Aioi Nissay Dowa Insurance Company of Europe Limited

Solvency and Financial Condition Report

Year ended 31 December 2016

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Summary

1. Business and performance summary

The principal activity of Aioi Nissay Dowa Insurance Company of Europe Limited ("ANDIE" or "the Company") is as an insurer and its main business is retail general insurance. The Company operates as a general insurer in the UK and Europe and has branches in Belgium, France, Germany, Italy and Spain. The Company also has a credit life insurer subsidiary in Germany, a number of broking subsidiaries and a managing general agency subsidiary; together these form the Aioi Nissay Dowa Insurance Company of Europe Group ("the Group"). This is the Company's Solo (company-only) Solvency and Financial Condition Report ("SFCR"). The Group SFCR is prepared separately.

ANDIE is a UK registered company (Registration No. 05046406). The Company's registered office is 5th Floor, 11 Old Jewry, London EC2R 8DU. ANDIE is authorised by the Prudential Regulation Authority, 20 Moorgate, London EC2R 6DA and regulated by the Financial Conduct Authority, 25 North Colonnade, London, E14 5HS and the Prudential Regulation Authority. ANDIE's external auditors are KPMG LLP, 15 Canada Square, London E14 5GL.

The Company 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 the business over time. The Company's strategic relationship with Toyota is key and the Company's subsidiary Toyota Insurance Management Limited ("TIM"), which is part-owned by Toyota Financial Services (UK) PLC ("Toyota Financial Services"), provides Toyota's insurance expertise and works in support of Toyota across Europe. In 2015 the Company acquired a 75.01% share of Box Innovation Group Limited ("BIGL"). This acquisition provided the Company with telematics expertise and access to the growing UK telematics auto insurance market, and the Company has acted as the direct underwriter of Insure The Box products since June 2015, with brands including Insure The Box, Tesco Black Box and Drive Like A Girl.

The Company also provides commercial insurance to Japanese-related business in Europe, although this is due to diminish over time as the Japanese Interest Abroad ("JIA") business is gradually transferred to our sister company Mitsui Sumitomo Insurance Co Ltd of Japan and its subsidiaries.

The Company made a pre-tax loss during the year ended 31 December 2016 of £18.7m (2015: loss of £17.3m). The loss was higher than expected due to the impact of the change in the discount rate used for calculating personal injury damages awards (the so-called "Ogden discount rate") from 2.5% to -0.75%, which was a greater reduction than either the Company or the industry more widely had expected. Pre-Ogden, the loss for the year was in line with expectations and with the Company's five year strategic plan.

The Company is aiming to grow significantly in the next five years. Gross written premiums were £309m in 2016 (2015: £241m), a 28% increase, and the Company's premiums are now £129m higher than they were in the year before the BIGL acquisition. The Company's parent company ADJ has shown its support for these growth ambitions first in 2015 through subscribing for £185m shares in order to fund the BIGL acquisition and then in December 2016 by subscribing for an additional £50m of ordinary share capital in the Company.

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

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. There were no material changes in the system of governance during the reporting period.

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 and Compliance Committee, the Risk Committee, the Investment Committee, the Risk Modelling Committee (a sub-committee of the Risk Committee) and the Remuneration Committee. The main Business committee is the Executive Directors' Committee, which has two sub-committees, 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 has established Compliance, Risk, Internal Audit and Actuarial 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 2016:

Component	2016 £'000
Non-life underwriting risk	66,344
Health underwriting risk	25
Market risk	11,070
Counterparty default risk	22,164
Diversification credit	(16,080)
Operational risk	11,252
SCR	94,775
MCR	35,818

As 2016 is the first year of Solvency II reporting, comparative figures as at 31 December 2015 are not presented.

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.

4. Valuation for solvency purposes summary

ANDIE's valuation for solvency purposes is derived from the Company's IFRS financial statements, which are then adjusted in accordance with Solvency II regulation. The most significant adjustments between the IFRS 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 IFRS investments in subsidiaries balance with the net asset value (calculated in accordance with Solvency II valuation rules) of the Company's participations. These differences can be summarised as follows:

	2016 £'000	Reason
Net asset value per IFRS	297,046	Per accounts
Revaluation of net technical reserves	27,307	Differing reserving basis under Solvency II
Deferred acquisition cost	(52,968)	No DAC for Solvency II
Investment in subsidiaries	(117,165)	Replaced by participations
Other	7,821	Other adjustments
Own funds under Solvency II	162,041	Solvency II own funds

5. Capital management summary

The SCR coverage ratio as at 31 December 2016 was 171%, with eligible own funds of £162,041k and an SCR of £94,775k. The MCR coverage ratio as at 31 December 2016 was 452%, with eligible own funds of £162,041k and an MCR of £35,818k. The Company has completed its Solvency II "Day 1" (reporting the Company's solvency position under Solvency II as at 1 January 2016) and quarterly reporting throughout 2016 and these have shown that the Company has complied continuously with both the MCR and the SCR throughout the reporting period. The first Solvency II reporting which has required external audit is that of 31 December 2016, so the compliance with the MCR and the SCR during the reporting period has not been subject to external audit.

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.

Responsibility statement

We acknowledge our responsibility for preparing the Aioi Nissay Dowa Insurance Company of Europe Limited Solvency and Financial Condition Report in all material respects in accordance with the PRA Rules and the Solvency II Regulations.

We are satisfied that:

a) throughout the financial year in question, the Company has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations applicable to the Company; and
b) it is reasonable to believe that the Company has continued so to comply subsequently and will continue so to comply in future.

For and on behalf of the Board of Aioi Nissay Dowa Insurance Company of Europe Limited:

Mike Swanborough
Chief Executive Officer

19 May 2017

Report of the external independent auditor to the Directors of Aioi Nissay Dowa Insurance Company of Europe Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook applicable to Solvency II firms

Except as stated below, we have audited the following documents prepared by Aioi Nissay Dowa Insurance Company of Europe Limited as at 31 December 2016:

- The 'Valuation for Solvency Purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of Aioi Nissay Dowa Insurance Company of Europe Limited as at 31 December 2016, ('**the Narrative Disclosures subject to audit**'); and

- Company templates S02.01.02, S17.01.02, S23.01.01, S25.01.21, S28.01.01 ('**the Templates subject to audit'**).

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the 'Relevant Elements of the Solvency and Financial Condition Report'.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the Other Information which comprises:

- the 'Business and performance', 'System of governance' and 'Risk profile' sections of the Solvency and Financial Condition Report;

- information relating to 31 December 2015 voluntarily disclosed by the Company in the 'Valuation for Solvency Purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report;

- Company templates S05.01.02, S05.02.01, S19.01.21;

- the written acknowledgement by the Directors of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('**Responsibility Statement**').

Respective responsibilities of directors and auditor

As explained more fully in the Responsibility Statement, the Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

Our responsibility is to audit, and express an opinion on, the Relevant Elements of the Solvency and Financial Condition Report in accordance with applicable law and International Standards on Auditing (UK and Ireland) together with ISA (UK) 800 and ISA (UK) 805. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Relevant Elements of the Solvency and Financial Condition Report

A description of the scope of an audit is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on the Relevant Elements of the Solvency and Financial Condition Report

In our opinion, the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report of Aioi Nissay Dowa Insurance Company of Europe Limited as at 31 December 2016 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Report of the external independent auditor (continued)

Emphasis of Matter - Basis of Accounting

We draw attention to the 'Valuation for Solvency Purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of these matters.

