AmTrust Europe Limited

Solvency and Financial Condition Report

For the year ended 31 December 2016

AmTrust Europe
An AmTrust Financial Company

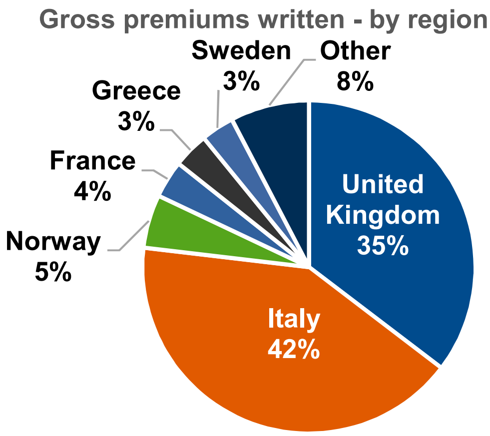
Contents

Summary

Overview of the Business & Context of this report

Business model

AmTrust Europe Limited (AEL) is a UK registered insurance company, which writes multiple lines of business across the UK, Europe, Asia Pacific and Canada. Its primary markets are shown in the chart below.



AEL's primary underwriting activities are within the following classes of business:

- Medical Malpractice;
- Legal Expenses;
- Special risks & warranty;
- Casualty lines; and
- Property.

AEL is a subsidiary of the AmTrust Financial Services Inc. group which is listed on the US NASDAQ exchange (ticker: AFSI). AFSI is a multinational property and casualty insurer specializing in coverage for small businesses.

Solvency II

As a regulated insurance company, AEL is subject to the regulatory rules and principles adopted by the UK and the European Union, which came into effect on 1 January 2016. Solvency II is a regulatory regime which is designed to set an appropriate level of capital that appropriately reflects the specific risk profile of insurance companies within the regime.

As an insurance company, the biggest source of risk in AEL's business model relates to the uncertainty around forecasting what AEL's future claims might be for the insurance policies that it has underwritten. Some of these liabilities could be realised many years after the original policy incepted and the associated premium collected. Regulatory capital is designed to act as a buffer, which is to be held within the company's assets and liabilities, and provides a safety mechanism to protect policyholders should AEL incorrectly estimate its future liabilities, or if unforeseen stressed events occur which impact the markets in which AEL operates.

This report is a Solvency II requirement, which is designed to give AEL's external stakeholders (including policyholders) an insight into the solvency and financial condition of the Company. This is the first SFCR prepared by the Company. It is prepared on a solo entity basis and it covers the year ended 31st December 2016.

Material changes to AEL's business model

There have been no material changes during the year to the way that AEL conducts business in the lines of business that it operates in. However, the following significant events that occurred during the year have impacted AEL or are expected to impact AEL in the future:

- **Brexit** – the vote by the UK public to opt out of Europe will have a material impact on the way AEL operates with respect to its licenses, business mix allocation, and strategic focus in the future;
- **New Acquisition** - AEL acquired an insurance company in 2016 (Genworth Financial Mortgage Insurance Ltd.) which writes Mortgage Indemnity business; and
- **Intra-group reinsurance** – AEL has made changes to the structure of its internal quota share reinsurance programme within the wider AmTrust Group during the year.

Business performance

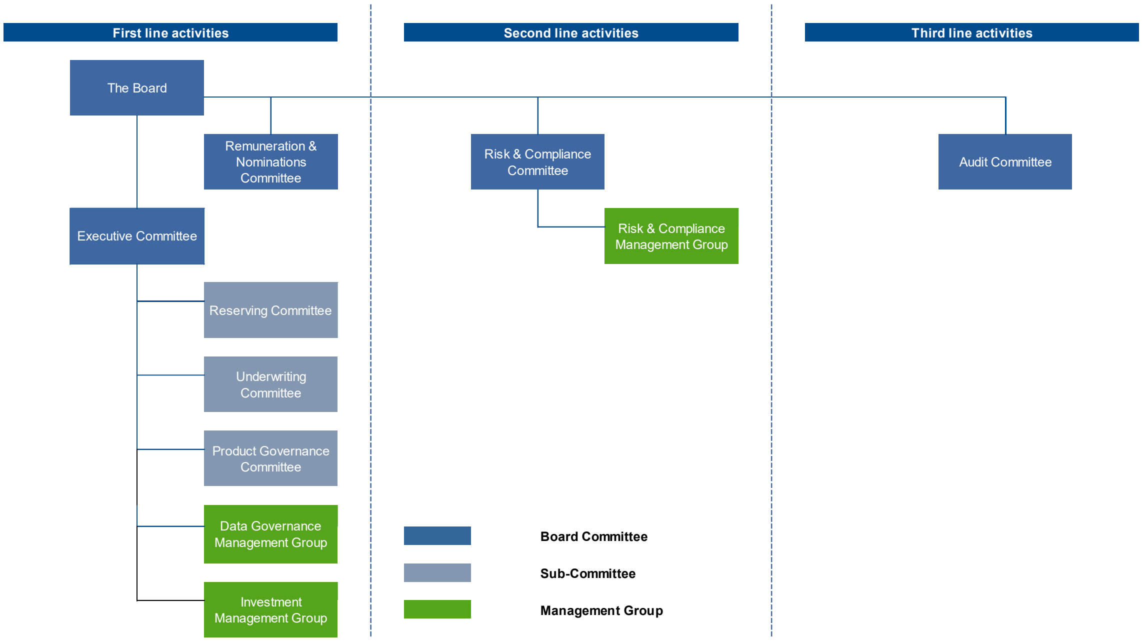
2016	Total £'000
Gross premiums written	495,792
Reinsurers' share	245,684
Net premiums written	**250,108**
Gross premiums earned	459,790
Reinsurers' share	255,352
Net premiums earned	**204,438**
Gross claims incurred	308,525
Reinsurers' share	227,320
Net claims incurred	**81,205**
Net operating expenses	**102,788**
Other expense	**1,653**
Net technical result	**18,792**

AEL performed well in 2016 against its gross written premium and profitability targets included within its business plan.

The main classes of business contributing to the profitability and revenue growth of the company were the Medical Malpractice account, the Legal Expenses account, and the Property account. Strong performance was also recorded in the Company's Professional Indemnity and Surety accounts.

AEL seeks to adopt clear risk appetites and underwriting disciplines in the lines of business that it participates in and employs experienced and professional underwriters that have a good track record of underwriting profitably throughout the insurance cycle.

Systems of Governance



AEL has developed a system of corporate governance to ensure that there is a clear process of decision making combined with accountability and transparency.

The Board bears the ultimate responsibility for setting and achieving AEL's strategy, and putting in place appropriate systems and infrastructures to manage the associated risk in its business model. In line with the established best practices within the Insurance market, AEL follows the "Three Lines of Defence" model of corporate governance.

The Company's key committees are depicted above within the three lines of defence model. Committees have clear lines of authority and responsibilities which are documented in formal Terms of Reference (TORs). Committee responsibilities are broadly split between those that support decision making (1st line) versus those that challenge and review the systems and controls that manage risk within AEL's business model (2nd and 3rd line).

Risk Profile

The Company calculates its required capital from a regulatory and from an internal economic capital perspective by reference to certain risk categories that it is exposed to within its business model. The main risks that AEL is exposed to are:

- Underwriting risk;
- Market risk; and
- Credit risk.

For each risk category, AEL has articulated how much risk it is willing and able to accept based on its strategic profile and capital position. AEL has put in place systems and controls to manage its risk profile within its risk appetite statements. The Company uses a suite of Key Risk Indicators (KRIs) to monitor its exposure to the various risks that it is exposed to, and these are evaluated each quarter by the Executive Committee and the Board Risk Committee.

Underwriting Risk

AEL's largest risk exposure is in respect of underwriting risk, which is broken down into two main components: premium risk and reserve risk. Premium risk is the risk that premiums are insufficient to cover the value of claims made; and reserve risk is the risk that on-going claims are settled at a higher value than previously expected. The majority of the Company's material underwriting risk exposure comes from the Italian Medical Malpractice account, which represented the largest class of business during 2016.

Market Risk

Market risk is the risk of loss of income or decrease in the value of assets caused by movements in the level and prices of financial instruments. Market risk includes factors such as equity values, property values, interest rates, foreign exchange and spread risk.

The Company's material exposures to market risk are: interest rate risk and spread risk on its bond portfolio; foreign exchange risk on its currency exposures; and equity risk on its strategic investments in subsidiaries.

Credit Risk

Credit risk is the potential loss arising principally from adverse changes in the financial condition of intermediaries who sell the Company's policies, the issuers of fixed maturity securities and the financial condition of third party reinsurers.

AEL is subject to material risk exposures with respect to its reinsurers, banks and bond counterparties. The Company is exposed to credit risk in relation to material accounts with Reinsurance counterparties: Maiden Insurance Company Limited and AmTrust International Insurance Limited (AII). These amounts are fully collateralised.

Other risks

AEL is also exposed to the following other risks:

- Liquidity risk;
- Operational risk; and
- Legal & regulatory risk.

Valuation for solvency purposes

As a general principle, AEL's assets and liabilities are valued differently when calculating its regulatory capital (SCR) under Solvency II and when preparing its annual accounts for filing at Companies House. The former applies the valuation rules from the Solvency II Directive, and the latter applies valuation rules under Generally Accepted Accounting Principles (GAAP) in the UK. AEL also contributes to consolidated accounts prepared by the ultimate parent company, AFSI. These accounts are prepared using accounting standards in the US (referred to as US GAAP).

The valuation rules from the Solvency II Directive use International Financial Reporting Standards (IFRS) as a starting position with various changes applied to move to an economic balance sheet position. UK GAAP is largely equivalent to the accounting principles applied under IFRS, although differences do exist. Further differences can also occur when comparing Solvency II and UK GAAP valuation approaches against US GAAP.

According to Article 75 of Directive 2009/138/EC an insurance entity shall value assets and liabilities as follows:

> *(a) assets shall be valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction; and*
> *(b) liabilities shall be valued at the amount for which they could be transferred, or settled, between knowledgeable willing parties in an arm's length transaction.*
>
> *When valuing liabilities under point (b), no adjustment to take account of the own credit standing of the insurance or reinsurance undertaking shall be made.*

AEL values its assets and liabilities in accordance with UK GAAP with adjustments made where this is not consistent with the requirements of the Solvency II Directive. The key differences are described below, and a full analysis of the valuation approaches used are included in Section D (Valuation for Solvency Purposes).

Holdings in related undertakings, including participations

AEL has investments in wholly owned subsidiaries which have been deemed to be strategic participations under the Solvency II guidelines. A strategic participation is defined as an equity investment which:

- is materially less volatile for the following 12 months than the value of other equities in the same period as a result of both the nature of the investment and the influence exercised by AEL;
- the nature is strategic, taking into account all relevant factors, including:
  - the existence of a clear decisive strategy to continue holding the investment for a long period;
  - the consistency of the strategy referred to above with the main policies guiding or limiting the actions of the undertaking;
  - the ability to continue holding the participation;
  - the existence of a durable link; and
  - the consistency of the strategy of the investment with that of the group.

As none of the subsidiaries is listed, they are valued on the adjusted equity method.

The adjusted equity method means using the excess of assets over liabilities using Solvency II valuation principles.

These valuation methods are a departure from the approach used under UK GAAP and therefore an adjustment is made to arrive at the Solvency II balance sheet.

Receivables and payables

Under UK GAAP receivables and payables are valued at amortised cost. The same valuation approach has been adopted for the purpose of the Solvency II balance sheet which is not believed to be materially different to the Solvency II valuation principal. All receivables and payables are believed to be repayable on demand and therefore the impact of any amortisation is not material.

Receivables which are not yet due are reclassified and dealt with as part of the technical provisions, described below.

There are a number of other reclassifications made between the UK GAAP balance sheet and the Solvency II balance sheet. These are purely descriptive in nature.

Technical Provisions

Technical provisions (TPs) represent a valuation of the Company's obligations towards policyholders. The value of technical provisions corresponds to the theoretical amount that the Company would have to pay if it were to transfer its insurance obligations immediately to another insurance company. The following table shows a summary of AEL's total Technical Provisions (TPs) as of Q4 2016.

Class	Gross of reinsurance (£000)	Recoverable from reinsurance (£000)	Net of reinsurance (£000)	Risk Margin (£000)	Total Technical Provisions (£000)
Assistance	3,371	3,554	(183)	(41)	(224)
Credit & suretyship	8,991	4,352	4,639	1,028	5,667
Fire & other damage to property	15,421	10,408	5,013	1,111	6,124
Legal expenses	10,128	13,913	(3,785)	(839)	(4,624)
Medical expense	4,172	3,266	906	201	1,107
Miscellaneous financial loss	140,537	91,957	48,580	10,767	59,347
Other motor	2,993	2,231	762	169	931
Motor vehicle liability	9,362	6,201	3,161	701	3,862
General liability	683,339	549,317	134,022	29,705	163,727
Total	**878,314**	**685,199**	**193,115**	**42,802**	**235,917**

AEL's GAAP reserving policy requires the Actuarial Function to calculate ultimate loss ratios with no margins for prudence or optimism. An explicit margin is added based on the reserving committee recommendations. Solvency II technical provisions are evaluated on a best estimate cash flow basis with items such as unearned premium reserves removed. To convert AEL's Technical Provisions from a GAAP basis to a Solvency II basis, the following key adjustments are made:

1. Removal of any margins in the GAAP reserves (including the equalisation reserve).
2. Recognition of profit in the Unearned Premium Reserve.
3. Recognition of profits in business written prior to, but incepting after, the valuation date.
4. Allowance for future premiums.
5. Allowance for "Events Not In Data" (ENID).
6. Allowance for expenses required to service the run-off of the technical provisions.
7. Allowance for non-recoverable reinsurance.
8. Allowance for the future cost of reinsurance in respect of written business.
9. Allowance for the impact of policies lapsing.
10. Allowance for future investment income (discounting).
11. Allowance for a risk margin.

These adjustments are explained in further detail in Section D (Valuation for Solvency Purposes).

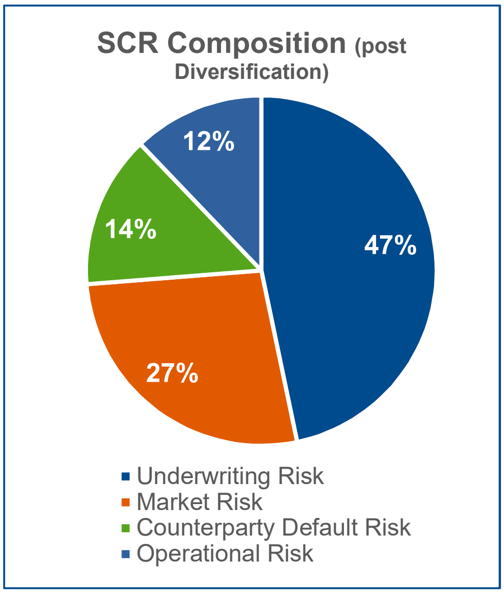
Capital Management

AEL uses an external system, VEGA, provided by Milliman to calculate its Solvency Capital Requirement (SCR) using the Standard Formula and its Minimum Capital Requirement (MCR). The Company does not use any Undertaking Specific Parameters (USPs) allowed under Solvency II, nor does it use simplified calculations for any of the risk modules.

Capital Requirements 31 Dec 2016	£000	Coverage
Own funds (Tier 1)	**295,905**	
SCR	**217,087**	**136%**
MCR	**54,272**	**535%**

AEL's SCR split by risk module as of December 31st 2016 is shown in the table below.

Solvency Capital Requirement	£000
Health NSLT underwriting risk	995
Non-Life underwriting risk	130,991
Market risk	76,380
Counterparty default risk	39,838
Undiversified Basic SCR	**248,204**
Diversification credit	(57,466)
Basic SCR	**190,738**
Operational risk	26,349
Standard formula SCR	**217,087**



Directors' statement in respect of the SFCR

We acknowledge our responsibility for preparing the SFCR in all material respects in accordance with the PRA rules and the Solvency II Regulations.

We are satisfied that:

- Throughout the financial year in question, the insurer has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable to the insurer; and
- It is reasonable to believe that the insurer has continued so to comply subsequently and will continue so to comply in the future.

Approved on behalf of the board by:

S Takhar (Director)

22 May 2017

Report of the external independent auditor to the Directors of AmTrust 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 AmTrust Europe Limited as at 31 December 2016:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of AmTrust 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; and
- The written acknowledgement by the Directors of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('the 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.

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 AmTrust 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.

Emphasis of Matter - Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' and other relevant disclosures 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 AmTrust 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

22 May 2017

The maintenance and integrity of AmTrust International'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.

Appendix to the report of the independent auditor – 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'

A. Business and Performance

A.1 Business

A.1.1 Name and legal form of undertaking

AmTrust Europe Limited (AEL or "the Company") is a company limited by shares (Company Number 01229676).

The Company's registered address is as follows:

AmTrust Europe Limited (AEL)
10th Floor, Market Square House,
St James's Street,
Nottingham,
NG1 6FG

A.1.2 Supervisory authority

AEL is regulated by the Prudential Regulatory Authority (PRA). The Prudential Regulation Authority (PRA) was created as a part of the Bank of England by the Financial Services Act (2012) and is responsible for the prudential regulation and supervision of around 1,700 banks, building societies, credit unions, insurers and major investment firms. The PRA's objectives are set out in the Financial Services and Markets Act 2000 (FSMA).

