AmTrust Europe Limited

Solvency and Financial Condition Report

For the year ended 31 December 2019

AmTrust Europe

An AmTrust Financial Company

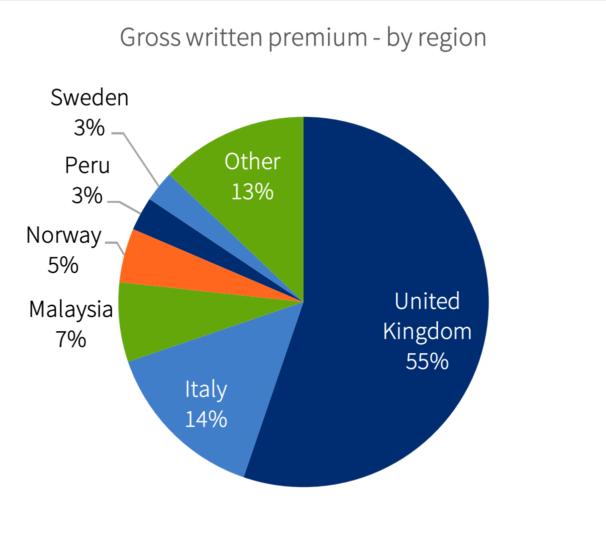
AmTrust Europe
An AmTrust Financial Company

Summary

Overview of the Company and Context of this Report

Business Model

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



The Company's primary underwriting activities are within the following material lines of business:

- General liability
  - Medical malpractice
  - Professional indemnity
- Miscellaneous financial loss
  - Warranty
- Legal expenses
- Fire and other damage to property
  - Property
- Other
  - Accident and health
  - Mortgage and credit

The Company is a member of the AmTrust Financial Services Inc. group ('AmTrust Group'), a privately held company as of 29 November 2018. The AmTrust Group is a multinational property and casualty insurer specialising in coverage for small businesses.

Material Changes to the Business Model

During 2018 and 2019, the Company has been developing and implementing plans to: ensure continuity of its business in European Economic Area ('EEA') countries post-Brexit; improve its systems of governance and controls, stand-alone operating capabilities and delegated underwriting model; and strengthen its financial condition and stability of its capital. These initiatives have resulted in the following changes to the Company's business model in 2019:

- Reduced underwriting volumes by focusing on fewer lines of business and geographies – Through the execution of its "Fix/Exit/Brexit" strategy, the Company has been transferring business in EEA countries to the European based companies within the AmTrust Group and exiting lines of business (e.g. structural defects and UK liability) or coverholders (primarily in the legal expenses and warranty lines of business) which have not achieved its target profitability measures. These actions resulted in a reduction in gross premiums written in 2019 of £72m or 14% to £426m (2018: £498m).
- Improved profitability on new business written in continuing lines of business – Through the execution of its "Fix/Exit/Brexit" strategy, the Company has been updating its underwriting terms and conditions and/or increasing premium rates to ensure all business written is either achieving or on a path to achieve the Company's target profitability measures. As a result, the weighted-average pricing loss ratio on the core lines of business has decreased to 74.2% from 75.5%.
- Increased reinsurance cession on most lines of business and transitioned to highly rated third-party counterparty – Effective 30 June 2019, the Company terminated its 20% whole account quota share reinsurance arrangement with AmTrust International Insurance Limited ('AIIL'), an "A-" rated affiliated reinsurance company domiciled in Bermuda. This follows on from a similar action last year where the Company terminated its 20% quota share reinsurance arrangement related to its Italian medical malpractice hospitals business with Maiden Reinsurance Limited ('Maiden Re'), an unrated reinsurance company domiciled in Bermuda (subsequently redomiciled in Vermont, U.S. in March 2020). These reinsurance arrangements were replaced with a 50% whole account quota share with Swiss Re Europe S.A. ('Swiss Re'), a "AA" rated global third-party reinsurer, for all new business from 1 July 2019 with the exception of business related to mortgage and credit, which has its own third-party 50% quota share arrangements, and certain lines of business in which the Company is in the process of exiting.

- Simplified balance sheet to minimise volatility in capital – During 2019, the Company dissolved or sold all of its non-insurance subsidiary undertakings except for AmTrust Europe Legal Limited ('AELL'). AELL is currently in run-off and the Company is working to transfer all of AELL's remaining business into the Company and then dissolve AELL in 2020.
- Completing preparation for continuing operations post-Brexit – As the UK left the European Union ('EU') on 31 January 2020 without an agreed trade agreement with the EU post the transition period which ends 31 December 2020, there remains material uncertainty on the way the Company will be able to operate in EEA countries after 2020 with respect to its licenses. In order to ensure continuity of service to its current policyholders in these countries, the Company has already moved most of its new business and renewals in these countries to AmTrust International Underwriters Designated Activity Company ('AIU'), the AmTrust Group's Irish based insurer, and is in the final stages of transferring its remaining active policies to AIU and AmTrust Assicurazioni ('AA'), the AmTrust Group's new Italian based insurer. There are two transfers planned, the medical malpractice business and some other ancillary lines of business in Italy to AA and the Company's other European business to AIU. These transfers will be conducted through a court-sanctioned legal transfer of the respective policies to AA and AIU governed by Part VII of the Financial Services and Markets Act 2000 with supplementary guidance set out in SUP 18 of the FSA handbook ('Part VII Transfers'). Both transfers are expected to be executed in the second half of 2020.
- Improving delegated authority and conduct framework – During 2019, the Company began the implementation of a formal Delegated Authority and Conduct Framework. This includes a range of improved 1st Line of Defence controls including formal conduct risk appetites, a Board Conduct Risk Committee and a dedicated workflow management tool ('DART'). The Company has also strengthened resourcing in the delegated authority due diligence and coverholder audit teams and the in-house complaints team. The Company has also put in place a new conduct team, moving this key 1st Line of Defence control from the compliance department and allowing that team to focus on 2nd Line of Defence oversight and monitoring.

