AmTrust Europe Limited

Solvency and Financial Condition Report

For the year ended 31 December 2017

AmTrust Europe

An AmTrust Financial Company

AmTrust Europe
An AmTrust Financial Company

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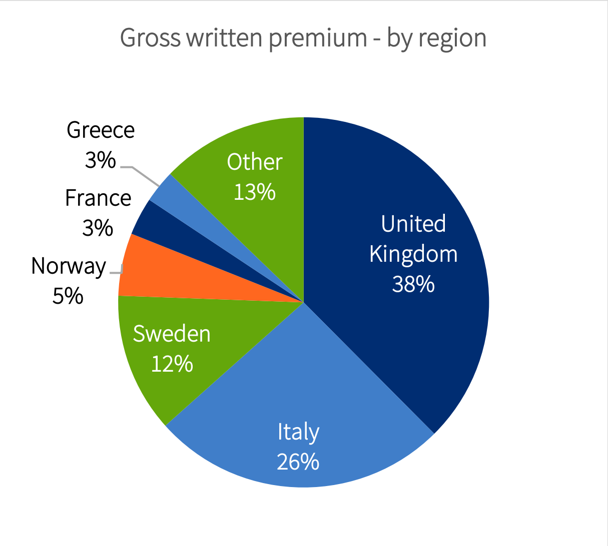
Summary

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;
- Property;
- Surety; and
- Accident & health.

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 AEL's future claims 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 second SFCR prepared by the Company. It is prepared on a solo entity basis and it covers the year ended 31st December 2017.

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 have impacted AEL during the year 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; 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.

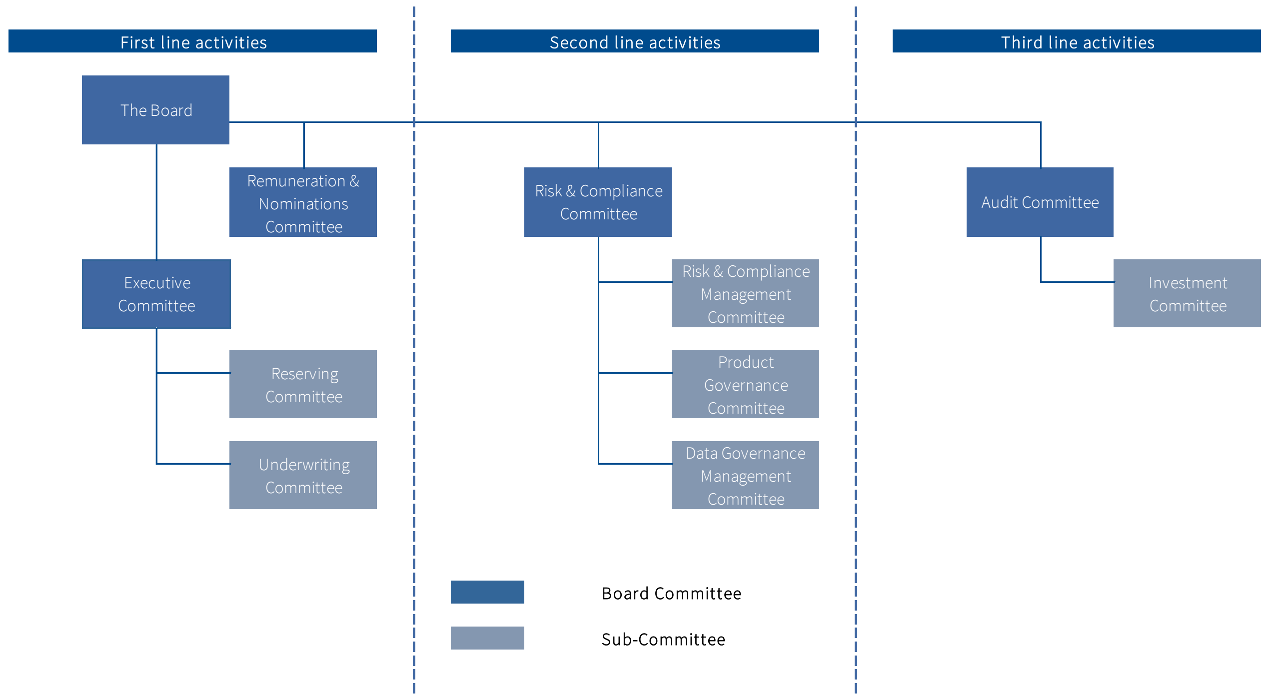
Business performance

2017	Total £'000
Gross premiums written	455,823
Reinsurers' share	193,574
Net premiums written	**262,249**
Gross premiums earned	450,030
Reinsurers' share	207,996
Net premiums earned	**242,034**
Gross claims incurred	283,100
Reinsurers' share	175,703
Net claims incurred	**107,397**
Net operating expenses	**132,830**
Other expense	**3,061**
Net technical result	**(1,254)**

AEL's net technical result in 2017 was a small loss, primarily due to increased expenses compared with 2016.

Further information on AEL's business and performance is included in section A.

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).

Further information on the system of governance is included in section B.

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 to which it is exposed and these are evaluated each quarter by the Risk and Compliance Management Committee and the Risk and Compliance 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 2017.

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 and foreign exchange risk.

The Company's material exposures to market risk are: interest rate 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.

Further information on AEL's risk profile is included in section C.

Valuation for solvency purposes

Under Solvency II valuation principles, items in AEL's balance sheet are valued at the amount at which the assets and liabilities could be exchanged between knowledgeable willing parties in an arm's length transaction. This differs from the valuation used in AEL's financial statements, which are valued under UK generally accepted accounting principles (UK GAAP).

As at 31st December 2017 AEL's assets less liabilities were valued at £352,398,000 under Solvency II, compared with £382,437,000 under UK GAAP. The difference of £30,039,000 was primarily due to the valuation of technical provisions (including reinsurer's share and deferred acquisition costs) and the valuation of AEL's investment in AMT Mortgage Insurance Ltd.

Further detail on the valuation for solvency purposes is included in Section D.

Capital Management

The Company's capital management objective is to maintain sufficient capital to safeguard the Company's ability to continue as a going concern and to protect the interests of all of its customers, investors, regulators and trading partners while also efficiently deploying capital and managing risk to sustain ongoing business development. The Company maintains a prudent buffer over the Solvency Capital Requirement (SCR).

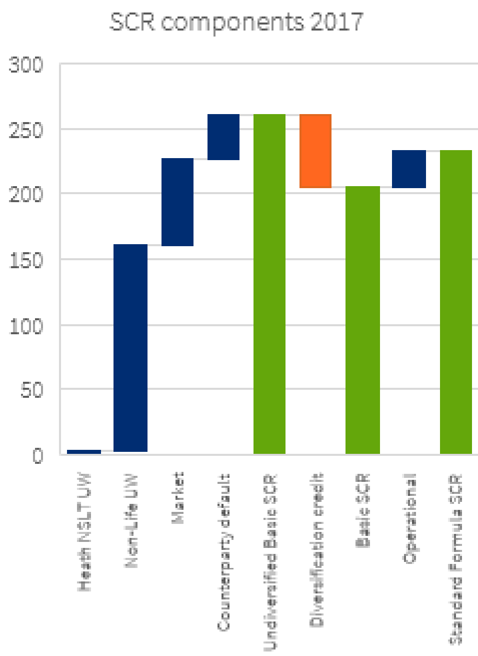
AEL calculates its SCR using the Standard Formula. The Company does not use any Undertaking Specific Parameters (USPs) allowed under Solvency II, nor does it use simplified calculations for any of the risk modules.

AEL's Own Funds increased by £56 million in 2017 due to the issuance of £15 million of share capital and recognition of profits during the year.

Capital Requirements 31 Dec 2017	2017	Coverage	2016	Coverage
	£000		*£000*	
Own funds	352,398		295,905	
SCR	232,253	152%	217,087	136%
MCR	61,246	566%	54,272	535%

AEL's SCR split by risk module as of December 31st 2017 is shown in the table and graph below.

Solvency Capital Requirement	2017
	£000
Health NSLT underwriting risk	3,131
Non-Life underwriting risk	158,225
Market risk	63,949
Counterparty default risk	33,625
Undiversified Basic SCR	**258,930**
Diversification credit	(54,303)
Basic SCR	**204,627**
Operational risk	27,626
Standard Formula SCR	**232,253**



Further information on capital management can be found in section E.

Directors' statement of responsibilities in respect of the SFCR

The Board 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:

A Mas Murcia (Director)

08 May 2018

AmTrust Europe
An AmTrust Financial Company

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

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

Opinion

Except as stated below, we have audited the following documents prepared by AmTrust Europe Limited as at 31 December 2017:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2017, ('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' elements 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').

In our opinion, the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report of the Company as at 31 December 2017 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Relevant Elements of the Solvency and Financial Condition Report* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – special purpose basis of accounting

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you if:

- the directors' use of the going concern basis of accounting in the preparation of the SFCR is not appropriate; or
- the directors have not disclosed in the SFCR any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the SFCR is authorised for issue.

Other Information

The Directors are responsible for the Other Information.

Our opinion on the Relevant Elements of the Solvency and Financial Condition Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the Relevant Elements of the Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Relevant Elements of the Solvency and Financial Condition Report or a material misstatement of the Other Information. 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.

