AmTrust Europe Limited

Solvency and Financial Condition Report

For the year ended 31 December 2018

AmTrust Europe

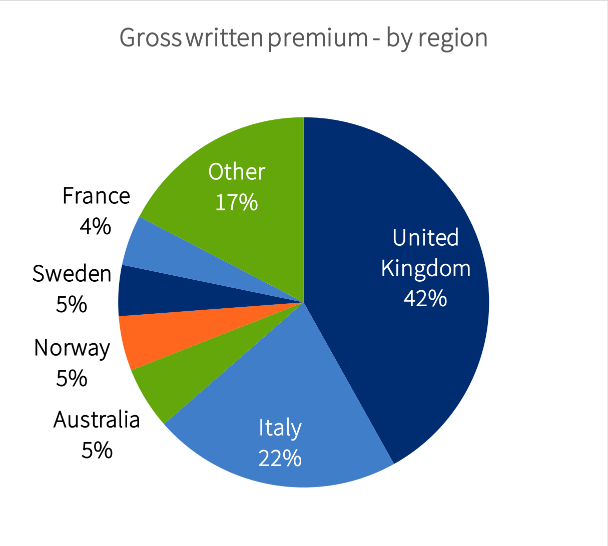
An AmTrust Financial Company

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, a privately held company as of 29 November 2018. 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. It is prepared on a solo entity basis and it covers the year ended 31st December 2018.

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 pre-planned changes to the structure of its internal quota share reinsurance programme within the wider AmTrust Group during the year.

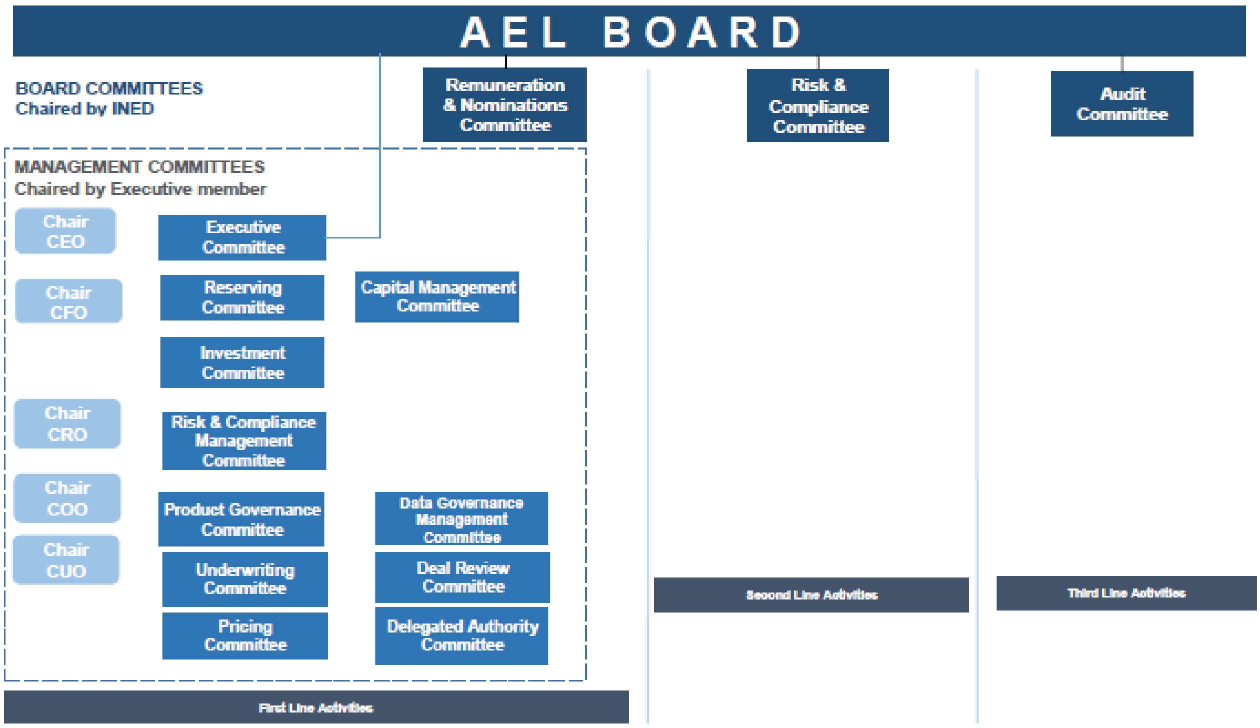
Business performance

2018	Total £'000
Gross premiums written	497,641
Reinsurers' share	152,552
Net premiums written	**345,089**
Gross premiums earned	453,042
Reinsurers' share	161,506
Net premiums earned	**291,536**
Gross claims incurred	321,148
Reinsurers' share	147,336
Net claims incurred	**173,812**
Net operating expenses	**126,164**
Other expense	(212)
Net technical result	(8,228)

AEL's net technical result in 2018 was a loss, primarily due to increased claims incurred compared with 2017.

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 2018.

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 and spread risk on its bond portfolio; foreign exchange risk on its currency exposures; and concentration and spread risk on intra-group loans.

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 intermediary 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 2018 AEL's assets less liabilities were valued at £346,922,000 under Solvency II, compared with £379,889,000 under UK GAAP. The difference of £32,968,000 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 AmTrust Italia Srl.

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).

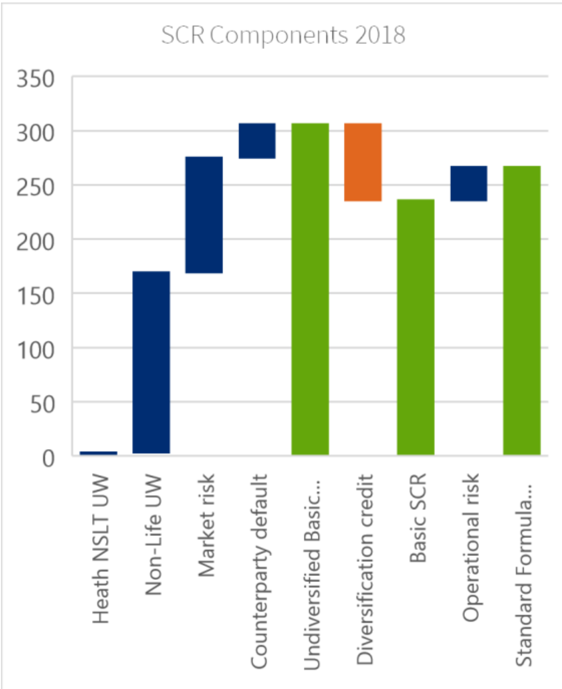
AEL calculates its SCR using the Standard Formula. The Company does not use any Undertaking Specific Parameters (USPs) allowed under Solvency II, nor does it use simplified calculations for any of the risk modules.

AEL's Own Funds decreased by £5.5m in 2018 due to increases in technical provisions from reserve strengthening in the year, partially offset by more loans and mortgages assets and corporate bond holdings. These Own Funds events have also impacted on the SCR; the increase of £34m is due to the resulting increases in both Market and Non-Life Underwriting risk.

Capital Requirements 31 Dec 2018	2018	Coverage	2017	Coverage
	£000		*£000*	
Own funds	346,922		352,398	
SCR	266,570	130%	232,253	152%
MCR	85,340	397%	61,246	566%

AEL's SCR split by risk module as of December 31st 2018 is shown in the table and graph below.

Solvency Capital Requirement	2018
	£000
Health NSLT underwriting risk	2,986
Non-Life underwriting risk	166,195
Market risk	105,813
Counterparty default risk	30,912
Undiversified Basic SCR	**305,906**
Diversification credit	(70,213)
Basic SCR	**235,693**
Operational risk	30,877
Standard Formula SCR	**266,570**



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

Directors' statement of responsibilities in respect of the SFCR

The Board acknowledges 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 Company has complied in all material respects with the relevant requirements of the PRA Rules and the Solvency II Regulations; and
- It is reasonable to believe that the Company 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)

7 May 2019

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 2018:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2018, (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 2018 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.

Ben Priestley for and on behalf of KPMG LLP
15 Canada Square
London, E14 5GL

7 May 2019

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,
12 Endeavour Square
Stratford
E20 1JN

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. Until 29th November 2018, AEL's ultimate parent was AmTrust Financial Services Inc (AFSI), a Delaware registered US corporation. On 29th November 2018, a merger transaction was completed in which Evergreen Parent GP, LLC, an entity formed by private equity funds managed by Stone Point Capital LLC (Stone Point), together with Barry Zyskind, Chairman and CEO of AmTrust, George Karfunkel and Leah Karfunkel (collectively, the Karfunkel-Zyskind Family), acquired the approximately 45% of AFSI's issued and outstanding common shares that the Karfunkel-Zyskind Family and certain of its affiliates and related parties did not already own or control.

This "go-private transaction" was a strategic step to focus on the operational excellence of AmTrust and implement the long-term strategies that position the group for future success.