Business Performance

2019	Total
	£'000
Gross premiums written	426,233
Reinsurers' share	120,202
Net premiums written	**306,031**
Gross premiums earned	394,243
Reinsurers' share	110,225
Net premiums earned	**284,018**
Gross claims incurred	344,445
Reinsurers' share	142,109
Net claims incurred	**202,336**
Net operating expenses	**117,697**
Net technical result	**(36,015)**

The Company's net technical result in 2019 was a loss of £36m, primarily driven by reserve strengthening on medical malpractice, professional indemnity and certain exited lines of business.

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

Solvency II

As a regulated insurance company, AEL is subject to the regulatory rules and principles adopted by the UK and the EU, which came into effect on 1 January 2016. Solvency II is a regulatory regime which is designed to set a 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 the Company's business model relates to the uncertainty around forecasting the Company'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 was 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 the Company incorrectly estimate its future liabilities, or if unforeseen stressed events occur which impact the markets in which the Company operates.

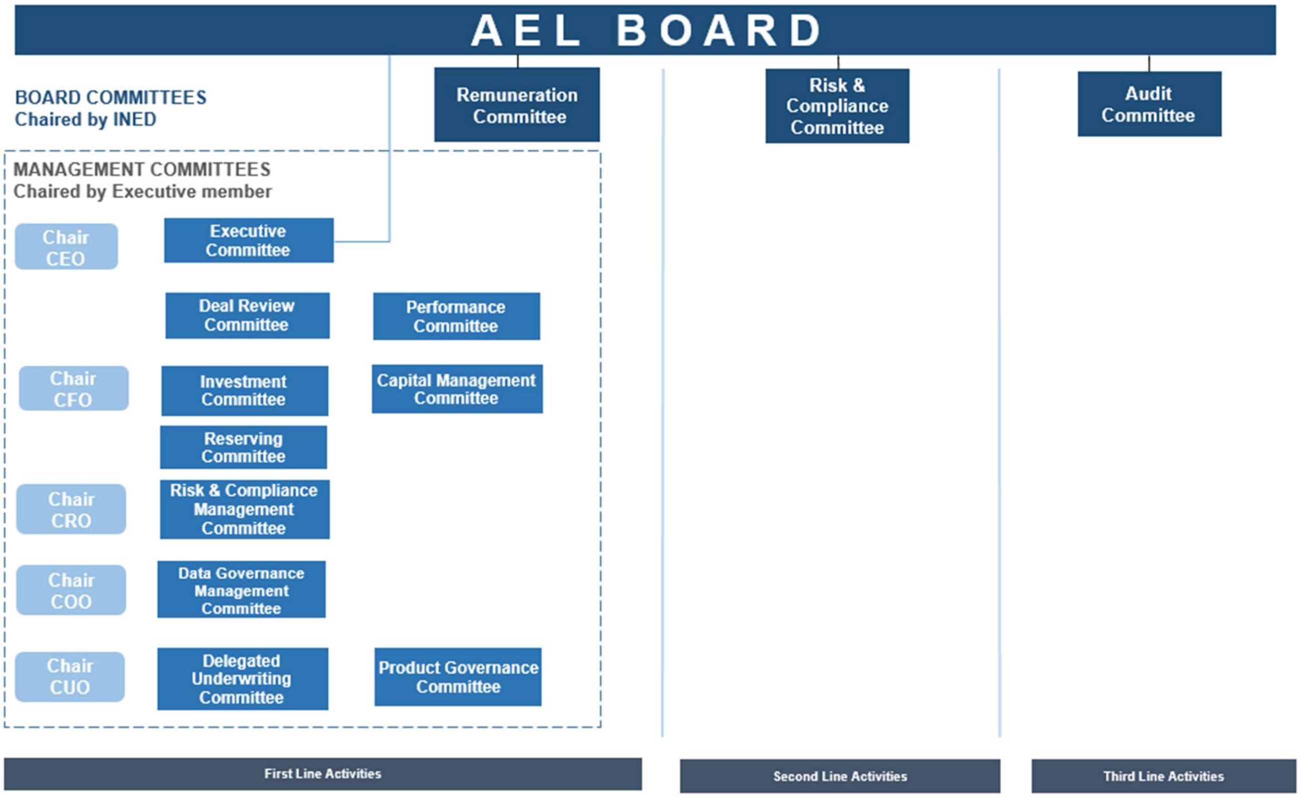
This report is a Solvency II requirement, which is designed to give the Company's external stakeholders (including policyholders) an insight into the solvency and financial condition of the Company. It is prepared on a solo entity basis and it covers the year ended 31 December 2019.