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Relevant Elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the Relevant Elements of the Solvency and Financial Condition Report are prepared, in all material respects, with 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.

Our objectives are to obtain reasonable assurance about whether the Relevant Elements of the Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the Relevant Elements of the Solvency and Financial Condition Report.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities.

Report on Other Legal and Regulatory Requirements[1]

In accordance with Rule 4.1 (3) of the External Audit Chapter of the PRA Rulebook we are required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the Company'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.

Mark Taylor for and on behalf of KPMG LLP
15 Canada Square
London, E14 5GL

08 May 2018

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'

Business and Performance

Section A

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 Regulation Authority (PRA). The 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 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.

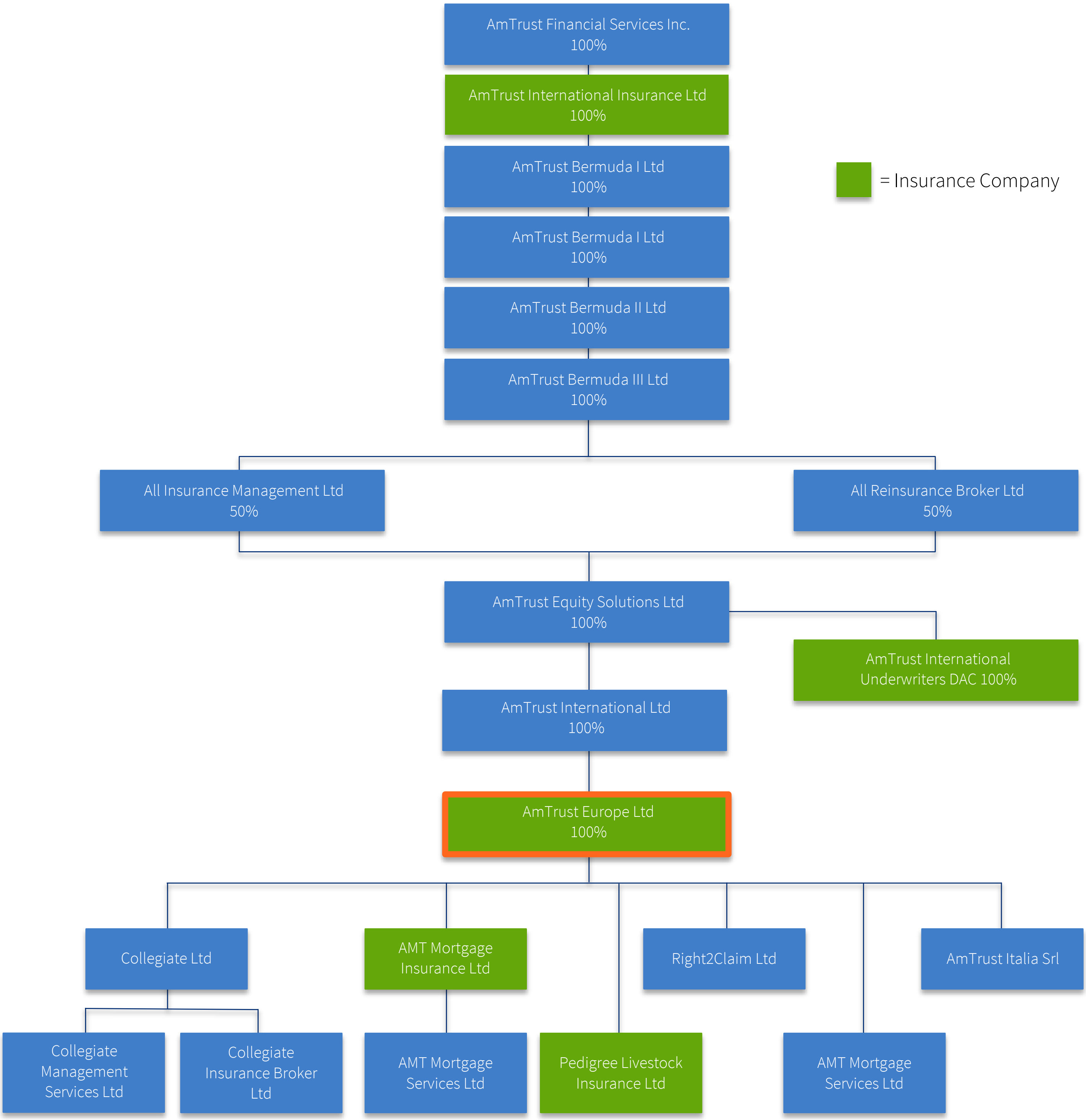
AFSI's business model focuses on achieving targeted returns and profit growth with the careful management of risk. The Global Group pursues these goals through geographic and product diversification, as well as an in-depth understanding of its insured exposure. The product mix includes, primarily: workers' 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.

In early January 2018, AEL's ultimate parent company, received a proposal from a private equity firm, together with the current majority shareholders, to take the Group private. This proposed transaction was approved by the parent company's Board including its independent Special Committee at the end of February 2018. The transaction is ongoing as at the date of this report and is expected to close in the second half of 2018, subject to satisfaction or waiver of the closing conditions including approval by regulatory authorities and the shareholders. While there is no current indication that this transaction will have an immediate impact on the business strategy of the Group, it is recognised that there may be longer term implications for the business which at this stage are not ascertainable.

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 Syndicates Ltd. (ASL), 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 PLI 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, special risk & warranty, and accident & health.

A.1.7 Material events

The following material events impacted the Company during the year:

Changes to Intra-group reinsurance – AEL has benefitted from a whole account quota share reinsurance programme with AmTrust International Insurance (AII), 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 AII from 70% to 20% over a three-year period. As of 1 July 2017 the quota share was reduced to 40%.

- On 14 December 2017 the company issued 3,658,600 ordinary shares to AmTrust International Limited, the immediate parent undertaking of the company. The shares were fully paid at a subscription price of £4.10 per share, being £1.00 each nominal value plus £3.10 each share premium, giving a total subscription price of £15,000,260. The capital was raised to strengthen the solvency position of the company.

- During the year the Company received a £47,988,000 dividend from AmTrust Mortgage Insurance Limited.

A.2 Underwriting Performance

A.2.1 Material lines of business

2017	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	158,119	154,822	45,518	35,543	61,821	455,823
Reinsurers' share	62,265	67,746	25,531	14,173	23,859	193,574
Net premiums written	95,854	87,076	19,987	21,370	37,962	262,249
Gross premiums earned	197,532	111,857	49,508	31,863	59,270	450,030
Reinsurers' share	92,343	52,133	27,550	12,866	23,104	207,996
Net premiums earned	105,189	59,724	21,958	18,997	36,166	242,034
Gross claims incurred	123,727	70,266	49,091	14,539	25,477	283,100
Reinsurers' share	77,946	43,094	31,402	8,419	14,842	175,703
Net claims incurred	45,781	27,172	17,689	6,120	10,635	107,397
Net operating expenses	56,357	30,274	7,694	12,640	25,865	132,830
Other expense						3,061
Net technical result						(1,254)

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 and developed a strong on-the-ground presence in Italy via a dedicated branch infrastructure. In 2017 AEL's performance was broadly in line with expectations and AmTrust continues to hold a strong position in the market place.

Due to Brexit, AEL is no longer responding to new Medical Malpractice public hospital tenders in Italy, which are instead being referred to AmTrust's Irish based insurer, AmTrust International Underwriters Designated Activity Company (AIU). Business written in AEL is therefore limited to renewals and extensions of contracts with existing hospitals and policies for smaller associations and individual doctors. These contracts will continue to be written in AEL for the time being but will be transferred to AIU in advance of Brexit.

A.2.1.1.2 Casualty

The Company's professional indemnity line of business experienced favourable development in 2017 resulting in improvements to actuarial best estimates and the account continues to be reserved at prudent levels. The strategy is to focus upon smaller firms and to underwrite on a primary basis. Underwriting volatility is mitigated by reinsurance protection. The finalisation of the acquisition of Collegiate Management Services Limited in the latter part of 2016 was a significant platform for growth in 2017.

During 2017 the Company's liability account has performed satisfactorily. The focus for this line of business continues to be on small contracting trades with relatively low limits of indemnity. 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 growth in the year as new opportunities have crystallised. The underwriting performance has been satisfactory. International expansion in this area presents opportunities for the Company with South East Asia continuing to be an exciting prospect.

For the 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.

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 2017 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.

Trading conditions for personal injury "after the event" (ATE) remained challenging in 2017. 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 increases in ultimate loss ratios in 2017 and in the termination of the binding authority with a major coverholder. The focus for 2018 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 2018 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 "before the event" BTE legal expenses insurance was a growth area in 2017 meaning the Company is now one of the leading BTE providers in the UK as well as benefitting from the ownership of two major coverholders within the AmTrust group.

A.2.1.4 Fire and other damage to property

Performance in 2017 has been strong and was supported by relatively benign weather conditions. Residential let property and the Company's caravan lines of business have experienced good claims performance. Volumes have increased as a result of additional Household business through a new coverholder.

Looking forward into 2018 the market is expected to be increasingly competitive. A key underwriting focus going forward is exposure management and to further develop the post code rating model seeking to increase the footprint of risk selection within the UK.