Matters on which we are required to report by exception

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

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

This report of the external auditor is made solely to the company's directors, as its governing body, in accordance with the requirement in Rule 4.1(2) of the External Audit Part of the PRA Rulebook and the terms of our engagement. We acknowledge that the directors are required to submit the report to the PRA, to enable the PRA to verify that an auditor's report has been commissioned by the company's directors and issued in accordance with the requirement set out in Rule 4.1(2) of the External Audit Part of the PRA Rulebook and to facilitate the discharge by the PRA of its regulatory functions in respect of the company, conferred on the PRA by or under the Financial Services and Markets Act 2000.

Our audit has been undertaken so that we might state to the company's directors those matters we are required to state to them in an auditor's report issued pursuant to Rule 4.1(2) and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company through its governing body, for our audit, for this report, or for the opinions we have formed.

KPMG LLP
15 Canada Square
London
E14 5GL

19 May 2017

Report of the external independent auditor (continued)

Appendix – relevant elements of the Solvency and Financial Condition Report that are not subject to audit

Solo standard formula

The Relevant Elements of the Solvency and Financial Condition Report that are not subject to audit comprise:

- The following elements of template S.17.01.02
    - Rows R0290 to R0310 – Amount of transitional measure on technical provisions

- Elements of the Narrative Disclosures subject to audit identified as ‘unaudited’.

The maintenance and integrity of Aioi Nissay Dowa Insurance Company of Europe Limited’s website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Solvency and Financial Condition Report since it was initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of Solvency and Financial Condition Reports may differ from legislation in other jurisdictions.

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, and the Company's subsidiary Toyota Insurance Management, which is part-owned by Toyota Financial Services, which 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 2016 is as follows:

Country	Gross written premium £'000	% of total GWP
United Kingdom	183,432	59%
Germany	60,297	19%
Italy	31,500	10%
France	24,025	8%
Spain	5,787	2%
Belgium	4,530	1%
Total	**309,571**	

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

Supervisory authorities

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

Auditor

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

Credit rating

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

Group structure

ANDIE operates as a general insurer in the UK and Europe. It is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority in the UK. In Europe, the Company operates through branches in Belgium, France, Germany, Italy and Spain.

A1. Information regarding our business (continued)

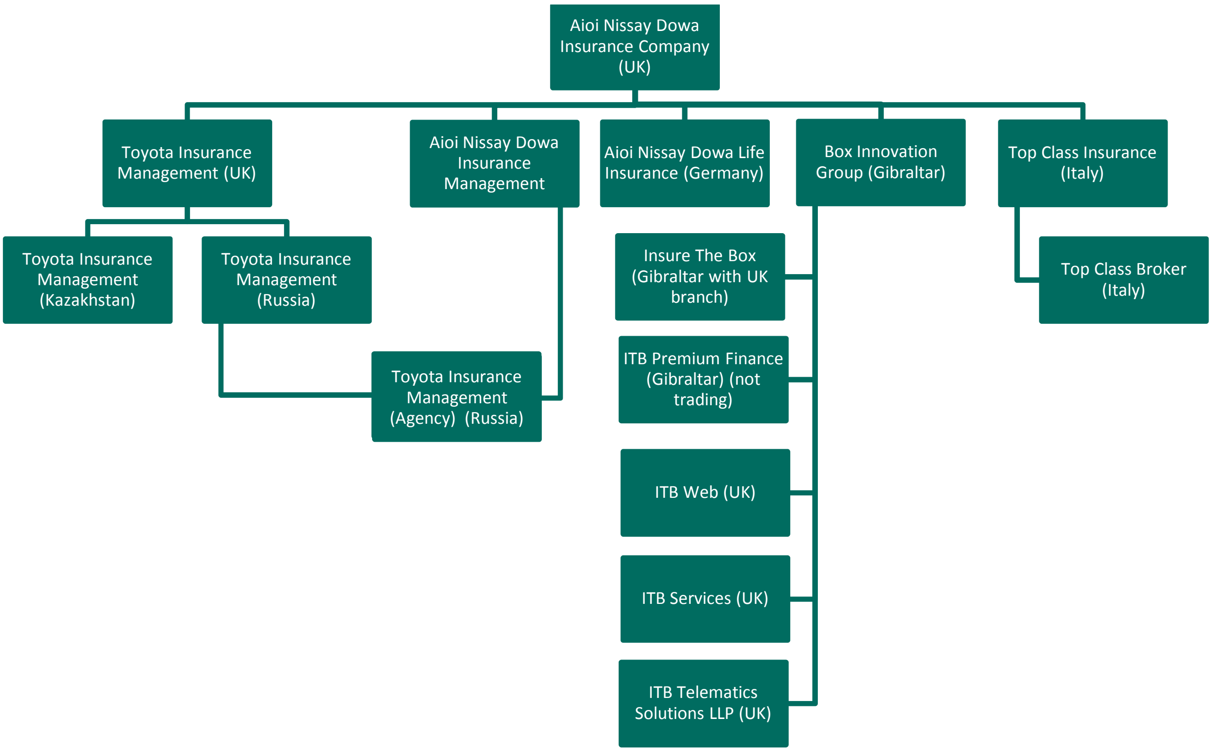
The Company also has five subsidiaries. These are:

- Aioi Nissay Dowa Insurance Management Ltd, which is incorporated in the United Kingdom and supplies insurance management services to the Company and the Group (100% owned) ("ANDIM");
- Aioi Nissay Dowa Life Insurance of Europe AG, which is incorporated and regulated in Germany and is a credit life insurance company (100% owned) ("ANDLIE");
- Toyota Insurance Management Ltd, which is incorporated in the United Kingdom and is a provider of insurance consultancy services (75% owned) ("TIM");
- Top Class Insurance Srl, which is incorporated in Italy and is a provider of insurance consultancy services (100% owned) ("Top Class"); and
- Box Innovation Group Ltd, which is incorporated in Gibraltar and is a holding company (75.01% owned) ("BIGL").

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

- Toyota Insurance Management (Insurance Brokers) LLC, which is incorporated in Russia and is a provider of insurance consultancy services (100% owned by TIM; 75% effective interest);
- Toyota Insurance Management (Insurance Brokers) LLP, which is incorporated in Kazakhstan and is a provider of insurance consultancy services (100% owned by TIM; 75% effective interest);
- LLC Toyota Insurance Management (Insurance Agency), which is incorporated in Russia and is a provider of insurance consultancy services (99.9% owned by TIM and 0.1% owned by ANDIM; 75% effective interest);
- Top Class Broker Srl, which is incorporated in Italy and is a provider of insurance consultancy services (100% effective interest);
- ITB Web Ltd, which is incorporated in the United Kingdom and is a provider of insurance consultancy services (75.01% effective interest);
- Insure The Box Ltd, which is incorporated in Gibraltar and is a managing general agent (75.01% effective interest);
- ITB Services Ltd, which is incorporated in the United Kingdom and is a provider of insurance management services (75.01% effective interest);
- ITB Telematics Solutions LLP, which is incorporated in the United Kingdom and is a provider of insurance consultancy services (75.01% effective interest); and
- ITB Premium Finance Ltd, which is incorporated in Gibraltar and which is not currently trading (75.01% effective interest).

A1. Information regarding our business (continued)



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

There were no distributions to shareholders in the year.

In December 2016 the Company issued 50,000,000 ordinary shares of £1 each to its immediate parent ADJ. These shares were all fully paid up.

Dowa Insurance Company (Europe) Ltd ("DICEL"), previously the Company's wholly-owned subsidiary, was subject to a solvent liquidation on 10 August 2016 following the cancellation of its regulatory permissions by the PRA on 21 July 2016. Prior to this, DICEL had been through a court-approved Part VII transfer and Scheme of Arrangement, which was effective 17 May 2016. All remaining assets and liabilities in DICEL have been transferred to ANDIE as a result of this process. The liabilities transferred to the Company through the Part VII are not material to the Company's overall business.