Systems of Governance

The Company 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 the Company'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, the Company follows the "three lines of defence" model of corporate governance.

The Company's key committees are depicted below within the three lines of defence model. Committees have clear lines of authority and responsibilities that are documented in formal terms of reference. 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 the Company's business model (2nd and 3rd lines).



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

Risk Profile

The Company calculates its required capital from a regulatory (Solvency II Standard Formula) 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 the Company is exposed to are:

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

For each risk category, the Company has articulated how much risk it is willing and able to accept based on its strategic profile and capital position. The Company 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 to monitor its exposure to the various risks to which it

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is exposed and these are evaluated each quarter by the Risk and Compliance Management Committee and the Risk and Compliance Committee.

Underwriting Risk

The Company'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 58% of the Company's total gross reserves in 2019.

The Company manages its exposure to underwriting risk through various Management Committees (Deal Review, Performance, Reserving and Risk and Compliance) and the Board.

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.

The Company manages its exposure to market risk primarily through the Capital Management and Investment Committees and the Board.

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 the Company's reinsurers.

The Company is subject to material risk exposures with respect to its reinsurers, banks and intermediary counterparties. The Company's largest credit risk exposures are to two of its reinsurers, AIIL (59% of total exposure) and Maiden Re (23% of total exposure). These amounts are fully collateralised and both of these reinsurance arrangements have been terminated so the total exposures should continue to decrease.

The Company manages its exposure to credit risk primarily through the Capital Management and Risk and Compliance Management Committees and the Board.

Other Risks

The Company is also exposed to the following other risks:

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

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

Valuation for Solvency Purposes

Under Solvency II valuation principles, items in the Company's balance sheet are valued at the amount for which the assets and liabilities could be exchanged between knowledgeable willing parties in an arm's length transaction. This differs from the valuation methods used in the Company's financial statements, which are based on Generally Accepted Accounting Principles ('GAAP') in the UK.

As at 31 December 2019, the Company's net assets were valued at £339m under Solvency II, compared with £351m under UK GAAP. The difference of £12m was primarily due to the valuation of technical provisions (including reinsurer's share and deferred acquisition costs).

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 its ability to continue as a going concern and to protect the interests of its stakeholders 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').

The Company calculates its SCR using the Standard Formula. The Company does not use any Undertaking Specific Parameters ('USPs') allowed under Solvency II.

Own Funds decreased by £8m in 2019 due to increases in technical provisions from reserve strengthening in the year, offset by increases in loan assets (restructured general debtor obligations with affiliates into short-term loans) and bond holdings. These factors have also impacted the SCR; the decrease of £17m is due to a restructure of loan asset counterparties reducing market risk, offset by higher non-life underwriting risk.

Capital Requirements	2019	Coverage	2018	Coverage
As at 31 December	*£'000*	*%*	*£'000*	*%*
Own funds	339,204		346,922	
SCR	249,376	136%	266,570	130%
MCR	90,665	363%	85,340	397%

The Company's SCR split by risk module as of 31 December 2018 and 2019 are shown in the table below.

SCR by Risk Module	2019	2018	Variance	
As at 31 December	*£'000*	£'000	£'000	%
Health NSLT underwriting risk	1,506	2,986	(1,480)	(50%)
Non-Life underwriting risk	180,205	166,195	14,010	8%
Market risk	67,260	105,813	(38,553)	(36%)
Counterparty default risk	17,438	30,912	(13,474)	(44%)
Undiversified Basic SCR	266,409	305,906	(39,497)	(13%)
Diversification credit	(49,253)	(70,213)	20,960	(30%)
Basic SCR	217,156	235,693	(18,537)	(8%)
Operational risk	32,220	30,877	1,343	4%
Standard Formula SCR	249,376	266,570	(17,194)	(6%)

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

Event After the Statement of Financial Position Date

As the effects of the coronavirus (or COVID-19) pandemic are now being felt on a global scale, the Company, as with many of its policyholders, distribution partners and vendors, have taken steps to alter or reduce normal business activity to help control the spread of the outbreak. The Directors consider this to be a non-adjusting event for the Financial Statements; however, anticipate that there may be some near- to mid-term impact on the Company's financial, liquidity and solvency positions.

Further detail on the potential impact of this event on the Company's financial and solvency positions is included in section A.1.7.

Directors' Statement of Responsibilities in Respect of the Solvency and Financial Condition Report

The Directors acknowledge their responsibility for preparing the Solvency and Financial Condition Report in all material respects in accordance with the PRA rules and the Solvency II Regulations.

The Directors 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)

4 May 2020

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 Part 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 2019:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2019, (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').