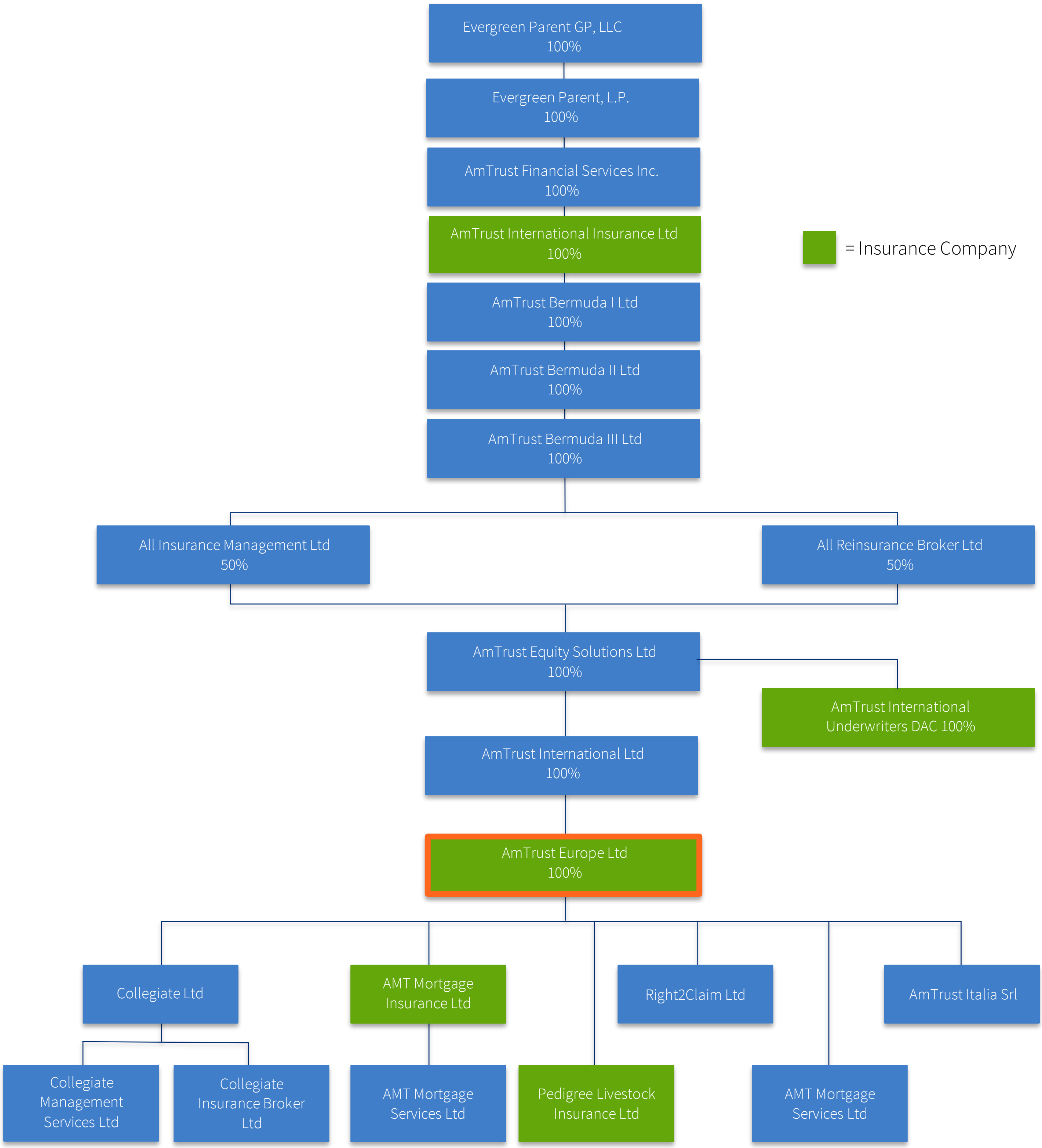
AFSI underwrites and provides property and casualty insurance products, in the United States and internationally to niche customer groups that it believes are generally underserved within the broader insurance market.

As a subsidiary of AFSI, the Company benefits from financial, operational and management support. AFSI is a multinational property and casualty insurer specialising in small to medium sized businesses. With extensive underwriting experience and a prestigious "A-" (Excellent) Financial Size "XV" rating from A.M. Best, AFSI has earned a reputation as an innovative, technology driven provider of insurance products. Commitment to excellence is a common thread connecting each of the AmTrust companies. AFSI's business model focuses on achieving targeted returns and profit growth with the careful management of risk. The Global Group pursues these goals through geographic and product diversification, as well as an in-depth understanding of its insured exposure. The product mix includes, primarily: workers' compensation; extended warranty; and other commercial property/casualty insurance products, including title insurance and crop insurance. Workers' compensation and property/casualty insurance policyholders in the United States are generally small and middle market businesses. Extended warranty customers are manufacturers, distributors and retailers of commercial and consumer products. AmTrust has also built a strong and growing distribution of extended warranty and specialty risk products, including liability and other property/casualty products, in Europe.

AIL is the UK holding company for AFSI's European insurance operations, whose principal entities are: AEL, UK; Car Care Plan Holdings, including Motors Insurance Company Ltd. (MICL), UK; AmTrust Syndicates Ltd. (ASL), UK; and AMT Mortgage Insurance Ltd (AMIL) . AIL also owns a number of administrators worldwide.

A.1.5 Position within the legal structure of the group

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



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

The principal activity of the Company is the underwriting of general insurance business in the United Kingdom and other European countries. The Company's core product lines are medical malpractice, legal expenses, property, casualty, surety, 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 2018 the quota share was reduced to 20%.

- Dividends – During the year the Company received a €34,740,299 dividend from AmTrust Italia Srl. and £1,665,690 from Collegiate Limited.

- Change in ownership - On 29th November 2018, AFSI announced the completion of the merger transaction in which Evergreen Parent, L.P., an entity formed by private equity funds managed by Stone Point, together with the Karfunkel-Zyskind Family, acquired approximately 45% of the Company's issued and outstanding common shares that the Karfunkel-Zyskind Family and certain of its affiliates and related parties did not already own or control.

- **Loan assets –** During the year, AEL acquired two loan assets which gave rise to significant spread and concentration risk. One of these loans was a dividend from AmTrust Italia (a subsidiary of AEL) to AEL of an existing loan from AmTrust Italia to AmTrust Insurance Agency Italy srl. The other was a conversion of an intercompany debtor between AEL and AmTrust International Insurance Ltd to a loan repayable over five years. These gave rise to an increase in the SCR through the increased capital charge against the loans relative to the previous treatment as a strategic participation and a debtor respectively.

It is also relevant that from January 2019, AEL will no longer reinsure business through the related undertaking Maiden Insurance Company Ltd (Bermuda) (Maiden). AEL has benefited from a quota share reinsurance programme with Maiden on the medical malpractice book but the agreement will now only continue on the run-off of business written up to 31 December 2018.

A.2 Underwriting Performance

A.2.1 Material lines of business

2018	General liability	Miscellaneous financial loss	Legal expenses	Fire and other damage to property	Other SII classes	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Gross premiums written	155,522	160,144	87,049	37,146	57,780	497,641
Reinsurers' share	41,782	48,614	33,751	9,192	19,213	152,552
Net premiums written	113,740	111,530	53,298	27,954	38,567	345,089
Gross premiums earned	158,943	125,083	71,437	36,029	61,550	453,042
Reinsurers' share	49,857	47,916	31,162	11,080	21,491	161,506
Net premiums earned	109,086	77,167	40,275	24,949	40,059	291,536
Gross claims incurred	115,992	97,823	58,692	19,283	29,358	321,148
Reinsurers' share	50,262	48,742	28,210	6,891	13,231	147,336
Net claims incurred	65,730	49,081	30,482	12,392	16,127	173,812
Net operating expenses	47,355	31,485	8,719	14,303	24,302	126,164
Other expense						(212)
Net technical result						(8,228)

2017 (Restated)	General liability	Miscellaneous financial loss	Legal expenses	Fire and other damage to property	Other SII classes	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Gross premiums written	193,016	154,822	45,518	35,543	61,821	490,720
Reinsurers' share	87,486	67,746	25,531	14,173	23,859	218,795
Net premiums written	105,530	87,076	19,987	21,370	37,962	271,925
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	49,345	14,539	25,477	283,354
Reinsurers' share	77,946	43,094	31,535	8,419	14,842	175,836
Net claims incurred	45,781	27,172	17,810	6,120	10,635	107,518
Net operating expenses	56,357	30,274	7,573	12,640	25,865	132,709
Other expense						3,061
Net technical result						(1,254)

Restatement of prior year comparative

In respect of Medical Malpractice business, the Company has historically assumed that the related annual contract expires on 31 December of each year and that the new annual contract also takes effect on 31 December of the same year. During 2018, the Company commissioned a legal review of the contract, and, as a result, management confirmed that the annual contract expiry date is 31 December of each year, but that the date on which AEL is first on risk for the new annual contract is 1 January of the following year.

This legal clarification required a change in the assumption of the inception date when the premium is recognised as written within the financial statements. As a result, a restatement of prior year financial statements is required to reflect that premiums, previously treated as incepting on 31 December of each financial year, instead incept on 1 January of the following financial year.