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 retail Travel market due to continued losses on the portfolio from business written in prior underwriting years.

In 2017 new private health (PMI), personal accident (PA) and dental schemes were written in the UK and mainland Europe. At the same time, attention has been on delivering improved underwriting performance from existing schemes.

In 2018 much of the mainland European business will be transferred to AIU in advance of Brexit. Consequently AEL business volumes in 2018 are expected to decline in comparison with prior years.

A.2.1.5.2 Surety

The group's wholly owned managing agent in Spain and the business generated by it has continued to grow. 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. Geographical expansion into South America has been a key focus and this will continue into 2018.

A.2.1.5.3 Mortgage

Following the acquisition of Genworth Financial Mortgage Insurance Limited (now AMT Insurance Limited ("AMIL")) in May 2016 a small amount of mainland European mortgage business has been written in AEL in 2017. New business volumes are expected to remain at similar levels in 2018 after which new business is likely to be written in the Irish insurance company. During 2018 a Part VII transfer is likely to be effected from AMIL to AEL for the run-off of the whole of the existing AMIL portfolio.

A.2.2 Material geographic areas

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

The geographical split shows that premium written in Italy has reduced from £206m in 2016 to £118m, reflecting the transition of Medical Malpractice to AIU in advance of Brexit. Business written in Sweden has increased from £16m in 2016 to £56m due to growth in Accident & Health and Electrical Mobile.

2017	United Kingdom	Italy	Sweden	France	Greece	Norway	Other countries (non-material)	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross premiums written	171,196	117,773	55,523	24,948	15,035	13,047	58,301	455,823
Reinsurers' share	76,803	45,454	15,871	9,246	6,776	3,751	35,673	193,574
Net premiums written	**94,393**	**72,319**	**39,652**	**15,702**	**8,259**	**9,296**	**22,628**	**262,249**
Gross premiums earned	148,991	154,344	43,446	20,711	14,315	13,638	54,585	450,030
Reinsurers' share	75,114	75,349	12,724	9,077	7,036	4,389	24,307	207,996
Net premiums earned	**73,877**	**78,995**	**30,722**	**11,634**	**7,279**	**9,249**	**30,278**	**242,034**
Gross claims incurred	105,263	99,755	19,590	13,880	9,433	6,576	28,603	283,100
Reinsurers' share	66,146	64,122	11,086	7,782	6,013	3,537	17,017	175,703
Net claims incurred	**39,117**	**35,633**	**8,504**	**6,098**	**3,420**	**3,039**	**11,586**	**107,397**
Net operating expenses	**30,200**	**34,406**	**20,580**	**4,542**	**2,411**	**5,765**	**34,926**	**132,830**
Other expense								**3,061**
Net technical result								**(1,254)**

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

While the investment portfolio performed better than its benchmark in 2017, income was lower in 2017 due in part to a realignment of the portfolio towards investments with a higher credit rating but a lower return.

The property investment is a building in Nottingham which the Company occupies and rents out the remaining floors 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.

2017	Corporate and Government Bonds	Property	Investment in subsidiaries
	£'000	£'000	£'000
Income from other investments	5,611	747	0
Unrealised gain on investments	458	(684)	16,292
Investment management expenses	(26)	(555)	0
Realised gain on sale of investments	181	0	0
Dividend Income from Subsidiaries	0	0	47,988
Interest Paid	0	(202)	0
	6,224	(694)	64,280

2016	Corporate and Government Bonds	Property	Investment in subsidiaries
	£'000	£'000	£'000
Income from other investments	6,141	759	324
Unrealised gain on investments	9,789	60	27,933
Investment management expenses	(619)	(560)	0
Realised gain 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.

System of Governance

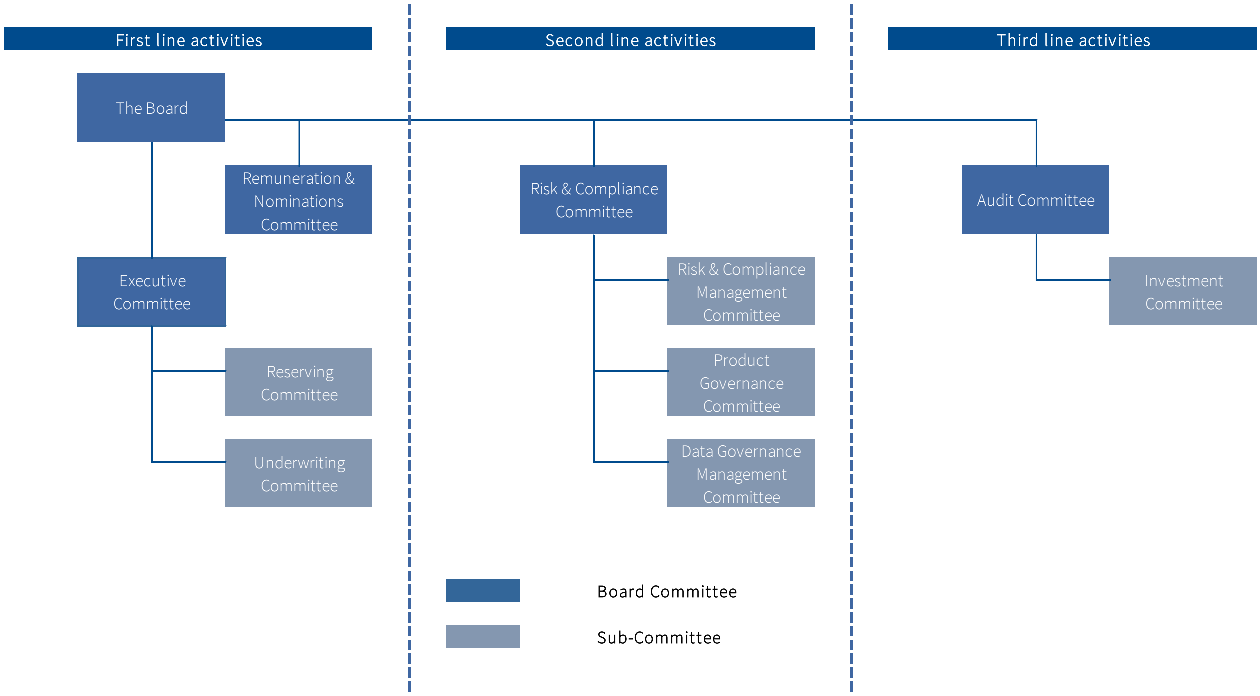
Section B

B. System of Governance

B.1 General information on the system of governance

B.1.1 The Board and System of Governance

The Company recognises the importance of strong corporate governance and has established a well-defined governance framework, system of control and committee structure. The Board and its sub-committees are shown in the diagram below.



The Company employs a 'three lines of defence' governance model to ensure that risk management is effective, appropriate decisions are made and best practice is implemented and maintained. Broadly the responsibility of the three lines is 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. Business management is responsible for the identification and assessment of risks and controls, as well as for developing and implementing mitigation plans where necessary.
- 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. Risk functions provide support and challenge the completeness and accuracy of risk assessments and the adequacy of mitigation plans.
- 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 robustness of the risk management framework and the appropriateness and effectiveness of the Company's governance and internal control systems. The Company has an independent Internal Audit function which resides here.

B.1.1.1 Board responsibilities

The Board includes an independent Non-Executive Chairman, two other independent Non-Executive Directors (INEDs) and two Non-Executive Directors (NEDs) and Executive Directors listed below. It normally meets four times a year and at other times as required. Minutes of all Board and Committee meetings are recorded and reflect the substance of the discussion, as well as the decisions made.

The Board closely monitors developments in corporate governance and assesses how these can be applied to AEL. The Company's governance arrangements continue to be reviewed in line with developments in best practice. The Board believes the existing structure is appropriate for the size and complexity of AEL.

The Board is responsible for the oversight of the management of AEL, including:

- Agreeing AEL long-term directions and objectives.
- Developing and maintaining the AEL business model and while ensuring that local regulation, legislation or market practice is also met.
- Determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives and setting the risk appetite.
- Oversight of AEL operations.
- Ensuring the appropriate and necessary financial and human resources are in place to meet AEL objectives.
- Providing constructive challenge to the executive directors and senior management.
- Ensuring the highest standards of governance are followed.
- Developing AEL culture.

B.1.1.2 The role of the Chairman

The Chairman is responsible for the leadership of the Board and is pivotal in the creation of the conditions necessary for overall Board and individual director effectiveness, both in and outside the boardroom, including:

- The leadership of the Board and ensuring its effectiveness on all aspects of its role.
- Ensuring effective Board governance.
- Setting agendas.
- Requiring that the Executive provide to members of the Board accurate, timely and clear information.
- Managing the Board to ensure sufficient time is allowed for discussion of key risks and issues.
- Facilitating contributions from NEDs.
- Considering and addressing the development needs (induction, training and professional development) of individual directors and the Board as a whole.

B.1.1.3 The role of the independent Non-Executive Directors (INEDs) and Non-Executive Directors (NEDs)

The role of the INEDs and NEDs includes the following key elements:

- Constructively challenging and helping to develop proposals on longer term direction and strategy.
- Scrutinising the performance of management in meeting agreed goals and objectives and monitoring the reporting of performance.
- Satisfying themselves on the integrity of financial information, and that financial controls and systems of risk management are robust and effective.