The UK's vote to leave the European Union in the referendum held in June 2016 is likely to have a significant effect on the Company. The Company relies on so-called "passporting" rights, by which financial services companies incorporated in one European country can do business across the EU. In the event that these passporting rights are not maintained or substantially replaced post the UK's departure from the EU the Company's structure may not be suitable for continuing to write insurance business across the EU. The Board and executive management are working on potential alternative corporate structures in order to mitigate the effect on the business of future political changes.

On 27 February 2017, the UK Government announced the outcome of its review of the discount rate for calculating personal injury damages awards, the so-called "Ogden discount rate". The rate had been fixed at 2.5% since 2001 but had been under review since 2012. The new discount rate to be used is -0.75% and this affects all open unsettled claims in the Company's UK motor business. The Company adjusted its annual financial statements and its Solvency II calculations, including its

A1. Information regarding our business (continued)

coverage ratio, to reflect the impact of this change in the discount rate. The effect on the Company's result for the year was to increase its pre-tax loss (IFRS basis) by £11.1m. The Company notes that the Government has said that it intends to review the framework under which the rate has been set by the Lord Chancellor, with the possibility of further changes to the discount rate. The Company has not reflected the possibility of further changes to the discount rate within its Solvency II calculations.

A2. Underwriting performance

The following table summarises the underwriting performance of the Company (including the impact of the Ogden discount rate change), as per the Company's financial statements:

	2016 £'000	2015 £'000
Gross written premiums	309,571	241,288
Net earned premiums	173,063	120,555
Net claims incurred	137,506	94,011
Loss ratio	79.5%	78.0%

Premium income has risen during the year from £241m to £310m, mainly due to the full year effect on 2016 of the acquisition (on 1 April 2015) of BIGL. ANDIE has underwritten the Insure The Box portfolio as a direct insurer from 1 June 2015. Gross written premiums have also benefitted from the weakening of Sterling against the Euro during the year, as the business that the Company wrote in Europe and in other foreign currencies including Norwegian Krone has been worth more in Sterling terms.

The Company's general insurance premium income includes retail motor and related products, the ITB portfolio and a share of commercial risks underwritten through the Japanese Interests Abroad ("JIA") business. Retail motor and JIA increased by 9% from £169m to £185m in 2016, helped by the strength of the Euro and also by strong volumes in Germany (the Company's key overseas market), Spain and Italy, offsetting weaker volumes in France and the UK. ITB underwriting, which is all in the UK, has contributed £125m (2015: £72m) to the Company's gross written premium.

The performance by country is summarised in the table below:

	United Kingdom	Germany	Italy	France	Spain	Belgium
	2016 £'000	2016 £'000	2016 £'000	2016 £'000	2016 £'000	2016 £'000
Gross written premiums	183,432	60,297	31,500	24,025	5,787	4,530
Net earned premiums	95,141	32,591	23,898	16,432	5,000	-
Net claims incurred	86,831	22,180	11,236	13,816	3,450	(7)
Loss ratio	91.3%	67.3%	47.0%	84.1%	69.0%	-

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.

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

	2016 £'000	2015 £'000
Income from AFS debt securities	5,719	5,323
Cash and cash equivalents interest income	2,190	1,549
Exchange gains / (losses)	6,290	(50)
Income from investment property	134	4
Realised losses	(8)	(63)
Total investment income	**14,325**	**6,763**

The most important change in performance between 2016 and 2015 was the impact of exchange gains. The foreign exchange movements on AFS financial instruments have to be recognized through the income statement. In 2016, the significant weakening of Sterling against the Euro and Norwegian Krone meant that the value of the Company's holdings in AFS debt securities denominated in Euros and Norwegian Krone increased.

A4. Performance of other activities

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

	2016 £'000	2015 £'000
Ancillary income	5,049	4,840
Operating expenses	30,556	24,421
Overrider commission income	2,252	1,128
Lease costs	1,177	976

Ancillary income comprises add-on sales, as the Company receives income from third parties where it sells insurance products when it is not acting as underwriter. Overrider commission income is generated where the Company has agreed quota share arrangements with reinsurers (often the parent company ADJ), whereby the reinsurer pays the Company a commission. Operating expenses are business expenses which are not directly related to the settlement or handling of claims. These have increased as the Company's expense base has grown in response to the BIGL acquisition. Lease costs are mainly for the rental of office space.

A5. Other information

No other information.

B. System of Governance

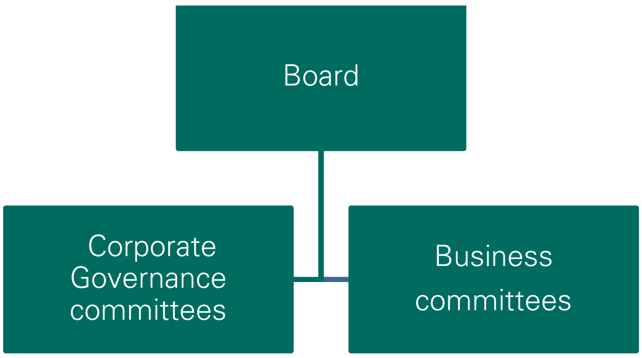
B1. General governance arrangements

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. There were no material changes in the system of governance during the reporting period. Changes to the membership of the Board are set out below.

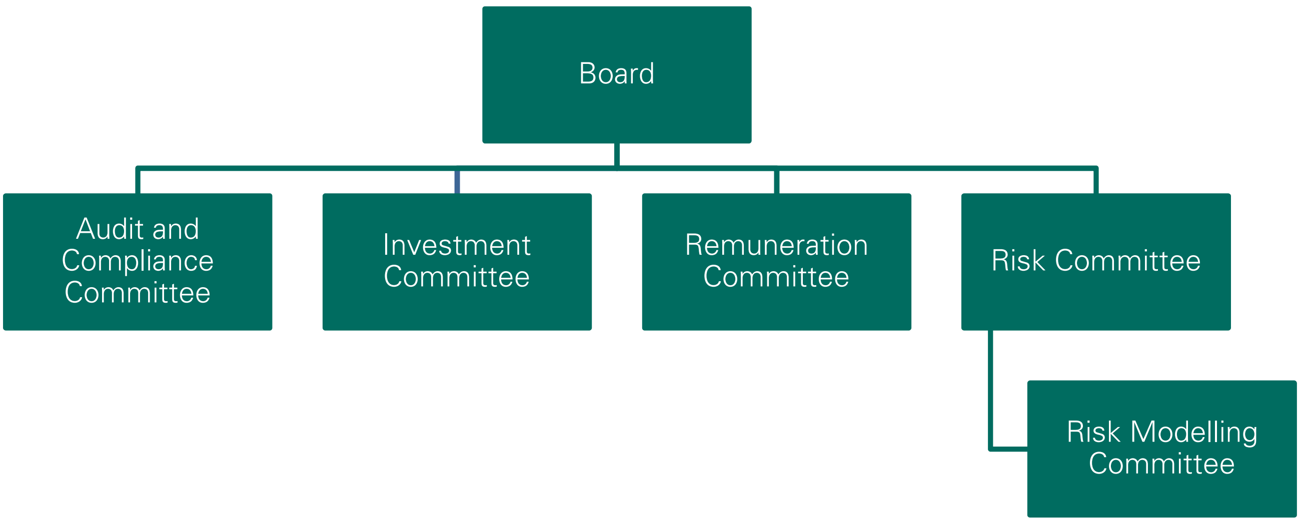
Overview of the Board and its committees

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:

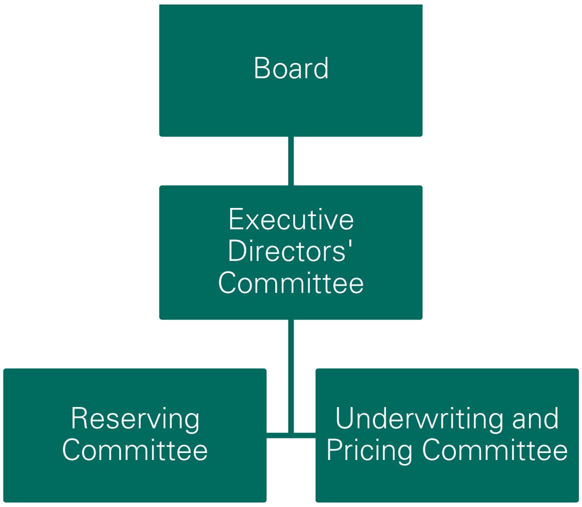


The Corporate Governance committees are structured as follows:



Overview of the Board and its committees (continued)

The Business committees are structured as follows:



The Board

The Board functions as the corporate decision-making body and provides entrepreneurial 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 Executive Directors' Committee which is led by the Chief Executive Officer.