All related broker and reinsurance balances have been restated to reflect the appropriate commission and quota share agreements operating over this line of business in each financial year, including relevant IPT payables. There is no material impact on gross or net earned premiums or other amounts presented in the income statement as all premiums were previously included within the unearned premium reserve. The impact of this change on the UK GAAP financial statements has been described in further detail on page 23 of AEL's submitted annual accounts.

There is no material impact of this change on Solvency II balance sheet or own funds as the Solvency II balance sheet is prepared on an economic basis. As such, premiums that incept on 1 January were included within the bound but not incepted (BBNI) contracts already taken into account at 31 December 2017. Contracts previously incepting on 31 December that now incept on 1 January would therefore have been included within BBNI in any case and no restatement of prior year results is required.

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. This line of business has made up a significant portion of the Company results since entering the market, however, 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 therefore has been limited to renewals and extensions of contracts with existing hospitals and policies for smaller associations and individual doctors.

The AmTrust group continues to hold a strong position in the market place.

A.2.1.1.2 Casualty

A hardening of the market has provided opportunities and improved rates for the Company's professional indemnity line of business towards the end of 2018. The strategy is to focus upon smaller firms and to underwrite on a primary basis. Underwriting volatility has been 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 which has been consolidated during 2018. Into 2019 the Company's intention is for further consolidation, rather than significant growth, albeit the Company remains open to considering further opportunities should they arise.

The general liability business has performed well in 2018 but the Company is significantly reducing its involvement in this business in 2019 as a result of Brexit and a reduced appetite for longer tail business.

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 performance of the warranty line of business has remained consistent with prior years and the Company intends to maintain this line going forward through consideration of less mature markets. International expansion in this area presents opportunities for the Company including South East Asia.

In relation to structural defects a strengthening of reserves has been included in the current year results, reducing overall returns. The Company intends to reduce its future exposure to accounts such as this where claims exposures are particularly long tail.

A.2.1.3 Legal expenses

The Company has actively diversified its legal expenses line of business so that is not overly dependent upon one particular market. Accordingly, it underwrites a variety of different products across multiple distribution channels in both the UK and overseas. The Company's strategic objective is to become the leading provider in its chosen markets, defined either by territory, market segment or product type. The legal business is a specific area of growth for the 2019 year and as an 'A' rated insurer the Company is well positioned to take advantage of this market. The Company has a broad range of experience and skills that have allowed the development of innovative solutions suited to the current customer base.

Personal and Commercial "before the event" (BTE) legal expenses insurance continued to grow in 2018, meaning that the Company is now one of the leading BTE providers in the UK and Ireland. BTE products are distributed through specialist MGAs (often acting as coverholders) and insurance brokers. These BTE products are backed with access to 24/7 legal advice helplines.

Commercial "after the event" (ATE) legal expenses insurance is another growth area with opportunities in both the UK and overseas common law jurisdictions. The Company has a dedicated business development function that focuses upon marketing Commercial ATE to law firms and their clients. Trading conditions for Personal ATE remained challenging in 2018. The expiry of a binding authority with a coverholder during 2018 has reduced overall written premiums in this line of business. The performance of the book has been negatively impacted by the results of this legacy business while the underlying go forward business continues to be strong. The implementation of the Civil Liability Act 2018 in April 2020 is a consideration but the Company remains optimistic about business levels and profitability within this line of business for 2019.

A.2.1.4 Fire and other damage to property

Performance in 2018 has been consistently strong as in recent years.

Looking forward into 2019 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

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.

The Company intends to transfer much of the mainland European business to AIU in advance of Brexit. This transfer has to date been slower than planned meaning this class of business has remained broadly consistent with the prior year. The business remains profitable in line with expectations.

During 2019, the remaining mainland European business will be transferred to AIU ahead in advance of Brexit. The Company is actively considering new markets into which new products can be underwritten and therefore remains confident about its engagement in the accident and health market.

A.2.1.5.2 Surety

The group's wholly owned managing agent in Spain, and the associated entities in that sub-group, has continued to grow, particularly the assumed business from South America. 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. Focus within this line of business for AEL will continue to be in South America as European business begins to be underwritten by the Company's sister company in Ireland.

A.2.1.5.3 Mortgage

During 2018 the Company has continued to write business which was previously underwritten by AMT Insurance Limited (AMIL). The Company intends to effect a Part VII transfer from AMIL to AEL for the run-off of the UK business and to AIU for the remaining mainland European business of the existing AMIL portfolio in due course.

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 £153m in 2017 to £108m in 2018, reflecting the transition of Medical Malpractice to AIU in advance of Brexit and a decline in Residential Mortgage. Business written in Sweden has decreased from £56m in 2017 to £22m in 2018 due to a decline in Accident & Health and Electrical. Conversely, there has been an increase to business written in Australia from £9m in 2017 to £27m in 2018 which is due to growth in Legal Expenses.

2018	United Kingdom	Italy	Australia	Norway	Sweden	France	Other countries	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross premiums written	208,513	107,870	27,116	23,752	22,185	21,931	86,274	497,641
Reinsurers' share	63,303	31,248	11,628	5,300	6,384	6,865	27,824	152,552
Net premiums written	145,210	76,622	15,488	18,452	15,801	15,066	58,450	345,089
Gross premiums earned	175,770	116,378	18,836	21,272	26,121	15,427	79,238	453,042
Reinsurers' share	67,620	35,628	8,543	6,854	8,620	5,695	28,546	161,506
Net premiums earned	108,150	80,750	10,293	14,418	17,501	9,732	50,692	291,536
Gross claims incurred	141,692	91,176	9,301	20,476	8,449	9,272	40,782	321,148
Reinsurers' share	66,559	40,092	4,130	9,876	5,218	4,070	17,391	147,336
Net claims incurred	75,133	51,084	5,171	10,600	3,231	5,202	23,391	173,812
Net operating expenses	38,207	34,928	3,786	7,161	9,741	3,550	28,791	126,164
Other expense								(212)
Net technical result								(8,228)

2017 (Restated)	United Kingdom	Italy	Sweden	France	Greece	Norway	Other countries	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross premiums written	171,196	152,670	55,523	24,948	15,035	13,047	58,301	490,720
Reinsurers' share	76,803	70,675	15,871	9,246	6,776	3,751	35,673	218,795
Net premiums written	94,393	81,995	39,652	15,702	8,259	9,296	22,628	271,925
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	105,517	99,755	19,590	13,880	9,433	6,576	28,603	283,354
Reinsurers' share	66,279	64,122	11,086	7,782	6,013	3,537	17,017	175,836
Net claims incurred	39,238	35,633	8,504	6,098	3,420	3,039	11,586	107,518
Net operating expenses	30,079	34,406	20,580	4,542	2,411	5,765	34,926	132,709
Other expense								3,061
Net technical result								(1,254)

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 Board. Income and expenses during the year are shown in the table below.

Income from investments was higher than the previous year primarily as a result of a growth in the portfolio over the course of the year. Overall income from the portfolio is down year over year as a result of unrealised losses which has been driven by uncertainty in the external markets.

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 AMIL, a regulated insurance company, and AmTrust Italia Srl. AmTrust Italia carries out business in Italy in connection with AmTrust's Medical Malpractice insurance business. The unrealised loss on investment relates to a reduction in carrying value of AmTrust Italia and Collegiate Management Services Limited as a result of dividends received from those subsidiaries.

2018	Corporate and Government Bonds	Property	Investment in subsidiaries
	£'000	£'000	£'000
Income from other investments	6,695	473	0
Unrealised gain/(loss) on investments	(5,509)	(1,187)	(20,240)
Investment management expenses	(572)	(1,348)	0
Realised gain on sale of investments	1,308	0	0
Dividend Income from Subsidiaries	0	0	32,494
Interest Paid	0	(229)	0
	1,922	(2,291)	12,254

2017	Corporate and Government Bonds	Property	Investment in subsidiaries
	£'000	£'000	£'000
Income from other investments	5,611	747	0
Unrealised gain/(loss) 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