B.1.1.4 The role of the Chief Executive Officer

The Chief Executive Officer (CEO) manages AEL in accordance with the business plans approved by the Board and in accordance with AEL strategy and plans. The CEO leads the setting and execution of the AEL business strategy and is accountable for:

- Ensuring that AEL remains legally solvent at all times and that customers are treated fairly
- Ensuring that AEL is compliant with all law and regulations affecting its business, its policyholders and its staff, including fulfilling all relevant obligations as required under the Senior Insurance Managers Regime.
- Managing AEL's risk profile, in line with the extent and categories of risk identified as acceptable by the Board.
- Approving the apportionment and allocation of roles and responsibilities of the executive management team of AEL.
- Approving all capital and revenue transactions, including acquisitions and disposals, not specifically reserved to the Board.

B.1.1.5 Board composition

During the year, the Board of Directors consisted of 11 members, including the Chairman of the Board as follows:

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

The Chairman of the Board resigned on 31st of December 2017. A new Chairman was appointed on 20th March 2018.

The MD was appointed on 17th October 2017.

The CRO resigned on 1st October 2017. A new CRO was been appointed on 5th February 2018.

The CFO resigned on 31st May 2017. A new CFO joined the business on an interim basis in July 2017, but has not been appointed to the Board.

B.1.1.6 First Line Committees

B.1.1.6.1 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 three members, one of whom is the Chairman of the committee and is an independent Non-Executive Director (INED). The other two members of the committee are a Non-Executive Director (NED) and the Chief Executive Officer (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.1.1.6.2 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 Directors, including the Chief Executive Officer (CEO), the Chief Operating Officer (COO), the Chief Risk Officer (CRO), the Managing Director (MD), the Underwriting Director. Further Executive members include the European General Counsel and the Chief Finance Officer (CFO).

B.1.1.6.3 Executive Committee Sub-Committees

B.1.1.6.3.1 *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 effective reserving processes are in place at the Company and that the level of reserves booked by the Company are appropriate. The key responsibilities of the committee are: to present and discuss the reserving performance and position; to review the appropriateness of assumptions and expert judgement applied within the calculations of technical provisions; to ensure that the reserving policy reflects current technical requirements; to provide direction to the Finance department on the level of reserves to be booked in the Company's accounts; and to review the performance of the claims function and make reports and recommendations to the Executive Committee regarding claims.

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 five members, who are the Managing Director (MD), the Chief Operating Officer (COO), the Chief Risk Officer (CRO), the Chief Finance Officer (CFO) and the Underwriting Director.

B.1.1.6.3.2 *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 eight members, including the Underwriting Director, Managing Director (MD), 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.

B.1.1.7 Second Line Committees

B.1.1.7.1 Risk & Compliance Committee

The key purpose of the committee in relation to Risk Management 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.
- To advise the Board on the risk strategy, including risk appetite and tolerance levels, and to ensure that the risk management framework is appropriate and adequately resourced.
- The key duties and responsibilities of the committee in relation to Compliance are:
- To oversee and advise the Board on the current compliance exposures of the Company and to ensure implementation of the annual Compliance Plan.
- To review the Company's systems and controls around prevention and detection of fraud, anti-money laundering and bribery in accordance with regulatory requirements.
- To ensure that the Compliance function is adequately resourced.

The committee consists of three members, including the Chairman of the Board and two other independent Non-Executive Directors.

B.1.1.7.2 *Risk & Compliance Management Committee*

The Risk and Compliance Committee is supported by the Risk & Compliance Management Committee. The purpose of the group is to oversee all aspects of risk management and compliance. The key responsibilities and duties of the group are as follows:

- 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.
- To monitor compliance with risk policies and risk appetites.
- To ensure that there are adequate governance procedures and controls around the capital calculation.
- To collate and review operational losses / near misses.

The group consists of six members, including the Chief Risk Officer (CRO), the Chief Operating Officer (COO), the Managing Director (MD), the Underwriting Director, the Chief Finance Officer (CFO), and the Head of Compliance.

B.1.1.7.2.1 *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 five members, including the Chief Operating Officer (COO), the Compliance Manager, the Underwriting Director, the Chief Risk Officer (CRO) and the Head of Liability.

B.1.1.7.2.2 *Data Governance Management Committee*

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

The group consists of seven members, including the Chief Operating Officer (COO), the Risk Manager, the Chief Finance Officer (CFO), the Pricing Actuary, the Broker Services Manager, the Head of IT, and the Business Analyst.

B.1.1.8 Third Line Committees

B.1.1.8.1 *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 and effectiveness of the Company's Internal Audit Function, internal data, systems, controls, and risk management as related to financial reporting.

The committee consists of three independent Non-Executive Directors of the Board.

B.1.1.8.1.1 *Investment Committee*

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

The group consists of three members including the Chief Finance Officer (CFO), the Chief Risk Officer (CRO) and the Financial Controller.

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 2017. These included the following:

- Appointment of the new Independent Non-Executive Director and the Audit Committee Chair.

- A new Independent Non-Executive Director, Board Chairman and Remuneration Committee Chair was appointed, but has retired from these positions on 31st of December 2017. The new Independent Non-Executive Director, Board Chairman and Remuneration Committee Chair was appointed on 20th March 2018.
- Appointment of the Management Director.
- Appointment of the new Chief Risk Officer.
- Appointment of the new Head of Compliance.
- Granting General Counsel a Power Of Attorney to manage and carry on the authorised insurance business of the Company and represent the Company in its relations with insurance supervisory authorities, Chamber of Commerce, and other regulatory authorities, and to enter into certain contracts.

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 has delegated authority from the AEL Board for establishing, managing and overseeing, via Human Resources, the implementation of the Remuneration Policy. The Remuneration Committee is responsible for ensuring that all applicable remuneration regulations as they may apply to employees either collectively or individually are complied with. The Remuneration Committee 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. Human Resources is responsible for implementing the Remuneration Policy, carrying out any decisions made by the Remuneration Committee and for ensuring the governance of remuneration arrangements for all employees is aligned with the Remuneration Policy.

The Remuneration Policy describes the overarching principles and framework for AEL. It 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 provides a description of how pay programmes are run in order to demonstrate compliance with all applicable regulations and legislation including but not limited to those requirements set out in in Article 275 of Commission Delegated Regulation (EU) 2015/35. 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 the 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.
- 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.
- No member of the Remuneration Committee is involved in deliberations or decision making on his / her own pay or the pay of the other members of the Remuneration Committee. The AEL Board reviews Non-Executive Directors fees on the renewal of contracts and if roles or duties materially change. AEL's policy is to pay sufficient fees to attract Non-Executive Directors with the necessary skills and experience to provide effective input to the AEL Board. In practice, fees are usually targeted at the market median for companies of similar business and size.

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.
- Variable pay awards for Solvency II employees identified within the prescribed control functions, Risk, Compliance, Actuarial and Internal Audit functions, will not be determined using criteria which measures the performance of the business or operational unit subject to their control. Individual allocations are made based on the individual performance against functional objectives, to include adherence to all required controls and regulatory standards and codes of conduct.
- To ensure that AEL's senior employees (including AEL's Solvency II Employees) are aligned not only to the annual goals of AEL, but equally as importantly, the long term success of the business and group, AEL ensures that a substantial portion, no less than 40% for the required population, of variable compensation is in the form of a long-term deferred component, an AFSI Restricted Stock Unit (RSU) award.
- To ensure alignment to risk and performance of the business, provisions exist so that the 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. In December 2017, AmTrust International Limited acquired 3,658,000 of the Ordinary Shares of AEL for £15m.

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, 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, 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 unexpected 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
RCSAs			●	●			
Emerging risks monitoring			●	●	●	●	●
Annual strategic planning process	●	●	●	●			
Risk register				●		●	●
KRI reporting		●		●		●	●
Stress tests		●		●			●
Incident reporting and escalation			●				●
Controls & Compliance monitoring					●	●	●
Capital modelling & Capital allocation	●	●		●		●	●
ORSA	●	●	●	●		●	●
Risk Matrix	●	●	●	●	●	●	●

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 process, 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 Emerging risks monitoring

The objective of this process is to identify primarily external factors that are "out there" and that are already, or may at some stage in the future, have an impact on the Company. The potential scale of an emerging risk and the extent that it is "clear and present danger" define its position on the chart, rating and the management action required.

B.3.2.3 Annual strategic planning process

AEL Senior Management team, including the Chief Risk Officer, attend an off-site business planning session to review AEL's strategy and develop a business plan taking into consideration the Company's strategic issues, market challenges and business opportunities. A 'top-down' risk assessment is performed as part of the review. Conclusions are summarised in a presentation that is signed off by the Board.

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 used to measure whether the Company remains within the Board's stated Risk Appetite. KRIs are monitored by the Risk and Compliance Management Committee and reported to 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 are reviewed by the risk department and an action plan put in place. Incidents are 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

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. In response to the historic growth and more complex risk profile, the Company has developed a stochastic capital model to assess economic capital. The stochastic capital model is run in parallel with the Standard Formula to provide a second view of capital to compare with the SCR and to facilitate an ongoing validation of the SCR. The first parallel run has been completed for the capital position at the end of 4Q 2017 and will continue on a quarterly basis under the supervision of the Capital Model Steering Committee, chaired by the AEL CRO. The AEL Executive Committee and the Board will review the results and conclusions of the quarterly parallel runs.