The Board meets at least four times a year. The Board comprises 10 members. There are three executive members (the Chief Executive Officer, the Chief Operating Officer and the Deputy Chief Executive Officer), four independent non-executives, including the Chairman, and three non-executive members who are employees of the Company's parent ADJ and who act as shareholder representatives.

As at 31 December 2016, the members of the Board are:

- R Iles — Chairman, independent non-executive director;
- M Swanborough — Chief Executive;
- K Asai — Non-executive director, shareholder representative;
- H Clarke — Independent non-executive director;
- H Driver — Independent non-executive director;
- M Kainzbauer — Chief Operating Officer;
- R McCorriston — Independent non-executive director;
- S Tamura — Non-executive director, shareholder representative;
- K Tojo — Non-executive director, shareholder representative; and
- M Umezu — Deputy Chief Executive.

Mr K Sugeta, a non-executive director and shareholder representative, resigned in June 2016. Mr K Asai was appointed in October 2016.

Audit and Compliance Committee

The Audit 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 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 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.

The Audit Committee is responsible for assessing the performance, quality and remuneration of the Internal Audit provider. The CEO will advise and consult with the Audit Committee on the appointment of or any change to, outsource service providers undertaking Internal Audits and obtain their agreement prior to their appointment.
Independence and Authority

To ensure independence, the Internal Audit function is directly accountable to the Chairman of the Audit Committee but reports on a daily basis to the Chief Executive Officer through the Risk and Audit Manager.

Under guidance from the Board the Committee is responsible for reviewing and if deemed suitable recommending that the Group's statutory accounts be placed before the Board for signing. The committee will receive the report of the independent auditors. Furthermore the non-executive members of the committee will have the opportunity to discuss in private with the external auditors any matters arising or any matters the auditors feel should be bought to their attention.

The Committee meets at least four times a year. It is chaired by the Company's Chairman, and comprises, in addition to the Chairman, of three independent non-executive directors and three non-executive directors who are shareholder representatives.

Investment Committee

The Investment Committee is responsible for the management and administration of the Company's investments, for oversight of all treasury activity and the funding of all operating units. The Committee considers the investment and treasury strategies of the 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 Committee also oversees the performance of the Company's outsourced investment management provider.

The Committee meets at least four times a year. The Committee is chaired by the Company's Chief Executive Officer. In addition to the Chief Executive Officer, the Committee's members are the Company's Chairman, the Deputy Chief Executive Officer and three members of executive management, including the Company's Director of Finance and the Chief Actuary.

Remuneration Committee

The Remuneration Committee is responsible for considering and approving the remuneration and benefits of all locally employed executive directors of the Company. The Committee comprises the Company's Chairman and one non-executive director who is employed by the Company's parent ADJ. The Committee is chaired by the Company's Chairman. The Committee meets at least once per year.

Risk Committee

The Risk 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 meets at least four times a year. It is chaired by an independent non-executive director. There are three further independent non-executive director members of the Committee, including the Company's Chairman. Other members of the Committee are the Chief Executive, the Chief Operating Officer, the Deputy Chief Executive and the Company's Head of Risk Management.

Risk Modelling Committee

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

The Committee meets at least four times year. The Committee is chaired by an independent non-executive director. In addition to the non-executive director, the Committee's members are the Chief Executive Officer and three members of executive management, including the Company's Chief Actuary.

Executive Directors' Committee

The purpose of the Executive Directors' Committees 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 three members, the Chief Executive Officer, the Chief Operating Officer and the Deputy Chief Executive Officer. The Committee is chaired by the Chief Executive Officer. Meetings take place at least eleven times a year. Members of executive management are typically invited to attend the meetings.

Reserving Committee

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 IFRS accounts and the level of Solvency II technical provisions. It provides a quarterly written report to the Risk Committee on the current level of reserving risk faced by the Company, the Company's adherence to reserving risk appetite and the reserving risks which may arise in the future.

The Committee meets at least six times a year. The Chair of the Committee is the Chief Executive Officer. In addition to the Chief Executive Officer, the Committee members are the Deputy Chief Executive Officer, the Chief Operating Officer and three members of executive management, the Company's Chief Actuary, the Director of Finance and the Head of Claims.

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 Risk Committee on the current underwriting risks faced by the Company, the Company's adherence to underwriting risk 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 Actuary.

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.

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, 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. In the UK, where the majority of the Company's employees are based, 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. Pension arrangements also exist in other countries. 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:

- Professional qualifications, knowledge and experience, and whether these are appropriate for performance of the role; and
- Good reputation and integrity.

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.

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, including the Own Risk and Solvency Assessment

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 Risk 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 a number of business processes and decision frameworks, including pricing assessment, asset allocation, reinsurance purchase, counterparty selection, reserve assessment and capital planning.

B3. Risk Management System, including the Own Risk and Solvency Assessment (continued)

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. The Group Project Management Office also reports to the Risk Committee on business change initiatives.

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.

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 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 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;

B3. Risk Management System, including the Own Risk and Solvency Assessment (continued)

- 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 three 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 three year 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.

B4. 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.

<u>System of internal control objectives</u>

Senior managers (who typically attend the Executive Directors' Committee) 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:

B4. Overview of Internal Control System (continued)

- 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.

<u>Components of internal control</u>

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.

B4. Overview of Internal Control System (continued)

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 Risk 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 and Compliance Committee reviews the effectiveness of monitoring actions.

B4. Overview of Internal Control System (continued)

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 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 supported by two employees in the UK, while there are also employees in the overseas branches who have specific compliance responsibilities. The Compliance Function reports to the Chief Executive Officer and has independent access to the Audit and Compliance Committee. The Head of Compliance also attends the Executive Directors' Committee and acts as Secretary to the Board.

B5. 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 Internal Audit Function is charged with the responsibility for:

- Ascertaining that the ongoing processes for controlling operations throughout the Company are adequately designed and are functioning in an effective manner; and
- Reporting to management and the Audit and Compliance Committee of the Board on the adequacy and effectiveness of the Company's systems of internal control, together with recommendations to improve the systems.

The Internal Audit Function at the Company is overseen by the Audit and Compliance Committee. In this capacity, the Audit 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 Risk Management. The Company currently outsources the performance of internal audits to Grant Thornton LLP. The use of a specialist outsourced provider of internal audit skills helps to ensure the independence of the function and provides the business with a wider range of skills for carrying out audit activities than might be available if the Function was staffed internally. Internal Audit reports through the Audit and Compliance Committee quarterly but also has a regular reporting line to the Head of Risk Management, who reports directly to the Chief Executive Officer. Internal Audit is also able to report directly to the Audit and Compliance Committee outside the regular committee meetings.