The PRA's registered address is as follows:

Prudential Regulation Authority,
Bank of England,
Threadneedle St,
London,
EC2R 8AH
Tel 020 7061 4878
enquiries@bankofengland.co.uk

AEL belongs to the AmTrust International Ltd (AIL) group of companies. The Group is also supervised by the PRA.

AEL is also regulated by the Financial Conduct Authority (FCA).

The FCA's registered address is as follows:

Financial Conduct Authority,
25 The North Colonnade,
London, E14 5HS

A.1.3 External auditor

AEL, together with the wider AmTrust Group, is audited by KPMG LLP. KPMG's UK office is located at:

KPMG LLP,
15 Canada Square,
London,
E14 5GL
Tel 020 7311 1000

A.1.4 Shareholders of qualifying holding in the undertaking

AEL is a wholly owned subsidiary of AmTrust International Limited (AIL or the Group) which is a UK Limited Company. AEL's ultimate parent is AmTrust Financial Services Inc (AFSI), a Delaware registered US corporation.

AFSI underwrites and provides property and casualty insurance products, in the United States and internationally to niche customer groups that it believes are generally underserved within the broader insurance market.

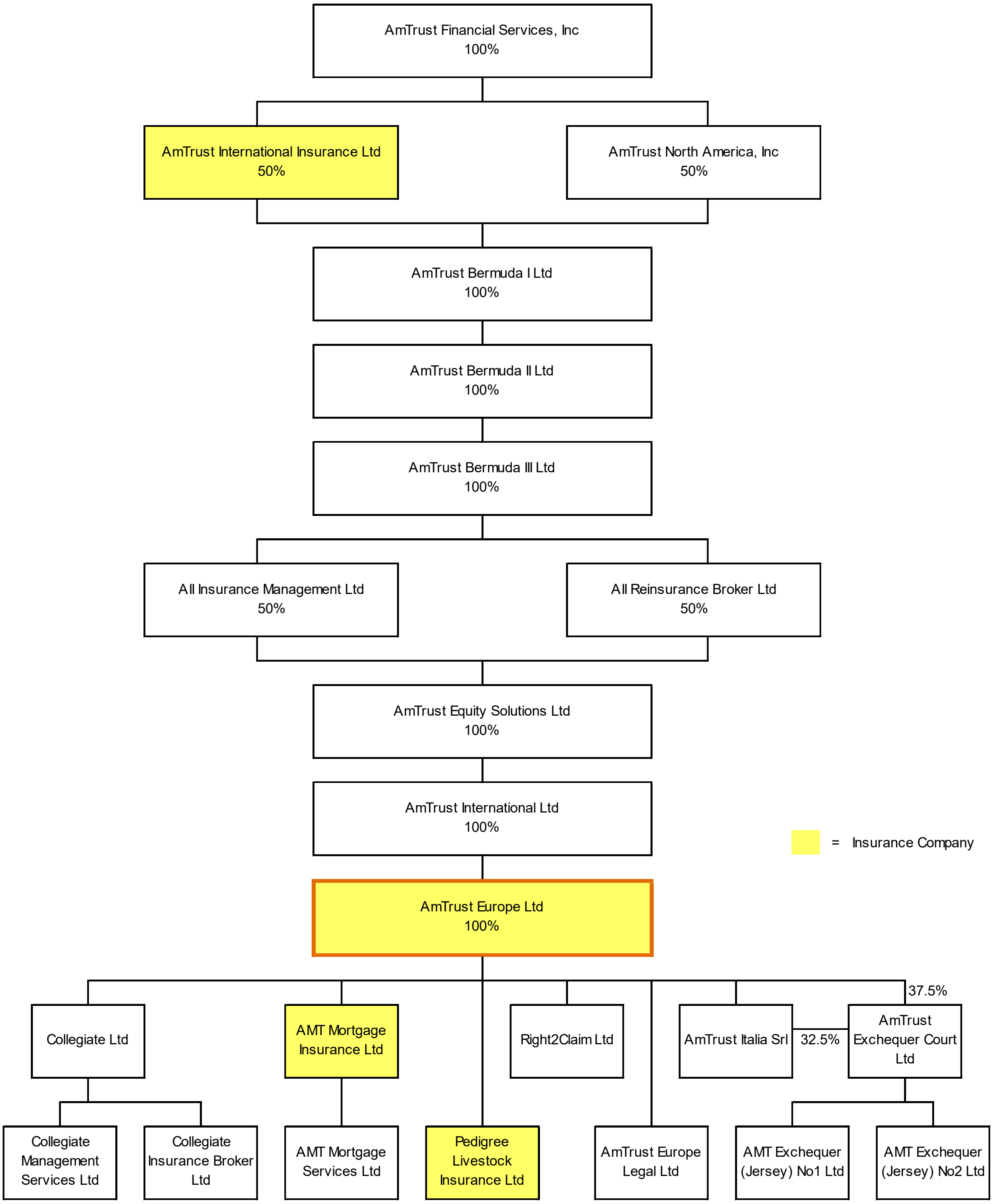
As a subsidiary of AmTrust Financial Services Inc. (NASDAQ Global Market: AFSI) the Company benefits from financial, operational and management support. AFSI is a multinational property and casualty insurer specialising in small to medium sized businesses. With extensive underwriting experience and a prestigious “A” (Excellent) Financial Size “XV” rating from A.M. Best, AFSI has earned a reputation as an innovative, technology driven provider of insurance products. Commitment to excellence is a common thread connecting each of the AmTrust companies.

AFSI’s business model focuses on achieving targeted returns and profit growth with the careful management of risk. The Global Group pursues these goals through geographic and product diversification, as well as an in-depth understanding of its insured exposure. The product mix includes, primarily: workers' compensation; extended warranty; and other commercial property/casualty insurance products, including title insurance and crop insurance. Workers' compensation and property/casualty insurance policyholders in the United States are generally small and middle market businesses. Extended warranty customers are manufacturers, distributors and retailers of commercial and consumer products. AmTrust has also built a strong and growing distribution of extended warranty and specialty risk products, including liability and other property/casualty products, in Europe.

AIL is the UK holding company for AFSI’s European Insurance Operations, whose principal entities are: AEL, UK; Car Care Plan Holdings, including Motors Insurance Company Ltd. (MICL), UK; AmTrust Syndicate Holdings Ltd. (ASH), UK; and AMT Mortgage Insurance Ltd (AMIL, previously “Genworth Financial Mortgage Insurance Ltd.”), UK. AIL also owns a number of administrators worldwide.

A.1.5 Position within the legal structure of the group

The following simplified group structure chart shows where AEL sits within the wider AFSI group.



A.1.6 Material lines of business and material geographical areas where AEL carries out business

The principal activity of the Company is the underwriting of general insurance business in the United Kingdom and other European countries. The Company's core product lines are medical malpractice, legal expenses, property, casualty, surety, warranty, and accident & health.

A.1.7 Material events

The following material events impacted the Company during the year:

- **Acquisition of Genworth** - in May 2016 the Company completed the acquisition of Genworth Financial Mortgage Insurance Ltd. (now AMT Mortgage Insurance Ltd or AMIL) from Genworth Financial, Inc., for approximately £38 million in cash. At that time, AMIL's tangible book value was approximately £104 million. Based in the U.K., AMIL is a well-known organisation in the European mortgage insurance market, currently providing products in the U.K., Finland, Italy and Germany.
- **Brexit vote** - On 23 June 2016, the United Kingdom voted to leave the European Union. The Company expects the Solvency II requirements to remain, both in the short term during the negotiations of the UK's exit and in the long term, through the granting of formal equivalence status, i.e. legislation passed to make solvency regulations in the UK equivalent to Solvency II. The Company, together with the AIL Group, have been looking at possible ways of minimising the impact of the Brexit vote to its clients, operations, and business opportunities by reviewing various strategic options, including transferring UK/ European business across AmTrust's European insurance carriers.
- **Changes to Intra-group reinsurance** – AEL has benefitted from a whole account quota share reinsurance programme with a group reinsurance company based in Bermuda. This type of insurance has been typical in the insurance industry as a mechanism for multinational insurance groups to achieve tax and capital efficiencies, thus providing the Group's domestic insurance carriers (such as AEL in the UK) capacity to provide more insurance at a cheaper cost. As a result of regulatory requirements, AEL has committed to reduce its Quota Share reinsurance to AmTrust International Insurance (AII) from 70% to 20% over a three-year period, with a phased reduction to 60% which started from 1 July 2016.

A.2 Underwriting Performance

A.2.1 Material lines of business

2016	General liability	Miscellaneous financial loss	Legal expenses	Fire and other damage to property	Other SII classes (non-material)	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Gross premiums written	241,177	110,340	65,865	27,552	50,858	495,792
Reinsurers' share	118,004	54,271	34,594	13,682	25,133	245,684
Net premiums written	**123,173**	**56,069**	**31,271**	**13,870**	**25,725**	**250,108**
Gross premiums earned	253,968	66,807	60,633	28,499	49,883	459,790
Reinsurers' share	147,508	35,569	31,969	14,802	25,504	255,352
Net premiums earned	**106,460**	**31,238**	**28,664**	**13,697**	**24,379**	**204,438**
Gross claims incurred	172,359	48,803	44,914	10,130	32,319	308,525
Reinsurers' share	133,979	33,744	31,021	6,922	21,654	227,320
Net claims incurred	**38,380**	**15,059**	**13,893**	**3,208**	**10,665**	**81,205**
Net operating expenses	**48,946**	**14,581**	**13,671**	**10,363**	**15,227**	**102,788**
Other expense						**1,653**
Net technical result						**18,792**

A.2.1.1 General liability

A.2.1.1.1 Medical malpractice

The Company entered the Italian medical malpractice market in December 2009 as the market was hardening. The Company developed a strong on-the-ground presence in Italy via a dedicated branch infrastructure. Both the operational and technical infrastructure in the branch was further strengthened during 2016.

Performance in 2016 was broadly in line with expectations. The Company continued to hold a strong position in the market place, with the predominance of the portfolio being renewals. This enables the Company to experience rate and maintain a philosophy of rate strength over volume. Claims strategy remains to evaluate liability and quantum, and to close claims expediently to avoid litigation.

The Company remains confident that with solid and consistent underwriting, backed up by actuarial rigour and professional claims handling, attractive profitability should continue to be achieved.

A.2.1.1.2 Casualty

The Company's professional indemnity line of business experienced consistent favourable development in 2016 resulting in improvements to actuarial best estimates. The account continues to be reserved at prudent levels albeit there was some release of redundant reserves in the year resulting in a better than anticipated underwriting result.

The strategy is to focus upon smaller firms and to underwrite on a primary basis. Underwriting volatility is mitigated by reinsurance protection, however, lower reinsurance costs provide for a more positive outlook. The finalisation of a strategic acquisition of a UK coverholder in the latter part of 2016 will be the platform for growth in 2017.

During 2016 the Company's liability account has experienced some modest back year deterioration. More current underwriting years are broadly in line with expectations. The focus for this line of business continues to be on small contracting trades with relatively low limits of indemnity which has had the impact of reducing reinsurance costs and providing a beneficial impact on combined operating ratios. Market conditions remain soft with the Company continuing to seek business openings in non-standard niche areas.

A.2.1.2 Miscellaneous financial loss

A.2.1.2.1 Specialty risks

The main lines of business within this class are warranty and structural defects. The Company's warranty line of business has experienced premium growth in the year as new opportunities in Europe and Asia have crystallised. Performance in this class was a little adverse to plan due to one specific poor performing account. Remedial action has been taken to address this providing for a more positive outlook in 2017. International expansion in this area presents the largest opportunity for the Company with South East Asia continuing to be an exciting prospect.

For the Company's structural defects account the focus continues to be established and experienced builders who can build high quality buildings. The account has performed in line with expectations in relation to claims experience. Premium growth has been strong in 2016 particularly in the UK where the demand for housing is high.

A.2.1.3 Legal expenses

The Commercial legal expenses line of business has been impacted by the implementation of the Legal Aid, Sentencing and Punishment of Offenders (LASPO) reforms. The focus in 2016 continued to be on the funding market where there are strong opportunities for insurance cover on capital investment. Additionally, overseas markets and in particular the Australian and Canadian markets experienced positive growth. Third party litigation funders have continued to raise more capital for cases both in the UK and overseas. This will be a key market for growth in 2017.

Trading conditions for personal injury ATE remained challenging in 2016. A number of factors, including a changing mix of business away from the typical Road Traffic Accident ("RTA") type cover, increases in cancellation rates and attritional claims development on historical years has resulted in some modest increases in ultimate loss ratios in 2016. The focus for 2017 and beyond will be to tailor the product offering to the requirements of individual law firms in order to improve competitive advantage. As an 'A' rated insurer the Company is well positioned to take advantage of the specialist broker market for this product, and for 2017 the intention is to increase the level of business written through intermediaries who are entirely self-sufficient in respect of policy distribution and management.

Personal and Commercial BTE legal expenses was a growth area in 2016 meaning the Company is now one of the leading BTE providers in the UK. In 2017 the Company will build on the successes of 2016 by targeting affinity group relationships serving to mitigate the risk of anti-selection.

A.2.1.4 Fire and other damage to property

Performance in 2016 has been strong despite some modest reductions in premium volume. Performance was supported by relatively benign weather conditions in 2016. Residential let property and the Company's caravan lines of business have experienced particular favourable development.

Looking forward into 2017 the market is expected to be increasingly competitive. The main underwriting focus going forwards is to further develop the post code rating model seeking to increase the footprint of risk selection within the UK.

For commercial property the Company is still building a preferred panel of brokers in order to reach an optimum level of business and this will continue into 2017.

A.2.1.5 Other

A.2.1.5.1 Accident and health

At the start of 2016 the decision was taken to withdraw from the UK Travel market due to continued losses on the portfolio from business written in the 2014 and 2015 underwriting years. All schemes except one niche profitable programme are now in run off.

The focus in 2016 has been to replace the lost Travel business with profitable A&H business. New private health (PMI), PA and Dental has been written in the UK. At the same time, attention has been on delivering improved underwriting performance from existing UK schemes.

European prospects are more positive and are supported by a dedicated in-house team. Areas such as health, dental and PA have had a positive year with significant premiums being written at profitable and stable loss ratios. Growth in the account is targeted to come from these products, as well as the addition of new PA and health schemes.

Business volumes in 2017 are expected to increase further as the strong showing of pipeline opportunities is realised.

A.2.1.5.2 Surety

The group's wholly owned managing agent in Spain and the business emanating therefrom has continued to perform well. Improved trading conditions in this region have resulted in slightly higher premium volumes than expected. In line with the Company's risk appetite both quota share and excess of loss reinsurance is utilised to protect the account. The account is overseen by a professional team including lawyers, economists and accountants. Some small claims development was seen in 2016 but this was in line with expectations. During 2016 and continuing in 2017 geographical expansion into South America was a key focus and this will continue into 2017.

A.2.2 Material geographic areas

Performance in the top 6 countries in which AEL operates is summarised in the table below.

2016	United Kingdom	Italy	Norway	France	Greece	Sweden	Other SII classes (non-material)	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross premiums written	175,289	205,770	25,748	17,994	17,075	15,902	38,014	495,792
Reinsurers' share	87,199	99,714	12,776	9,198	6,686	9,120	20,991	245,684
Net premiums written	**88,090**	**106,056**	**12,972**	**8,796**	**10,389**	**6,782**	**17,023**	**250,108**
Gross premiums earned	162,432	210,507	17,359	15,405	17,100	5,400	31,588	459,791
Reinsurers' share	87,219	123,875	9,135	8,429	6,908	4,250	15,537	255,353
Net premiums earned	**75,213**	**86,632**	**8,224**	**6,976**	**10,192**	**1,150**	**16,051**	**204,438**
Gross claims incurred	107,107	147,068	12,008	10,580	10,120	4,853	16,789	308,525
Reinsurers' share	75,910	116,303	8,305	6,611	6,801	3,378	10,012	227,320
Net claims incurred	**31,197**	**30,765**	**3,703**	**3,969**	**3,319**	**1,475**	**6,777**	**81,205**
Net operating expenses	**40,931**	**38,496**	**4,064**	**3,733**	**7,418**	**1,236**	**6,910**	**102,788**
Other expense								**1,653**
Net technical result								**18,792**

A.3 Investment Performance

The Company invests in Corporate and Government bonds, Property and a number of subsidiaries and Associates.

The management of the bond portfolio is outsourced to another company within the group, which has a dedicated team of investment managers. A set of investment management guidelines has been drawn up, adherence to which is monitored by the Investment Management committee and the Audit Committee. Income and expenses during the year are shown in the table below.

The property investment is a building in Nottingham which the Company occupies and rents out certain parts to other local businesses.

The Company's material subsidiaries are AMT Mortgage Insurance Ltd (AMIL, formerly Genworth Financial Mortgage Insurance Ltd) and AmTrust Italia Srl. AMIL is a regulated insurance company. AmTrust Italia carries out business in Italy in connection with AmTrust's Medical Malpractice insurance business.

2016	Corporate and Government Bonds	Property	Investment in subsidiaries
	£'000	£'000	£'000
Income from other investments	6,141	759	324
Unrealised (loss)/gain on investments	9,789	60	27,933
Investment management expenses	(619)	(560)	0
Realised gain/(loss) on sale of investments	828	0	0
Interest Paid	(48)	(263)	0
	16,091	(4)	28,257

A.4 Performance of other activities

The Company did not undertake any other activities during the year.