B.3.2.10 Capital allocation

AEL assesses the relative performance of its classes of business using a Grow/Fix/Exit ("GFE") framework. The framework considers each line of business in detail, including the market environment, the combined ratio and also the Return on Equity (ROE) based on the Standard Formula SCR. The ROE calculation measures how much capital is consumed by each line of business, and how the profit emerges over time to generate the return. In this way, AEL can measure the comparative capital consumption across all lines. This forms an important part of the decision-making process of where to invest capital in the business plan.

B.3.3 Own Risk and Solvency Assessment (ORSA)

The Own Risk and Solvency Assessment (ORSA) brings together the ERM processes described above, enabling the Board to assess, monitor, manage, and report the short and long term risks that AEL faces or may face and to determine the Own Funds necessary to ensure that AEL's overall solvency needs are met at all times.

The ORSA process is strongly linked to the Board's approval of the Company's strategy and business plans, which ensures that the ORSA is embedded in strategy and decision-making. Risks identified through the RCSA process and the top-down risk assessment form the basis of stress test scenarios, which are selected and approved by the Board. This allows the Company to test risks to its strategy.

AEL completes its full ORSA process annually during the fourth quarter or whenever there is a material change in its risk profile. Changes in risk profile are monitored through the quarterly KRI process.

AEL determines its overall solvency needs by determining its projected regulatory capital requirements and adding a loading to this figure. This combined with stress and scenario testing gives the Board comfort that the Company has sufficient capital resources to fulfil its strategy.

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.

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 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.

Under Solvency II 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 Executive 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:

- Production of the Technical Provisions in accordance with Solvency II principles and ensuring that methodologies and underlying models used are appropriate for the specific lines of business of the undertaking and for the way the business in managed, having regard to the available data.
- Assessment of whether the information technology systems used in the calculation of technical provisions sufficiently support the actuarial and statistical procedures.
- Monitoring the actuarial best estimate reserves against actual experience.
- Reporting to the Board on the reliability and adequacy of the Technical Provisions calculation.
- Express opinion regarding the underwriting policy.
- Providing a statistical framework to price various lines of business.
- Reviewing new business opportunities and providing feedback on the underlying models & assumptions or any external actuarial models used.
- Work with underwriters to provide support on product performance.
- Providing input to the Underwriting Committee and Performance Review Committee as appropriate.
- Providing independent input into the ULRs to be used in the business plans.
- Input of Premium Risk parameters into the Capital Modelling process.
- 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.
- Support to the Risk Management Function to quantify the risks identified.
- Building and maintaining a stochastic Internal Capital Model of the AEL business.
- Validating the inputs into the Internal Capital Model.

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;
- Supervision of each outsourced relationship by a nominated individual within AEL;
- Formal management and monitoring of Service Level Agreements;
- Routine management attestation as to continuous control compliance in relation to outsourcing;
- Contingency plans in the event that the service providers are unable to perform the service; 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.

Risk Profile

Section C

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 2017. 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 40% of the Company's premium is attributable to this class, as well as around 68% 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. Furthermore, underwriting performance is monitored against risk appetites in terms of volume of written premium, underwriting profit and concentration via the KRI reporting process.

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

AEL has performed a series of sensitivity tests on its solvency position; these are shown in section C.7.1.

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 the Investment Management Group.

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.

AEL owns a London-based business, AMT Mortgage Insurance Limited ("AMIL", formerly Genworth Financial Mortgage Insurance Ltd), 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 is applying for a 'Part VII transfer' of policies written by AMIL into AEL. 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 investments in AMIL, AmTrust Italia Srl and Collegiate Ltd, 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 assets where the risk can be properly identified, measured, monitored, managed, controlled and reported on, the Company fulfils the Prudent Person Principle.

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 KRI 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

AEL has performed a series of sensitivity tests on its solvency position; these are shown in section C.7.1.

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 a 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, JP Morgan and Intesa Sanpaolo.

The AEL largest corporate bond exposure is to European Investment Bank, making up of 3.6% of the investment portfolio. Other large bond exposures are to Telenor ASA, HSBC Finance Corp, Daimer AG and ABN Amro Bank NV.

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. Reinsurance 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 "A-" 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 counterparty exposures. 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 has performed a series of sensitivity tests on its solvency position; these are shown in section C.7.1.

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 readily bought or sold to realise cash.

Through 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 which can be realised for cash at short notice.

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, would also pose 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 £8,964,000. This amount is highly illiquid, but represents less than 3% of the value of own funds.

C.4.5 Risk sensitivities

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

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 operational risk through IT, data, outsourcing, underwriting, reinsurance, fraud and conduct.

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 pose 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, due diligence, business continuity and Sarbanes-Oxley controls.

All of AEL's operational risks are captured within the Company's risk register and recorded in 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 performed a series of sensitivity tests on its solvency position; these are shown in section C.7.1.

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. Furthermore, the AEL Board stays informed of the current and emerging risks at the AIL

Group level through AEL CEO, who simultaneously performs the CEO role at AIL. 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; production of 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

C.7.1 Risk sensitivities

AEL has performed sensitivity tests to show the impact on SCR and solvency coverage by changing the assumptions associated with each risk type in the SCR calculation. These are independent stresses to individual risks, although in practice risks may occur in combination, but the impact would differ from the combination of impacts of the individual stresses. No future management actions, which could mitigate the impacts shown, have been taken into account. The impacts of each stress are non-linear and the results shown should not be used to extrapolate the effects of larger or smaller changes in the assumptions.

AEL has performed the following sensitivity tests on its solvency position.

Risk category	Test	SCR (£m)	Increase / (decrease) in SCR (£m)	Increase / (decrease) in Solvency ratio (% points)
Underwriting	25% increase in volume of GWP in next 12 months	281.3	49.0	(26.4%)
Underwriting	25% decrease in volume of GWP in next 12 months	222.3	(10.0)	6.8%
Underwriting	25% increase in Claims provisions	241.4	9.1	(31.4%)
Underwriting	25% decrease in Claims provisions	224.8	(7.5)	32.6%
Market	25% increase in asset durations	234.1	1.8	(1.2%)
Market	25% decrease in asset durations	230.3	(2.0)	1.3%
Market	10% of investment portfolio moved to the two most concentrated exposures	232.4	0.1	(0.1%)
Market	10% increase in currency exposure for each currency	232.6	0.3	(4.8%)
Market	10% decrease in currency exposure for each currency	231.8	(0.5)	6.0%
Credit	Fall in rating of one credit step for three largest insurers	236.3	4.0	(2.6%)
Credit	Fall in rating of one credit quality step for securitisation positions held	232.3	0.0	0.0%
Credit	Double the proportion of debtors overdue by more than 3 months	235.6	3.3	(2.1%)
Operational	Increase in technical provisions of 25%	241.1	8.8	(37.5%)
Group	Downgrade of AII by one credit quality step	238.4	6.1	(3.9%)

The risk with the most material effect on the SCR is underwriting risk, in particular to any increase in the volume of premium written. The Company closely monitors premium volume against its business plan and any additional business must be authorised by senior management, taking into account the availability of capital to support it.

The tests also show a material sensitivity, in terms of solvency ratio, to increases and decreases in claims provisions. Additionally increases in technical provisions show a material sensitivity, in terms of solvency ratio, which drives the operational risk charge. AEL has robust procedures in place for setting reserve levels, as described in section B.1.1.6.3.1.

Valuation for Solvency Purposes

Section D

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 2017.

	Statutory Accounts Value	Reclassification adjustments	Valuation adjustments	Solvency II Value
	£000	*£000*	*£000*	*£000*
Assets				
Deferred acquisition costs	101,491		(101,491)	0
Deferred tax asset	0	(616)	6,437	5,821
Property, plant & equipment held for own use	5,072			5,072
Investments (other than assets held for index-linked and unit-linked contracts)				
Property (other than for own use)	8,604			8,604
Holdings in related undertakings, including	138,038		(2,594)	135,444
Equities				
Equities - unlisted	5,017			5,017
Bonds				
Government Bonds	25,997			25,997
Corporate Bonds	346,773			346,773
Reinsurance recoverables from:				
Non-life and health similar to non-life				
Non-life excluding health	824,381	263,094	(424,606)	662,869
Health similar to non-life	0		2,441	2,441
Insurance and intermediaries receivables	335,192	(290,747)		44,445
Reinsurance receivables	21,217			21,217
Receivables (trade, not insurance)	57,568	27,653		85,221
Cash and cash equivalents	54,841			54,841
Any other assets, not elsewhere shown	34,041		(1,371)	32,670
Total assets	*1,958,232*	*(616)*	*(521,184)*	*1,436,432*
Liabilities				
Technical provisions – non-life	1,276,115	178,064	(1,454,178)	0
Technical provisions – non-life (excluding health)	0			
Best Estimate			918,126	918,126
Risk margin			42,135	42,135
Technical provisions - health (similar to non-life)				0
Best Estimate			2,726	2,726
Risk margin			47	47
Other technical provisions	0			0
Provisions other than technical provisions	2,966			2,966
Deferred tax liabilities	616	(616)		0
Derivatives	30			30
Debts owed to credit institutions	7,710			7,710
Insurance & intermediaries payables	61,321	(53,016)		8,305
Reinsurance payables	56,397	(56,397)		0
Payables (trade, not insurance)	7,152			7,152
Any other liabilities, not elsewhere shown	163,488	(68,651)		94,837
Total liabilities	*1,575,795*	*(616)*	*(491,145)*	*1,084,034*
Excess of assets over liabilities	*382,437*	*0*	*(30,039)*	*352,398*