To the extent the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

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 2019 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.

Going Concern

The directors have prepared the Solvency and Financial Condition Report on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the Solvency and Financial Condition Report (the 'going concern period').

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the Solvency and Financial Condition Report. In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model, including the impact of COVID-19, and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

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

In accordance with Rule 4.1 (3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of 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 for Solvency II firms 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 for Solvency II firms 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

4 May 2020

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

AmTrust Europe
An AmTrust Financial Company

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
Market Square House,
St James's Street,
Nottingham,
NG1 6FG

A.1.2 Supervisory Authority

The Company 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.

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

The Company belongs to the AmTrust International Limited ('AIL') group of companies (the 'AIL Group'). The AIL Group is also supervised by the PRA.

The Company 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

The Company, 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

The Company is a wholly owned subsidiary of AIL which is a UK Limited Company.

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

AIL's registered address is as follows:

AmTrust International Limited
Market Square House,
St James's Street,
Nottingham,
NG1 6FG

The Company's ultimate parent is Evergreen Parent GP, LLC ('Evergreen'), a Delaware registered US limited liability company. Evergreen is an entity formed by private equity funds managed by Stone Point Capital LLC, together with Barry Zyskind, Chairman and CEO of the AmTrust Group, George Karfunkel and Leah Karfunkel (collectively, the 'Karfunkel-Zyskind Family').

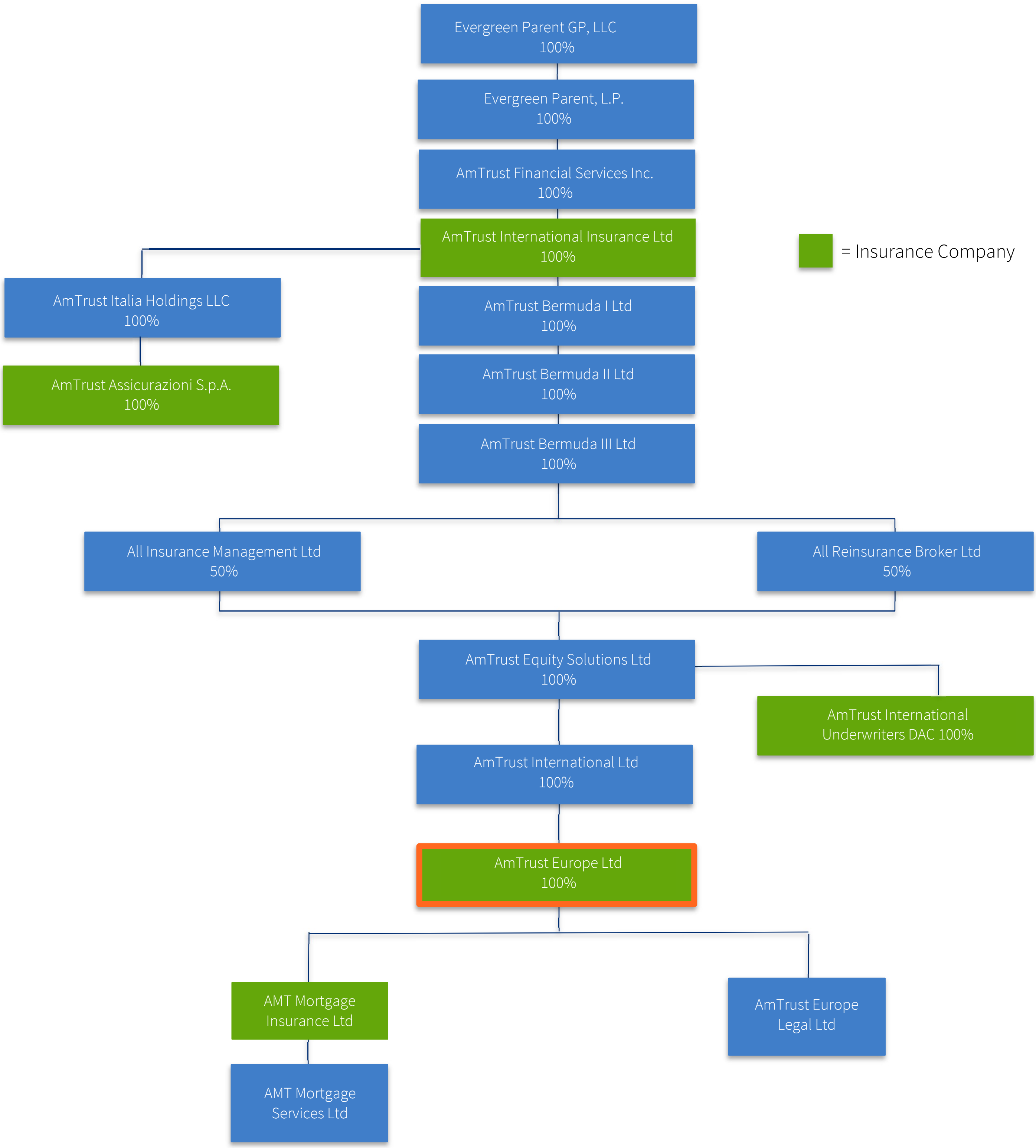
Evergreen's registered address is as follows:

Evergreen Parent GP, LLC
c/o AmTrust Financial Services, Inc.
59 Maiden Lane, 43rd Floor
New York, New York 10038

As a member of the AmTrust Group, the Company benefits from financial, operational and management support. The AmTrust Group 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, the AmTrust Group 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 Group companies. The AmTrust Group's business model focuses on achieving targeted returns and profit growth with the careful management of risk. The AmTrust 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. 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. The AmTrust Group has also built a strong and growing distribution of extended warranty and specialty risk products, including liability and other property/casualty products, in Europe.