B6. Actuarial Function

The Company has an internal Actuarial Function. The head of the Actuarial Function, the Chief Actuary (SIMF20), is a member of the Institute and Faculty of Actuaries, holds a relevant Practising Certificate and has complied continuously with the specific professional obligations that this requires. The wider actuarial function is made up of members and trainees of the Institute and Faculty of Actuaries, members of equivalent international actuarial bodies, analysts and data management specialists, all of whom comply with relevant professional obligations. The Chief Actuary attends the Executive Directors' Committee and reports directly to the Company's Chief Executive Officer. The

B6. Actuarial Function (continued)

Chief Actuary 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 Risk Committee on the Company's underwriting policy and effectiveness of reinsurance; and
- Producing the annual actuarial report.

In addition to the prescribed responsibilities, the Chief Actuary exercises oversight of the Underwriting and Pricing Committee the Reserving Committee.

B7. 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;
- Choice of outsource service provider;
- Definition of contractual requirements and confidentiality arrangements; and
- Audits and monitoring of controls.

The Executive Directors' 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, Holland, Norway, Denmark, Finland and Spain. The most significant of these arrangements are with the Company's subsidiary Insure the Box and Ageas in the UK, with Liberty Seguros in Spain, with Gjensidige in Norway and Codan in Denmark.

b. Claims

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

B7. Outsourcing (continued)

the Box and Ageas in the UK, with Liberty Seguros in Spain, with Gjensidige in Norway and Codan in Denmark.

c. Audits

The Company has outsourced the performance of Internal Audit across its business to Grant Thornton (UK) LLP, overseen from the UK. The Company also uses outsourced claims audit providers in the UK and France.

d. Business continuity planning

The Company has a reciprocal premises agreement with its sister company Mitsui Sumitomo Insurance Europe in the UK.

e. Human Resources

The Company uses outsourced payroll services providers in a number of the countries in which it operates; the most significant such arrangement is in the UK.

f. Management services

In the UK the Company's subsidiary Aioi Nissay Dowa Insurance Management Ltd provides 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.

B8. Other information

No other 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. 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 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.

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
- 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, windstorm in Germany, and UK and flood in Germany and UK

C1. Insurance risk (continued)

Methods used to assess and quantify the risk (continued)

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. Reserve run-off

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

Risk mitigation

Disciplined underwriting including appropriate risk management and pricing control is essential to the 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 £1.7m. We anticipate a 15% or greater deterioration in net loss compared to plan, equivalent to a £25m 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 2016, ANDIE's investments consisted of £153.8m in bonds and £177.7m in cash, deposits and money market funds. The Company also has subsidiary companies as detailed in the group structure chart in Section A1 and there is a risk that the valuations of these Companies will change as a result of their performance.

C2. Market risk (continued)

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 2016 the Company's cash holdings were £32.4m, fixed deposits were £7.1m and money market fund holdings £138.1m. 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 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;

C2. Market risk (continued)

- 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 corporate bonds in the UK and Europe, with the average rating of the bond portfolio of A and duration of 3.2 years. Corporate bonds 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 use derivative financial instruments.

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:

	2016	
	€'000	NOK'000
Assets	202,149	79,886
Liabilities	209,156	57,197
Unmatched exposure	(7,007)	22,689
Sterling equivalent	(5,949)	2,133

The impact of a 10% change in the value of Euros to Sterling is £0.6m and the impact of a 10% change in the value of NOK to Sterling is £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.

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;

C3. Credit risk (continued)

- 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 £15.1m, less than 10% of the total portfolio.

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 £177m. The insurance business is broadly cash neutral, with some fluctuations over the year. There are also £154m 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 11.9% 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 recent large acquisition (of BIGL), the ongoing work on the integration of BIGL, the increased exposure of the business to the UK since the BIGL acquisition and the potential disruptions to the Company's business model as a result of Brexit. The analysis of operational risk carried out for the ORSA completed in September 2016 (based on data as at 31 December 2015) has arrived at an operational risk of £15m, which is 33% 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

<u>Strategic risk</u>

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 subsidiary) is considered to be the Company's most significant strategic risk, as according to our reverse stress testing exercise it is considered to be the risk that is most likely to render the business model unviable. While the 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.

<u>Reputational risk</u>

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 of problems in the wider MS&AD Insurance Group.

Issues from a Toyota perspective are largely confined to reductions in car sales and hence lower levels of new insurance business. This has been demonstrated by the effect on the business of various safety recalls that have been instigated by Toyota over the past few years. Retention was unaffected across all countries as customers were able to distinguish between the issues relating to the safety recall and the insurance product. In these circumstances the short-term financial impact is small, growing only over an extended period 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 indictors and complaints to external management meetings at various levels to ensure that we are strategically and operationally aligned with Toyota.

With regard to the Insure The Box brand, specific actions have been taken to strengthen the management, governance and control structures since the acquisition and to begin to align the control environment with that of the Company and its subsidiaries. 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 2016:

	Statutory Accounts value	Reclassification/ valuation	Solvency II value
Assets:	**£'000**	**£'000**	**£'000**
Deferred acquisition costs	52,968	(52,968)	-
Intangible assets	1,431	(1,431)	-
Property, plant & equipment	2,101	(1,331)	770
Holdings in related undertakings	131,040	(117,165)	13,875
Bonds	153,824	2,643	156,467
Collective investment undertakings	-	138,140	138,140
Deposits other than cash	-	7,076	7,076
Loans and mortgages	16,010	-	16,010
Reinsurance recoverables	173,182	(17,654)	155,528
Insurance receivables	58,022	(5,505)	52,517
Cash and cash equivalents	177,661	(145,216)	32,445
Other assets	20,756	(7,963)	12,793
Total assets	**786,995**	**(201,374)**	**585,621**
Liabilities:			
Technical provisions	427,096	(44,961)	382,135
Insurance payables	7,065	-	7,065
Reinsurance payables	15,074	(4,645)	10,429
Other liabilities	40,715	(16,764)	23,951
Total liabilities	**489,949**	**(66,369)**	**423,580**
Excess assets over liabilities	**297,046**	**(135,005)**	**162,041**

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

Deferred acquisition costs

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

Intangible assets

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

D1. Assets (continued)

Property, plant and equipment

The Company's plant and equipment is held in the IFRS 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 £770k relates to property, which is held at fair value in the IFRS 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 £13,875k.

ANDIE directly owns 100% of the issued share capital of ANDIM, ANDLIE and Top Class, 75.01% of the issued share capital of BIGL and 75% of the issued share capital of TIM. Both BIGL and TIM have subsidiaries, so that ANDIE has an indirect investment in these subsidiary entities.

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

- ANDLIE – 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 IFRS balance sheet valuation to the Solvency II valuation requirements is £13,260k.
- ANDIM is adjusted from the IFRS balance sheet valuation for Solvency II valuation requirements. The adjustment is £3,985k.
- TIM is adjusted from the IFRS balance sheet valuation for Solvency II valuation requirements and because ANDIE has a 75% shareholding. The adjustment is (£2,094k).
- BIGL is adjusted from the IFRS balance sheet for Solvency II valuation requirements and because ANDIE has a 75.01% shareholding. The adjustment is (£132,586k). The adjustment is due to the removal of intangible assets and any fixed assets which cannot quickly be converted into cash.
- Top Class is adjusted from the IFRS balance sheet for Solvency II valuation requirements. The adjustment is £270k.

In the IFRS accounts the Company's participations are treated as investments in subsidiaries and are valued at cost less any impairment.

Bonds

As at the reporting date the Company held investments in fixed income securities of £156,467k. The holdings are split between the asset classes government bonds and corporate bonds. As at the reporting date, the balance held in each of these asset classes is £27,816k in government bonds and £128,650k in corporate bonds.

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 ("Level 1 inputs") or quoted prices for similar assets in active markets ("Level 2 inputs"). 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

D1. Assets (continued)

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. Under IFRS this accrued interest is reported as a separate asset under "Other Assets".