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

	Statutory Accounts Value	Reclassification adjustments	Valuation adjustments	Solvency II Value
Assets	*£000*	*£000*	*£000*	*£000*
Deferred acquisition costs	101,491		(101,491)	0

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

	Statutory Accounts Value	Reclassification adjustments	Valuation adjustments	Solvency II Value
Assets	*£000*	*£000*	*£000*	*£000*
Deferred tax asset	0	(616)	6,437	5,821

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)

	Statutory Accounts Value	Reclassification adjustments	Valuation adjustments	Solvency II Value
Assets	*£000*	*£000*	*£000*	*£000*
Property, plant & equipment held for own use	5,072			5,072
Property (other than for own use)	8,604			8,604

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

	Statutory Accounts Value	Reclassification adjustments	Valuation adjustments	Solvency II Value
Assets	*£000*	*£000*	*£000*	*£000*
Holdings in related undertakings, including participations	138,038		(2,594)	135,444

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

	Statutory Accounts Value	Reclassification adjustments	Valuation adjustments	Solvency II Value
Assets	*£000*	*£000*	*£000*	*£000*
Bonds				
Government Bonds	25,997			25,997
Corporate Bonds	346,773			346,773

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 European Insurance and Occupational Pensions Authority (EIOPA) guidelines contained within Article 75 of Directive 2009/138/EC the method of banding the portfolio into levels can be consistently applied under SII and therefore no adjustments are made to the UK GAAP position. At 31 December 2017 AEL has £133,370,000 of Level1 and £239,400,000 of Level 2 investments.

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

	Statutory Accounts Value	Reclassification adjustments	Valuation adjustments	Solvency II Value
Assets	*£000*	*£000*	*£000*	*£000*
Reinsurance recoverables from:				
Non-life excluding health	824,381	263,094	(424,606)	662,869
Health similar to non-life	0		2,441	2,441

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

	Statutory Accounts Value	Reclassification adjustments	Valuation adjustments	Solvency II Value
Assets	*£000*	*£000*	*£000*	*£000*
Insurance and intermediaries receivables	335,192	(290,747)		44,445
Reinsurance receivables	21,217			21,217
Receivables (trade, not insurance)	57,568	27,653		85,221

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

	Statutory Accounts Value	Reclassification adjustments	Valuation adjustments	Solvency II Value
Assets	*£000*	*£000*	*£000*	*£000*
Cash and cash equivalents	54,841			54,841
Any other assets, not elsewhere shown	34,041		(1,371)	32,670

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:

- best estimate equal to the probability-weighted average of all future cash-flows, taking account of the time value of money; and
- 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 £298m compared to £352m on a statutory basis, a difference of 15.6%.

The following tables show a summary of AEL's Technical Provisions under Solvency II:

4Q 2017 Class	Gross of reinsurance (£000)	Recoverable from reinsurance (£000)	Net of reinsurance (£000)	Risk Margin (£000)	Total Technical Provisions (£000)
Assistance	3	886	(883)	(146)	(1,029)
Credit & suretyship	8,483	6,395	2,089	345	2,433
Fire & other damage to property	15,421	6,551	8,870	1,464	10,334
Legal expenses	33,872	25,124	8,749	1,444	10,193
Medical expense	2,726	2,441	285	47	332
Miscellaneous financial loss	163,659	101,348	62,311	10,286	72,597
Other motor	2,152	1,688	465	77	542
Motor vehicle liability	7,342	4,294	3,048	503	3,551
General liability	687,194	516,584	170,609	28,162	198,771
Total	920,852	665,310	255,542	42,182	297,724

4Q 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. 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 Events Not in Data (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 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

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 (UPR)

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 (BBNI) 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 (ENIDS)

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)

This is determined by calculating the present value of the future cash flows using a defined yield curve. 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 standard cost of capital of 6% is used in accordance with Solvency II requirements.

D.2.4 Reinsurance

AEL has significant reinsurance assets as most lines of business are covered by a Quota Share arrangement which was initially 70% but was reduced to 60% from 01/07/2016; to 40% from 01/07/2017; and to 20% from 01/07/2018. 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 20%). 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 2017.
- 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

	Statutory Accounts Value	Reclassification adjustments	Valuation adjustments	Solvency II Value
Liabilities	*£000*	*£000*	*£000*	*£000*
Provisions other than technical provisions	2,966			2,966

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

	Statutory Accounts Value	Reclassification adjustments	Valuation adjustments	Solvency II Value
Liabilities	*£000*	*£000*	*£000*	*£000*
Deferred tax liabilities	616	(616)		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.3.3 Loans payables and other liabilities

	Statutory Accounts Value	Reclassification adjustments	Valuation adjustments	Solvency II Value
Liabilities	*£000*	*£000*	*£000*	*£000*
Derivatives	30			30
Debts owed to credit institutions	7,710			7,710
Insurance & intermediaries payables	61,321	(53,016)		8,305
Reinsurance payables	56,397	(56,397)		0
Payables (trade, not insurance)	7,152			7,152
Any other liabilities, not elsewhere shown	163,488	(68,651)		94,837

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 from the Solvency II valuation principle since creditor balances are short term (payable within 6 months), 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 2017.

Valuations are performed by an independent, professionally 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.

Otherwise than detailed above property, plant and equipment has been written down to nil value as ready available market valuations were not available.

D.5 Any other information

None noted.

Capital Management

Section E

E. Capital Management

E.1 Own funds

The Company's capital management objective is to maintain sufficient capital to safeguard the Company's ability to continue as a going concern and to protect the interests of all of its customers, investors, regulators and trading partners while also efficiently deploying capital and managing risk to sustain ongoing business development. The Company maintains a prudent buffer over the SCR.

The Company's capital position is kept under constant review and is reported quarterly to the Board and to the PRA as part of Solvency II reporting.

AEL manages its Own Funds with the objective of always being able to satisfy both the MCR and the SCR plus a buffer. The target ratio for available capital in excess of the Solvency II SCR is agreed and signed off by the AEL Board. There have been no significant changes to the capital management objectives over the period of the report.

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 and Tier 3 capital instruments. Tier 1 comprises 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.

The structure of Own Funds changed during the year; on 14 December 2017 the company issued 3,658,600 ordinary shares to AmTrust International Limited, the immediate parent undertaking of the company. The shares were fully paid at a subscription price of £4.10 per share, being £1.00 each nominal value plus £3.10 each share premium, giving a total subscription price of £15m. No dividends have been paid during the year.

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

£'000	Dec 2017	Dec 2016
Ordinary share capital	75,044	71,385
Share premium	11,642	301
Retained profit & loss reserve	259,891	218,539
An amount equal to the value of net deferred tax assets	5,821	5,680
Own Funds	352,398	295,905

AEL's eligible amount of Own Funds eligible to cover the SCR as of December 31st 2017 and 2016 are listed in the tables below.

	Solvency Overview (in £000s), as of Dec 31 2017				
	Tier	Own Funds	Eligible %	Eligible Own Funds	Solvency Ratio
SCR 232,253	1	346,577	100%	346,577	
	2	0	0	0	
	3	5,821	100%	5,821	
	Total	352,368		352,368	152%

	Solvency Overview (in £000s), as of Dec 31 2016				
	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		295,905	136%

AEL's eligible amount of Own Funds to cover the MCR as of December 31st 2017 and 2016 is listed in the table below.

	Solvency Overview (in £000s), as of Dec 31 2017				
	Tier	Own Funds	Eligible %	Eligible Own Funds	Solvency Ratio
MCR 61,246	1	346,577	100%	346,577	
	2	0	0	0	
	3	5,821	0%	0	
	Total	352,398		346,577	566%

	Solvency Overview (in £000s), as of Dec 31 2016				
	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		290,225	535%

There are certain differences between the value of Own Funds under Solvency II and the value of shareholder's funds 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.

	2017	2016
	£000	*£000*
Equity per Financial Statements	382,437	293,049
Differences in valuation of technical provision related items	(32,541)	(34,581)
Solvency II valuation adjustments to assets & liabilities	2,472	37,679
Other valuation differences	0	(242)
Solvency II Own Funds	352,368	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

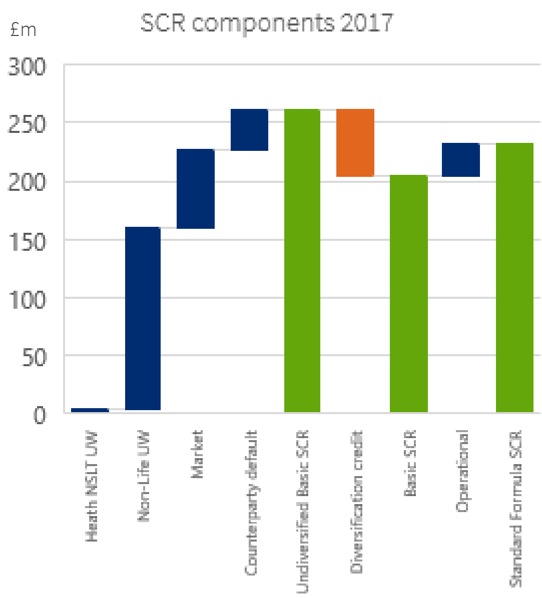
AEL uses an off the shelf system, VEGA, provided by Milliman to calculate its SCR using the Standard Formula. The Company does not use any Undertaking Specific Parameters (USPs) nor does it use simplified calculations for any of the risk modules. The final amount of SCR is subject to supervisory assessment.