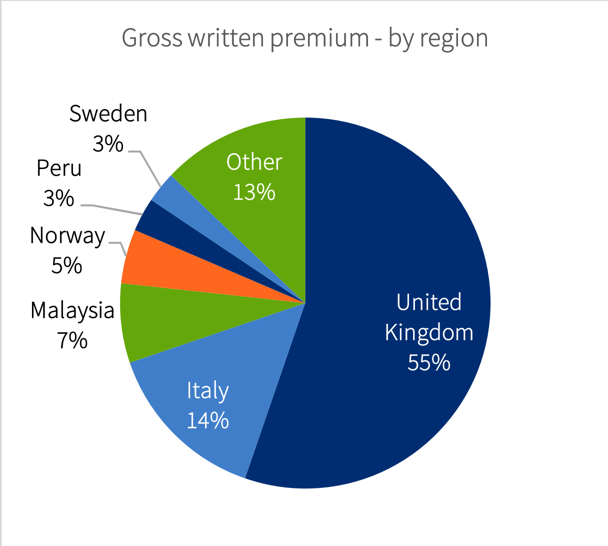
A.1.5 Position Within the Legal Structure of the AmTrust Group

The following simplified group structure chart shows where the Company sits within the wider AmTrust Group.



A.1.6 Material Lines of Business and Geographical Areas in which the Company Conducts Business

The principal activity of the Company is the underwriting of general insurance business across the UK, Europe, Asia Pacific and the Americas. Its primary markets are shown in the chart below.



The Company's primary underwriting activities are within the following material lines of business.

A.1.6.1. Warranty

The Company offers a variety of warranty products including, but not limited to, motor, electrical device, home emergency and plant and equipment. The portfolio is balanced between coverholder-managing general agent ('MGA') arrangements and reinsurance/contractual liability insurance policies ('CLIPs'); taking into account the conduct and compliance resources required to manage the business effectively. The majority of the portfolio is dedicated to consumer programmes, typically where the general public are purchasing insurable products from the Company's clients. The Company also offers warranties on commercial plant and machinery, where customers are small or large businesses.

Profitability in sub-segments has been steady; however, the Company has been predominately focused on restructuring the warranty business by better targeted underwriting and management of the existing book. From 2020, the Company's aim is to manage a smaller number of higher premium accounts, targeting a balanced portfolio mix in relation to shorter and longer term risks.

A.1.6.2. Legal Expenses

The Company's legal expenses portfolio consists of a wide variety of products that fall into before the event ('BTE'), commercial and personal after the event ('ATE') and litigation funding business segments. The Company predominately utilises coverholder-MGAs to write BTE business; and mainly distributes directly or via brokers without delegation for ATE and litigation funding business. These products are primarily targeted at consumer and commercial customers; however, circa 25-30% of the consumer BTE business is through inwards reinsurance. Distribution varies, with BTE and personal ATE geographically focused in the UK; whilst commercial ATE and litigation funding targets both the UK and overseas.

This business was a specific area of growth for the 2019 year and will continue to be so for the foreseeable future; 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 its current customer base. Across segments, the Company's strategic objective is to be the leading provider, ensuring competitive edge is maintained through quality underwriting, providing a bespoke rather than commoditised service where possible and ensuring distribution is well considered.

Profitability in sub-segments has been steady. The markets for BTE and commercial ATE are highly competitive, whilst the personal ATE market has consolidated following government reforms.

A.1.6.3. Professional Indemnity ('PI')

The Company's PI product protects professionals against their legal liability for claims arising as a result of negligence during the course of carrying out their professional duties. The Company distributes PI exclusively through brokers and an AmTrust Group owned MGA, Collegiate Management Services Limited. These products almost exclusively target UK SMEs. The Company does have some commercial non-UK customers, representing approximately 2% of its total gross written premium ('GWP').

Profitability in one sub-segment of this line of business, the solicitors book, was impacted by an increase in buyer funded development claims (mostly from the 2015 and 2016 underwriting years) which related primarily to one solicitors firm. The issues related to these claims are not prevalent in the remainder of the other business in this class. The Company has been focused on consolidating, rather than expanding, PI business through improved underwriting and management of the existing book. Rates have hardened considerably in the last 18 months (particularly in solicitors and construction) presenting opportunities and the Company is now targeting growth in the account albeit paying appropriate attention to the conduct risk associated with the SME client base.