The proportion of the bond portfolio valued using Level 1 inputs is 9.5% and the proportion valued using Level 2 inputs is 90.5%.

Collective investments undertakings

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

As at the reporting date, the Company had £138,140k 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.

Deposits other than cash equivalents

As at the reporting date, the Company had £7,076k held in deposits other than cash equivalents. The deposits other than 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 deposits the valuation does not rely on market prices. There are no material estimates, assumptions or judgements made when reporting the value of these deposits.

Other loans and mortgages

As at the reporting date, the Company had £16,010k in other loans and receivables. The Company has provided £15,214k in the form of three loans to its subsidiary BIGL. The loans are repayable in December 2017, January 2018 and December 2018 and all accrue interest at a rate of 7.5% per annum. No interest payments are made and therefore the assets are increasing to reflect the accrual of interest. The remaining balance represents accrued interest due to the Company on other investments.

There are no quoted market prices available for the valuation of these assets. As permitted by the Delegated Regulation, the Company has used a discounted cash flow as a valuation method using relevant market inputs. The main assumptions are the discount rate used and the arm's length rate of interest which is being charged to BIGL. The risk free rate is the UK ten-year government bond yield which was 1.24% as at the reporting date. The rate of interest of 7.5% is considered to be reasonable and to meet the arm's length requirement of the Delegated Regulation.

The timing of the economic inflow is contractually determined. The repayment of the three loans is included in BIGL's business plan, as approved by the BIGL board, and in its cash flow forecasts. The loans are also included on BIGL's balance sheet, so form part of the net liabilities that the Company has recognised on its Solvency II balance sheet for the BIGL participation.

D1. Assets (continued)

Under IFRS the loans were initially recognised at transactional value and are subsequently measured at amortised cost using the effective rate method less any impairment losses. As the effect of the time value of money (the risk free rate) is not significant and the loans are expected to be repaid within the next two years, the value at initial recognition has not been changed due to the subsequent measurement at amortised cost within the IFRS accounts. For Solvency II reporting, the discounted cash flow valuation approach supports the IFRS valuation, which has therefore been maintained.

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 our excess of loss treaty, the expected recoveries are not determined using traditional actuarial methods. They are based on an individual assessment of each large claim by the relevant Branch claims manager with the cash flows modelled from the terms of the applicable reinsurance treaty.

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

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

Insurance and intermediaries receivables

As at the reporting date, the Company had £52,517k 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 amortised cost using the effective interest rate method. As the majority of receivables are short-term in nature (and doubtful balances are provided for) the carrying value in the IFRS 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 £32,445k 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. There are no material estimates, assumptions or judgements when reporting the value of cash and cash equivalents.

D1. Assets (continued)

Any other assets, not elsewhere shown

As at the reporting date, the Company had £12,793k of other assets. As noted above accrued interest on our bond portfolios are included as part of the overall bond valuation for Solvency II. Other assets include recoverables of £1,606k, inter-company balances £6,661k, and other debtors of £4,526k. As the majority of these assets are short-term in nature the carrying value in the IFRS accounts is considered to approximate to fair value. Any discounting for the time value of money would not have a material effect. There are no material estimates, assumptions or judgements when reporting the value of these assets.

D2. Technical provisions

The technical provisions comprise the claims technical provision, the premium technical provision (which together form the best estimate liability) and the risk margin. They are set in accordance with Solvency II regulations. As at 31 December 2016, the technical provisions were:

Class of business	Net best estimate £'000	Risk margin £'000
Motor third party liability	142,342	8,359
Motor other	53,614	2,958
Other	18,072	1,263
Total	**214,028**	**12,580**

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

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

The difference between these two bases has been termed "Events Not In Data" or ENIDs by some in the UK insurance industry. 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 recent 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 (IFRS and Solvency II) have been calculated using standard deterministic actuarial models. For most classes, development factor (or "chain-ladder") methods have been used. For some liability classes, Bornheutter-Ferguson models (or similar methods which combine our own experience with an average market claims experience) have been used.

D2. Technical provisions (continued)

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 2016.

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 our excess of loss treaty, the expected recoveries are not determined using traditional actuarial methods. They are based on an individual assessment of each large claim by the relevant Branch claims manager with the cash flows modelled from the terms of the applicable reinsurance treaty.

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

D3. Other liabilities

The following table sets out the Company's liabilities (other than technical provisions) as at 31 December 2016:

	2016 £'000
Provisions other than technical provisions	-
Insurance and intermediaries payable	7,065
Reinsurance payables	10,429
Any other liabilities	23,951

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

The Company does not have any material leasing arrangements.

<u>Insurance and intermediaries payable</u>

As at the reporting date, the Company had £7,065k of insurance and intermediaries payable. These comprise of direct insurance creditors £5,530k and other insurance payables of £1,535k. The insurance payables are valued in the IFRS accounts initially at fair value and subsequently at amortised cost using the effective interest rate method. However, as these liabilities represent the amounts to be paid to insurance claimants these amounts are not revalued to amortised cost as they are typically settled in the short-term, with the settlement amount rarely differing from the initial valuation. The IFRS valuation therefore substantially equates to fair value and there is no adjustment made for Solvency II valuation purposes. Similarly, there is no adjustment for the valuation of other insurance payables between the IFRS accounts and Solvency II. There are no material estimates, assumptions or judgements when reporting the value of insurance and intermediaries payable.

<u>Reinsurance payables</u>

As at the reporting date, the Company had £10,429k of reinsurance payables. Reinsurance payables represent premiums due to reinsurers. They are valued initially at transaction value plus attributable costs. They are subsequently measured at amortised cost using the effective interest rate method. As the majority of payables are short-term in nature the carrying value in the IFRS accounts is considered to approximate to fair value. Any discounting for the time value of money would not have a material effect. There are no material estimates, assumptions or judgements when reporting the value.

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

As at the reporting date, the Company had £23,951k of other liabilities, not elsewhere shown. These amounts represents accruals and other liabilities. Accruals are recognised in line with IFRS, 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 IFRS accounts is considered to approximate to fair value. Any discounting for the time value of money would not have a material effect. There are no material estimates, assumptions or judgements when reporting the value.

D4. Alternative methods for valuation

The Company uses an alternative valuation method for the loans due from its subsidiary BIGL. Under IFRS the loans were initially recognised at transactional value and are subsequently measured at amortised cost using the effective rate method less any impairment losses. As the effect of the time value of money (the risk free rate) is not significant and the loans are expected to be repaid within the next two years, the value at initial recognition has not been changed due to the subsequent measurement at amortised cost within the IFRS accounts. For Solvency II reporting, the discounted cash flow valuation approach supports the IFRS valuation, which has therefore been maintained. Further detail is included in section D1.

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.

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 2016 is fully paid up and comprises 418,757,000 ordinary shares with a par value of £1 each. The Company increased its share capital in December 2016 when its parent company subscribed for a further 50 million ordinary shares at par. There are no preference shares and no debt funding. There is a negative reconciliation reserve of (£256,716k).

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 foreseeable dividends and no own shares held.

As at 31 December 2016, the net asset value of the Company as calculated under IFRS for statutory reporting purposes was £297m. This is a £23.7m increase since 31 December 2015. The table below shows the IFRS movement in net asset value:

	2016 £'000
Brought forward 1 January	273,306
Capital increase	50,000
Result for the year	(22,110)
Movement in reserves	(4,150)
Carried forward 31 December	297,046

For Solvency II purposes, eligible own funds to meet the MCR and SCR were £162,041k. The main differences between eligible own funds and the net asset value under IFRS are set out below.