System of Governance

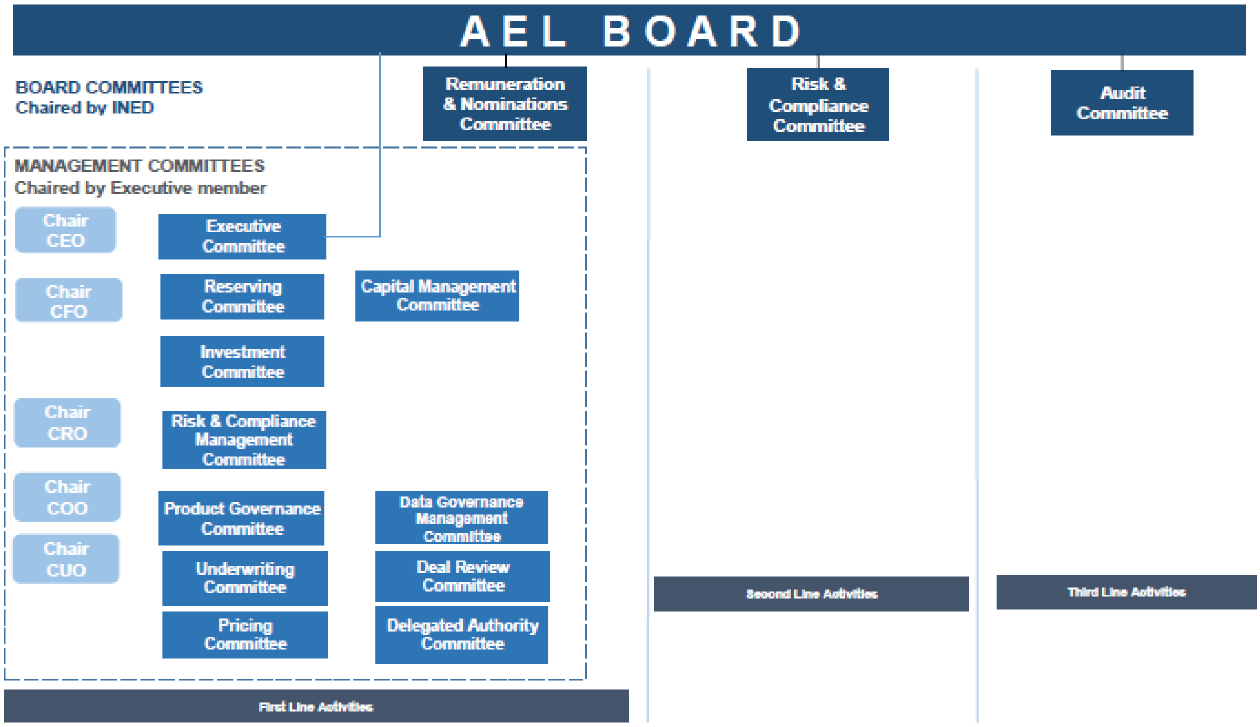
Section B

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), 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:

- Setting AEL's strategic direction, within Group Risk Appetite.
- Developing and maintaining the AEL business model 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.
- Promoting the success of the Company.
- 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 Independent NEDs.
- Considering and addressing the development needs (induction, training and professional development) of individual directors and the Board as a whole.
- Leading the development of the Company's culture by the Board as a whole.
- Overseeing the development and implementation of the Company's remuneration policies and practices.

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 Managers and Certification 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
Managing Director (MD)	Executive	Day to day running of the Company
Chief Underwriting Officer (CUO)	Executive	Underwriting
Chief Operating Officer (COO)	Executive	Operational infrastructure
Chief Risk Officer (CRO)	Executive	Monitoring Risk Profile against appetite
Chief Finance Officer (CFO)	Executive	Finance & Capital Management

A new Chairman was appointed on 20th March 2018.

A new CRO was appointed on 5th February 2018.

A new CFO has been appointed, pending regulatory approval.

The CUO resigned on 9th December 2018.

The MD has been promoted to the role of CEO, pending regulatory approval. The former CEO has become a Group NED and one of the former Group NEDs resigned on 9th December 2018.

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 and Nomination 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 and Nomination 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 and Nomination 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 Chief Finance Officer (CFO), the Chief Underwriting Officer, plus the General Counsel.

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 six members, who are the Chief Executive Officer (CEO), the Chief Operating Officer (COO), the Chief Risk Officer (CRO), the Chief Finance Officer (CFO), the Chief Underwriting Officer (CUO), and the Head of Finance.

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;
- To advise and monitor on insurance and reinsurance risk profile and exposures;
- To review pricing adequacy and underwriting performance; and
- To assess the Company's underwriting opportunities within its chosen markets.

The Underwriting Committee consists of seven members, including the Chief Underwriting Officer (CUO), Chief Executive Officer (CEO), 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.1.1.6.3.3 *Risk & Compliance Management Committee*

The purpose of the committee 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; and
- To collate and review operational losses / near misses.

The group consists of eight members, including the Chief Risk Officer (CRO), the Chief Operating Officer (COO), the Chief Executive Officer (CEO), the Chief Underwriting Officer (CUO), the Head of Finance, the Director of Risk Management and the Head of Compliance.

B.1.1.6.3.4 *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 seven members, including the Chief Operating Officer (COO), the Chief Risk Officer (CRO), the Chief Executive Officer (CEO), the Head of Finance, the General Counsel, the Head of Compliance and the Chief Underwriting Officer.

B.1.1.6.3.5 *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 ten members, including the Chief Operating Officer (COO), the Head of Finance, the Risk Manager, the Pricing Actuary, the Data Quality Assurance Manager, the IT Business Partner, the Business Implementation Manager, the Head of Operations, the Head of Reserving and the Business Analyst.

B.1.1.6.3.6 *Capital Management Committee*

The key responsibilities of the committee are:

- Controlling and monitoring capital in line with Board approved Capital Management Policy;
- Identifying available capital levers;
- Reviewing and approving material changes to the Capital Model; and
- Approval of quarterly Solvency Capital Requirement.

The committee consists of four members including the Chief Finance Officer (CFO), the Chief Risk Officer (CRO), the Head of Capital Management and the Head of Finance.

During 2018, the Chair of the Capital Management Committee was changed from the CRO to the CFO to better align with the assigned regulatory scope of responsibilities.

B.1.1.6.3.7 *Investment Committee*

The key responsibilities and duties of the committee are to:

- Supervise the day to day stewardship of invested assets by its appointed investment managers;
- Establish the investment strategy, policies and procedures; and
- Monitor investment risk and associated credit and liquidity risk.

The committee consists of three members including the Chief Finance Officer (CFO), the Chief Risk Officer (CRO) and the Head of Finance.

B.1.1.7 Second Line Committees

B.1.1.7.1 Risk & Compliance Committee

The key duties and responsibilities of the committee in relation to Risk Management are:

- 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.1.1.8 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 members including the Chairman of the Board and two other independent Non-Executive Directors.

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 2018. These included the following:

- A new Independent Non-Executive Director, Board Chairman and Remuneration and Nomination Committee Chair was appointed on 20th March 2018.
- All Management committees were moved to the First line, reporting directly to the Executive Committee.

B.1.3 Remuneration Policy

The Remuneration and Nomination Committee has delegated authority from the AEL Board for establishing, managing and overseeing, via Human Resources, the implementation of the Remuneration Policy. The Remuneration and Nomination 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 and Nomination 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 and Nomination Committee's Terms of Reference. Human Resources is responsible for implementing the Remuneration Policy, carrying out any decisions made by the Remuneration and Nomination 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 and Nomination 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 in the 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 and Nomination Committee is involved in deliberations or decision making on his / her own pay or the pay of the other members of the Remuneration and Nomination 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 and Nomination 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. As a result of the "go-private transaction", going forward this deferred component will be paid in cash at the time of vesting instead of restricted stock units as previously provided.
- To ensure alignment to risk and performance of the business, provisions exist so that the Remuneration and Nomination 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 intra-group loans and a quota share agreement with AmTrust International Insurance Ltd (Bermuda), which is an indirect shareholder in AEL.

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 Management Function (SMF) or Certified Person 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 member of the Executive Committee, 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	●	●	●	●		●	●
Recovery & Resolution Plans			●		●		
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 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 the risk register 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. On a quarterly basis results are discussed at the Capital Management Committee.

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.3.2.11 Recovery and Resolution Plans

The Company maintains recovery and resolution plans, which are updated annually. The recovery plan aims to prevent the business from failing, while it is a going concern and includes: triggers at which point the recovery plan would be invoked; example scenarios that would cause the triggers to be breached; and a set of management actions which can be used to restore the solvency and liquidity position and allow the Company to continue its operations. The objective of the resolution plan is to ensure orderly closure of the business in the event of failure and includes: identification of critical economic functions; key dependencies between entities and functions; and preferred resolution strategies and their implications.

B.3.3 Own Risk and Solvency Assessment (ORSA)

The 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 controls. 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.

AEL's ultimate parent, AFSI, is no longer subject to the requirements of the Sarbanes-Oxley Act (US) of 2002 (SOX). However, AFSI remains committed to maintaining a strong framework of internal controls over financial reporting. The Internal Audit function will continue to assess and report upon the design adequacy and operational effectiveness of those key financial reporting controls for all in-scope processes.

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 and enhance 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 Audit Executive of the AmTrust Group. 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 function 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 Financial Officer. Other members of the team are either qualified actuaries; working towards becoming a qualified actuary; or sufficiently qualified by experience to undertake the duties assigned to the individual.

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

The Actuarial Function has the following specific responsibilities:

- 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.
- Providing assistance for the preparation of business plans.
- Working closely with the Risk Management Function to facilitate the implementation of an effective risk management system.
- Support to the Risk Management Function to quantify the risks identified.
- Building and maintaining an economic Capital Model of the AEL business.
- Validating the inputs into the economic 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 performed by external or intra-group providers, which are essential to AEL's operations, and without which, AEL would be unable to deliver its services to policyholders.

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, increase 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 intra-group Service Level Agreements;
- Routine management attestation as to continuous control compliance in relation to outsourcing; and
- Independent internal monitoring by the compliance function, internal audit, and AEL's third party audit coverage as routinely approved and monitored by the Risk and Compliance Committee.

B.8 Any other information

None noted.