A.1.6.4. Accident and Health ('A&H')

The Company offers a wide range of products that sit within the A&H/supplemental health insurance area, with 55% of its GWP derived from private medical insurance cover. The Company currently distributes A&H products through coverholder-MGAs via wholesale brokers. The Company also writes quota share treaty and excess of loss facultative reinsurance. Primary insurances are targeted at retail consumers and commercial customers. Distribution is split evenly between the UK and select Middle East (reinsurance) business.

The Company offers a suite of A&H products which allows the coverholder-MGAs to match products with clear customer needs in niche health related markets. Many of these niches arise due to changing and reducing levels of state health provision. Within these niches, the Company offers products in the more attractive segment risks based on incidence and severity, within a clearly defined risk appetite.

The Company has been moving its new business and renewals in EEA countries to AmTrust International Underwriters Designated Activity Company ('AIU') in anticipation of Brexit. This process has been slower than planned, meaning the Company's new written premiums for this class of business have remained broadly consistent with the prior year. The business remains profitable, before reinsurance costs, in line with expectations.

A.1.6.5. Property

The Company offers a wide range of specialist property insurance products, all of which are underwritten through coverholder-MGAs. Although the Company remains a small player in the overall property insurance sector, it is established in a number of smaller sub-segments of the market such as caravan, residential let (commercial and retail), tenants' contents, and unoccupied property insurance. The Company also writes Commercial Property insurance covering predominantly small to medium size commercial premises and targeted at a mixture of retail and SME commercial customers. Distribution is split geographically between the UK and Europe. On the conclusion of the Part VII transfers, planned to be completed mid-2020, the majority of the Company's customers will be based in the UK.

The sub-segments of caravan and residential let are underserved niches in the market that have relatively low competition and have proved to be consistently profitable. The Company has also developed a suite of household products that offer competitive rates for clients. The Company's strategic aim in the property insurance market is to grow its presence in existing niche segments where it operates (i.e. unoccupied, holiday homes) albeit paying appropriate attention to the conduct risk associated with its client base.

A.1.6.6. Mortgage and Credit ('M&C')

The Company's M&C products protect banks, building societies and consumers. The Company transacts the mortgage products directly; whilst the credit products are provided in conjunction with delegated partners through brokers. The Company's target mortgage insurance channels are mainly small to medium-sized banks and building societies in the UK and globally through reinsurance contracts in non-EEA countries. The Company's target credit customers are consumers within the UK purchasing income protection products.

Profitability in sub-segments has been steady. The Company has expanded within the mortgage insurance segment whilst consolidating within the credit segment.

A.1.6.7. Medical Malpractice

The Company's medical malpractice products protect hospitals, smaller associations and individual doctors. 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's results since entering the market; however, due to Brexit, the Company is no longer responding to new medical malpractice tenders in Italy. New business is being referred to either AIU or AmTrust Assicurazioni ('AA'). Business written in the Company is therefore limited to renewals and extensions of contracts with existing hospitals and policies for smaller associations and individual doctors. The impact of this change on the Company is expected to be minimal in the medium to long term as the Company is expanding its business in other profitable lines.

Management is preparing to complete transfers of the Company's remaining medical malpractice business to AA, pursuant to a Part VII transfer. The completion of this transfer is planned for mid-2020, subject to regulatory and court approval. Ultimately the Company will have no further exposure to this class of business.

The AmTrust Group continues to hold a strong position in the medical malpractice marketplace.

A.1.6.8. Surety

The AmTrust Group sold its wholly owned managing agent in Spain, and the surety business generated by it, to Liberty Mutual Insurance Company in October 2019. The Company will continue to run-off its existing policies but is not originating new business in the UK or mainland Europe. However, it is still participating in the reinsurance inwards business from Latin 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. Future active production in this line of business will be reported as part of the Company's M&C class.

A.1.6.9. Structural Defects

The Company elected to exit the structural defects market in 2019 and issued notice of termination on its remaining contracts. All accounts were terminated during 2019 except for one, which terminated in March 2020. This is long tail business with up to ten years cover, so the business will be in run-off up until 2030.

As is described in detail within section A.1.7 "Material Events" below, the Company's business mix in terms of lines of business and geographical exposure has changed during the course of the year and will continue to do so as a result of decisions made in anticipation of Brexit and the failure of certain lines of business to achieve the Company's target profitability measures.

A.1.7 Material Events

The following material events impacted the Company during the year:

- Reduced underwriting volumes by focusing on fewer lines of business and geographies – Through the execution of its "Fix/Exit/Brexit" strategy, the Company has been transferring business in EEA countries to the European based companies within the AmTrust Group and exiting lines of business (e.g. structural defects and UK liability) or coverholders (primarily in the legal expenses and warranty lines of business) which have not achieved its target profitability measures. These actions resulted in a reduction in gross premiums written in 2019 of £72m or 14% to £426m (2018: £498m).
- Increased reinsurance cession on most lines of business and transitioned to highly rated third-party counterparty – Effective 30 June 2019, the Company terminated its 20% whole account quota share reinsurance arrangement with AIIL, an "A-" rated affiliated reinsurance company domiciled in Bermuda. This follows on from a similar action last year where the Company terminated its 20% quota share reinsurance arrangement related to its Italian medical malpractice hospitals business with Maiden Re, an unrated reinsurance company domiciled in Bermuda (subsequently redomiciled in Vermont, U.S. in March 2020). These reinsurance arrangements were replaced with a 50% whole account quota share with Swiss Re Europe S.A. ('Swiss Re'), a "AA" rated global third-party reinsurer, for all new business from 1 July 2019 with the exception of business related to mortgage and credit, which has its own third-party 50% quota share arrangements, and certain lines of business in which the Company is in the process of exiting.