	2016 £'000	Reason
Net asset value per IFRS	297,046	Per accounts
Revaluation of net technical reserves	27,307	Differing reserving basis under Solvency II
Deferred acquisition cost	(52,968)	No DAC for Solvency II
Investment in subsidiaries	(117,165)	Replaced by participations
Other	7,821	Other adjustments
Own funds under Solvency II	162,041	Solvency II own funds

E1. Own funds (continued)

The movement of own funds on a Solvency II basis during 2016 (the first full year of Solvency II reporting) was as follows:

	2016 £'000
Own funds per Day 1 reporting (unaudited)	152,431
Capital injection (unaudited)	50,000
Movement in year (unaudited)	(40,390)
Own funds as at 31 December	162,041

The SCR coverage ratio as at 31 December 2016 was 171%, with eligible own funds of £162,041k and an SCR of £94,775k. The MCR coverage ratio as at 31 December 2016 was 452%, with eligible own funds of £162,041k and an MCR of £35,818k. The Company has completed its Solvency II "Day 1" (reporting the Company's solvency position under Solvency II as at 1 January 2016) and quarterly reporting throughout 2016 and these have shown that the Company has complied continuously with both the MCR and the SCR throughout the reporting period. The first Solvency II reporting which has required external audit is that of 31 December 2016, so the compliance with the MCR and the SCR during the reporting period has not been subject to external audit.

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 2016:

Component	2016 £'000
Non-life underwriting risk analysed by:	
- Premium and reserve risk	65,384
- Catastrophe risk	2,472
- Lapse risk	6,280
- Diversification credit	(7,792)
Health underwriting risk	25
Market risk analysed by:	
- Interest rate risk	-
- Equity risk	4,957
- Property risk	193
- Spread risk	5,966
- Currency risk	1,742
- Concentration risk	1,637
- Diversification credit	(3,424)
Counterparty default risk	22,164
Diversification credit	(16,081)
Operational risk	11,252
SCR	94,775
MCR	35,818

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

E3. 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.

F. Templates

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

Template name	Template code
Balance sheet	S.02.01.02
Premiums, claims and expenses by line of business	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

Aioi Nissay Dowa Insurance Company of Europe Limited

Solvency and Financial Condition Report

Disclosures

31 December

2016

(Monetary amounts in GBP thousands)

General information

Undertaking name	Aioi Nissay Dowa Insurance Company of Europe Limited
Undertaking identification code	5493001W3NTGB2HAN989
Type of code of undertaking	LEI
Type of undertaking	Non-life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2016
Currency used for reporting	GBP
Accounting standards	The undertaking is using IFRS
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	Use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

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

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	770
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	315,557
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	13,875
R0100	*Equities*	0
R0110	*Equities - listed*	0
R0120	*Equities - unlisted*	0
R0130	*Bonds*	156,467
R0140	*Government Bonds*	27,816
R0150	*Corporate Bonds*	128,650
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	138,140
R0190	*Derivatives*	
R0200	*Deposits other than cash equivalents*	7,076
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	16,010
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	16,010
R0270	Reinsurance recoverables from:	155,528
R0280	*Non-life and health similar to non-life*	155,528
R0290	*Non-life excluding health*	155,505
R0300	*Health similar to non-life*	23
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	0
R0330	*Life excluding health and index-linked and unit-linked*	0
R0340	*Life index-linked and unit-linked*	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	52,517
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	32,445
R0420	Any other assets, not elsewhere shown	12,793
R0500	**Total assets**	585,620

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	382,135
R0520	*Technical provisions - non-life (excluding health)*	382,040
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	369,480
R0550	*Risk margin*	12,560
R0560	*Technical provisions - health (similar to non-life)*	95
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	75
R0590	*Risk margin*	19
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	0
R0640	*Risk margin*	0
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	0
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	0
R0680	*Risk margin*	0
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	0
R0710	*Best Estimate*	0
R0720	*Risk margin*	0
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	7,065
R0830	Reinsurance payables	10,429
R0840	Payables (trade, not insurance)	
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	23,951
R0900	**Total liabilities**	423,579
R1000	**Excess of assets over liabilities**	162,041

S.05.01.02

Premiums, claims and expenses by line of business

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	Gross - Direct Business	0	95	0	236,853	27,177	5,395	4,862	2,980	25	136	73	30,620					308,216
R0120	Gross - Proportional reinsurance accepted	0	-1	0	0	1,351	0	0	0	0	0	0	4					1,355
R0130	Gross - Non-proportional reinsurance accepted																	0
R0140	Reinsurers' share	0	71	0	93,181	13,790	5,394	4,755	2,826	25	137	34	10,925					131,138
R0200	Net	0	23	0	143,672	14,738	0	107	154	0	0	39	19,700					178,434
	Premiums earned																	
R0210	Gross - Direct Business	0	98	0	222,168	28,826	5,288	4,838	2,769	24	143	75	27,847					292,076
R0220	Gross - Proportional reinsurance accepted	0	12	0	0	1,731	0	0	0	0	0	0	79					1,822
R0230	Gross - Non-proportional reinsurance accepted																	0
R0240	Reinsurers' share	0	73	0	74,851	14,520	5,288	4,732	2,616	24	143	35	10,446					112,728
R0300	Net	0	37	0	147,318	16,037	0	106	153	0	0	40	17,481					181,171
	Claims incurred																	
R0310	Gross - Direct Business	0	41	0	229,993	24,570	3,344	1,732	2,247	38	27	103	6,807					268,902
R0320	Gross - Proportional reinsurance accepted	0	0	0	0	943	258	0	0	0	0	0	7					1,209
R0330	Gross - Non-proportional reinsurance accepted																	0
R0340	Reinsurers' share	0	24	0	101,596	14,274	2,812	1,527	2,172	5	30	41	2,016					124,496
R0400	Net	0	18	0	128,398	11,239	790	205	75	33	-3	62	4,798					145,614
	Changes in other technical provisions																	
R0410	Gross - Direct Business	0	0	0	0	0	0	0	0	0	0	0	0					0
R0420	Gross - Proportional reinsurance accepted	0	0	0	0	0	0	0	0	0	0	0	0					0
R0430	Gross - Non-proportional reinsurance accepted																	0
R0440	Reinsurers' share	0	0	0	0	0	0	0	0	0	0	0	0					0
R0500	Net	0	0	0	0	0	0	0	0	0	0	0	0					0
R0550	**Expenses incurred**	0	-2	0	41,754	3,015	-677	-955	-77	-1	-15	4	10,074					53,119
R1200	**Other expenses**																	
R1300	**Total expenses**																	53,119

S.05.02.01

Premiums, claims and expenses by country

Non-life

		C0010	C0020	C0030	C0040	C0050	C0060	C0070
		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations			Top 5 countries (by amount of gross premiums written) - non-life obligations		Total Top 5 and home country
R0010								
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	Gross - Direct Business	169,732	58,372	32,143	27,267	5,326	6,267	299,107
R0120	Gross - Proportional reinsurance accepted	0	0	0	0	0	0	0
R0130	Gross - Non-proportional reinsurance accepted							0
R0140	Reinsurers' share	82,440	29,050	428	10,144	121	455	122,638
R0200	Net	87,292	29,322	31,715	17,123	5,205	5,812	176,469
	Premiums earned							
R0210	Gross - Direct Business	150,734	63,777	24,462	26,962	5,484	5,681	277,100
R0220	Gross - Proportional reinsurance accepted	0	0	0	0	0	0	0
R0230	Gross - Non-proportional reinsurance accepted							0
R0240	Reinsurers' share	62,086	31,257	448	10,218	127	488	104,624
R0300	Net	88,647	32,520	24,013	16,744	5,358	5,194	172,476
	Claims incurred							
R0310	Gross - Direct Business	167,247	48,553	11,749	21,230	3,234	4,019	256,033
R0320	Gross - Proportional reinsurance accepted	0	0	0	0	0	0	0
R0330	Gross - Non-proportional reinsurance accepted							0
R0340	Reinsurers' share	83,637	26,631	485	7,103	-31	376	118,201
R0400	Net	83,610	21,922	11,264	14,127	3,265	3,644	137,832
	Changes in other technical provisions							
R0410	Gross - Direct Business							0
R0420	Gross - Proportional reinsurance accepted							0
R0430	Gross - Non-proportional reinsurance accepted							0
R0440	Reinsurers' share							0
R0500	Net	0	0	0	0	0	0	0
R0550	**Expenses incurred**	959	293	3,705	-123	-522	-45	4,267
R1200	**Other expenses**							506
R1300	**Total expenses**							4,773