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 2018. This class is a form of casualty insurance, and the underlying claims exposures can take a long time to fully develop, hence there is a material risk of adverse reserve development on both 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 and Legal Expenses classes of business. Around 21% of the Company's premium is attributable to Medical Malpractice, as well as around 57% of the Company's total claims reserves and 11% of total losses. Around 8% of the Company's premium is attributable to Legal Expenses.

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.

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

AEL is undertaking Part VII transfers of business from its subsidiaries AMIL and PLI, these are expected to complete during 2019. In addition, as part of its Brexit plans, AEL intends to transfer its European portfolios to AmTrust's European subsidiaries and for all UK business currently written by European subsidiaries to transfer to AEL.

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 Board, and through the Investment Management Committee.

C.2.1 Material risk exposures

The Company's material exposures to market risk are: interest rate risk and spread risk on its bond portfolio; foreign exchange risk on its currency exposures; and concentration and spread risk due to intra-group loans.

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, AMIL, a well-known organisation in the European mortgage insurance market. As a separate insurance company, AEL is exposed to underwriting and other risks within AMIL's business. These are mitigated by a strong, Solvency II compliant risk framework at AMIL and additional oversight by AEL management. AEL's other equity investments are strategic in nature, but are not material.

AEL manages its foreign exchange risk against its functional currency, which is presented in pounds Sterling. Foreign exchange arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. AEL is exposed to currency risk in respect of liabilities under policies of insurance denominated in currencies other than Sterling. AEL is also exposed to currency risk in respect of its assets held in currencies other than Sterling. This applies both to assets and liabilities held directly by AEL and to those held in its subsidiaries – in particular, AmTrust Italia and AMIL are both subsidiaries of AEL with significant Euro assets and liabilities. 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 concentration risk due to intra-group loans, foreign currency exposure to the Euro as a result of 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 government and 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 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 which sell the Company's policies, the issuers of fixed maturity securities, banks with which the Company holds cash, custodians of the investment portfolio and collateral provided by certain reinsurers and the financial condition of third party reinsurers.

Management identifies and measures the key credit risk exposure by monitoring: rating of bank; rating of reinsurer; rating of custodian; 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 National Australia Bank Ltd, making up of 3.0% of the investment portfolio. Other large bond exposures are to Bank of Montreal, Bank of Nova Scotia, European Investment Bank and Skandinaviska Enskilda Banken AB.

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.

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 highly liquid, 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 £5,023,000. This amount is highly illiquid, but represents less than 2% 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), and data governance 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 the Group NEDs who sit on the AEL Board.

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/Change (£m)		Own Funds/Change (£m)		Solvency Ratio/Change	
Underwriting	25% increase in volume of GWP in next 12 months	271.9	5.0	347.9	-	127.9%	-2.4%
Underwriting	25% decrease in volume of GWP in next 12 months	262.1	(4.8)	347.9	-	132.8%	2.4%
Underwriting	25% increase in Claims provisions	287.9	21.1	279.9	(68.0)	97.2%	-33.1%
Underwriting	25% decrease in Claims provisions	248.9	(18.0)	415.9	68.0	167.1%	36.7%
Market	25% increase in asset durations	271.4	4.5	347.9	-	128.2%	-2.2%
Market	10% Increase in asset concentrations	276.8	9.9	347.9	-	125.7%	-4.7%
Credit	Downgrade of All by 2 credit ratings	268.7	1.9	347.9	-	129.5%	-0.9%
Credit	Default of Maiden	309.1	42.2	334.1	(13.8)	108.1%	-22.3%
Operational	50% increase in TP expenses	268.9	2.0	326.8	(21.1)	121.5%	-8.8%

The risk with the largest effect on the SCR is credit risk, in particular to Maiden defaulting on its reinsurance obligations. The reinsurance contract is now in run-off, so the exposure will reduce over time. There is also a material exposure to increases in claims provisions, which has the biggest impact on solvency ratio. 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 2018.

	Statutory Accounts Value	Reclassification adjustments	Valuation adjustments	Solvency II Value
	£000	*£000*	*£000*	*£000*
Assets				
Deferred acquisition costs	93,275		(93,275)	0
Deferred tax asset	24		8,207	8,231
Property, plant & equipment held for own use	4,084			4,084
Investments (other than assets held for index-linked and unit-linked contracts)				
Property (other than for own use)	7,417			7,417
Holdings in related undertakings, including participations	117,359		(5,812)	111,547
Equities				
Equities - unlisted	2,024			2,024
Bonds				
Government Bonds	26,798			26,798
Corporate Bonds	415,298			415,298
Derivatives	12			12
Loans and Mortgages	60,461		7,833	68,294
Reinsurance recoverables from:				
Non-life and health similar to non-life				
Non-life excluding health	737,209	186,086	(271,837)	651,458
Health similar to non-life	0		1,056	1,056
Insurance and intermediaries receivables	244,564	(217,079)		27,485
Reinsurance receivables	57,521		(12,536)	44,985
Receivables (trade, not insurance)	101,491	(5,134)		96,357
Cash and cash equivalents	62,203			62,203
Any other assets, not elsewhere shown	2,434	36,127	(2,071)	36,490
Total assets	*1,932,406*	*0*	*(368,435)*	*1,563,971*
Liabilities				
Technical provisions – non-life	1,294,337	110,996	(1,405,333)	0
Technical provisions – non-life (excluding health)				
Best Estimate			1,024,980	1,024,980
Risk margin			40,285	40,285
Technical provisions - health (similar to non-life)				
Best Estimate			4,255	4,255
Risk margin			345	345
Provisions other than technical provisions	3,083			3,083
Deferred tax liabilities				
Debts owed to credit institutions	7,590			7,590
Insurance & intermediaries payables	53,456	(46,297)		7,159
Reinsurance payables	137,418	(64,680)		72,738
Payables (trade, not insurance)	2,198			2,198
Any other liabilities, not elsewhere shown	54,435	(19)		54,416
Total liabilities	*1,552,517*	*0*	*(335,468)*	*1,217,049*
Excess of assets over liabilities	*379,889*	*0*	*(32,967)*	*346,922*

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	93,275		(93,275)	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	24		8,207	8,231

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	4,084			4,084
Property (other than for own use)	7,417			7,417

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 2018.

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	117,359		(5,812)	111,547

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, intangibles or prepayments (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	26,798			26,798
Corporate Bonds	415,298			415,298

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 2018 AEL has £442,095,000 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 Derivatives

	Statutory Accounts Value	Reclassification adjustments	Valuation adjustments	Solvency II Value
Assets	£000	£000	£000	£000
Derivatives	12			12

Derivatives are considered to be held at fair value for both UK GAAP and Solvency II purposes. These relate to an interest rate swap linked to debts owed to credit institutions in respect of the AEL owned property. In prior years the derivative represented a liability to the Company, before moving to an asset position as at 31 December 2018 due to underlying market conditions.

D.1.6 Loans and mortgages

	Statutory Accounts Value	Reclassification adjustments	Valuation adjustments	Solvency II Value
Assets	£000	£000	£000	£000
Loans and Mortgages	60,461		7,833	68,294

Loans and mortgages are measured at amortised cost using the effective interest method for UK GAAP and at fair value using the income approach through the discounted cash flow method for the purpose of Solvency II. Therefore, a valuation adjustment is required from the UK GAAP basis.

A valuation adjustment of £7.8m was made to loans and mortgages at the balance sheet date in line with the Company's discounted cash flow method of valuation for loans and mortgages. The favourable adjustment is a result of the contractual interest rates on the loans being above current market rates and therefore, greater than the discount rate.

D.1.7 Reinsurance recoverables

	Statutory Accounts Value	Reclassification adjustments	Valuation adjustments	Solvency II Value
Assets	£000	£000	£000	£000
Reinsurance recoverables from:				
Non-life excluding health	737,209	186,086	(271,837)	651,458
Health similar to non-life	0		1,056	1,056

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.1.8 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	244,564	(217,079)		27,485
Reinsurance receivables	57,521		(12,536)	44,985
Receivables (trade, not insurance)	101,723	(5,134)		96,589

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 from 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.1.9 Cash and other assets

	Statutory Accounts Value	Reclassification adjustments	Valuation adjustments	Solvency II Value
Assets	*£000*	*£000*	*£000*	*£000*
Cash and cash equivalents	62,203			62,203
Any other assets, not elsewhere shown	2,434	36,127	(2,071)	36,490

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

Any other assets, not elsewhere shown comprises insurance premium tax debtors from taxation authorities. These assets are valued at amortised cost as per UK GAAP, which is in line with receivables relating to insurance and intermediary receivables, reinsurance and other trade. This is not considered to be materially different to the Solvency II fair value approach as the balance is deemed to be short term, with no discounting impact and convertible into a cash balance. The valuation adjustment shown is in respect of other prepayment balances included in the statutory accounts, which are not convertible into a cash balance and are therefore written off the Solvency II balance sheet.

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 £417m compared to £466m on a statutory basis, a difference of 10.5%.