- Disposed of its non-insurance subsidiary undertakings to minimise volatility in capital – During 2019, the Company dissolved or sold all of its non-insurance subsidiary undertakings except for AmTrust Europe Legal Limited ('AELL'). AELL is currently in run-off and the Company is working to transfer all of AELL's remaining business into the Company and then dissolve AELL in 2020.

  These disposals were achieved through the following actions:

  - Sold 100% of its holdings in AmTrust Italia Srl ('Italia') to the AmTrust Group's other MGA in Italy, AmTrust Insurance Agency Italy Srl ('AIAI'), for €22.0m (holding value at time of disposal: €19.2m);
  - Sold 100% of its holdings in Collegiate Limited ('Collegiate') to AIL for £6.7m (holding value at time of disposal: £2.4m);
  - Dissolved Pedigree Livestock Insurance Limited ('PLIL') following the completion of a Part VII transfer to the Company of all of its remaining liabilities; and
  - Dissolved Right2Claim Limited which was a dormant company.

- Restructured debtor and loan arrangements with group undertakings to minimise market risk – During the year, the Company's loan assets with AIAI equal to €35.6m (approximately £30.4m) and AIIL equal to €30.7m (approximately £26.2m) were consolidated into a single loan with a principal balance of £47.7m and repayable over 5 years. This consolidation followed a partial repayment of the AIIL loan of £8.9m. An additional loan asset was acquired from AIL which had a principal balance of £39m and was repayable on demand. This new loan asset represented the conversion of balances previously held as debtors owed by group undertakings.
- Received dividends from subsidiary undertakings – During the year, the Company received dividends of €25m from AMIL, €5m from Italia and £2m from Collegiate.
- Completing preparation for continuing operations post-Brexit – As the UK left the EU on 31 January 2020 without an agreed trade agreement with the EU post the transition period which ends 31 December 2020, there remains material uncertainty on the way the Company will be able to operate in EEA countries after 2020 with respect to its licenses. In order to ensure continuity of service to its current policyholders in these countries, the Company has been moving most of its new business and renewals in these countries to AmTrust International Underwriters Designated Activity Company ('AIU'), the AmTrust Group's Irish based insurer, and is in the final stages of transferring its remaining active policies to AIU and AmTrust Assicurazioni ('AA'), the AmTrust Group's new Italian based insurer. There are two transfers planned, the medical malpractice business and some other ancillary lines of business in Italy to AA and the Company's other European business to AIU. These transfers will be conducted through a court-sanctioned legal transfer of the respective policies to AA and AIU governed by Part VII of the Financial Services and Markets Act 2000 with supplementary guidance set out in SUP 18 of the FSA handbook ('Part VII Transfers'). Both transfers are expected to be executed in the second half of 2020.

In addition, the following material event started to impact the Company during early 2020:

- Outbreak of Coronavirus (COVID-19) – As the effects of the coronavirus pandemic are now being felt on a global scale, the Company, as with many of its policyholders, distribution partners and vendors, have taken steps to alter or reduce normal business activity to help control the spread of the outbreak. Some of the steps which the Company has taken involve:

  - The implementation of business continuity plans which include the temporary closure of the Company's offices in the UK and Italy and strong encouragement of employees to work from home;
  - Increased communication and coordination with the Company's stakeholders and shared service partners; and
  - Increased liquidity to ensure the Company maintains adequate cash to honour its commitment to policyholders, employees and vendors.

  Given that the Company's insurance portfolio is diversified across seven lines of business, including the existing medical malpractice line of business, and that these lines do not demonstrate a high level of correlation in performance, the Directors believe this will help balance the impact of this event from both a top line (gross written premium) and bottom line (technical account) perspective. Management has conducted a review of the Company's insurance portfolio risks with a deep dive analysis of potentially exposed subsegments. This analysis did not identify any segments of the portfolio that would be likely to represent a substantial challenge to the Company's business model sustainability. The Directors also believe that any material increases in claims activity would be partially offset through the Company's quota share and excess of loss reinsurance schemes.