A.5 Any other information

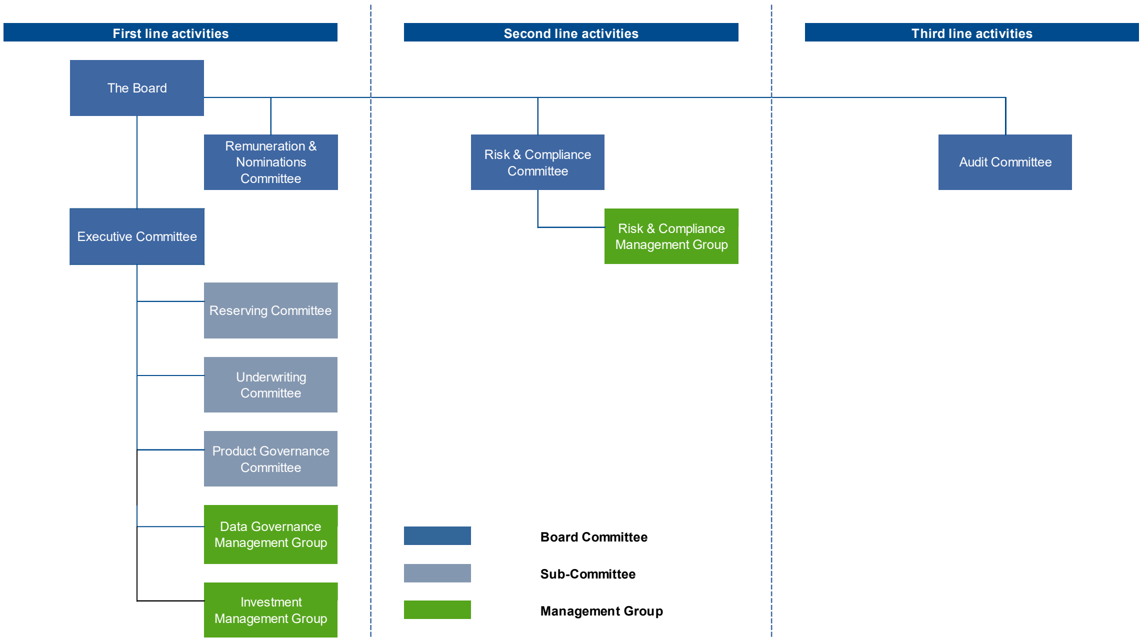
None noted.

B. System of Governance

B.1 General information on the system of governance

B.1.1 The Board and System of Governance

The Board and its sub-committees are shown in the diagram below.



The Company follows the "Three Lines of Defence" model of corporate governance. In summary, the key differences between the lines of defence are as follows:

- **First Line of Defence** – the primary risk taking and decision making activities take place here. It represents the bulk of the Company's people, systems and controls that are integral to achieving the Company's strategy;
- **Second Line of Defence** - responsible for reviewing risks across the first line. No risk taking activities take place here. Key control functions such as Risk Management and Compliance reside here.
- **Third Line of Defence** – the first and second lines together form the Company's system of governance and internal control. The Third Line is independent of first and second lines, and its primary objective is to provide assurance on the operation of the Company's governance and internal control systems. The Company has an independent Internal Audit function which resides here.

The AEL Board is collectively responsible for the long-term success of the Company and for compliance with all laws and regulations. Its role is to provide entrepreneurial leadership of the Company within a framework of prudent and effective controls which enables risk to be assessed and managed. The principal focus of the AEL Board is on the overall policies, strategic plans, performance, annual budget, investment budgets, larger capital expenditure proposals and the Company's overall system of internal controls, governance and compliance. The Board develops and promotes its collective vision of the Company's purpose, its culture, its values and the behaviour it wishes to promote in conducting its business.

As of the date of this report, the Board of Directors consisted of 10 members, including the Chairman of the Board as follows:

Board Member	Board Balance	Key Role
Chairman of The Board	Independent	Chairing the Board
Independent Non-Executive Director (INED)	Independent	Chairing the Audit Committee
Independent Non-Executive Director (INED)	Independent	Chairing the Remuneration & Nomination Committee
Non-Executive Director (NED)	Group Role	Shareholder Representative
Non-Executive Director (NED)	Group Role	Shareholder Representative
Chief Executive Officer (CEO)	Executive	Day to day running of the Company
Chief Finance Officer (CFO)	Executive	Finance & Capital Management
Chief Underwriting Officer (CUO)	Executive	Underwriting
Chief Operating Officer (COO)	Executive	Operational infrastructure
Chief Risk Officer (CRO)	Executive	Monitoring Risk Profile against appetite

B.1.1.1 First Line Committees

B.1.1.1.1 Remuneration and Nomination Committee

The key purpose of the Committee is to approve the Company's pay review quota, performance review arrangements, including criteria for any performance related pay elements, as well as to lead the process for board appointments and make recommendations to the Board.

The Committee consists of 3 members, one of whom is the Chairman of the Committee and is an independent Non-Executive Director (INED). The other 2 members of the Committee comprise of a Non-Executive Director (NED) and the Chief Executive Director (CEO).

The Chairman is responsible for overseeing the performance of the remuneration committee; and the oversight of the development and implementation of the firm's remuneration policies and practices.

The Committee reports on executive compensation; reviews successions and leadership plans for all Executive Management; sets remuneration and compensation policies, and proposes compensation arrangements for Executive Management and the Chief Executive Officer for Board approval.

The Remuneration Committee is responsible for the oversight of the Company's Remuneration Policy as implemented by senior management, and is authorised to review and approve the remuneration plans and programmes that fall within the Remuneration Policy. It is authorised to review and approve all payments and awards pursuant to the remuneration plans at either an aggregate or individual employee level as designated by the Remuneration Policy and the Remuneration Committee's Terms of Reference.

B.1.1.1.2 Executive Committee

The key purpose of the Committee is to support the Chief Executive Officer in delivering the Company's strategic goals and objectives. The key responsibilities of the Committee are to develop and implement the strategy, operational plans, policies, procedures and budgets, as well as to assess and monitor operational and financial performance and control risks, and to advise on prioritizations and allocation of resources.

The Committee is made up of the five Executive members of the Board as shown above.

B.1.1.1.3 Executive Committee Sub-Committees

B.1.1.1.3.1 Reserving Committee

Setting adequate reserves for policies underwritten represents the largest risk to an insurance company. The key purpose of the Committee is to ensure appropriate reserving processes are in place at the Company and that the level of reserves booked by the Company are reasonable. The key responsibilities of the Committee are to present, discuss and review of the appropriateness of assumptions of reserving performance and positons and make reports and recommendations to the Executive Committee.

The Company maintains an Actuarial Function that projects an independent actuarial estimate of the reserves for each class of business. These are presented at the Reserving Committee to challenge management's view of the reserves. The discussions and challenges around the reserve setting process are formally minuted.

The Reserving Committee consists of 4 members, who are the Chief Finance Officer (CFO); the Chief Operating Officer (COO), the Chief Risk Officer (CRO), and the Chief Underwriting Officer (CUO).

B.1.1.1.3.2 Underwriting Committee

The key purpose of the Committee is to monitor and manage performance, against the business plan and the associated insurance risk, including reinsurance composition. The key responsibilities of the Committee are to review the Company's underwriting policies, guidelines, authorities, processes and procedures to meet its underwriting risk appetite; advise and monitor on insurance and reinsurance risk profile and exposures; review pricing adequacy and underwriting performance; and assess the Company's underwriting opportunities within its chosen markets.

The Underwriting Committee consists of 7 members, including the Chief Underwriting Officer (CUO), the Chief Finance Officer (CFO), the Chief Operating Officer (COO), the Chief Risk Officer (CRO), the Chief Actuary, the Head of Professional Indemnity Underwriting and the Chief Underwriting Officer – Med Mal (CUO).

B.1.1.1.3.3 Product Governance Committee

The key purpose of the Committee is to monitor Conduct Risk, including the Company's Product Governance Framework and to ensure that it is treating customers fairly. The key responsibilities of the Committee are to review any "High" Treating Customers Fairly (TCF) risks and to review the Product Governance Control Framework and monitoring procedures relating to incepted and renewed risks.

The Committee consists of 4 members, including the Chief Operating Officer (COO), the Compliance Manager, the Chief Underwriting Officer (CUO), and the Chief Risk Officer (CRO).

B.1.1.1.3.4 Data Governance Management Committee

The key responsibilities and duties of the Committee is to implement and maintain an effective data governance framework, that ensures data received, used, and provided externally of a quality necessary to inform objective decision-making and to meet the relevant regulatory requirements.

The Committee consists of 7 members, including the Chief Operating Officer (COO), the Risk Manager, the Finance Director, the Pricing Actuary, the Broker Services Manager, the Head of IT, and the Head of Business Analysis.

B.1.1.1.3.5 Investment Management Committee

The key responsibilities and duties of the Committee are to monitor investment risk and associated credit and liquidity risk.

The Committee consists of 3 members including the Chief Finance Officer (CFO), the Financial Director and the Financial Controller.

B.1.1.2 Second Line Committees

B.1.1.2.1 The Risk & Compliance Committee

The key purpose of the Committee is to oversee all aspects of AEL's risk management and to support the Board in the implementation of a robust risk management framework, including identifying, monitoring and managing risks to assist the Board in the delivery of the strategic objectives and business plans. The key responsibilities and duties of the Committee are to advise the Board on the risk strategy, including risk appetite and tolerance levels, for ensuring that the risk management framework is appropriate and adequately resourced.

The Committee consists of 2 members, including the Chairman of the Board and one other independent Non-Executive Director.

B.1.1.2.2 The Risk & Compliance Management Committee

The Risk and Compliance Committee is supported by the Risk & Compliance Management Committee. The purpose of the group is to oversees all aspects of risk management and compliance. The key responsibilities and duties of the Group is to support the Board in the implementation of a robust risk management framework, including identifying, monitoring and managing risks to assist the Board in the delivery of the strategic objectives and business plans.

The Committee consists of 5 members, including the Chief Risk Officer (CRO), the Chief Operating Officer (COO), the Chief Underwriting Officer (CUO), the Chief Finance Officer (CFO), and the Compliance Manager.

B.1.1.3 Third Line Committee

B.1.1.3.1 Audit Committee

The key purpose of the Committee is to provide independent assurance on the design and effectiveness of the overall system of internal control, including risk management and compliance.

The key responsibilities of the Committee are to monitor the financial reporting process; to inform the Board of the outcome of the statutory audit; to make a recommendation for the appointment of the audit firm; and to review the appropriateness of the Company's Internal Audit Function, internal data, systems, controls, and risk management as related to financial reporting.

The Committee consists of 3 independent Non-Executive Directors of the Board.

B.1.2 Changes in the System of Governance

In recognition of the growth and development of AEL, as well as in response to a higher level of regulatory oversight, a number of changes were made to the Company's governance structures during 2016. These included the following, which have all been reflected in the commentary above:

- Appointment of a new CEO;
- Creation of a new COO position;
- Appointment of a new Chief Underwriting Officer onto the Board;
- Appointment of a new CRO onto the Board;
- Appointment of a new Independent Non-Executive Director, with significant underwriting experience within the London Market;
- Creation of three new Committees within the AEL Governance Structure:
    - Risk & Compliance Management Committee;
    - Data Governance Management Committee;
    - Remuneration Committee; and
- Revised Committee membership in light of the senior management changes.

In addition to these developments during the year, the following changes were still in progress at the year end, but were finalised in early 2017:

- Appointment of a new Independent Chairman of the Board; and
- Appointment of an additional Independent Non-Executive Director with significant financial experience.

These changes significantly strengthened AEL's oversight and management framework resulting in further improvements to the management of risk.

B.1.3 Remuneration Policy

The Remuneration Committee reports to and has delegated authority from the Board to ensure that the Company has a business-appropriate and Board-approved, Remuneration Policy, that is compliant with applicable regulations. The Remuneration Committee is responsible for the oversight of its implementation by the management of the Company and is authorised to review and approve the remuneration plans and programmes that fall within the Remuneration Policy. It is authorised to review and approve all payments and awards pursuant to the remuneration plans at either an aggregate or individual employee level as designated by the Remuneration Policy and the Remuneration Committee's Terms of Reference.

The Remuneration Policy describes the overarching principles and framework for the employees that fall within the scope of the Remuneration Policy. The Remuneration Policy is designed to support the appropriate management of employee compensation and act as reference for the Remuneration Committee, Board and Management when making decisions on pay. The Remuneration Policy and the associated remuneration plans and programmes that fall within the framework will be reviewed and amended as required to ensure that they remain fit for purpose in terms of business strategy and applicable regulations.

B.1.3.1 Key Principles

- Provide market competitive pay, typically aimed at market median for the business sector, role and location of the relevant employees; Individual pay rates may fall above or below market median based upon experience, tenure and performance in role as well as the market supply and demand for a particular skill set.
- Enable the Company to attract and retain the right talent for the business at a business appropriate and sustainable cost.
- Provide market appropriate pay structures which includes a role appropriate level of variable pay in line with market norms and an appropriate benefits programme.
- Ensure that pay programmes are aligned to the Company's business strategy, risk appetite statements, codes of conduct and applicable regulations and reward only appropriate behaviour. Ensure that both short and long term performance is taken into consideration as appropriate.
- Ensure the appropriate governance and independence as it relates to pay decisions and the appropriate scrutiny as it relates to key employees including those designated as Solvency II employees.

B.1.3.2 Variable Pay

- Variable pay and the associated programmes and awards are structured according to the nature of the role and its position within the business.
- Fixed and variable pay are broadly aligned to market norms, with a sufficiently high proportion of pay delivered in fixed form to be competitive with market median levels and appropriate on a role-by-role basis.
- The proportion of pay delivered through variable remuneration generally increases with seniority within the organisation. This reflects the increased ability to impact the success of the organisation with increased seniority, and is in line with general market practice.
- Variable pay awards are designed to take into consideration both individual and company performance as appropriate for the role. Individual performance is assessed based upon performance against objectives (financial and non-financial) and also in line with the Company's competency framework. Company performance is aligned to agreed financial metrics.
- All variable pay programmes allow for no awards to be made based upon either individual and / or company performance.
- All programmes allow flexibility and discretion which permit the Board, Remuneration Committee and management to ensure appropriate awards are made in all circumstances.
- To ensure that the Company's senior employees (including the Company's Solvency II Employees) are aligned not only to the annual goals of the Company but equally as importantly, the long term success of the business and group, a substantial portion (50%) of any variable

pay award in excess of a set threshold, is in the form of Restricted Stock Unit (RSU) awards which vest in equal amounts over a four year vesting period following grant.

- To ensure alignment to risk and performance of the business, provisions exist so that Remuneration Committee has the ability not to permit vesting of some or all of a tranche of the award.

B.1.3.3 Supplementary pension scheme for Board members

Board members who are also employees of the Company, that is all except Independent Non-Executives, are entitled to join a workplace pension scheme. The Company does not provide any supplementary pension to its Independent Non-Executives.

The Company provides a workplace pension scheme where all eligible members are automatically enrolled into the scheme and non-eligible or entitled workers can opt in to join the scheme. The pension scheme is a Group Flexible Retirement Plan which is designed to give members flexible ways to save for retirement. Both the employer and employee pay in a contribution which at the least meet the minimum legislative amount. The scheme has a default fund set up so members funds will automatically be invested in the default fund unless they actively choose their own investment funds.

B.1.4 Material transactions with shareholders, persons with significant influence and Board members

AEL has had no material transactions with persons with significant influence nor members of Board during the reporting period.

AEL has a quota share agreement with AmTrust International Insurance Ltd (Bermuda), which is an indirect shareholder in AEL. The Company also loaned £18.6m to its immediate parent company, AIL, during the year.

B.1.5 Adequacy of the system of governance

The Board is satisfied that the system of governance of the Company is adequate to the nature, scale and complexity of the risks inherent in its business.

B.2 Fit and Proper Requirements

The PRA and FCA expect that individuals performing Senior Insurance Management Function (SIMF) or Controlled Function (CF) roles remain fit and proper to undertake the role. AEL has a Fit and Proper Policy in place that outlines the various checks at recruitment and throughout employment. In particular, when deciding whether a person is fit and proper, AEL satisfies itself that the individual:

- has the personal characteristics (including being of good repute and integrity);
- possesses the level of competence, knowledge and experience;
- has the qualifications to undertake the role; and
- has undergone or is undergoing all training required to enable such person to perform his or her key function effectively and in accordance with any relevant regulatory requirements, including those under the regulatory system, and to enable sound and prudent management of AEL.

When deciding whether the Board is fit and proper, the Company seeks to ensure that the Directors collectively possess appropriate qualifications, experience and knowledge about at least:

- insurance and financial markets;
- business strategy and business model;
- systems of governance;
- financial and actuarial analysis; and
- regulatory framework and requirements.

Fitness and propriety is checked at recruitment stage through appropriate due diligence and challenge of an individual's CV. Appropriate financial and criminal checks are carried out prior to recruitment of an individual and probation periods are set commensurate with the role. Ongoing assessment of fitness and propriety of all employees is assessed through the annual appraisal process. Performance of the Board is also assessed annually through the Board performance review process.

B.3 Risk management system including the own risk solvency assessment

B.3.1 Risk Management Strategy

The Board is ultimately responsible for ensuring the effectiveness of the risk management system, setting the Company's risk appetite and approving the main risk management strategies and policies. Each risk category is assigned to a Board member, who has overall responsibility for managing risks within it. The Risk Management Department co-ordinates risk management activities within AEL through the Enterprise Risk Management (ERM) system, which consists of procedures to identify, measure, manage, monitor and report risk.