Capital Requirements	2017	2016
	£000	*£000*
SCR	232,253	217,087
MCR	61,246	54,272

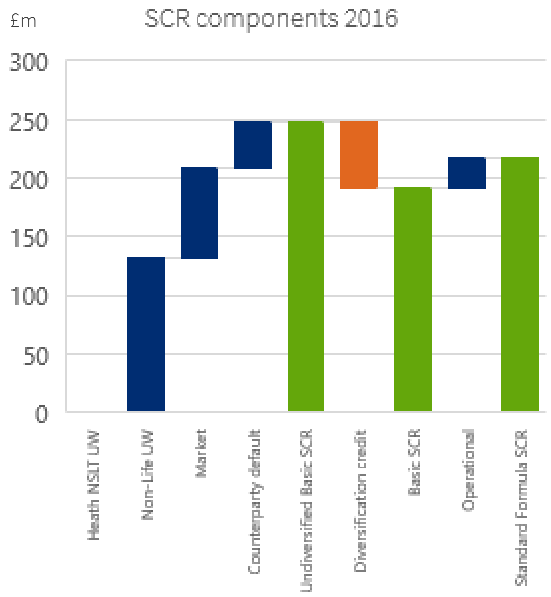
E.2.1 Solvency Capital Requirement

AEL's SCR split by risk module as of December 31st 2017 and 2016 are shown in the tables below.

Solvency Capital Requirement	2017
	£000
Health NSLT underwriting risk	3,131
Non-Life underwriting risk	158,225
Market risk	63,949
Counterparty default risk	33,625
Undiversified Basic SCR	**258,930**
Diversification credit	(54,303)
Basic SCR	**204,627**
Operational risk	27,626
Standard Formula SCR	**232,253**



Solvency Capital Requirement	2016
	£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



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	2017	2016
	£000	*£000*
Linear MCR	61,246	52,933
SCR	232,253	217,087
MCR cap	104,514	97,689
MCR floor	58,063	54,272
Combined MCR	61,246	54,272
Absolute floor of the MCR	3,286	3,332
Minimum Capital requirement	61,246	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	
	2017	*2016*	*2017*	*2016*
Medical expenses	285	906	21,145	3,988
Motor vehicle liability	3,048	3,161	9,304	10,386
Other motor	465	763	0	305
Fire and other damage to property	8,870	5,013	22,804	13,870
General liability	170,609	134,023	97,496	123,174
Credit and suretyship	2,086	4,639	7,706	7,669
Legal expenses	8,749	0	23,237	31,271
Assistance	0	0	1,376	3,059
Miscellaneous financial loss	62,311	48,579	87,803	56,386

E.2.3 Material change in SCR and MCR

Solvency coverage has increased from 136% at 31 December 2016 to 152% at 31 December 2017. This movement is principally due to the following capital actions in the year:

- A £15m issue of new shares by AEL increasing Own Funds.
- In accordance with the latest EIOPA guidance, AEL's related insurance undertakings, AmTrust Mortgage Insurance Limited and Pedigree Livestock Insurance Limited, which are wholly owned subsidiaries, have not been included in the Concentration risk calculation.
- Corporate bond holdings held in the investment portfolio increased during the year, with a corresponding increase in Own Funds. An improvement in the credit quality of the portfolio reduced the spread risk charge in the Market risk calculation.

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 use 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

Quantitative Reporting Templates

Annex 1
S.02.01.01
Balance sheet

		Solvency II value
Assets		C0010
Intangible assets	R0030	0
Deferred tax assets	R0040	5,821
Pension benefit surplus	R0050	0
Property, plant & equipment held for own use	R0060	5,072
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	521,835
Property (other than for own use)	R0080	8,604
Holdings in related undertakings, including participations	R0090	135,444
Equities	R0100	5,017
Equities - listed	R0110	0
Equities - unlisted	R0120	5,017
Bonds	R0130	372,770
Government Bonds	R0140	25,997
Corporate Bonds	R0150	346,773
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	665,310
Non-life and health similar to non-life	R0280	665,310
Non-life excluding health	R0290	662,869
Health similar to non-life	R0300	2,441
Life and health similar to life, excluding health and index-linked and unit-linked	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	44,445
Reinsurance receivables	R0370	21,217
Receivables (trade, not insurance)	R0380	85,221
Own shares (held directly)	R0390	0
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	0
Cash and cash equivalents	R0410	54,841
Any other assets, not elsewhere shown	R0420	32,670
Total assets	R0500	1,436,432

Annex 1
S.02.01.01
Balance sheet

Liabilities		Solvency II value
		C0010
Technical provisions – non-life	R0510	963,034
Technical provisions – non-life (excluding health)	R0520	960,261
Technical provisions calculated as a whole	R0530	0
Best Estimate	R0540	918,126
Risk margin	R0550	42,135
Technical provisions - health (similar to non-life)	R0560	2,773
Technical provisions calculated as a whole	R0570	0
Best Estimate	R0580	2,726
Risk margin	R0590	47
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 unit-linked)	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	2,966
Pension benefit obligations	R0760	0
Deposits from reinsurers	R0770	0
Deferred tax liabilities	R0780	0
Derivatives	R0790	30
Debts owed to credit institutions	R0800	7,710
Financial liabilities other than debts owed to credit institutions	R0810	0
Insurance & intermediaries payables	R0820	8,305
Reinsurance payables	R0830	0
Payables (trade, not insurance)	R0840	7,152
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	94,837
Total liabilities	R0900	1,084,034
Excess of assets over liabilities	R1000	352,398

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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	28,166	0	0	13,058	(50)	0	35,543	158,030	5,176
Gross - Proportional reinsurance accepted	R0120	0	0	0	0	0	0	0	89	12,967
Gross - Non-proportional reinsurance accepted	R0130									
Reinsurers' share	R0140	8,730	0	0	3,754	(33)	0	14,173	62,265	10,278
Net	R0200	19,436	0	0	9,304	(17)	0	21,370	95,854	7,865
Premiums earned										
Gross - Direct Business	R0210	24,266	0	0	13,650	1,431	0	31,863	197,443	6,812
Gross - Proportional reinsurance accepted	R0220	0	0	0	0	0	0	0	89	9,359
Gross - Non-proportional reinsurance accepted	R0230									
Reinsurers' share	R0240	7,037	0	0	4,392	871	0	12,866	92,343	9,009
Net	R0300	17,230	0	0	9,257	560	0	18,997	105,189	7,163
Claims incurred										
Gross - Direct Business	R0310	10,891	0	0	6,582	1,663	0	14,539	123,728	1,877
Gross - Proportional reinsurance accepted	R0320	0	0	0	0	0	0	0	(1)	2,646
Gross - Non-proportional reinsurance accepted	R0330									
Reinsurers' share	R0340	6,538	0	0	3,540	1,164	0	8,419	77,946	2,608
Net	R0400	4,353	0	0	3,043	499	0	6,120	45,781	1,915
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	12,778	0	0	6,495	65	0	12,640	56,357	5,597
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	39,196	2,502	135,478					417,099
Gross - Proportional reinsurance accepted	R0120	6,322	3	19,344					38,724
Gross - Non-proportional reinsurance accepted	R0130				0	0	0	0	0
Reinsurers' share	R0140	25,532	1,129	67,746	0	0	0	0	193,574
Net	R0200	19,987	1,376	87,074	0	0	0	0	262,249
Premiums earned									
Gross - Direct Business	R0210	43,618	3,749	103,657					426,489
Gross - Proportional reinsurance accepted	R0220	5,890	3	8,200					23,541
Gross - Non-proportional reinsurance accepted	R0230				0	0	0	0	0
Reinsurers' share	R0240	27,550	1,795	52,133	0	0	0	0	207,996
Net	R0300	21,958	1,957	59,724	0	0	0	0	242,034
Claims incurred									
Gross - Direct Business	R0310	43,724	1,862	68,134					273,000
Gross - Proportional reinsurance accepted	R0320	5,367	(44)	2,132					10,100
Gross - Non-proportional reinsurance accepted	R0330				0	0	0	0	0
Reinsurers' share	R0340	31,402	993	43,094	0	0	0	0	175,704
Net	R0400	17,689	825	27,172	0	0	0	0	107,397
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	7,694	928	30,275	0	0	0	0	132,830
Other expenses	R1200								3,061
Total expenses	R1300								135,891