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

4Q 2018 Class	Gross of reinsurance (£000)	Recoverable from reinsurance (£000)	Net of reinsurance (£000)	Risk Margin (£000)	Total Technical Provisions (£000)
Assistance	322	402	(80)	(9)	(89)
Credit & suretyship	13,892	9,967	3,925	423	4,348
Fire & other damage to property	26,299	8,196	18,103	1,953	20,056
Legal expenses	67,312	32,675	34,637	3,736	38,373
Medical expense	4,254	1,056	3,198	345	3,543
Miscellaneous financial loss	228,279	117,625	110,654	11,934	122,588
Other motor	1,326	1,049	277	30	307
Motor vehicle liability	7,517	4,140	3,377	364	3,741
General liability	680,033	477,404	202,629	21,854	224,483
Total	1,029,234	652,514	376,720	40,630	417,350

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

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:

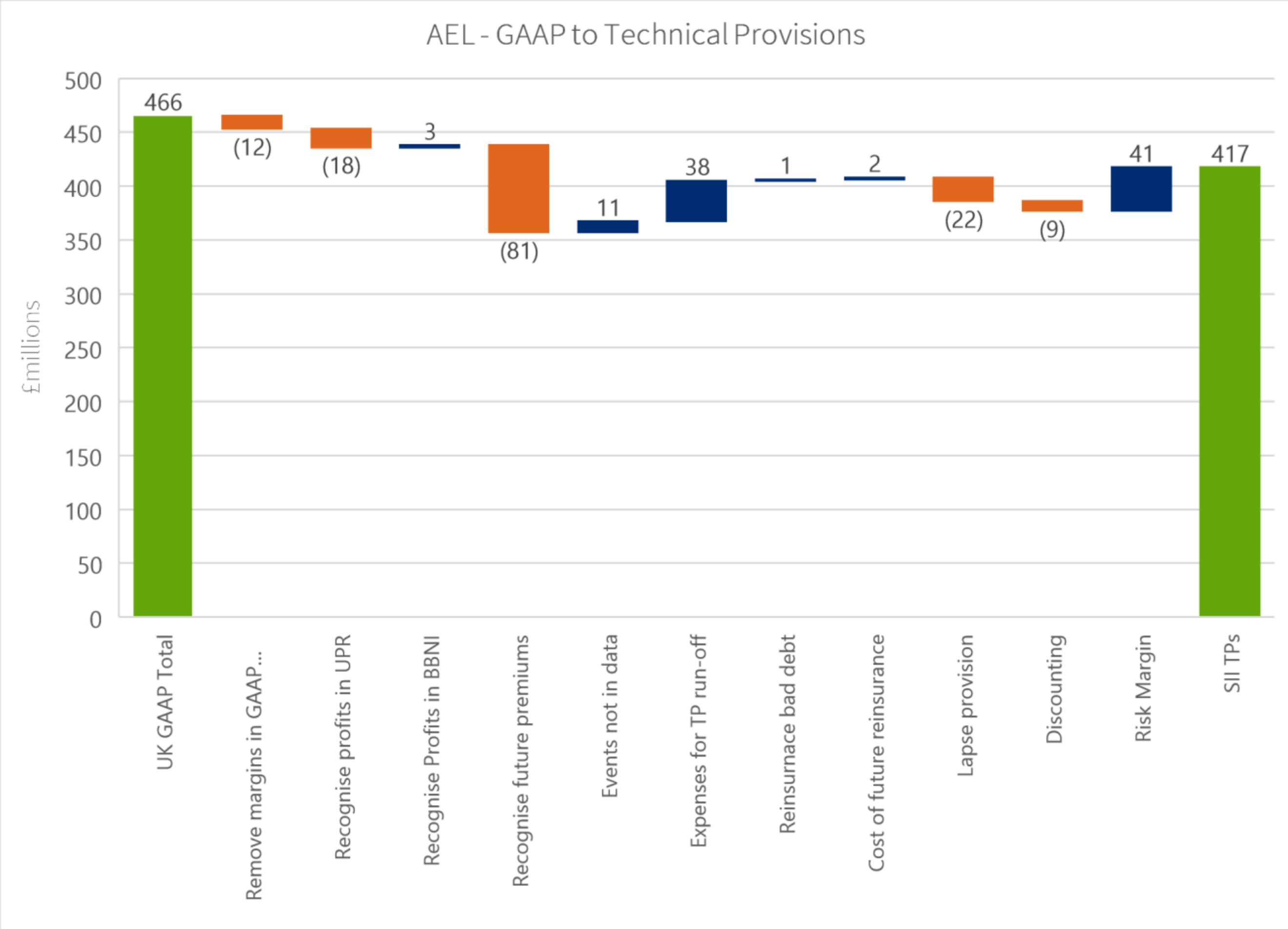
- the small size of some classes;
- the lack of development history and hence reliance on benchmarks in some classes;
- an increased reserve uncertainty on long-tailed classes. For example, the Medical Malpractice business is particularly long-tailed and has incomplete development history resulting in the potential for volatility in market results and 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



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)

An allowance for reinsurance bad debt 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 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 2018.
- 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	3,083			3,083

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	0			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*
Debts owed to credit institutions	7,590			7,590
Insurance & intermediaries payables	53,456	(46,297)		7,159
Reinsurance payables	137,418	(64,680)		72,738
Payables (trade, not insurance)	2,198			2,198
Any other liabilities, not elsewhere shown	54,435	(19)		54,416

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, payables 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 have fixed repayment terms and are 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

D.4.1 Property, plant and equipment held (held for own use and other than for own use)

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.

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.

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

D.4.2 Loans and mortgages

Within the UK GAAP annual accounts, loans and mortgages are measured at amortised cost using the effective interest rate method. Under Solvency II loans and mortgages are measured at fair value using the income approach through the discounted cash flow method.

The Solvency II valuation has been performed with reference to contractual interest rates and discounted using the prevailing EIOPA risk free interest rate term structures at the date of valuation, in line with Solvency II guidelines.

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 retained profit and loss reverse (accumulated profits on a Solvency II valuation basis.) Deferred tax assets are considered Tier 3 Own Funds and are therefore removed from the retained profit and loss reverse. 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 has remained consistent during the year, with no share issues being undertaken. No dividends have been paid by AEL 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 2018	Dec 2017
Ordinary share capital	75,044	75,044
Share premium	11,642	11,642
Reconciliation reserve	252,004	259,891
An amount equal to the value of net deferred tax assets	8,232	5,821
Own Funds	346,922	352,398

AEL's eligible amount of Own Funds eligible to cover the SCR as of December 31st 2018 and 2017 are listed in the tables below.

	Solvency Overview (in £000s), as of Dec 31 2018				
	Tier	Own Funds	Eligible %	Eligible Own Funds	Solvency Ratio
SCR 266,570	1	338,690	100%	338,690	
	2	0	0	0	
	3	8,232	100%	8,232	
	Total	346,922		346,922	130%

	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%

AEL's eligible amount of Own Funds to cover the MCR as of December 31st 2018 and 2017 is listed in the table below.

	Solvency Overview (in £000s), as of Dec 31 2018				
	Tier	Own Funds	Eligible %	Eligible Own Funds	Solvency Ratio
MCR 85,340	1	338,690	100%	338,690	
	2	0	0	0	
	3	8,232	0%	0	
	Total	346,922		338,690	397%

	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%

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.

	2018	2017
	£000	*£000*
Equity per Financial Statements	379,889	382,437
Differences in valuation of technical provision related items	(43,194)	(32,541)
Solvency II valuation adjustments to assets & liabilities	10,227	2,472
Solvency II Own Funds	346,922	352,368

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.

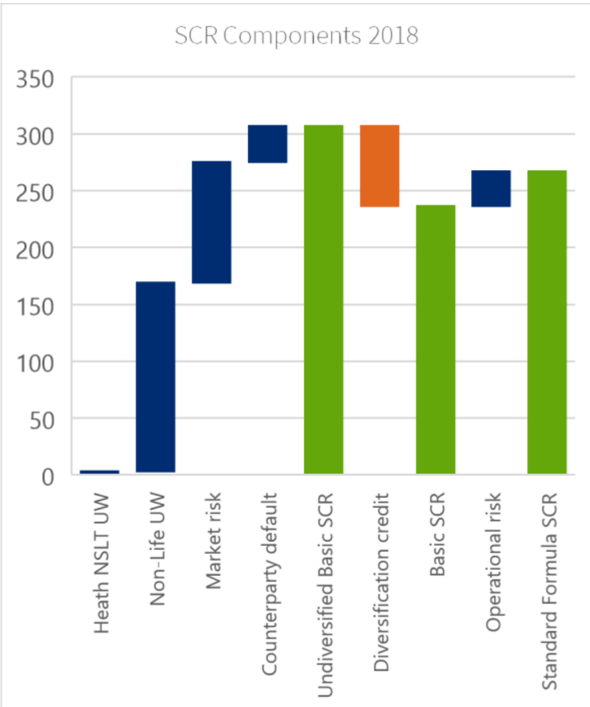
E.2 Solvency capital requirement and minimum capital requirement

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.