S.17.01.02

Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				Total Non-Life obligation
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
R0010	**Technical provisions calculated as a whole**	0	0	0	0	0	0	0	0	0	0	0	0					0
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole																	0
	Technical provisions calculated as a sum of BE and RM																	
	Best estimate																	
	Premium provisions																	
R0060	Gross	0	11	0	68,971	50,602	279	673	564	28	0	0	16,348					137,474
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	0	7	0	29,758	5,869	270	644	544	5	0	0	1,475					38,572
R0150	**Net Best Estimate of Premium Provisions**	0	3	0	39,213	44,733	10	30	20	22	0	-1	14,873					98,903
	Claims provisions																	
R0160	Gross	0	65	0	196,136	14,396	2,297	1,949	6,157	180	112	18	10,772					232,081
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	0	16	0	93,007	5,515	2,231	1,654	5,846	47	109	18	8,514					116,956
R0250	**Net Best Estimate of Claims Provisions**	0	49	0	103,129	8,881	66	295	311	133	3	0	2,259					115,125
R0260	**Total best estimate - gross**	0	75	0	265,107	64,998	2,577	2,622	6,720	208	111	17	27,120					369,556
R0270	**Total best estimate - net**	0	52	0	142,342	53,614	76	325	331	155	3	-1	17,131					214,028
R0280	**Risk margin**	0	19	0	8,359	2,958	16	15	73	28	4	-1	1,107					12,579
	Amount of the transitional on Technical Provisions																	
R0290	Technical Provisions calculated as a whole																	0
R0300	Best estimate																	0
R0310	Risk margin																	0
R0320	**Technical provisions - total**	0	95	0	273,466	67,956	2,593	2,638	6,794	236	115	16	28,228					382,135
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**	0	23	0	122,765	11,384	2,501	2,297	6,390	53	109	18	9,989					155,528
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**	0	72	0	150,701	56,571	92	340	404	183	7	-2	18,239					226,607

S.19.01.21

Non-Life insurance claims

Total Non-life business

Z0010 Accident year / underwriting year: Accident Year

Gross Claims Paid (non-cumulative)
(absolute amount)

	Year	C0010 0	C0020 1	C0030 2	C0040 3	C0050 4	C0060 5	C0070 6	C0080 7	C0090 8	C0100 9	C0110 10 & +	C0170 In Current year	C0180 Sum of years (cumulative)
R0100	Prior											711	711	711
R0160	N-9	52,362	17,574	3,178	3,211	1,711	679	503	1,850	402	269		269	81,739
R0170	N-8	59,441	20,979	9,747	2,056	1,196	577	122	99	55			55	94,273
R0180	N-7	66,911	21,847	2,858	1,618	427	561	108	308				308	94,639
R0190	N-6	61,011	15,763	4,262	1,981	3,086	450	661					661	87,215
R0200	N-5	78,770	18,225	2,480	2,969	924	561						561	103,927
R0210	N-4	66,315	18,299	3,051	1,884	1,147							1,147	90,696
R0220	N-3	76,962	24,332	2,963	3,397								3,397	107,654
R0230	N-2	67,289	22,154	2,883									2,883	92,326
R0240	N-1	69,405	63,669										63,669	133,074
R0250	N	81,171											81,171	81,171
R0260												Total	154,832	967,425

Gross Undiscounted Best Estimate Claims Provisions
(absolute amount)

	Year	C0200 0	C0210 1	C0220 2	C0230 3	C0240 4	C0250 5	C0260 6	C0270 7	C0280 8	C0290 9	C0300 10 & +	C0360 Year end (discounted data)
R0100	Prior											6,824	0
R0160	N-9	0	0	0	0	0	0	0	0	0	1,573		0
R0170	N-8	0	0	0	0	0	0	0	0	1,018			0
R0180	N-7	0	0	0	0	0	0	0	1,532				0
R0190	N-6	0	0	0	0	0	0	2,753					0
R0200	N-5	0	0	0	0	0	2,667						0
R0210	N-4	0	0	0	0	9,289							0
R0220	N-3	0	0	0	9,074								0
R0230	N-2	0	0	22,764									0
R0240	N-1	0	42,574										0
R0250	N	138,493											0
R0260												Total	0

S.23.01.01

Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	418,757	418,757		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	-256,716	-256,716			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0	0	0	0	
R0290	**Total basic own funds after deductions**	162,041	162,041	0	0	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	162,041	162,041	0	0	0
R0510	Total available own funds to meet the MCR	162,041	162,041	0	0	
R0540	Total eligible own funds to meet the SCR	162,041	162,041	0	0	0
R0550	Total eligible own funds to meet the MCR	162,041	162,041	0	0	
R0580	**SCR**	94,775				
R0600	**MCR**	35,818				
R0620	**Ratio of Eligible own funds to SCR**	170.98%				
R0640	**Ratio of Eligible own funds to MCR**	452.40%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	162,041
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	418,757
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	-256,716
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	
R0790	**Total Expected profits included in future premiums (EPIFP)**	0

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0080	C0090
R0010	Market risk	11,070		
R0020	Counterparty default risk	22,164		
R0030	Life underwriting risk	0		
R0040	Health underwriting risk	25		
R0050	Non-life underwriting risk	66,343		
R0060	Diversification	-16,081		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	83,523		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	11,252
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	0
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency Capital Requirement excluding capital add-on**	94,775
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	94,775

	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

S.28.01.01

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

	Linear formula component for non-life insurance and reinsurance obligations	C0010
R0010	MCR_{NL} Result	35,818

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0020	Medical expense insurance and proportional reinsurance	0	0
R0030	Income protection insurance and proportional reinsurance	52	31
R0040	Workers' compensation insurance and proportional reinsurance	0	0
R0050	Motor vehicle liability insurance and proportional reinsurance	142,342	78,583
R0060	Other motor insurance and proportional reinsurance	53,614	85,421
R0070	Marine, aviation and transport insurance and proportional reinsurance	76	0
R0080	Fire and other damage to property insurance and proportional reinsurance	325	121
R0090	General liability insurance and proportional reinsurance	331	180
R0100	Credit and suretyship insurance and proportional reinsurance	155	29
R0110	Legal expenses insurance and proportional reinsurance	3	1
R0120	Assistance and proportional reinsurance	0	42
R0130	Miscellaneous financial loss insurance and proportional reinsurance	17,131	21,056
R0140	Non-proportional health reinsurance	0	
R0150	Non-proportional casualty reinsurance	0	0
R0160	Non-proportional marine, aviation and transport reinsurance	0	0
R0170	Non-proportional property reinsurance	0	0

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCR_{L} Result	0

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits		
R0220	Obligations with profit participation - future discretionary benefits		
R0230	Index-linked and unit-linked insurance obligations		
R0240	Other life (re)insurance and health (re)insurance obligations		
R0250	Total capital at risk for all life (re)insurance obligations		

	Overall MCR calculation	C0070
R0300	Linear MCR	35,818
R0310	SCR	94,775
R0320	MCR cap	42,649
R0330	MCR floor	23,694
R0340	Combined MCR	35,818
R0350	Absolute floor of the MCR	3,332
R0400	**Minimum Capital Requirement**	35,818