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

Non-life obligations for home country		Home country	Top 5 countries (by amount of gross premiums written) - non-life obligations					Total Top 5 and 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	162,804	117,719	24,948	14,853	13,047	55,584	388,955
Gross - Proportional reinsurance accepted	R0120	8,392	53	1	181	0	(61)	8,566
Gross - Non-proportional reinsurance accepted	R0130	0	0	0	0	0	0	0
Reinsurers' share	R0140	76,803	45,454	9,246	6,776	3,751	15,871	157,901
Net	R0200	94,393	72,319	15,702	8,259	9,296	39,651	239,620
Premiums earned								
Gross - Direct Business	R0210	150,988	154,294	20,710	14,217	13,638	43,007	396,854
Gross - Proportional reinsurance accepted	R0220	(1,997)	50	1	97	0	439	(1,410)
Gross - Non-proportional reinsurance accepted	R0230	0	0	0	0	0	0	0
Reinsurers' share	R0240	75,114	75,349	9,077	7,036	4,389	12,724	183,689
Net	R0300	73,877	78,994	11,634	7,279	9,249	30,722	211,755
Claims incurred								
Gross - Direct Business	R0310	102,000	99,710	13,880	9,371	6,576	19,458	250,995
Gross - Proportional reinsurance accepted	R0320	3,253	45	0	62	0	132	3,503
Gross - Non-proportional reinsurance accepted	R0330	0	0	0	0	0	0	0
Reinsurers' share	R0340	66,146	64,122	7,782	6,013	3,537	11,086	158,685
Net	R0400	39,117	35,633	6,099	3,420	3,040	8,504	95,813
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	30,200	34,406	4,542	2,411	5,765	20,580	97,904
Other expenses	R1200							2,687
Total expenses	R1300	30,200	34,406	4,542	2,411	5,765	20,580	100,591

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	1,960	0	0	275	1,392	0
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	759	0	0	(136)	912	0
Net Best Estimate of Premium Provisions	R0150	1,201	0	0	411	479	0
Claims provisions							
Gross - Total	R0160	766	0	0	7,067	761	0
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	1,682	0	0	4,430	775	0
Net Best Estimate of Claims Provisions	R0250	(916)	0	0	2,637	(15)	0
Total Best estimate - Gross	R0260	2,726	0	0	7,342	2,152	0
Total Best estimate - Net	R0270	285	0	0	3,048	465	0
Risk margin	R0280	47	0	0	503	77	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	2,773	0	0	7,845	2,229	0
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	R0330	2,441	0	0	4,294	1,688	0
Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total	R0340	332	0	0	3,551	542	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	3,885	19,536	212	(33,126)	381	111,513
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	(53)	6,066	(371)	(22,166)	160	66,014
Net Best Estimate of Premium Provisions	R0150	3,938	13,470	583	(10,960)	221	45,499
Claims provisions							
Gross - Total	R0160	11,536	667,658	8,271	66,999	(378)	52,147
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	6,604	510,519	6,765	47,290	726	35,334
Net Best Estimate of Claims Provisions	R0250	4,932	157,139	1,506	19,709	(1,104)	16,812
Total Best estimate - Gross	R0260	15,421	687,194	8,483	33,872	3	163,659
Total Best estimate - Net	R0270	8,870	170,609	2,089	8,749	(883)	62,311
Risk margin	R0280	1,464	28,162	345	1,444	(146)	10,286
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	16,885	715,356	8,828	35,316	(143)	173,945
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	R0330	6,551	516,584	6,395	25,124	886	101,348
Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total	R0340	10,334	198,771	2,433	10,193	(1,029)	72,597

Annex 1
S.17.01.02
Non-Life technical provisions

		Accepted non-proportional reinsurance				Total Non-Life obligation
		Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	
		C0140	C0150	C0160	C0170	C0180
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	106,026
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	0	0	0	0	51,184
Net Best Estimate of Premium Provisions	R0150	0	0	0	0	54,841
Claims provisions						
Gross - Total	R0160	0	0	0	0	814,826
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	0	0	0	0	614,126
Net Best Estimate of Claims Provisions	R0250	0	0	0	0	200,700
Total Best estimate - Gross	R0260	0	0	0	0	920,852
Total Best estimate - Net	R0270	0	0	0	0	255,542
Risk margin	R0280	0	0	0	0	42,182
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	963,034
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	R0330	0	0	0	0	665,310
Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total	R0340	0	0	0	0	297,724

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											9,194		R0100	9,194	63,168
N-9	R0160	2,605	13,017	5,014	2,053	1,547	1,164	415	36	12	86			R0160	86	25,948
N-8	R0170	3,496	15,732	14,285	13,439	7,163	2,975	3,191	1,583	1,139				R0170	1,139	63,003
N-7	R0180	7,095	39,388	30,722	29,965	18,559	18,025	13,582	5,501					R0180	5,501	162,837
N-6	R0190	5,221	26,437	36,438	42,844	31,379	26,433	23,266						R0190	23,266	192,018
N-5	R0200	8,127	26,757	48,698	34,211	34,020	25,150							R0200	25,150	176,963
N-4	R0210	6,190	37,555	50,991	40,411	28,663								R0210	28,663	163,809
N-3	R0220	15,958	53,319	42,442	35,080									R0220	35,080	146,799
N-2	R0230	19,074	57,196	52,175										R0230	52,175	128,445
N-1	R0240	23,386	50,298											R0240	50,298	73,684
N	R0250	35,846												R0250	35,846	35,846
													Total	R0260	266,397	1,232,519

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

Total non-life business

Accident year / Underwriting year	Z0010	2 - Underwriting Year

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											(3,090)		R0100	(3,089)
N-9	R0160	0	0	0	0	0	0	0	0	0	11			R0160	11
N-8	R0170	0	0	0	0	0	0	0	0	5,723				R0170	5,722
N-7	R0180	0	0	0	0	0	0	0	31,913					R0180	31,853
N-6	R0190	0	0	0	0	0	0	73,924						R0190	73,678
N-5	R0200	0	0	0	0	0	95,722							R0200	95,111
N-4	R0210	0	0	0	0	117,037								R0210	115,889
N-3	R0220	0	0	0	112,202									R0220	110,631
N-2	R0230	0	0	182,075										R0230	178,815
N-1	R0240	0	189,640											R0240	185,499
N	R0250	70,187												R0250	68,697
													Total	R0260	862,817

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	75,044	75,044		0	
Share premium account related to ordinary share capital	R0030	11,642	11,642		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	259,892	259,892			
Subordinated liabilities	R0140	0		0	0	0
An amount equal to the value of net deferred tax assets	R0160	5,821				5,821
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 Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220	0				
Deductions						
Deductions for participations in financial and credit institutions	R0230	0	0	0	0	
Total basic own funds after deductions	R0290	352,398	346,577	0	0	5,821
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

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	352,398	346,577	0	0	5,821
Total available own funds to meet the MCR	R0510	346,577	346,577	0	0	
Total eligible own funds to meet the SCR	R0540	352,398	346,577	0	0	5,821
Total eligible own funds to meet the MCR	R0550	346,577	346,577	0	0	
SCR	R0580	232,253				
MCR	R0600	61,246				
Ratio of Eligible own funds to SCR	R0620	152%				
Ratio of Eligible own funds to MCR	R0640	566%				

		Total	
		C0060	
Reconciliation reserve			
Excess of assets over liabilities	R0700	352,398	
Own shares (held directly and indirectly)	R0710	0	
Foreseeable dividends, distributions and charges	R0720	0	
Other basic own fund items	R0730	92,507	
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	0	
Reconciliation reserve	R0760	259,892	
Expected profits			
Expected profits included in future premiums (EPIFP) - Life business	R0770	0	
Expected profits included in future premiums (EPIFP) - Non- life business	R0780	8,964	
Total Expected profits included in future premiums (EPIFP)	R0790	8,964	

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	63,949		0
Counterparty default risk	R0020	33,625		
Life underwriting risk	R0030	0	0	0
Health underwriting risk	R0040	3,131	0	0
Non-life underwriting risk	R0050	158,224	0	0
Diversification	R0060	(54,302)		
Intangible asset risk	R0070	0		
Basic Solvency Capital Requirement	R0100	204,627		

		C0100
Calculation of Solvency Capital Requirement		
Operational risk	R0130	27,626
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	232,253
Capital add-on already set	R0210	0
Solvency capital requirement for undertakings under consolidated method	R0220	232,253
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	61,246

		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	285	21,145
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	3,048	9,304
Other motor insurance and proportional reinsurance	R0060	465	0
Marine, aviation and transport insurance and proportional reinsurance	R0070	0	0
Fire and other damage to property insurance and proportional reinsurance	R0080	8,870	22,804
General liability insurance and proportional reinsurance	R0090	170,609	97,496
Credit and suretyship insurance and proportional reinsurance	R0100	2,089	7,706
Legal expenses insurance and proportional reinsurance	R0110	8,749	23,237
Assistance and proportional reinsurance	R0120	0	1,376
Miscellaneous financial loss insurance and proportional reinsurance	R0130	62,311	87,803
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	61,246
SCR	R0310	232,253
MCR cap	R0320	104,514
MCR floor	R0330	58,063
Combined MCR	R0340	61,246
Absolute floor of the MCR	R0350	3,286
		C0070
Minimum Capital Requirement	R0400	61,246

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