B.3.2 The Risk Management Function

The Risk Management process at AEL begins with the strategy and corresponding risk appetites set by the AEL Board. Using top down risk assessment tools and a SWOT analysis, the Risk Management team forms an understanding of how inherent risk is created and managed within the business model.

A detailed risk register is maintained by the Risk Management Function and kept up to date through an ongoing process. Regular reporting against the risk appetite is conducted through a set of carefully selected key risk indicators, which inform the Board. The controls that respond to inherent risk are also tested through a programme of monitoring.

Annual formal assessments of the Company's Economic Capital are performed via the ORSA process (see Section B.3.3 below), and the capital position is stressed to test for AEL's resilience to unforeseen events.

Through Risk Management's various reporting mechanisms, the Board is kept informed and the strategy is reviewed at least annually in light of AEL's risk profile.

An overview of the key aspects of AEL's risk management process is as follows:

AEL Risk Management Processes	Strategy	Appetite	Identification	Measurement	Management	Monitoring	Reporting
1. RCSAs			●	●			
2. Top-down risk assessment	●		●	●			
3. SWOT analysis	●		●		●		
4. Risk register				●		●	●
5. KRI reporting		●		●		●	●
6. Stress tests		●		●			●
7. Incident reporting and escalation			●				●
8. Controls & Compliance monitoring					●	●	●
9. Capital modelling & Capital allocation	●	●		●			●
10. ORSA	●	●	●	●		●	●
11. Risk Matrix	●	●	●	●	●	●	●

● Risk Management Function involvement

B.3.2.1 Risk and Control Self-assessments (RCSAs)

RCSAs are performed by each department, under the oversight of the risk department. Risks and controls are recorded in the AEL risk register. All risks are given an inherent, residual and target rating, using a risk matrix. RCSAs are reviewed twice a year, with an in-depth review meeting with the risk department at least annually.

In addition to this processes, all employees are encouraged to report any additional risk to the risk department as soon as possible after it is identified.

B.3.2.2 Top-down risk assessment

At least once a year, members of the Executive Committee meet to perform a 'top-down' risk assessment as part of an Executive Strategy review. The Chief Risk Officer attends this and provides support to the risk assessment.

B.3.2.3 SWOT

Risk Management conduct an annual risk assessment using the SWOT analysis model, which highlights key internal Strengths and Weaknesses of the Company together with external Opportunities and Threats that should be considered when the business strategy is being reviewed. This is used by the Risk Management team to direct its activities and plans for the year.

B.3.2.4 Risk register (Magique)

All risks and controls are recorded in the Magique system. (The Magique System is an industry standard software tool that supports ERM.) Each risk is assigned an owner, who is responsible for assessing the risk or performing the control.

B.3.2.5 Key Risk Indicator (KRI) reporting

KRIs are monitored and reported to the Executive Committee and the Risk and Compliance Committee every quarter.

B.3.2.6 Stress testing

Stress tests are applied to the Company's business plan at least annually. A range of scenarios is considered, based on the risks identified in the RCSAs and the top-down risk assessment. The scenarios which produce the biggest losses are further stressed, to produce Reverse Stress Tests (RSTs) to determine the point at which the Company would fail.

Stress tests are performed whenever there is a material change in risk profile, which would include, but is not limited to: material change to reinsurance agreements; entry into a new class of business; change in investment policy; purchase of a subsidiary by AEL.

B.3.2.7 Incident reporting and escalation

AEL operates an incident reporting and escalation framework designed to capture the occurrence of operational risk events for the purpose of analysis, reporting and improvement of internal controls.

Once identified incidents are reported to the Risk Management Department. Incidents are recorded in the Magique risk management system and this acts as the main repository for incident reporting. Incidents will be reviewed by the risk department and an action plan put in place. Incidents will be escalated to the appropriate level, depending on their severity.

Risks that are not already recognised in Magique will be recorded, to ensure that the risk register is as comprehensive as possible.

B.3.2.8 Controls and Compliance monitoring

The operating effectiveness of controls is assessed independently through audit, monitoring and other oversight activities performed by Risk, Internal Audit, Compliance and other support functions within the Company. Key controls are prioritised for regular assessment, with the remainder of the control framework being subject to annual or biennial assessment as a minimum.

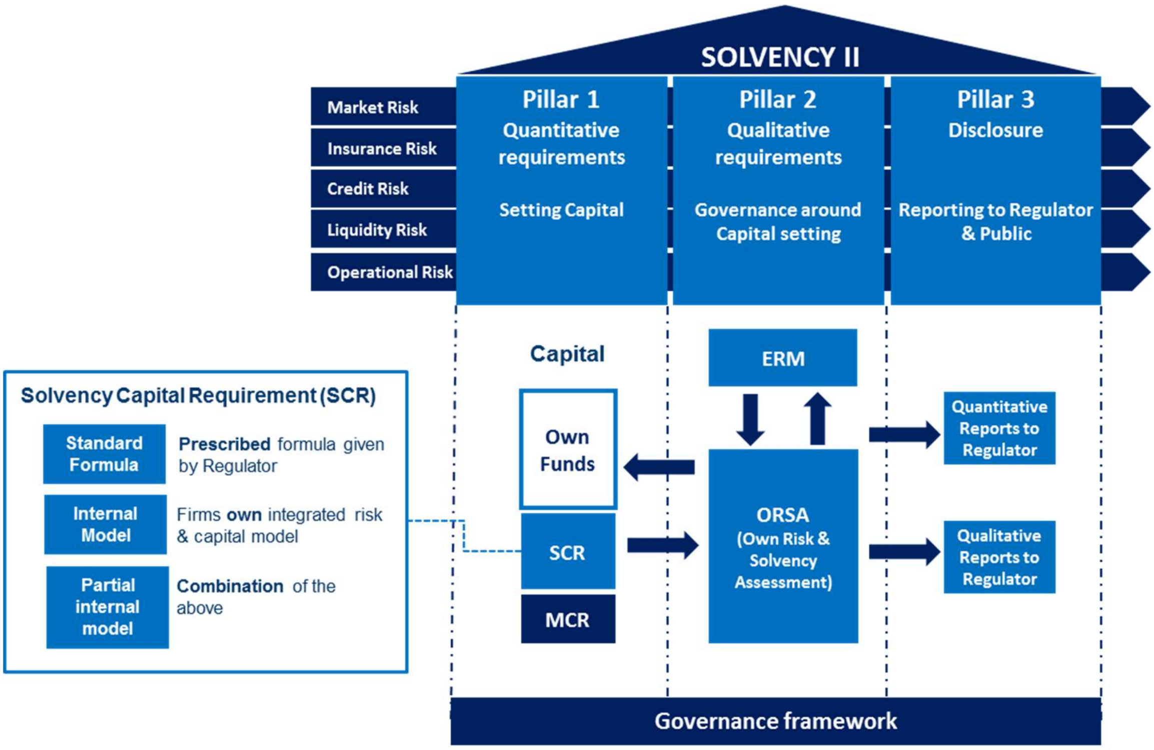
B.3.2.9 Capital modelling

The Company is building a stochastic capital model, which will be used to evaluate Economic Capital. Currently, Economic Capital is assessed as part of the ORSA process and effectively as a function of Regulatory Capital. The stochastic capital model will help the Board to define a clear risk adjusted return on capital target, as well as improving the general resilience of the Company's capital base.

B.3.2.10 Capital allocation

AEL currently allocates capital to classes of business at a high level. With the development of a stochastic capital model, the capital allocation process will be further strengthened. Risk Management supports the business in helping to embed this into the Company's underwriting disciplines.

B.3.3 Own Risk and Solvency Assessment (ORSA)



The above diagram shows how the various aspects of risk management, capital management, and regulatory reporting under Solvency II fits together for AEL.

The Own Risk and Solvency Assessment (ORSA) forms a key part of Enterprise Risk Management at AEL and is performed at least annually. It is the process through which the Board and Management team assess the risks faced by AEL, both now and in the future, and AEL's own assessment of the level of own funds that it believes are necessary to meet the strategic goals of the Company. Therefore, ORSA is termed to be an Economic assessment of capital.

Economic Capital differs from Regulatory Capital. The latter is the Regulator's assessment of AEL's capital required to continue and meet the Regulator's objectives, which includes maintaining safety and soundness in the wider financial system. AEL's solvency risk appetite is that capital should always remain above a margin of these limits and has set this to be 120% of the SCR (the Regulatory Capital requirement under Solvency II).

In broad terms, the ORSA process seeks to have a clear understanding of the Company's historic and prospective strategy and what risks this creates for the Company's Economic balance sheet both now and in the future. Economic Capital should then be held at a level that allows AEL to achieve this strategy and manage these risks.

AEL has historically used a deterministic model to calculate its economic capital, however this is limited in capturing risks, because it involves running a small number of scenarios which are binary in nature. The Company recognises that due to its historic growth and more complex risk profile, a more refined economic capital assessment is required. Therefore, the Company ran a project in 2016 to build a Stochastic Capital Model which is capable of capturing a much wider range of risks, against which a vastly larger range of scenarios can be run. This will inevitably lead to a more sophisticated approach to calculating AEL's Economic Capital.

For the purposes of the 2016 ORSA, AEL used a deterministic approach, quantifying the impact of scenarios on the balance sheet and comparing them with the Solvency II Regulatory Capital position. In 2016, AEL applied for a voluntary variation of permission such that the Company may not enter into any transaction which is likely to reduce Own funds below 120% of the SCR without prior consent of the PRA. AEL chooses to hold its Economic Capital at this level, as it believes that the SCR under Solvency II is a prudent assessment of its capital. Therefore, it is assumed that:

Economic Capital Assessment (ECA) = Regulatory Capital (SCR) * 120%

AEL has demonstrated that the Standard Formula is not an inappropriate measure of its risk profile for calculating Regulatory Capital. This, together with stress testing performed in the ORSA, gives the Board comfort that the SCR plus a buffer is a conservative approximation of Economic Capital, until such time as a Stochastic Model allows for a more sophisticated assessment.

AEL will complete its ORSA process annually, on a 'business as usual' basis, or if there is a material change in its risk profile.

B.4 Internal control system

B.4.1 Internal Control system

Internal control is integral to risk management and the principal means by which risk is managed.

Primary responsibility for the identification, monitoring, control and reporting of significant risk rests with the heads of the various business functions on an on-going basis. Risk and control owners are identified for all significant risks and control. The Enterprise Risk Management framework ensures that these risks and controls are reviewed on a regular basis.

An effective risk management system requires technical input from the Actuarial function in the quantification and modelling of certain risks. The Actuarial function is therefore responsible for providing expert technical advice / input to the Risk Management function to facilitate the implementation of elements of the risk management system.

The system of internal control constitutes the 1st and 2nd Lines of Defence of the "Three Lines of Defence" risk management model (referred to above).

The Internal Audit function is responsible for auditing the control environment against the audit plan agreed by the Audit Committee.

On behalf of the Board, the Audit Committee and the Risk and Compliance Committee regularly review the Company's system of internal control. The review covers all controls, including financial, operational and compliance controls, completeness and accuracy of data and the risk management process. Necessary actions are taken to remedy any significant control failings or weaknesses identified.

By virtue of being a material overseas subsidiary of AFSI, AEL is subject to the legal requirements of the US Sarbanes-Oxley Act, Section 404 ('SOX'). This Act requires the external auditor of AFSI and its management to report on the effectiveness of the Company's internal controls under the Public Company Accounting Reform and Investor Protection Act 2002. A central SOX controls framework is developed at Group level which is cascaded down to all material subsidiaries in scope within the AmTrust group. The controls within AEL's SOX framework are routinely tested and attested by management. AFSI Management produce an internal control report as part of their annual report included in their form 10-K to the US Securities and Exchange Commission (SEC), which assesses the effectiveness of the internal control structures and processes around financial reporting. The assessment is risk focused and includes an:

- Assessment of the design and operating effectiveness of internal controls around significant accounts (i.e. where there is a risk of material misstatement) and relevant assertions;
- Understanding of the flow of transactions in order to identify points where a misstatement could arise;
- Assessment of entity-level controls;
- Fraud risk assessment;
- Evaluation of controls in place to mitigate the risk of fraud;
- Assessment of controls in place over the financial reporting process;
- Scales the assessment based on the size and complexity of the Company; and
- Conclusion on the adequacy of internal control over financial reporting.

Compliance with SOX is monitored by the Internal Audit function. The outcome of SOX monitoring is reported to the Audit Committee and any control deficiencies identified at AEL are reported to AFSI management for consideration of the aggregate impact to the control framework of the Global AFSI group.

B.4.2 Compliance function

The Compliance function is responsible for advising the Executive and the Board on compliance with existing and emerging legal, regulatory and administrative provisions.

The Compliance function has ultimate recourse to the AEL Board and has the right to escalate to the Board, directly or through its Committees, any instances of non-compliance with laws and regulations.

Compliance takes responsibility for identifying and assessing the wide ranging internal and external obligations the Company has. The Compliance function helps to ensure that AEL clearly understands its regulatory risks and the prevailing requirements.

The Compliance function undertakes checks to ensure that compliance obligations are being met after implementation through a systematic, disciplined and risk based approach to evaluating the effectiveness of compliance controls.

B.5 Internal audit function

The mission of the AmTrust Internal Audit function is to help the Board and Executive Management to protect the assets, reputation and sustainability of the organisation.

This is achieved by:

- Assessing whether all significant risks are identified and appropriately reported by management and the Risk function to the Board and Executive Management;
- Assessing whether they are adequately controlled; and
- By challenging Executive Management to improve the effectiveness of governance, risk management and internal controls.

Internal Audit is independent from the business and is directly responsible to the Chairman of the Audit Committee, with a day-to-day administrative reporting line to the Group Chief Executive Officer of the AmTrust European Group of entities. Internal Audit shall have free and unrestricted access to the Chairman of the Board, the Chairman of the Audit Committee and the Chief Executive Officer.

Those working within Internal Audit are not permitted to perform day-to-day control procedures or take operational responsibility for any part of AmTrust’s operations outside Internal Audit. Management is responsible for the establishment and ongoing operation of the internal control system. The Audit Committee reviews the scope and nature of the work performed by Internal Audit to confirm its independence.

B.6 Actuarial function

The purpose of the Actuarial department within AEL is to provide support to the Company in many areas including reserving, pricing and capital management. Additionally, other statistical and management information support is provided where necessary. This work is required to be undertaken in an objective and independent manner whilst incorporating feedback from the business where appropriate.

The Actuarial Function is a Key Function, the Chief Actuary being the Key Function Holder. The Chief Actuary is a qualified actuary and a member of the Institute and Faculty of Actuaries and reports to the Chief Financial Officer. Other members of the team are either qualified actuaries; working towards becoming a qualified actuary; or sufficiently qualified by experience to undertake the duties assigned to the individual.

The Chief Actuary or his representative attends the Underwriting Committee and the Reserving Committee. The Actuarial Function is also involved in the reinsurance purchasing process. The Chief Actuary will rely on work produced by other members of the Actuarial Function to fulfil the necessary roles and responsibilities.

The Actuarial function has the following specific responsibilities:

- preparation of an Actuarial Function report annually to the Board which reports on the activities of the Actuarial Function;

- production of the Technical Provisions in accordance with Solvency II principles and ensuring that methodologies and underlying models used are appropriate;
- monitoring the best estimates against actual experience;
- providing assistance for the pricing of insurance risks;
- providing inputs into the calculation of the Solvency Capital Requirement (“SCR”);
- providing assistance for the preparation of business plans;
- working closely with the Risk Management Function (“RMF”) to facilitate the implementation of an effective risk management system;
- assessing the data quality used in actuarial functions;
- reporting to the Board on the reliability and adequacy of the Technical Provisions calculation;
- reviewing reinsurance arrangements;
- opining on the overall underwriting policy; and
- opining on the adequacy of reinsurance arrangements.

B.7 Outsourcing

Outsourcing is an important aspect of the AEL business model. The majority of AEL’s key outsourcing risk lies in its use of third party coverholders, agents and brokers in its claims management, underwriting, and distribution processes.

Key outsourcing risk refers to those functions that are required by AEL; either, from external; or, from intra-group providers which are essential to AEL’s operations, and that AEL would, otherwise, be unable to deliver its services to policyholders without the outsourced function(s).

The PRA requires insurance companies to take reasonable steps to avoid undue additional operational risk and not to undertake the outsourcing of key functions in such a way as to either: impair AEL’s internal controls; or, risks associated with the PRA’s ability in monitoring AEL’s compliance obligations under the regulatory system.

The AEL outsourcing internal control framework, includes, but is not limited to:

- Due diligence undertaken of a prospective provider in order to identify the potential operational, prudential and conduct of business regulatory risks that may be associated with the placement of the outsourced function to specific provider(s);
- Formal and disciplined authorities for the appointment of coverholders;
- Formal contract management and monitoring;
- Routine management attestation as to continuous control compliance in relation to outsourcing; and
- Independent internal monitoring by the compliance function, internal audit, and AEL’s third party audit coverage as routinely approved and monitored by the Risk and Compliance Committee.

B.8 Any other information

None noted.

C. Risk Profile

C.1 Underwriting risk

Underwriting risk refers to fluctuations in the timing, frequency and severity of insured events, relative to the expectations of the firm at the time of underwriting.

