	2019 £'000	2018 £'000	Reason
Net asset value per Luxembourg GAAP	206,552	210,457	Per accounts
Revaluation of net technical reserves	24,921	38,040	Differing reserving basis under Solvency II
Deferred acquisition costs	(39,497)	(59,379)	No DAC for Solvency II
Investment in subsidiaries	21,452	18,562	Replaced by participations
Dividend	(25,000)	-	Treated as reasonably foreseeable under Solvency II

Adjustments to other assets and liabilities (net)	(34,680)	(24,578)	Different valuation bases between Solvency II and Lux GAAP
Own funds under Solvency II	153,747	183,102	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 at 1 January	183,102	129,227
Movement in year	(4,355)	53,875
Foreseeable dividend	(25,000)	-
Own funds carried forward as at 31 December	153,747	183,102

The SCR coverage ratio as at 31 December 2019 was 156%, with eligible own funds of £153,747k and an SCR of £98,406k. The MCR coverage ratio as at 31 December 2019 was 406%, with eligible own funds of £153,747k and an MCR of £37,899k. Annual and quarterly reporting throughout 2018 and 2019 has shown that the Company has complied continuously with both the MCR and the SCR throughout the current and prior 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. The Company 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	65,402	64,792
- Catastrophe risk	2,206	2,385
- Lapse risk	11,159	11,526
- Diversification credit	(11,842)	(12,266)
Health underwriting risk	14	10
Market risk analysed by:		
- Interest rate risk	166	3,485
- Equity risk	5,757	5,122
- Property risk	462	478
- Spread risk	11,026	13,317
- Currency risk	10,591	7,372
- Concentration risk	2,211	3,277
- Diversification credit	(8,568)	(11,235)
Counterparty default risk	16,563	18,009
Diversification credit	(20,094)	(20,645)
Operational risk	13,352	13,304
SCR	98,406	98,930
MCR	37,899	36,762

The inputs used to calculate the MCR are the net technical provisions and the net written premiums in the last twelve months.

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

At the end of the reporting period the Company's MCR is £37,899k (2018: £36,762k) an increase of £1,137k. The increase reflects the greater exposure to insurance risk as a result of the increase in the Company's underwriting volumes.

The Company's SCR was £98,406k as at the end of 2019 (2018: £98,930k), a decrease of £524k over the year. The following are the more significant contributors to the change from the prior year:

- A slight increase in premium and reserve risk due to the increased underwriting volumes;
- A fall of £3.3m in the interest rate risk due to duration matching of assets and liabilities and the movement on market-wide interest rates;
- An increase in equity risk due to the increased valuation of the Company's subsidiary ANDLIE;
- A fall in spread risk as the Company has reduced its bond holdings;
- An increase in currency risk due to increased holdings in EUR and NOK vs liabilities in these currencies;
- A fall in concentration risk due to the reduction in bond holdings and an increase in exposure to AAA-rated money market funds; and
- Consequent movements in diversification credits.

E4. Any other information

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

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

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

No other information.

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	S.05.01.02
Premiums, claims and expenses by country	S.05.02.01
Non-life technical provisions	S.17.01.02
Non-life insurance claims by line of business	S.19.01.21
Own funds	S.23.01.01
Solvency capital requirement – on standard formula	S.25.01.21
Minimum capital requirement – only non-life	S.28.01.01