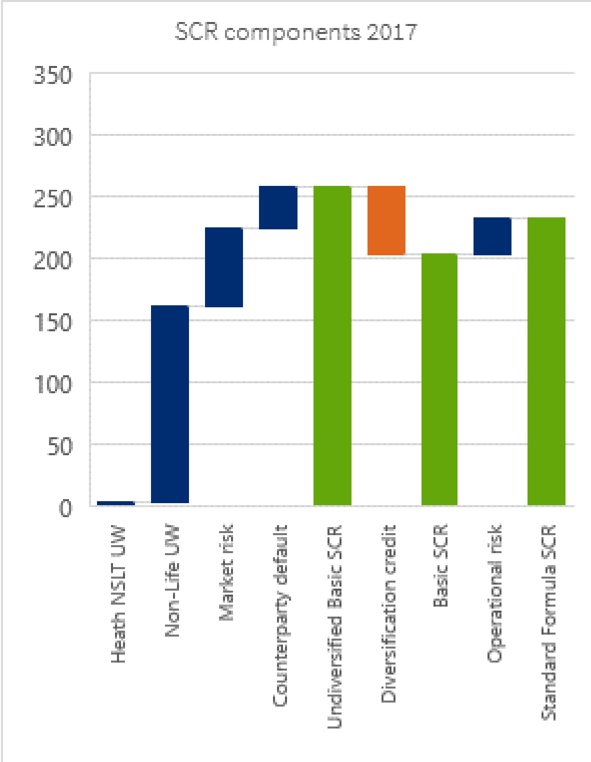
Capital Requirements	2018	2017
	£000	*£000*
SCR	266,570	232,253
MCR	85,340	61,246

E.2.1 Solvency Capital Requirement

Solvency Capital Requirement	2018
	£000
Health NSLT underwriting risk	2,986
Non-Life underwriting risk	166,195
Market risk	105,813
Counterparty default risk	30,912
Undiversified Basic SCR	**305,906**
Diversification credit	(70,213)
Basic SCR	**235,693**
Operational risk	30,877
Standard Formula SCR	**266,570**



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**



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	2018	2017
	£000	£000
Linear MCR	85,340	61,246
SCR	266,570	232,253
MCR cap	119,957	104,514
MCR floor	66,643	58,063
Combined MCR	85,340	61,246
Absolute floor of the MCR	3,326	3,286
Minimum Capital requirement	85,340	61,246

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	
	2018	*2017*	*2018*	*2017 (restated)*
Medical expenses	3,198	285	17,103	19,434
Motor vehicle liability	3,378	3,048	6,712	9,304
Other motor	277	465	225	(17)
Fire and other damage to property	18,103	8,870	27,954	21,370
General liability	202,630	170,609	113,739	105,530
Credit and suretyship	3,924	2,089	11,206	7,865
Legal expenses	34,637	8,749	53,298	19,987
Assistance	(80)	(883)	3,380	1,376
Miscellaneous financial loss	110,654	62,311	111,471	87,076

E.2.3 Material change in SCR and MCR

Solvency coverage has decreased from 152% at 31 December 2017 to 130% at 31 December 2018. This movement is principally due to the following factors in the year:

- New loan assets were taken on in the year, with a resulting increase in both the Concentration risk and Spread risk charge in the Market risk calculation.
- Reserve strengthening across a number of lines of business during 2018 has adversely impacted on Own Funds, as well as increased the Reserve risk charge in the Non-Life Underwriting risk calculation.
- Corporate bond holdings held in the investment portfolio increased during the year, which had a positive impact on Own Funds but also resulted in a corresponding increase in the Spread 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

AmTrust Europe
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Annex 1
S.02.01.02
Balance sheet

		Solvency II value
Assets		C0010
Intangible assets	R0030	0
Deferred tax assets	R0040	8,232
Pension benefit surplus	R0050	0
Property, plant & equipment held for own use	R0060	4,084
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	563,096
Property (other than for own use)	R0080	7,417
Holdings in related undertakings, including participations	R0090	111,548
Equities	R0100	2,024
Equities - listed	R0110	0
Equities - unlisted	R0120	2,024
Bonds	R0130	442,095
Government Bonds	R0140	26,798
Corporate Bonds	R0150	415,298
Structured notes	R0160	0
Collateralised securities	R0170	0
Collective Investments Undertakings	R0180	0
Derivatives	R0190	12
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	68,294
Loans on policies	R0240	0
Loans and mortgages to individuals	R0250	0
Other loans and mortgages	R0260	68,294
Reinsurance recoverables from:	R0270	652,514
Non-life and health similar to non-life	R0280	652,514
Non-life excluding health	R0290	651,458
Health similar to non-life	R0300	1,056
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	27,485
Reinsurance receivables	R0370	44,985
Receivables (trade, not insurance)	R0380	96,589
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	62,203
Any other assets, not elsewhere shown	R0420	36,489
Total assets	R0500	1,563,971

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Liabilities		Solvency II value
		C0010
Technical provisions – non-life	R0510	1,069,865
Technical provisions – non-life (excluding health)	R0520	1,065,265
Technical provisions calculated as a whole	R0530	0
Best Estimate	R0540	1,024,980
Risk margin	R0550	40,285
Technical provisions - health (similar to non-life)	R0560	4,599
Technical provisions calculated as a whole	R0570	0
Best Estimate	R0580	4,254
Risk margin	R0590	345
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	3,083
Pension benefit obligations	R0760	0
Deposits from reinsurers	R0770	0
Deferred tax liabilities	R0780	0
Derivatives	R0790	0
Debts owed to credit institutions	R0800	7,590
Financial liabilities other than debts owed to credit institutions	R0810	0
Insurance & intermediaries payables	R0820	7,159
Reinsurance payables	R0830	72,738
Payables (trade, not insurance)	R0840	2,198
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	54,416
Total liabilities	R0900	1,217,049
Excess of assets over liabilities	R1000	346,922

AmTrust Europe
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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	20,651	0	0	8,318	607	0	37,146	155,423	7,504
Gross - Proportional reinsurance accepted	R0120	0	0	0	0	0	0	0	99	16,492
Gross - Non-proportional reinsurance accepted	R0130									
Reinsurers' share	R0140	3,548	0	0	1,606	382	0	9,192	41,783	12,849
Net	R0200	17,103	0	0	6,712	225	0	27,954	113,739	11,147
Premiums earned										
Gross - Direct Business	R0210	23,912	0	0	10,016	895	0	36,029	158,844	8,160
Gross - Proportional reinsurance accepted	R0220	0	0	0	0	0	0	0	99	14,531
Gross - Non-proportional reinsurance accepted	R0230									
Reinsurers' share	R0240	5,360	0	0	2,263	580	0	11,080	49,857	12,353
Net	R0300	18,552	0	0	7,753	315	0	24,948	109,086	10,338
Claims incurred										
Gross - Direct Business	R0310	14,106	0	0	8,056	822	0	19,283	115,981	360
Gross - Proportional reinsurance accepted	R0320	0	0	0	0	0	0	0	11	4,161
Gross - Non-proportional reinsurance accepted	R0330									
Reinsurers' share	R0340	5,916	0	0	3,487	573	0	6,891	50,262	2,755
Net	R0400	8,190	0	0	4,569	249	0	12,392	65,730	1,767
Changes in other technical provisions										
Gross - Direct Business	R0410									
Gross - Proportional reinsurance accepted	R0420									
Gross - Non- proportional reinsurance accepted	R0430									
Reinsurers' share	R0440									
Net	R0500									
Expenses incurred	R0550	11,323	0	0	4,438	16	0	14,764	47,495	5,987
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	80,051	4,208	146,360					460,268
Gross - Proportional reinsurance accepted	R0120	6,998	0	13,784					37,373
Gross - Non-proportional reinsurance accepted	R0130								
Reinsurers' share	R0140	33,751	828	48,614					152,553
Net	R0200	53,298	3,380	111,530					345,089
Premiums earned									
Gross - Direct Business	R0210	65,462	4,037	112,002					419,356
Gross - Proportional reinsurance accepted	R0220	5,976	0	13,080					33,686
Gross - Non-proportional reinsurance accepted	R0230								
Reinsurers' share	R0240	31,163	936	47,916					161,507
Net	R0300	40,275	3,101	77,167					291,536
Claims incurred									
Gross - Direct Business	R0310	51,503	1,852	90,287					302,250
Gross - Proportional reinsurance accepted	R0320	7,189	0	7,536					18,898
Gross - Non-proportional reinsurance accepted	R0330								
Reinsurers' share	R0340	28,210	500	48,741					147,336
Net	R0400	30,482	1,352	49,082					173,812
Changes in other technical provisions									
Gross - Direct Business	R0410								
Gross - Proportional reinsurance accepted	R0420								
Gross - Non- proportional reinsurance accepted	R0430								
Reinsurers' share	R0440								
Net	R0500								
Expenses incurred	R0550	8,811	1,698	31,634					126,164
Other expenses	R1200								-212
Total expenses	R1300								125,952