The Company uses a suite of Key Risk Indicators (KRIs) to monitor its exposure to underwriting risk that are evaluated each quarter. These include: volume of premium underwritten, by class of business; priced loss ratios in comparison with plan; ultimate loss ratios in comparison with plan; concentration of premium and profit contribution by class; and deterioration in prior year reserves.

C.1.1 Material risk exposures

The Company is exposed to premium risk, that is, the risk that premiums are insufficient to cover the value of claims made; and reserve risk, the risk that on-going claims are settled at a higher value than previously expected. The majority of the Company's material underwriting risk exposure comes from the Italian Medical Malpractice account, which represented the largest class of business during 2016. This class is a form of casualty insurance, and the underlying claims exposures can take a long time to properly realise, hence there is a material risk of adverse reserve development on all current and prior underwriting years where AEL underwrote Medical Malpractice policies. The SCR quantifies the potential for adverse development as part of the calculation of the premium risk and reserve risk calculation. An additional component of the SCR which is driven primarily from the Company's Medical Malpractice account is the SCR component for catastrophe risk. Although the Company believes that the Medical Malpractice account, and its other lines of business, are exposed to limited catastrophe risk. Due to the treatment and classification of the Medical Malpractice account within the SCR calculation the Company receives a disproportionally high capital charge for Catastrophe Risk.

C.1.2 Material risk concentrations

AEL's underwriting risk exposure is concentrated in the Medical Malpractice class of business. Around 45% of the Company's premium is attributable to this class, as well as around 70% of the Company's total claims reserves.

C.1.3 Material risk mitigation

This risk is mitigated through a range of management controls. The Actuarial Pricing team review new business to determine that rates are adequate. Within underwriting teams, a peer review also takes place. There is constant monitoring of underwriting performance by management, which allows corrective action to be taken if a piece of business is not performing as expected.

AEL also uses reinsurance to mitigate underwriting risk. This takes the form of a group quota-share agreement with AmTrust International Insurance Ltd (Bermuda) on all business written by the Company as well as quota share and excess of loss contracts on individual classes of business with external providers, including Maiden Reinsurance Ltd (Bermuda).

C.1.4 Risk sensitivities

Scenarios were devised during the ORSA process to measure the impact of poor pricing and reserve deteriorations. These showed that an increase of 30% to loss ratios resulted in a 20% fall in the value of Own Funds; while a deterioration in reserves (to 150% for Medical Malpractice and an increase of 50% to other classes) resulted in a 35% decrease in the value of Own Funds. AEL was able to withstand both these scenarios, which are considered to be highly unlikely.

C.1.5 Other material information

None noted.

C.2 Market risk

Market risk is the risk of loss of income or decrease in the value of assets caused by movements in the level and prices of financial instruments. Market risk includes factors such as equity values, property values, interest rates, foreign exchange and spread risk.

The KRI process identifies and measures the key market risk exposures by closely monitoring the currency and duration mismatch to capture exposure to currency and interest rate risks, as well as the composition of the bond portfolio holdings by credit ratings to capture exposure to spread risk.

Investments are reviewed quarterly at the Audit Committee, and through a Management Investment Committee.

C.2.1 Material risk exposures

The Company's material exposures to market risk are: interest rate risk and spread risk on its bond portfolio; foreign exchange risk on its currency exposures; and equity risk on its strategic investments in subsidiaries.

The bond portfolio consists of corporate and government bonds. It is exposed to interest rate risk, as well as to credit spread risk. Fluctuations in rates of inflation influence interest rates, which in turn impact the market value of the investment portfolio and yields on new investments. Thus, rising interest rates would have an adverse impact of the bond portfolio and would drive the value of the bonds down. Whereas, widening credit spreads would also negatively impact the value of the bond portfolio.

Property comprises less than 5% of the investment portfolio and doesn't pose any material risk to the business.

In 2016, AEL acquired a new business, London-based Genworth Financial Mortgage Insurance Ltd (now called "AMIL", or AMT Mortgage Insurance Limited), a well-known organisation in the European mortgage insurance market. As a separate insurance company, AEL is exposed to underwriting and other risks within AMIL's business. These are mitigated by a strong, Solvency II compliant risk framework at AMIL and additional oversight by AEL management. AEL's other equity investments are strategic in nature, but are not material.

AEL manages its foreign exchange risk against its functional currency, which is presented in pounds Sterling. Foreign exchange arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. AEL is exposed to currency risk in respect of liabilities under policies of insurance denominated in currencies other than Sterling. The most significant currency to which AEL is exposed is the Euro.

AEL has an Italian branch operation, whose net assets are exposed to foreign currency translation risk.

C.2.2 Material risk concentrations

AEL's material market risk exposures are to its equity investment in AMIL, its foreign currency exposure to the Euro as a result of its Med Mal business, and the exposure of its predominantly fixed rate corporate bond investment portfolio to spread risk.

C.2.3 Material risk mitigation

AEL operates a conservative investment strategy, investing primarily in fixed rate corporate bonds, money market deposits and cash. The Company has no appetite for investments in equities (other than wholly-owned subsidiaries) and complex investments such as derivatives. By investing in relatively simple assets, the Company fulfils the Prudent person principle because it is able to properly understand its investment risks.

Investment management is outsourced to another company within the group. A set of investment management guidelines has been drawn up, adherence to which is monitored by the Investment Management committee.

AEL monitors interest rate risk as part of its regulatory reporting process by monitoring duration of assets and liabilities. 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 invests in property that it occupies, but has no appetite to invest in properties which it does not occupy or intend to occupy in future, at least in part.

AEL equity investments are strategic in nature, being investments in subsidiaries and affiliates and are approved by the Board.

AEL is exposed to foreign exchange risk, by operating in multiple currencies. AEL seeks to mitigate the currency risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency. AEL's currency matching strategy is well protected against depreciation of Sterling.

C.2.4 Risk sensitivities

One of the adverse scenarios produced by the ORSA analysis looks at how fluctuations in foreign currency exchange rates and market value of investments impacts the value of Own Funds. In this scenario, changes to foreign exchange rates and investment values are modelled to reflect further deterioration in markets following the Brexit vote. The reduction in investments to 90% of their original value, combined with a reduction of GBP by 5% against European currencies and 20% against other currencies resulted in a 16% decrease in the value of Own Funds. The stress test scenario confirmed no material capital impact.

C.2.5 Other material information

None noted.

C.3 Credit risk

Credit risk is the potential loss arising principally from adverse changes in the financial condition of intermediaries who sell the Company's policies, the issuers of fixed maturity securities and the financial condition of third party reinsurers.

The risk and management team identifies and measures the key credit risk exposure by monitoring rating of bank, rating of reinsurer, bond rating, exposure to individual external reinsurer counterparty, exposure to single bank as percentage of Solvency Capital Requirement (SCR), credit extended to intermediaries compared with limits set by Finance, exposure to individual tenant, and length of time overdue.

C.3.1 Material risk exposures

AEL is subject to material risk exposures with respect to its reinsurers, banks and bond counterparties.

C.3.2 Material risk concentrations

The Company is exposed to credit risk in relation to material accounts with Reinsurance counterparties: Maiden Insurance Company Limited and AmTrust International Insurance Limited (AII). AII is a subsidiary within the wider AmTrust Group.

AEL is exposed to general economic, business and industry conditions. Adverse general economic conditions may cause, among other things, significant reductions in available capital and liquidity from banks and other credit providers. The Company's largest bank exposures are to Lloyd's Bank and Intesa Sanpaolo.

The AEL largest corporate bond exposure is to Nationwide Building Society, making up of 4% of the investment portfolio. Other large bond exposures are to Toyota, Teva Pharmaceutical and UBS.

C.3.3 Material risk mitigation

In order to reduce the exposure to reinsurance credit risk, the financial condition of reinsurers is evaluated and reinsurance is placed with a diverse group of companies and syndicates that are believed to be financially sound. Larger exposures to AII and Maiden are fully collateralised. The credit quality of reinsurers is monitored when placing new and renewal reinsurance, as well as on an ongoing, current basis. AEL uses objective criteria to select and retain its reinsurers, including requiring a financial strength rating of "A-" or better from A.M. Best Company.

To reduce credit risk, the Company performs ongoing evaluations of its counterparties' financial condition.

Credit risk related to the issuers of fixed maturity securities is addressed by investing primarily in fixed maturity securities that are rated "BBB-" or higher by Standard & Poor's. Exposure is limited by the employment of diversification policies that limit the credit exposure to any single issuer or business sector.

The Company manages the levels of credit risk it accepts by reviewing exposures regularly and reporting to management of significant counterparties. Credit limits are also in place for certain counterparties as is deemed appropriate within the business.

Exposures to banks are limited to those whose credit ratings are A or higher, except where required for business reasons, typically in jurisdictions where there are no A rated banks available. In this case exposures are kept to a minimum.

C.3.4 Risk sensitivities

AEL carried out a stress test on its exposure to reinsurance credit risk from AII. In this scenario it is assumed that loss ratios on Med Mal business increase to 110% on all open years and this is combined with the failure of AII, so that the quota share were to not perform as expected and the collateral were to not be fully recoverable such that only 50% of recoveries are made. This is considered to be a very extreme scenario and well outside the 1 in 200 level for which capital is held. AII is rated A by A.M Best which is indicative of a return period of approximately 1 in 170 over 3 years. This resulted in a reduction in Own Funds of over 80%, however the Company would still have sufficient funds to honour its existing liabilities.

C.3.5 Other material information

None noted.

C.4 Liquidity risk

Liquidity risk represents the Company's potential inability to meet all payment obligations when they become due and the risk stemming from the lack of marketability of an investment security that cannot be bought or sold quickly enough to realize cash.

Via the KRI process a liquidity ratio is monitored to identify and measure liquidity risk exposures. The finance team carries out regular cash-flow forecasting and analysis to monitor the Company's liquidity needs.

C.4.1 Material risk exposures

There are no material risk exposures to liquidity risk, as the majority of assets are invested in highly liquid corporate bonds.

Reinsurance may additionally pose a residual liquidity risk with delays in payment by the reinsurer or their default which, while classed as a credit risk event, also poses major liquidity issues for the firm.

C.4.2 Material risk concentrations

AEL's liquidity risk exposure is concentrated in reinsurance contracts, financial assets (bonds) and property.

C.4.3 Material risk mitigation

The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effect on AEL's financial performance. It manages these positions within an asset liability management (ALM) framework that has been developed to minimize the risk of significant deterioration of the investment portfolio while earning profitable returns from those investments.

The Company invests mainly in corporate bonds, which are normally readily convertible into cash, so it holds relatively small amounts of cash. It accepts the risk that during times of stress, there may be market value losses realised by liquidating bonds.

AEL maintains sufficient cash and highly rated marketable securities, to fund claim payments and operations.

C.4.4 Expected profit in future premiums

The value of expected profit in future premiums is £23,677,000. This amount is highly illiquid, but represents only 7% of the value of own funds.

C.4.5 Risk sensitivities

Unless there is a larger claim payment due to a major catastrophe event or a default in collecting reinsurance receivables due to adverse market conditions, the Company has no significant impact to its liquidity.

C.4.6 Other material information

None noted.

C.5 Operational risk

Operational risk is the risk that the Company will not be able to operate in a fashion whereby the strategic objectives of the Company can be met due to inadequate or failed internal processes, people and systems, or from external events. It arises out of actions undertaken within the Company, brokers, investment management companies or outsourced agencies and individuals.

AEL has risk management processes in place, such as third party audit, internal audit, controls testing, project management, Risk and Control Self-Assessment (RCSA), Data Governance Management Committee to assess and monitor operational risk exposures.

C.5.1 Material risk exposures

The Company is exposed to IT, Data, Outsourcing, Underwriting, Reinsurance, Fraud, Legal, and Reputation risks.

As a result of limitations inherent in all control systems, it may not be possible to adequately prevent fraud or errors from occurring. Judgments in decision making can be faulty and breakdowns may occur through simple human error.

In addition, any ineffectiveness in internal controls could have a material adverse effect on the business. For instance, failure to maintain pricing disciplines and robust underwriting controls; poor quality Management Information or IT systems to capture data and business performance; failure to identify appropriate opportunities in a soft insurance cycle and prolonged competition; a potential reduction of control over the actions of third parties operating on its behalf (outsourcing).

C.5.2 Material risk concentrations

AEL's material risk concentrations are in IT and Outsourcing.

The majority of AEL's core lines are sold through independent third-party brokers, agents, retailers or administrators, many of whom the Company has worked with for several years, in particular in the Legal Expenses, Property, Warranty and Special Risks accounts.

IT is an integral aspect of AEL's day-to-day business operations and as such, any system failure can impose a serious threat to the Company operations.

C.5.3 Material risk mitigation

AEL does not seek to take on operational risk in order to generate a return. However, it recognises that some degree of operational risk is an unavoidable consequence of remaining in business. It therefore seeks to mitigate this risk through its corporate governance and internal control mechanisms, deal sheets, peer view, due diligence and business continuity and Sarbanes-Oxley controls.

All of AEL's operational risks are captured within the Company's risk register through a system called "Magique". Risk Management carry out a risk and control self-assessment exercise where meetings are held with each key risk owner to review and update the risk registers with new risks and controls, as well as judging whether the ratings for inherent and residual risks are still valid.

C.5.4 Risk sensitivities

AEL has considered a number of operational risk scenarios. In one of the largest scenarios considered, the Company is subject to fraud and major organised crime. In this scenario the Company loses money due to paying out a large number of fraudulent claims. This could cause a reduction in Own Funds of around 8%.

C.5.5 Other material information

None noted.

C.6 Other material risks

C.6.1 Legal and Regulatory risks

The risk of non-compliance with regulation and legislation.

AEL does not seek to take on legal and regulatory risk in order to generate a return. However, it recognises that some degree of legal and regulatory risk is an unavoidable consequence of remaining in business. It therefore seeks to mitigate this risk through its corporate governance and internal control mechanisms. Awareness of the risks and the Company's control mechanisms are maintained through its policies & procedures framework and training programmes.

C.6.2 Strategic risk

Risks arising from failure to sufficiently define the direction and objectives of the entity, together with the resourcing and monitoring of the achievement of the same.

AEL has a well-developed business planning process and its business plans are approved by the Board. The business plans are also used in the Own Risk and Solvency Assessment (ORSA) process.

C.6.3 Governance risk

Risks arising from the failure to demonstrate independent and proper stewardship of the affairs of the entity in order to safeguard the assets of the entity's shareholders and the overall interests of its stakeholders.

The Company regards a strong Governance framework to be vital in the achieving its objectives as well as providing transparency and accountability to its various stakeholders. A system of internal control and governance has been developed using the “three lines of defence” model.

C.6.4 Other Group risks

The risks arising from other parts of its group, through parental influence, changes in overall AM Best Rating, or direct contagion.

AEL maintains a good relationship with its ultimate parent and expects that, at all times, it will remain suitably apprised of all of the material risks within the group that may, if crystallised, have negative impact upon the business strategy and/or cause detriment to its customers.

Regular meetings with AFSI Group Risk department. The AFSI Group CEO also holds approved person status under the Senior Insurance Managers Regime (SIMR).

C.6.5 Solvency risk

The risk that the entity fails to maintain adequate levels of capital resources of sufficient quality and quantity in order to carry out its business objectives and in order to meet all domestic and international regulatory considerations regarding the capital resource requirements.

AEL ensures it is solvent at all times through: Monitoring of solvency position; Management Accounts; Solvency forecasting in ORSA and prior to any strategic decision making.

C.6.6 Reputational risk

The risk relates to potential losses resulting from damages to the Company’s reputation, which could be manifested in terms of lost revenue; increased operating, capital or regulatory costs; or destruction of shareholder value.

AEL manages reputational risk by operating to high standards across its business activities, and continuously monitoring feedback from its key stakeholders, including customers and regulators.

C.7 Any other information

None noted.

D. Valuation for solvency purposes

The table below shows the valuation on a Solvency II basis of AEL's assets and liabilities as at 31 December 2016.

	Solvency II Value	Statutory Accounts Value
Assets	*£000*	*£000*
Deferred acquisition costs	0	103,876
Deferred tax asset	5,680	0
Property, plant & equipment held for own use	5,329	5,331
Investments (other than assets held for index-linked and unit-linked contracts)		
Property (other than for own use)	9,462	9,462
Holdings in related undertakings, including participations	150,567	122,704
Equities		
Equities - unlisted	3,245	0
Bonds		
Government Bonds	17,257	17,257
Corporate Bonds	295,063	295,063
Reinsurance recoverables from:		
Non-life and health similar to non-life		
Non-life excluding health	681,933	824,702
Health similar to non-life	3,267	0
Insurance and intermediaries receivables	25,500	340,713
Reinsurance receivables	12,185	25,627
Receivables (trade, not insurance)	122,382	104,313
Cash and cash equivalents	38,678	38,678
Any other assets, not elsewhere shown	658	658
Total assets	***1,371,206***	***1,888,384***
Liabilities		
Technical provisions – non-life		501,026
Technical provisions – non-life (excluding health)		
Best Estimate	874,142	
Risk margin	42,601	
Technical provisions - health (similar to non-life)		
Best Estimate	4,172	
Risk margin	201	
Other technical provisions	0	706,963
Provisions other than technical provisions	2,788	2,788
Deferred tax liabilities	0	891
Derivatives	81	81
Debts owed to credit institutions	7,777	7,777
Insurance & intermediaries payables	33,997	87,270
Reinsurance payables	78,900	214,271
Payables (trade, not insurance)	1,865	1,865
Any other liabilities, not elsewhere shown	28,777	72,402
Total liabilities	***1,075,301***	***1,595,334***
Excess of assets over liabilities	295,905	293,050

D.1 Assets

As a general principle, AEL's assets and liabilities are valued differently when calculating own funds (net equity on a Solvency II basis) and when preparing its annual accounts for filing at Companies House. The former applies the valuation rules from the Solvency II Directive, and the latter applies valuation rules under Generally Accepted Accounting Principles (GAAP) in the UK.

The valuation rules from the Solvency II Directive use International Financial Reporting Standards (IFRS) as a starting position with various changes applied to move to an economic balance sheet position. UK GAAP is largely equivalent to the accounting principles applied under IFRS, although differences do exist.

This section highlights the way that AEL values its assets and liabilities using the Solvency II valuation principles and, where relevant, explains any material differences to the UK GAAP valuation approach followed in its last reported financial statements.

D.1.1 Deferred acquisition costs

	Solvency II Value	Statutory Accounts Value
Assets	*£000*	*£000*
Deferred acquisition costs	0	103,876

Deferred acquisition costs are valued at nil for Solvency II purposes. Instead, all cashflows related to expenses due to servicing recognised insurance obligations are considered in the best estimate technical provisions.

D.1.2 Deferred tax asset

	Solvency II Value	Statutory Accounts Value
Assets	*£000*	*£000*
Deferred tax asset	5,680	0

As a result of adjusting the GAAP balance sheet to an economic balance sheet for Solvency II additional gains and losses are created within the Company. The Solvency II framework permits deferred tax balances to be created on the differences between the tax base of assets and or liabilities and the value based on Solvency II principles.

The adjustments at the year-end resulted in an overall decrease in the tax base of net assets and therefore a deferred tax asset has been recognised at the appropriate rate. The recoverability of this asset has been assessed against the future profitability of the Company which is considered sufficient to justify its carrying value.

D.1.3 Property, plant and equipment held (held for own use and other than for own use)

	Solvency II Value	Statutory Accounts Value
Assets	*£000*	*£000*
Property, plant & equipment held for own use	5,329	5,331
Property (other than for own use)	9,462	9,462

Under Solvency II the valuation methodology for property, plant and equipment is to use a reliable estimate for the amount which the assets could be exchanged between knowledgeable willing parties in an arm’s length transaction.

Within the UK GAAP annual accounts, property held other than for own use is valued at fair market value while property held for own use is valued at fair market value less accumulated depreciation. The latest valuation was performed as part of the year end process for 31 December 2016.

Plant and equipment is valued in the UK GAAP accounts at cost less depreciation.

The fair market value which the AEL property is carried at within the UK GAAP accounts is considered to be a consistent valuation methodology to the Solvency II guidelines. As the fair value is not arrived at using a quoted market price, nor adjusted quoted market price, the valuation technique is considered an alternative valuation method under Solvency II. This is described in more detail section D4 below.

Less than £1m is held within plant and equipment and, as a result, management do not believe that using depreciated cost would generate a materially incorrect position against the market value.

D.1.4 Investments

D.1.4.1 Holdings in related undertakings, including participations

	Solvency II Value	Statutory Accounts Value
Assets	*£000*	*£000*
Holdings in related undertakings, including participations	150,567	122,704

As mentioned within the summary section, AEL has investments in wholly owned subsidiaries. In accordance with Delegated Regulation (EU) 2015/35 Article 13, AEL is valuing its holdings in related undertakings, in accordance with the following order of hierarchy:

- **Level 1 -** values based on quoted prices in active markets where available.
- **Level 2** - where quoted prices in active markets are not available, valued on an adjusted equity method. This is based either on (a) a Solvency II valuation of underlying net assets or, for related undertakings other than insurers where this is not practicable, (b) on a IFRS basis with the deduction of goodwill and intangibles.
- **Level 3** - for related undertakings other than subsidiaries, where quoted prices in active markets are not available and where it is not possible to apply an adjusted equity method, an alternative valuation method (e.g. mark to model) may be used.

As none of the related undertakings are listed and all are subsidiary entities, those entities which are subsidiaries are valued on the adjusted equity method.

For the purpose of subsidiaries which are insurance entities, the adjusted equity method means using the excess of assets over liabilities using Solvency II valuation principles (Article 13(4)).

For the purpose of subsidiaries other than insurance entities, the adjusted equity method means using the excess of assets over liabilities using International Accounting Standards excluding any value in goodwill or intangibles (Article 13(5)). For this purpose, the Company has concluded there are no material differences between the UK GAAP position which its subsidiaries report, and IFRS.

These valuation methods are a departure from the approach used under UK GAAP and therefore an adjustment is made to arrive at the Solvency II balance sheet.

D.1.4.2 Bonds

	Solvency II Value	Statutory Accounts Value
Assets	*£000*	*£000*
Bonds		
Government Bonds	17,257	17,257
Corporate Bonds	295,063	295,063

AEL has an investment portfolio made up of corporate and government bonds.

The Company elects to carry its investments at fair value through the profit and loss account at inception. These assets are managed and their performance evaluated on a fair value basis, and information about their fair values is provided internally to key management personnel on a regular basis including the AEL board and investment committee.

Investments are classified into three tiers of fair value hierarchy based on the characteristics of inputs available in the marketplace. The following valuation hierarchy is used:

- **Level 1 –** Quoted market prices in active markets for the same assets
- **Level 2 –** Quoted market prices in active markets for similar assets with adjustments to reflect differences. The adjustments reflect factors specific to the asset including the condition or location of the asset, the extent to which inputs relate to items that are comparable with the asset and the volume or level of activity in the markets within which the inputs are observed.

- **Level 3 –** Alternative valuation methods which make use of relevant market inputs including:
  - Quoted proves for identical or similar assets which are not active;
  - Inputs other than quoted prices that are observable for the asset, including interest rates and yield curves observable at commonly quoted intervals, implied volatilities and credit spreads;
  - Market-corroborated inputs, which may not be directly observable but are based on or supported by observable market data.

According to EIOPA guidelines contained within Article 75 of Directive 2009/138/EC this method can be consistently applied under SII and therefore no adjustments are made to the UK GAAP position.

No adjustment is made to move accrued interest which is included for both UK GAAP and Solvency II purposes within the value of the bonds.

D.1.5 Reinsurance recoverables

	Solvency II Value	Statutory Accounts Value
Assets	*£000*	*£000*
Reinsurance recoverables from:		
Non-life excluding health	681,933	824,702
Health similar to non-life	3,267	0

Reinsurance recoverables are valued as part of technical provisions and separated out for disclosure purposes on the Solvency II balance sheet. Most reinsurance cover is provided by quota share contracts and the recoverables are calculated as a fixed proportion of the gross liabilities. For the non-proportional cover, the recoverable amount has been estimated judgementally, by class, based on the attachment point and limits of each contract and a review of the historical recoveries made under each contract.

D.1.6 Insurance and intermediaries receivables, Reinsurance receivables

	Solvency II Value	Statutory Accounts Value
Assets	*£000*	*£000*
Insurance and intermediaries receivables	25,500	340,713
Reinsurance receivables	12,185	25,627
Receivables (trade, not insurance)	122,382	104,313

Receivables relating to insurance and intermediaries, reinsurance and other trade are valued at amortised cost, consistent with the approach under UK GAAP, which is not considered to be materially different to the fair value approach under Solvency II valuation principles, since debtor balances are short term, with no discounting impact and convertible into a cash balance.

Receivables which are not yet due are reclassified and dealt with as part of the technical provisions, described below. This adjustment is shown in the reduction in value between the statutory accounts and the Solvency II value.

There are a number of other reclassifications made between the UK GAAP balance sheet and the Solvency II balance sheet relating to these items to correctly classify items under the Solvency II categories.

D.1.7 Cash and other assets

	Solvency II Value	Statutory Accounts Value
Assets	*£000*	*£000*
Cash and cash equivalents	38,678	38,678
Any other assets, not elsewhere shown	658	658

Cash and cash equivalents comprises cash on hand and demand deposits with banks. Cash and cash equivalents are considered to be held at fair value.

D.2 Technical Provisions

Technical Provisions represent a valuation of the Company's obligations towards policyholders. Under Solvency II these are required to be calculated as the sum of:

a) best estimate equal to the probability-weighted average of all future cash-flows, taking account of the time value of money; and
b) a risk margin equivalent to the amount that an insurance undertaking would be expected to require in order to take over and meet the technical provision obligations.

On a Solvency II basis the total technical provisions, including the risk margin, were £236m compared to £280m on a statutory basis, a difference of 15.6%.

The following table shows a summary of AEL's Technical Provisions as of Q4 2016 under Solvency II:

Class	Gross of reinsurance (£000)	Recoverable from reinsurance (£000)	Net of reinsurance (£000)	Risk Margin (£000)	Total Technical Provisions (£000)
Assistance	3,371	3,554	(183)	(41)	(224)
Credit & suretyship	8,991	4,352	4,639	1,028	5,667
Fire & other damage to property	15,421	10,408	5,013	1,111	6,124
Legal expenses	10,128	13,913	(3,785)	(839)	(4,624)
Medical expense	4,172	3,266	906	201	1,107
Miscellaneous financial loss	140,537	91,957	48,580	10,767	59,347
Other motor	2,993	2,231	762	169	931
Motor vehicle liability	9,362	6,201	3,161	701	3,862
General liability	683,339	549,317	134,022	29,705	163,727
Total	**878,314**	**685,199**	**193,115**	**42,802**	**235,917**

AEL's GAAP reserving policy requires the Actuarial Function to calculate ultimate loss ratios with no margins for prudence or optimism. These loss ratios are calculated at the homogenous class of business level, which is consistent with the way the business is underwritten and managed. This provides an estimate of the expected future cash outflows from earned business and expected future cash inflows from any associated reinsurance as at the valuation date. An explicit additional margin is added based on the reserving committee recommendations.

D.2.1 Underlying Uncertainties

The Actuarial Function has employed techniques and assumptions that it believes are appropriate for estimating the Technical Provisions. However, the results of these techniques are subject to uncertainty and it should be recognised that future claim emergence is likely to deviate, perhaps materially, from the estimates. The uncertainties in the estimates for AEL are increased due to:

- the small size of some classes;
- the lack of development history and hence reliance on benchmarks in some classes;
- an increased reserve uncertainty on long-tailed classes. For example, the Medical Malpractice business is particularly long-tailed and has limited development history. Additionally, market results for this class have been particularly volatile increasing the uncertainty in the best estimates for this class;

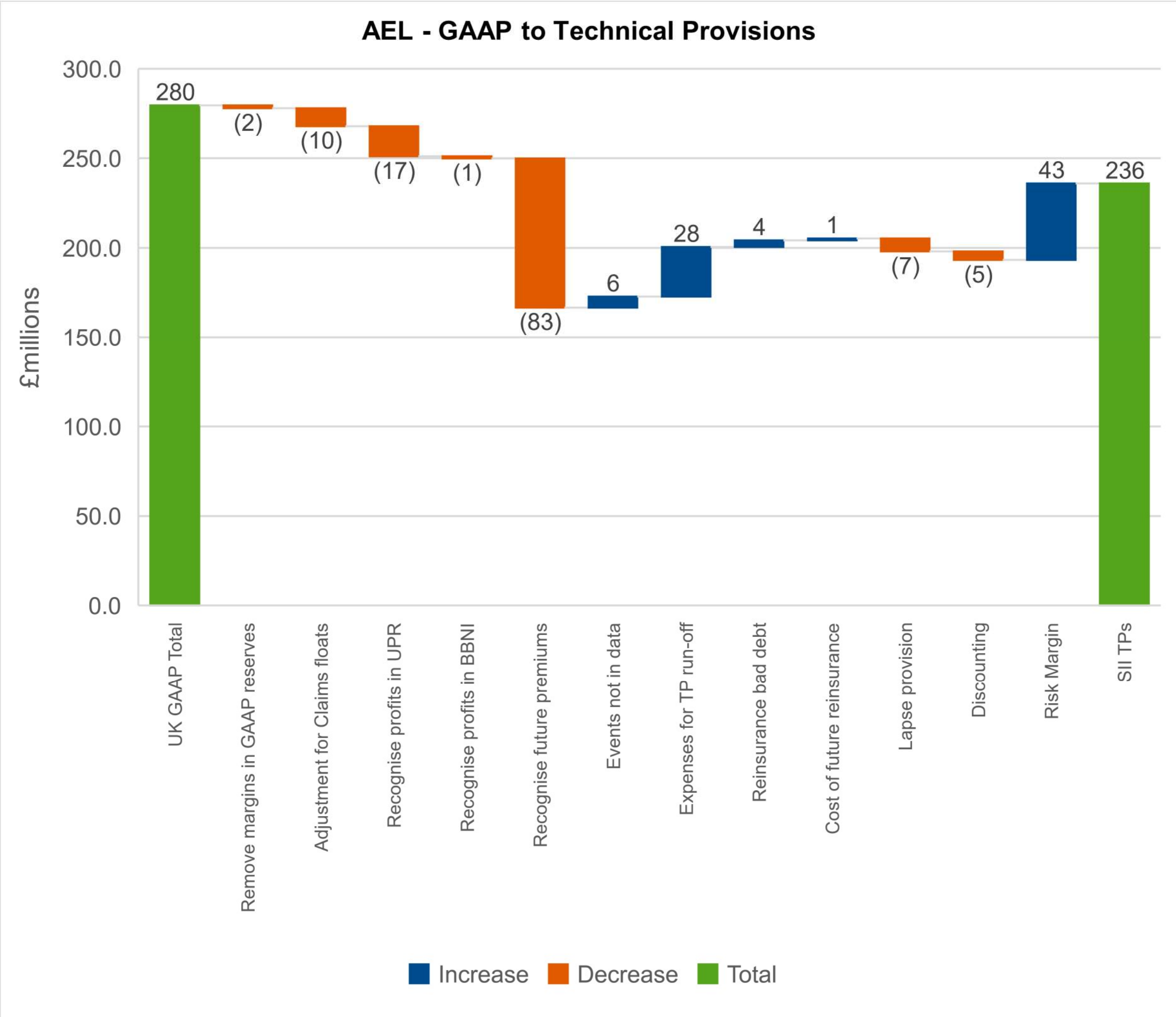
- uncertainty over the losses on remaining unearned exposures, particularly for the classes earning over extended periods such as the Structural Defects business or the Warranty business;
- uncertainty over the number and magnitude of potential large losses on long tailed business; and
- the existence of profit caps and profit shares for some programmes which also adds to the uncertainty in aggregate estimates.

D.2.2 Solvency II Related Uncertainties

Additional uncertainties because of the Solvency II adjustments include:

- uncertainty over the number and magnitude of potential large losses (and catastrophes) on all business that is unexpired at the valuation date;
- uncertainty over the provision for ENIDs where, by their very nature, there is no data available;
- potential for deviation in the expected profits on un-incepted and unearned business;
- potential for deviation in payment patterns from expectations, resulting in an over or under-estimation of the level of discount;
- uncertainty over the volume of un-incepted business;
- uncertainty surrounding the future premium receivable; and
- estimation of the Risk Margin due to uncertainty in the run-off of the capital requirements.

D.2.3 Differences between Solvency II valuation and Financial statements



AEL's GAAP reserving policy requires the Actuarial Function to calculate ultimate loss ratios with no margins for prudence or optimism. An explicit margin is added based on the reserving committee recommendations.

Solvency II technical provisions are evaluated on a best estimate cash flow basis with items such as unearned premium reserves are removed. To move the GAAP estimates to a Solvency II basis the following adjustments are made.

D.2.3.1 Removal of any margins in the GAAP reserves

This includes specific items such as equalisation reserves. The AEL board also holds an additional margin above the actuarial best estimate to allow for the uncertainty in the estimates. Expected reinsurance recoveries are allowed for separately for both proportional and non-proportional reinsurance.

D.2.3.2 Recognition of profit in the Unearned Premium Reserve

The full amount of unearned premiums is removed from the Technical Provisions. The best estimate of the claims liabilities associated with the UPR are added back, and expected reinsurance recoveries are allowed for separately for both proportional and non-proportional reinsurance.

D.2.3.3 Recognition of profits in business written prior to, but incepting after, the valuation date

The premium bound but not incepted serves to reduce the Technical Provisions. The best estimate of the claims liabilities associated with these premiums are added to the Technical Provisions. Expected reinsurance recoveries are allowed for separately for both proportional and non-proportional reinsurance.

D.2.3.4 Allowance for future premiums

Future premium cash flows are derived from the company's financial systems for both gross cash inflows and reinsurance cash outflows.

D.2.3.5 Allowance for Events Not In Data

Under GAAP technical provisions only make allowance for items that are implicitly included within the data or are "reasonably foreseeable". Under Solvency II the best estimate must have reference to "all possible outcomes" including latent claims or very extreme high severity, low probability claims. Gross and ceded technical provisions are estimated separately.

D.2.3.6 Allowance for expenses required to service the run-off of the technical provisions

All expenses expected to be incurred in running-off the technical provisions including a proportion of fixed overheads are allowed for. These have been estimated using the latest financial projections and an estimate of the expected time to run-off the Technical Provisions based on the estimated claims payment patterns.

D.2.3.7 Allowance for Reinsurance Bad Debt (non-recoverable reinsurance)

Expected non-payment of reinsurance recoveries continues to be made but is calculated by allowing for the probability of default using external credit ratings. The expected default under Solvency II takes into account the timing of the expected payment by reinsurer and hence allows for a change in rating over time.