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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)	AU (by amount of gross premiums written)	NO (by amount of gross premiums written)	SE (by amount of gross premiums written)	FR (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	198,836	110,479	26,860	23,752	22,185	22,030	404,143
Gross - Proportional reinsurance accepted	R0120	9,676	(2,610)	256	0	0	(99)	7,223
Gross - Non-proportional reinsurance accepted	R0130	0	0	0	0	0	0	0
Reinsurers' share	R0140	63,303	31,248	11,628	5,300	6,384	6,865	124,730
Net	R0200	145,210	76,621	15,487	18,452	15,801	15,066	286,637
Premiums earned								
Gross - Direct Business	R0210	166,585	118,987	18,794	21,272	26,121	15,526	367,284
Gross - Proportional reinsurance accepted	R0220	9,186	(2,609)	42	0	0	(99)	6,520
Gross - Non-proportional reinsurance accepted	R0230	0	0	0	0	0	0	0
Reinsurers' share	R0240	67,620	35,628	8,543	6,854	8,620	5,695	132,960
Net	R0300	108,150	80,750	10,293	14,418	17,502	9,732	240,844
Claims incurred								
Gross - Direct Business	R0310	131,977	74,710	9,264	20,476	8,449	9,084	253,960
Gross - Proportional reinsurance accepted	R0320	9,715	16,466	37	0	0	187	26,406
Gross - Non-proportional reinsurance accepted	R0330	0	0	0	0	0	0	0
Reinsurers' share	R0340	66,559	40,092	4,130	9,875	5,218	4,070	129,945
Net	R0400	75,133	51,084	5,171	10,600	3,231	5,201	150,421
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	37,734	34,614	3,736	7,104	9,671	3,508	96,367
Other expenses	R1200							(175)
Total expenses	R1300							96,192

Annex 1
S.17.01.02
Non-Life technical provisions

		Direct business and accepted proportional reinsurance					
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance
		C0020	C0030	C0040	C0050	C0060	C0070
Technical provisions calculated as a whole	R0010	0	0	0	0	0	0
Total recoverable from reinsurance/SPV after the adjustment for expected losses due to counterparty default	R0050	0	0	0	0	0	0
Technical provisions calculated as a sum of BE and RM							
Best estimate							
Premium Provisions							
Gross - Total	R0060	2,474	0	0	200	758	0
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	(46)	0	0	(11)	419	0
Net Best Estimate of Premium Provisions	R0150	2,520	0	0	211	339	0
Claims provisions							
Gross - Total	R0160	1,780	0	0	7,317	568	0
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	1,102	0	0	4,151	630	0
Net Best Estimate of Claims Provisions	R0250	678	0	0	3,166	(62)	0
Total Best estimate - Gross	R0260	4,254	0	0	7,517	1,326	0
Total Best estimate - Net	R0270	3,198	0	0	3,378	277	0
Risk margin	R0280	345	0	0	364	30	0
Amount of the transitional on Technical Provisions							
TP as a whole	R0290	0	0	0	0	0	0
Best Estimate	R0300	0	0	0	0	0	0
Risk Margin	R0310	0	0	0	0	0	0
Technical provisions							
Technical provisions - total	R0320	4,599	0	0	7,882	1,356	0
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	R0330	1,056	0	0	4,140	1,049	0
Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total	R0340	3,543	0	0	3,742	306	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	7,087	13,775	(1,020)	5,553	193	155,024
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	(410)	4,278	(2,247)	1,838	9	74,853
Net Best Estimate of Premium Provisions	R0150	7,496	9,497	1,226	3,715	184	80,171
Claims provisions							
Gross - Total	R0160	19,213	666,258	14,911	61,759	129	73,255
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	8,606	473,126	12,213	30,838	393	42,772
Net Best Estimate of Claims Provisions	R0250	10,607	193,133	2,698	30,922	(264)	30,483
Total Best estimate - Gross	R0260	26,299	680,033	13,891	67,312	322	228,279
Total Best estimate - Net	R0270	18,103	202,630	3,924	34,637	(80)	110,654
Risk margin	R0280	1,952	21,854	423	3,736	9	11,917
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	28,252	701,888	14,314	71,048	314	240,213
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	R0330	8,196	477,404	9,967	32,675	402	117,625
Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total	R0340	20,055	224,484	4,347	38,372	(88)	122,588

Annex 1

S.17.01.02

Non-Life technical provisions

		Accepted non-proportional reinsurance				
		Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total Non-Life obligation
		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	184,044
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	0	0	0	0	78,684
Net Best Estimate of Premium Provisions	R0150	0	0	0	0	105,360
Claims provisions						
Gross - Total	R0160	0	0	0	0	845,191
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	0	0	0	0	573,831
Net Best Estimate of Claims Provisions	R0250	0	0	0	0	271,360
Total Best estimate - Gross	R0260	0	0	0	0	1,029,234
Total Best estimate - Net	R0270	0	0	0	0	376,720
Risk margin	R0280	0	0	0	0	40,630
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	1,069,865
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	R0330	0	0	0	0	652,514
Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total	R0340	0	0	0	0	417,350

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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											19,979		R0100	19,979	89,483
N-9	R0160	3,492	15,939	16,174	15,975	8,247	3,363	3,844	1,980	1,355	4,997			R0160	4,997	75,366
N-8	R0170	7,188	40,001	31,518	30,921	19,100	18,607	14,024	7,229	128				R0170	128	168,717
N-7	R0180	5,281	26,885	37,819	44,374	32,537	27,431	24,258	13,195					R0180	13,195	211,781
N-6	R0190	8,130	26,900	49,753	34,907	34,696	25,743	22,040						R0190	22,040	202,168
N-5	R0200	6,254	38,532	52,350	41,687	29,691	19,185							R0200	19,185	187,699
N-4	R0210	16,054	51,377	43,014	43,189	19,857								R0210	19,857	173,491
N-3	R0220	19,082	58,473	55,220	43,530									R0220	43,530	176,304
N-2	R0230	23,077	49,781	57,895										R0230	57,895	130,754
N-1	R0240	28,816	67,279											R0240	67,279	96,095
N	R0250	27,562												R0250	27,562	27,562
													Total	R0260	295,647	1,539,420

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											1,004		R0100	1,004
N-9	R0160	0	0	0	0	0	0	0	0	0	-2,818			R0160	-2,817
N-8	R0170	0	0	0	0	0	0	0	0	33,369				R0170	33,313
N-7	R0180	0	0	0	0	0	0	0	68,877					R0180	68,722
N-6	R0190	0	0	0	0	0	0	74,409						R0190	74,150
N-5	R0200	0	0	0	0	0	99,086							R0200	98,619
N-4	R0210	0	0	0	0	83,299								R0210	82,563
N-3	R0220	0	0	0	141,963									R0220	140,415
N-2	R0230	0	0	155,761										R0230	153,547
N-1	R0240	0	161,969											R0240	158,998
N	R0250	89,079												R0250	87,312
													Total	R0260	895,826

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	252,004	252,004			
Subordinated liabilities	R0140	0		0	0	0
An amount equal to the value of net deferred tax assets	R0160	8,232				8,232
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	346,922	338,690	0	0	8,232
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	
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	346,922	338,690	0	0	8,232
Total available own funds to meet the MCR	R0510	338,690	338,690	0	0	
Total eligible own funds to meet the SCR	R0540	346,922	338,690	0	0	8,232
Total eligible own funds to meet the MCR	R0550	338,690	338,690	0	0	
SCR	R0580	266,570				
MCR	R0600	85,340				
Ratio of Eligible own funds to SCR	R0620	130%				
Ratio of Eligible own funds to MCR	R0640	397%				

		Total
		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	347,910
Own shares (held directly and indirectly)	R0710	0
Foreseeable dividends, distributions and charges	R0720	0
Other basic own fund items	R0730	94,917
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	0
Reconciliation reserve	R0760	252,004
Expected profits		
Expected profits included in future premiums (EPIFP) - Life business	R0770	0
Expected profits included in future premiums (EPIFP) - Non- life business	R0780	9,426
Total Expected profits included in future premiums (EPIFP)	R0790	9,426

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	105,813		0
Counterparty default risk	R0020	30,912		
Life underwriting risk	R0030	0	0	0
Health underwriting risk	R0040	2,986	0	0
Non-life underwriting risk	R0050	166,195	0	0
Diversification	R0060	(70,213)		
Intangible asset risk	R0070	0		
Basic Solvency Capital Requirement	R0100	235,693		

Calculation of Solvency Capital Requirement		C0100
Operational risk	R0130	30,877
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	266,570
Capital add-on already set	R0210	0
Solvency capital requirement for undertakings under consolidated method	R0220	266,570
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

Linear formula component for non-life insurance and reinsurance obligations

		C0010
MCRNL Result	R0010	85,340

		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	3,198	17,103
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	3,378	6,712
Other motor insurance and proportional reinsurance	R0060	277	225
Marine, aviation and transport insurance and proportional reinsurance	R0070	0	0
Fire and other damage to property insurance and proportional reinsurance	R0080	18,103	27,954
General liability insurance and proportional reinsurance	R0090	202,630	113,739
Credit and suretyship insurance and proportional reinsurance	R0100	3,924	11,206
Legal expenses insurance and proportional reinsurance	R0110	34,637	53,298
Assistance and proportional reinsurance	R0120	(80)	3,380
Miscellaneous financial loss insurance and proportional reinsurance	R0130	110,654	111,471
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	85,340
SCR	R0310	266,570
MCR cap	R0320	119,957
MCR floor	R0330	66,643
Combined MCR	R0340	85,340
Absolute floor of the MCR	R0350	3,326
		C0070
Minimum Capital Requirement	R0400	85,340

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