D.2.3.8 Allowance for the future cost of reinsurance in respect of written business

Some future reinsurance purchases will benefit business written at the valuation date and the expected cost of this spend is included in the Technical Provisions.

D.2.3.9 Allowance for the impact of policies lapsing

Some lines of business are subject to policies lapsing (or being cancelled) before the policy has expired or a claim has been made. An allowance for this reduction in future profits (or losses) is made based on historical data.

D.2.3.10 Allowance for future investment income (discounting)

Cash flows are discounted for the time value of money based on the expected timing of all cash flows. The yield curves (discount rates) for major currencies which are used to discount the cash flows are provided by the supervisors.

D.2.3.11 Allowance for a risk margin

This adjustment increases the overall value of the Technical Provisions from the discounted best estimate to an amount equivalent to a theoretical level, needed to transfer the obligations to another insurance undertaking. It is calculated based on a discounted cost-of-capital approach where the initial capital required to support the TPs is assumed to run-off in proportion to the run-off of the Technical Provisions, and a cost of capital of 6% is used.

D.2.4 Reinsurance

AEL has significant reinsurance assets as most lines of business are covered by a 70% Quota Share (reducing to 60% from 01/07/2016). This cover is provided by AmTrust International Insurance Ltd (AII), which is another subsidiary company within the AmTrust Group. This quota share arrangement is fully collateralised.

Other lines such as Surety and Medical Malpractice are also covered by significant external quota shares (50% and 40%). The Solvency II Technical Provisions also make allowance for potential recoveries from non-proportional reinsurance with the most significant covering the PI, Liability and Property classes.

D.2.5 Significant changes in assumptions

The most significant changes in the assumptions used to calculate the Technical Provisions are:

- Medical Malpractice – the underlying loss ratios for this class have increased during 2016.
- The credit for discounting has reduced due to the reduction in the yield curves (as provided by EIOPA).
- There has been a reduction in the Future Premiums mainly as a result of a fall in the volumes of Medical Malpractice and Legal Expense business.

D.3 Other liabilities

D.3.1 Provisions other than technical provisions

	Solvency II Value	Statutory Accounts Value
Liabilities	*£000*	*£000*
Provisions other than technical provisions	2,788	2,788

Included within provisions other than technical provisions are amounts due to agents for profit sharing and similar agreements. These provisions are based on management's best estimates of the amounts due under those contracts.

D.3.2 Deferred tax

	Solvency II Value	Statutory Accounts Value
Liabilities	*£000*	*£000*
Deferred tax liabilities	0	891

As a result of adjusting the GAAP balance sheet to an economic balance sheet for Solvency II additional gains and losses are created within the Company. The Solvency II framework permits deferred tax balances to be created on the differences between the tax base of assets and or liabilities and the value based on Solvency II principles.

The adjustments at the year-end resulted in an overall decrease in the tax base of net assets and therefore a deferred tax asset has been recognised at the appropriate rate. The recoverability of this asset has been assessed against the future profitability of the Company which is considered sufficient to justify its carrying value.

D.3.3 Loans payables and other liabilities

	Solvency II Value	Statutory Accounts Value
Liabilities	*£000*	*£000*
Debts owed to credit institutions	7,777	7,777
Insurance & intermediaries payables	33,997	87,270
Reinsurance payables	78,900	214,271
Payables (trade, not insurance)	1,865	1,865
Any other liabilities, not elsewhere shown	28,777	72,402

Debts owed to credit institutions relate to cash amounts which are repayable in instalments with the final repayment due in 2021. Payables to insurance and intermediaries, reinsurance and other trade, as well as the other liabilities, are valued at amortised cost, consistent with the approach under UK GAAP, which is not considered to be materially different to the Solvency II valuation principle since creditor balances are short term, with no discounting impact and convertible into a cash balance.

Management have concluded there is no material estimation uncertainty surrounding the loans payable and other liabilities due to the nature of the liabilities which are largely short term and do not contain complex terms. The longer term debts owed to credit institutions has fixed repayment terms and is not considered to carry material estimation uncertainty.

Payables which are not yet due, are reclassified and dealt with as part of the technical provisions, described above.

There are a number of other reclassifications made between the UK GAAP balance sheet and the Solvency II balance sheet relating to these items to correctly classify items under the Solvency II categories.

D.4 Alternative methods for valuation

Within the UK GAAP annual accounts, property held other than for own use is valued at fair market value while property held for own use is valued at fair market value less accumulated depreciation. The latest valuation was performed as part of the year end process for 31 December 2016.

Valuations are performed by an independent, professional qualified valuer who has applied a traditional income capitalisation method, having regard to appropriate yields to the various income streams.

The above method is used as an approximation to derive Solvency II values.

D.5 Any other information

None noted

E. Capital Management

E.1 Own funds

AEL manages its Own Funds with the objective of always being able to satisfy both the MCR and the SCR plus a buffer. In 2016 AEL sought and was granted a voluntary variation of permission, which requires the Company to gain written consent from the PRA prior to paying a dividend and prior to entering into any transaction, arrangement or other agreement that is likely to take its Solvency Capital Requirement coverage below 120%. With this in mind, AEL prepares solvency projections for the following 3 years as part of its business planning process, which form part of the ORSA. In addition, short term solvency projections are calculated whenever a significant transaction is considered by the Company.

Solvency calculations are prepared following the end of each quarter and compared with available Own Funds and this is included in the Risk function's report to the Risk and Compliance Committee.

AEL's capital resources are made up of Tier 1 capital instruments and comprise of fully paid ordinary share capital, fully paid share premium plus the reconciliation reserve (accumulated profits on a Solvency II valuation basis.) Deferred tax assets are considered Tier 3 own funds and are therefore removed from the reconciliation reserve. Tier 3 own funds can contribute up to 15% of the Solvency Capital Requirement and when combined with eligible amounts of Tier 2 items shall not exceed 50% of the Solvency Capital Requirement. The deferred tax asset in the AEL balance sheet is well below these thresholds and therefore is fully utilised within the Solvency Capital Requirement coverage, but is excluded from Own Funds eligible to cover the Minimum Capital Requirement.

There were no significant changes in the structure of Own Funds during the year; no share capital has been issued and no dividends have been paid.

AEL's Solvency II capital at the end of the year and the prior year is shown in the table below.

£'000	Dec 2015 (unaudited)	Dec 2016
Ordinary share capital	71,385	71,385
Share premium	301	301
Reconciliation reserve	176,398	218,539
An amount equal to the value of net deferred tax assets	0	5,680
Own funds	**248,084**	**295,905**

AEL's eligible amount of Own Funds eligible to cover the SCR as of December 31st 2016 is listed in the table below.

Solvency Overview (in £000s), as of Dec					
	Tier	**Own Funds**	**Eligible %**	**Eligible Own Funds**	**Solvency Ratio**
SCR 217,087	1	290,225	100%	290,225	
	2	0	0	0	
	3	5,680	100%	5,680	
	Total	**295,905**	**100%**	**295,905**	**136%**

AEL's eligible amount of Own Funds to cover the MCR as of December 31st 2016 is listed in the table below.

Solvency Overview (in £000s)					
	Tier	**Own Funds**	**Eligible %**	**Eligible Own Funds**	**Solvency Ratio**
MCR 54,272	1	290,225	100%	290,225	
	2	0	0	0	
	3	5,680	0%	0	
	Total	**295,905**	**100%**	290,225	**535%**

There are certain differences between the value of Own Funds under Solvency II and the value of Equity shown in the Company's Financial Statements. These arise due to the difference in valuation of assets and liabilities described in Section D of this report. A reconciliation is shown in the table below.

	£000
Equity per Financial Statements	293,049
Differences in valuation of technical provision related items	(34,581)
Deferred Tax on SII profits	6,570
Difference in valuation of holdings in related undertakings, including participations	31,109
Other valuation differences	(242)
Solvency II Own Funds	295,905

None of the Company's Own Funds are subject to transitional arrangements. AEL has no Ancillary Own Funds. There are no ring-fenced funds and no deductions are made from Own Funds, nor is there any restriction affecting the availability and transferability of Own Funds within the Company.

E.2 Solvency capital requirement and minimum capital requirement

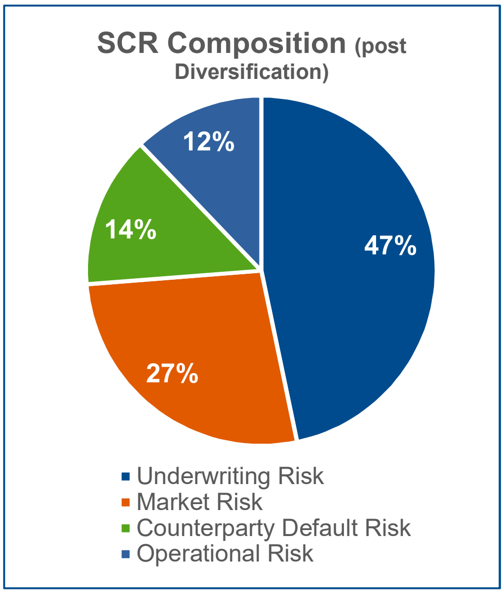
AEL uses an off the shelf system, VEGA, provided by Milliman to calculate its SCR using the Standard Formula. The Company does not use any Undertaking Specific Parameters (USPs) nor does it use simplified calculations for any of the risk modules.

Capital Requirements 31 Dec 2016	**£000**
SCR	217,087
MCR	54,272

E.2.1 Solvency Capital Requirement

AEL's SCR split by risk module as of December 31st 2016 is shown in the table below.

Solvency Capital Requirement	£000
Heath NSLT underwriting risk	995
Non-Life underwriting risk	130,991
Market risk	76,380
Counterparty default risk	39,838
Undiversified Basic SCR	**248,204**
Diversification credit	(57,466)
Basic SCR	**190,738**
Operational risk	26,349
Standard formula SCR	**217,087**



The Company does not make use of any simplified calculations within the SCR.

E.2.2 Minimum Capital requirement

AEL calculates its linear MCR using the prescribed formula. This is then compared with the Absolute floor of the MCR, the MCR cap and the MCR floor. Both the cap and floor are determined using the Standard Formula SCR.

Overall MCR calculation	£000
Linear MCR	52,933
SCR	217,087
MCR cap	97,689
MCR floor	54,272
Combined MCR	54,272
Absolute floor of the MCR	3,332
Minimum Capital requirement	54,272

The inputs for the linear MCR are shown in the table below, prescribed factors are applied to these figures to calculate the linear MCR.

MCR inputs (£000)	Net (of reinsurance) best estimate technical provision	Net (of reinsurance) written premiums in the last 12 months
Medical expenses	906	3,988
Motor vehicle liability	3,161	10,386
Other motor	763	305
Fire and other damage to property	5,013	13,870
General liability	134,023	123,174
Credit and suretyship	4,639	7,669
Legal expenses	0	31,271
Assistance	0	3,059
Miscellaneous financial loss	48,579	56,386

E.2.3 Material change in SCR and MCR

Solvency coverage has fallen from 161% at 31 Dec 2015 to 136% at 31 Dec 2016. The principal reason for this fall is the staged reduction in the quota share arrangement with AII. Whilst credit risk is mitigated by the reduction in the quota share arrangement this is replaced by larger concentrations of premium and reserve risk serving to increase the overall solvency capital requirement. This has also caused the material change in the MCR, as the MCR floor, based on the SCR currently determines the Company's MCR.

E.3 Use of duration-based equity risk sub-module in the calculation of Solvency Capital Requirement

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

E.4 Difference between the standard formula and the internal model used

AEL does not have an Internal Model to calculate its SCR.

E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

AEL has been in compliance with the MCR and SCR throughout the reporting period.

E.6 Any other information

None noted.

Annex 1
S.02.01.01
Balance sheet

		Solvency II value
Assets		C0010
Intangible assets	R0030	0
Deferred tax assets	R0040	5,680
Pension benefit surplus	R0050	0
Property, plant & equipment held for own use	R0060	5,329
Investments (other than assets held for index-linked and unit-linked c	R0070	475,594
Property (other than for own use)	R0080	9,462
Holdings in related undertakings, including participations	R0090	150,567
Equities	R0100	3,245
Equities - listed	R0110	0
Equities - unlisted	R0120	3,245
Bonds	R0130	312,320
Government Bonds	R0140	17,257
Corporate Bonds	R0150	295,063
Structured notes	R0160	0
Collateralised securities	R0170	0
Collective Investments Undertakings	R0180	0
Derivatives	R0190	0
Deposits other than cash equivalents	R0200	0
Other investments	R0210	0
Assets held for index-linked and unit-linked contracts	R0220	0
Loans and mortgages	R0230	0
Loans on policies	R0240	0
Loans and mortgages to individuals	R0250	0
Other loans and mortgages	R0260	0
Reinsurance recoverables from:	R0270	685,199
Non-life and health similar to non-life	R0280	685,199
Non-life excluding health	R0290	681,933
Health similar to non-life	R0300	3,267
Life and health similar to life, excluding health and index-linked and	R0310	0
Health similar to life	R0320	0
Life excluding health and index-linked and unit-linked	R0330	0
Life index-linked and unit-linked	R0340	0
Deposits to cedants	R0350	0
Insurance and intermediaries receivables	R0360	25,500
Reinsurance receivables	R0370	12,185
Receivables (trade, not insurance)	R0380	122,382
Own shares (held directly)	R0390	0
Amounts due in respect of own fund items or initial fund called up but	R0400	0
Cash and cash equivalents	R0410	38,678
Any other assets, not elsewhere shown	R0420	658
Total assets	R0500	1,371,206

Annex 1
S.02.01.01
Balance sheet

		Solvency II value
		C0010
Liabilities		
Technical provisions – non-life	R0510	921,116
Technical provisions – non-life (excluding health)	R0520	916,743
Technical provisions calculated as a whole	R0530	0
Best Estimate	R0540	874,142
Risk margin	R0550	42,601
Technical provisions - health (similar to non-life)	R0560	4,373
Technical provisions calculated as a whole	R0570	0
Best Estimate	R0580	4,172
Risk margin	R0590	201
Technical provisions - life (excluding index-linked and unit-linked)	R0600	0
Technical provisions - health (similar to life)	R0610	0
Technical provisions calculated as a whole	R0620	0
Best Estimate	R0630	0
Risk margin	R0640	0
Technical provisions – life (excluding health and index-linked and un	R0650	0
Technical provisions calculated as a whole	R0660	0
Best Estimate	R0670	0
Risk margin	R0680	0
Technical provisions – index-linked and unit-linked	R0690	0
Technical provisions calculated as a whole	R0700	0
Best Estimate	R0710	0
Risk margin	R0720	0
Contingent liabilities	R0740	0
Provisions other than technical provisions	R0750	2,788
Pension benefit obligations	R0760	0
Deposits from reinsurers	R0770	0
Deferred tax liabilities	R0780	0
Derivatives	R0790	81
Debts owed to credit institutions	R0800	7,777
Financial liabilities other than debts owed to credit institutions	R0810	0
Insurance & intermediaries payables	R0820	33,997
Reinsurance payables	R0830	78,900
Payables (trade, not insurance)	R0840	1,865
Subordinated liabilities	R0850	0
Subordinated liabilities not in Basic Own Funds	R0860	0
Subordinated liabilities in Basic Own Funds	R0870	0
Any other liabilities, not elsewhere shown	R0880	28,777
Total liabilities	R0900	1,075,301
Excess of assets over liabilities	R1000	295,905

Annex 1
S.05.01.02 (unaudited)
Premiums, claims and expenses by line of business

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)								
		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
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090
Premiums written										
Gross - Direct Business	R0110	10,414	0	0	17,068	774	0	27,552	241,240	8,296
Gross - Proportional reinsurance accepted	R0120	0	0	0	0	0	0	0	(63)	7,075
Gross - Non-proportional reinsurance accepted	R0130									
Reinsurers' share	R0140	6,412	0	0	6,682	469	0	13,682	118,004	7,398
Net	R0200	4,002	0	0	10,386	305	0	13,870	123,173	7,973
Premiums earned										
Gross - Direct Business	R0210	7,685	0	0	17,091	2,017	0	28,499	254,037	7,376
Gross - Proportional reinsurance accepted	R0220	0	0	0	0	0	0	0	(69)	6,286
Gross - Non-proportional reinsurance accepted	R0230									
Reinsurers' share	R0240	5,165	0	0	6,902	1,208	0	14,802	147,508	6,498
Net	R0300	2,520	0	0	10,189	809	0	13,697	106,460	7,164
Claims incurred										
Gross - Direct Business	R0310	5,911	0	0	10,113	2,013	0	10,130	172,262	2,500
Gross - Proportional reinsurance accepted	R0320	0	0	0	0	0	0	0	97	1,369
Gross - Non-proportional reinsurance accepted	R0330									
Reinsurers' share	R0340	4,054	0	0	6,796	1,409	0	6,922	133,979	2,169
Net	R0400	1,857	0	0	3,317	604	0	3,208	38,380	1,700
Changes in other technical provisions										
Gross - Direct Business	R0410	0	0	0	0	0	0	0	0	0
Gross - Proportional reinsurance accepted	R0420	0	0	0	0	0	0	0	0	0
Gross - Non- proportional reinsurance accepted	R0430									
Reinsurers' share	R0440	0	0	0	0	0	0	0	0	0
Net	R0500	0	0	0	0	0	0	0	0	0
Expenses incurred	R0550	478	0	0	7,807	186	0	10,363	48,946	5,617
Other expenses	R1200									
Total expenses	R1300									

Annex 1
S.05.01.02 (unaudited)
Premiums, claims and expenses by line of business

		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
		Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	
		C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
Premiums written									
Gross - Direct Business	R0110	60,844	7,201	102,096					475,485
Gross - Proportional reinsurance accepted	R0120	5,021	30	8,244					20,307
Gross - Non-proportional reinsurance accepted	R0130				0	0	0	0	0
Reinsurers' share	R0140	34,594	4,172	54,271	0	0	0	0	245,684
Net	R0200	31,271	3,059	56,069	0	0	0	0	250,108
Premiums earned									
Gross - Direct Business	R0210	56,014	9,355	62,894					444,968
Gross - Proportional reinsurance accepted	R0220	4,619	73	3,913					14,822
Gross - Non-proportional reinsurance accepted	R0230				0	0	0	0	0
Reinsurers' share	R0240	31,969	5,731	35,569	0	0	0	0	255,352
Net	R0300	28,664	3,697	31,238	0	0	0	0	204,438
Claims incurred									
Gross - Direct Business	R0310	41,272	10,267	45,031					299,499
Gross - Proportional reinsurance accepted	R0320	3,642	146	3,772					9,026
Gross - Non-proportional reinsurance accepted	R0330				0	0	0	0	0
Reinsurers' share	R0340	31,021	7,226	33,744	0	0	0	0	227,320
Net	R0400	13,893	3,187	15,059	0	0	0	0	81,205
Changes in other technical provisions									
Gross - Direct Business	R0410	0	0	0					0
Gross - Proportional reinsurance accepted	R0420	0	0	0					0
Gross - Non- proportional reinsurance accepted	R0430				0	0	0	0	0
Reinsurers' share	R0440	0	0	0	0	0	0	0	0
Net	R0500	0	0	0	0	0	0	0	0
Expenses incurred	R0550	13,671	1,139	14,581	0	0	0	0	102,788
Other expenses	R1200								1,653
Total expenses	R1300								104,441

Annex 1
S.05.02.01 (unaudited)
Premiums, claims and expenses by country

AmTrust Europe
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Non-life obligations for home country | **Top 5 countries (by amount of gross premiums written) - non-life obligations** | **Total Top 5 and home country**

		Home country						
		C0010	C0020	C0030	C0040	C0050	C0060	C0070
	R0010		IT (by amount of gross premiums written)	NO (by amount of gross premiums written)	FR (by amount of gross premiums written)	GR (by amount of gross premiums written)	SE (by amount of gross premiums written)	Total for top 5 countries and home country (by amount of gross premiums written)
		C0080	C0090	C0100	C110	C0120	C0130	C0140
Premiums written								
Gross - Direct Business	R0110	169,063	205,717	25,707	17,502	17,075	15,271	450,335
Gross - Proportional reinsurance accepted	R0120	6,226	53	41	492	0	631	7,443
Gross - Non-proportional reinsurance accepted	R0130	0	0	0	0	0	0	0
Reinsurers' share	R0140	87,199	99,714	12,776	9,198	6,686	9,120	224,693
Net	R0200	88,090	106,056	12,972	8,796	10,389	6,782	233,085
Premiums earned								
Gross - Direct Business	R0210	156,924	210,462	17,323	15,175	17,100	4,853	421,837
Gross - Proportional reinsurance accepted	R0220	5,508	45	35	231	0	547	6,366
Gross - Non-proportional reinsurance accepted	R0230	0	0	0	0	0	0	0
Reinsurers' share	R0240	87,219	123,875	9,134	8,429	6,908	4,250	239,815
Net	R0300	75,213	86,632	8,224	6,977	10,192	1,150	188,388
Claims incurred								
Gross - Direct Business	R0310	102,497	147,002	11,957	10,371	10,120	4,093	286,040
Gross - Proportional reinsurance accepted	R0320	4,610	66	51	209	0	760	5,696
Gross - Non-proportional reinsurance accepted	R0330	0	0	0	0	0	0	0
Reinsurers' share	R0340	75,910	116,303	8,305	6,611	6,801	3,378	217,308
Net	R0400	31,197	30,765	3,703	3,969	3,319	1,475	74,428
Changes in other technical provisions								
Gross - Direct Business	R0410	0	0	0	0	0	0	0
Gross - Proportional reinsurance accepted	R0420	0	0	0	0	0	0	0
Gross - Non-proportional reinsurance accepted	R0430	0	0	0	0	0	0	0
Reinsurers' share	R0440	0	0	0	0	0	0	0
Net	R0500	0	0	0	0	0	0	0
Expenses incurred	R0550	40,931	38,496	4,064	3,733	7,418	1,236	95,878
Other expenses	R1200							1,496
Total expenses	R1300	40,931	38,496	4,064	3,733	7,418	1,236	97,374

Annex 1
S.17.01.02
Non-Life technical provisions

		Direct business and accepted proportional reinsurance					
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance
		C0020	C0030	C0040	C0050	C0060	C0070
Technical provisions calculated as a whole	**R0010**	0	0	0	0	0	0
Total recoverable from reinsurance/SPV after the adjustment for expected losses due to counterparty default	**R0050**	0	0	0	0	0	0
Technical provisions calculated as a sum of BE and RM							
Best estimate							
Premium Provisions							
Gross - Total	**R0060**	2,583	0	0	518	2,706	0
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0140**	1,605	0	0	330	1,774	0
Net Best Estimate of Premium Provisions	**R0150**	978	0	0	188	932	0
Claims provisions							
Gross - Total	**R0160**	1,589	0	0	8,844	287	0
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0240**	1,661	0	0	5,871	457	0
Net Best Estimate of Claims Provisions	**R0250**	(72)	0	0	2,973	(170)	0
Total Best estimate - Gross	**R0260**	4,172	0	0	9,362	2,993	0
Total Best estimate - Net	**R0270**	906	0	0	3,161	762	0
Risk margin	**R0280**	201	0	0	701	169	0
Amount of the transitional on Technical Provisions							
TP as a whole	**R0290**	0	0	0	0	0	0
Best Estimate	**R0300**	0	0	0	0	0	0
Risk Margin	**R0310**	0	0	0	0	0	0
Technical provisions							
Technical provisions - total	**R0320**	4,373	0	0	10,063	3,162	0
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	**R0330**	3,266	0	0	6,201	2,231	0
Technical provisions minus recoverables from reinsurance/SPV and Finite Re-	**R0340**	1,107	0	0	3,862	931	0

Annex 1
S.17.01.02
Non-Life technical provisions

		Direct business and accepted proportional reinsurance					
		Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss
		C0080	C0090	C0100	C0110	C0120	C0130
Technical provisions calculated as a whole	**R0010**	0	0	0	0	0	0
Total recoverable from reinsurance/SPV after the adjustment for expected losses due to counterparty default	**R0050**	0	0	0	0	0	0
Technical provisions calculated as a sum of BE and RM							
Best estimate							
Premium Provisions							
Gross - Total	**R0060**	3,757	12,809	1,685	(11,996)	1,581	104,888
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0140**	2,153	15,072	627	(9,682)	966	66,592
Net Best Estimate of Premium Provisions	**R0150**	1,604	(2,263)	1,058	(2,314)	615	38,296
Claims provisions							
Gross - Total	**R0160**	11,664	670,531	7,307	22,123	1,790	35,648
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0240**	8,255	534,245	3,726	23,594	2,588	25,365
Net Best Estimate of Claims Provisions	**R0250**	3,409	136,286	3,581	(1,471)	(798)	10,283
Total Best estimate - Gross	**R0260**	15,421	683,340	8,992	10,127	3,371	140,536
Total Best estimate - Net	**R0270**	5,013	134,023	4,639	(3,785)	(183)	48,579
Risk margin	**R0280**	1,111	29,705	1,028	(839)	(41)	10,767
Amount of the transitional on Technical Provisions							
TP as a whole	**R0290**	0	0	0	0	0	0
Best Estimate	**R0300**	0	0	0	0	0	0
Risk Margin	**R0310**	0	0	0	0	0	0
Technical provisions							
Technical provisions - total	**R0320**	16,532	713,045	10,020	9,288	3,330	151,303
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	**R0330**	10,408	549,317	4,352	13,913	3,554	91,957
Technical provisions minus recoverables from reinsurance/SPV and Finite Re-	**R0340**	6,124	163,728	5,668	(4,625)	(224)	59,346

Annex 1
S.17.01.02
Non-Life technical provisions

		Accepted non-proportional reinsurance				
		Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport	Non-proportional property reinsurance	Total Non-Life obligation
		C0140	C0150	C0160	C0170	
Technical provisions calculated as a whole	**R0010**	0	0	0	0	0
Total recoverable from reinsurance/SPV after the adjustment for expected losses due to counterparty default	**R0050**	0	0	0	0	0
Technical provisions calculated as a sum of BE and RM						
Best estimate						
Premium Provisions						
Gross - Total	**R0060**	0	0	0	0	118,531
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0140**	0	0	0	0	79,437
Net Best Estimate of Premium Provisions	**R0150**	0	0	0	0	39,094
Claims provisions						
Gross - Total	**R0160**	0	0	0	0	759,783
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0240**	0	0	0	0	605,762
Net Best Estimate of Claims Provisions	**R0250**	0	0	0	0	154,021
Total Best estimate - Gross	**R0260**	0	0	0	0	878,314
Total Best estimate - Net	**R0270**	0	0	0	0	193,115
Risk margin	**R0280**	0	0	0	0	42,802
Amount of the transitional on Technical Provisions						
TP as a whole	**R0290**	0	0	0	0	0
Best Estimate	**R0300**	0	0	0	0	0
Risk Margin	**R0310**	0	0	0	0	0
Technical provisions						
Technical provisions - total	**R0320**	0	0	0	0	921,116
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	**R0330**	0	0	0	0	685,199
Technical provisions minus recoverables from reinsurance/SPV and Finite Re-	**R0340**	0	0	0	0	235,917

Annex 1
S.19.01.21 (unaudited)
Non-life insurance claims

Total non-life business

Accident year / Underwriting year	Z0010	2 - Underwriting Year

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

	Year	0	1	2	3	4	5	6	7	8	9	10 & +			In current year	Sum of years (cumulative)
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110			C0170	C0180
Prior	R0100											252		R0100	252	47,262
N-9	R0160	9,075	10,507	6,027	2,911	1,636	944	4,538	(3,417)	22	34			R0160	34	32,277
N-8	R0170	2,605	13,017	5,014	2,053	1,547	1,164	415	36	12				R0170	12	25,863
N-7	R0180	3,646	15,662	13,963	13,031	6,957	2,903	3,086	1,524					R0180	1,524	60,772
N-6	R0190	7,050	38,729	29,937	29,119	18,003	17,326	9,041						R0190	9,041	149,205
N-5	R0200	5,194	26,181	35,586	41,867	30,833	25,707							R0200	25,707	165,368
N-4	R0210	8,041	26,193	47,170	33,226	32,923								R0210	32,923	147,553
N-3	R0220	6,165	37,084	49,940	39,511									R0220	39,511	132,700
N-2	R0230	15,830	52,603	41,304										R0230	41,304	109,737
N-1	R0240	18,714	56,229											R0240	56,229	74,943
N	R0250	22,635												R0250	22,635	22,635
													Total	R0260	229,172	968,315

Annex 1
S.19.01.21 (unaudited)
Non-life insurance claims

Total non-life business

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

	Year	0	1	2	3	4	5	6	7	8	9	10 & +			In current year
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300			C0360
Prior	R0100											(116)		R0100	(116)
N-9	R0160	0	0	0	0	0	0	0	0	0	(1,922)			R0160	(1,922)
N-8	R0170	0	0	0	0	0	0	0	0	335				R0170	333
N-7	R0180	0	0	0	0	0	0	0	3,309					R0180	3,322
N-6	R0190	0	0	0	0	0	0	42,948						R0190	43,084
N-5	R0200	0	0	0	0	0	90,940							R0200	91,255
N-4	R0210	0	0	0	0	122,387								R0210	122,488
N-3	R0220	0	0	0	150,141									R0220	149,887
N-2	R0230	0	0	139,981										R0230	139,263
N-1	R0240	0	205,373											R0240	203,619
N	R0250	78,745												R0250	77,649
													Total	R0260	828,862

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Annex 1
S.23.01.01
Own funds

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35						
Ordinary share capital (gross of own shares)	R0010	71,385	71,385		0	
Share premium account related to ordinary share capital	R0030	301	301		0	
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040	0	0		0	
Subordinated mutual member accounts	R0050	0		0	0	0
Surplus funds	R0070	0	0			
Preference shares	R0090	0		0	0	0
Share premium account related to preference shares	R0110	0		0	0	0
Reconciliation reserve	R0130	218,539	218,539			
Subordinated liabilities	R0140	0		0	0	0
An amount equal to the value of net deferred tax assets	R0160	5,680				5,680
Other items approved by supervisory authority as basic own funds not specified above	R0180	0	0	0	0	0
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						
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	R0220	0				
Deductions						
Deductions for participations in financial and credit institutions	R0230	0	0	0	0	
Total basic own funds after deductions	R0290	295,905	290,225	0	0	5,680
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300	0			0	
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310	0			0	
Unpaid and uncalled preference shares callable on demand	R0320	0			0	0
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330	0			0	0
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340	0			0	
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350	0			0	0
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360	0			0	
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370	0			0	0
Other ancillary own funds	R0390	0			0	0

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Annex 1
S.23.01.01
Own funds

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Total ancillary own funds	**R0400**	0			0	0
Available and eligible own funds						
Total available own funds to meet the SCR	**R0500**	295,905	290,225	0	0	5,680
Total available own funds to meet the MCR	**R0510**	290,225	290,225	0	0	
Total eligible own funds to meet the SCR	**R0540**	295,905	290,225	0	0	5,680
Total eligible own funds to meet the MCR	**R0550**	290,225	290,225	0	0	
SCR	**R0580**	217,087				
MCR	**R0600**	54,272				
Ratio of Eligible own funds to SCR	**R0620**	136%				
Ratio of Eligible own funds to MCR	**R0640**	535%				

		Total	
		C0060	
Reconciliation reserve			
Excess of assets over liabilities	**R0700**	295,905	
Own shares (held directly and indirectly)	**R0710**	0	
Foreseeable dividends, distributions and charges	**R0720**	0	
Other basic own fund items	**R0730**	77,365	
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	**R0740**	0	
Reconciliation reserve	**R0760**	218,539	
Expected profits			
Expected profits included in future premiums (EPIFP) - Life business	**R0770**	0	
Expected profits included in future premiums (EPIFP) - Non- life business	**R0780**	31,950	
Total Expected profits included in future premiums (EPIFP)	**R0790**	31,950	

Annex 1
S.25.01.21
Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0100
Market risk	R0010	76,380		0
Counterparty default risk	R0020	39,838		
Life underwriting risk	R0030	0	0	0
Health underwriting risk	R0040	995	0	0
Non-life underwriting risk	R0050	130,991	0	0
Diversification	R0060	(57,466)		
Intangible asset risk	R0070	0		
Basic Solvency Capital Requirement	R0100	190,738		

Calculation of Solvency Capital Requirement		C0100
Operational risk	R0130	26,349
Loss-absorbing capacity of technical provisions	R0140	0
Loss-absorbing capacity of deferred taxes	R0150	0
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	0
Solvency Capital Requirement excluding capital add-on	R0200	217,087
Capital add-on already set	R0210	0
Solvency capital requirement for undertakings under consolidated method	R0220	217,087
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	0
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	0
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	0
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	0
Diversification effects due to RFF nSCR aggregation for article 304	R0440	0

Annex 1
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
MCRNL Result	R0010	52,933

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
Medical expense insurance and proportional reinsurance	R0020	906	3,988
Income protection insurance and proportional reinsurance	R0030	0	0
Workers' compensation insurance and proportional reinsurance	R0040	0	0
Motor vehicle liability insurance and proportional reinsurance	R0050	3,161	10,386
Other motor insurance and proportional reinsurance	R0060	763	305
Marine, aviation and transport insurance and proportional reinsurance	R0070	0	0
Fire and other damage to property insurance and proportional reinsuran	R0080	5,013	13,870
General liability insurance and proportional reinsurance	R0090	134,023	123,174
Credit and suretyship insurance and proportional reinsurance	R0100	4,639	7,669
Legal expenses insurance and proportional reinsurance	R0110	0	31,271
Assistance and proportional reinsurance	R0120	0	3,059
Miscellaneous financial loss insurance and proportional reinsurance	R0130	48,579	56,386
Non-proportional health reinsurance	R0140	0	0
Non-proportional casualty reinsurance	R0150	0	0
Non-proportional marine, aviation and transport reinsurance	R0160	0	0
Non-proportional property reinsurance	R0170	0	0

Linear formula component for life insurance and reinsurance obligations

		C0040
MCRL Result	R0200	0

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
Obligations with profit participation - guaranteed benefits	R0210	0	
Obligations with profit participation - future discretionary benefits	R0220	0	
Index-linked and unit-linked insurance obligations	R0230	0	
Other life (re)insurance and health (re)insurance obligations	R0240	0	
Total capital at risk for all life (re)insurance obligations	R0250		0

Overall MCR calculation

		C0070
Linear MCR	R0300	52,933
SCR	R0310	217,087
MCR cap	R0320	97,689
MCR floor	R0330	54,272
Combined MCR	R0340	54,272
Absolute floor of the MCR	R0350	3,332
		C0070
Minimum Capital Requirement	R0400	54,272