The Directors anticipate that there may be some near- to mid-term impact on the Company's financial, liquidity and solvency positions from devaluations in its bond portfolio, reduced volumes of new business written and higher claims incurred in certain lines of business, as well as an increase in bad debt from companies experiencing liquidity issues. In addition, the business disruption may also cause a delay in the execution of the planned Part VII transfers, planned to be completed mid-2020. The Directors have performed a sensitivity test to assess the impact on the Company's resources including the following stresses:

- Asset shock equal to an immediate 10% reduction in the value of the Company's bond portfolio which broadly equates to a 1 to 2 notch downgrade in the average rating of the bonds held in the portfolio;
- A reduction in GWP across all core lines of business equal to 50% (2020) and 25% (2021) versus the Company's business plan;
- An increase in claims incurred equal to 11% of the total business plan forecast over the next 12 months focused in the most at risk sub-lines of business;
- A delay in the execution of the Part VII transfers until the end of 2020; and
- An increase in bad debt expense equal to 50% of premiums due over the next 6 months (there is an underlying assumption that the Company would eventually terminate its contractual relationship with any counterparty which failed to pay obligations when due).

The combined impact of the above stresses is considered to be an extreme stress representing a reverse stressing of the business up to the point at which the Company's SCR solvency ratio reduces to 100%. Under this extreme scenario, the Company's SCR solvency ratio at 31 December 2019 of 136% would initially decrease by about 19% to around 117% and then approach 100% by the end of 2020. This is before the impact of any Management actions to mitigate these effects. The continued reduction of the SCR solvency ratio through the end of 2020 is primarily the result of the emergence of the assumed 50% bad debt expense over the 6-month period. Upon returning to normal premium collection practices, the Company's SCR solvency ratio would gradually increase.

Given the maintenance of a 100% SCR solvency ratio after incorporating this stress scenario, it would indicate that the Company could continue to honour its obligations through an additional 1 in 200 event level stress.

Management has completed a detailed analysis of the impact of different scenarios on levels of the Company's production, incurred claims and bad debt. As of the date of this assessment, the Company has experienced or projects its near- to mid-term impacts to be:

Assumption	Experience/projection	Stress scenario
Reduction in bond portfolio valuation	Actual devaluation over Q1 2020 of ~3%	10%
Reduction in gross written premiums (vs. business plan)	5-10% over next 12 months	50% (2020) and 25% (2021)
Increase in incurred claims	~3.5% over next 12 months	11% over next 12 months
Delay in Part VII transfers	None	6 months
Increase in bad debt expense	Up to 4% over the next 6 months	50% over the next 6 months

It should be noted that about 50% of the Company's premiums are either written directly with the Company or through one of its affiliated distribution partners. Further, the Company's premium collections from UK based distribution partners are protected by the required use by these distribution partners of trust accounts through which premiums are deposited by policyholders and cannot be withdrawn by the distribution partner other than to make premium payments to the Company. Premium collected through the Company's unaffiliated UK based distribution partners represents a further two-thirds of remaining premiums.

The Directors believe the impact of the coronavirus pandemic on the Company may fall somewhere between these two projections; however, given the recent and quickly evolving nature of this event, its unknown length and ultimate scope, the Directors are currently unable to assess the potential long-term impact it may have on its strategy or financial results.

AmTrust Europe
An AmTrust Financial Company

A.2 Underwriting Performance

A.2.1 Material Lines of Business

2019	General liability	Miscellaneous financial loss	Legal expenses	Fire and other damage to property	Other Solvency II classes	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Gross premiums written	100,521	160,520	103,461	27,452	34,279	426,233
Reinsurers' share	27,675	38,382	32,980	7,666	13,499	120,202
Net premiums written	72,846	122,138	70,481	19,786	20,718	306,031
Gross premiums earned	112,727	143,518	61,798	34,216	41,984	394,243
Reinsurers' share	26,445	43,920	16,901	7,873	15,086	110,225
Net premiums earned	86,282	99,598	44,897	26,343	26,343	284,018
Gross claims incurred	134,528	112,451	43,940	18,684	34,842	344,445
Reinsurers' share	64,513	43,141	13,787	4,271	16,397	142,109
Net claims incurred	70,015	69,310	30,153	14,413	18,445	202,336
Net operating expenses	38,089	40,175	19,407	11,825	8,201	117,697
Net technical result	(21,822)	(9,887)	(4,663)	105	252	(36,015)

2018	General liability	Miscellaneous financial loss	Legal expenses	Fire and other damage to property	Other Solvency II 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	47,142	31,283	8,577	14,258	24,319	125,579
Net technical result	(3,786)	(3,197)	1,216	(1,701)	(387)	(7,855)

The Company had a net technical loss of £36m in 2019 (2018: loss of £8m) which is primarily driven by general liability (loss of £22m in 2019; loss of £4m in 2018), miscellaneous financial loss (loss of £10m in 2019; loss of £3m in 2018) and legal expenses (loss of £5m in 2019; profit of £1m in 2018).

Net premiums written in 2019 were down £39m versus prior year at £306m (2018: £345m) primarily in general liability (£73m in 2019; £114m in 2018), fire and other damage to property (£20m in 2019; £28m in 2018) and other solvency II classes (£21m in 2019; £39m in 2018) as a result of the execution of the Company's 'Fix/Exit/Brexit' plan and an increase in the quota share reinsurance cessions from an average of about 30% to 50% based on the programme changes executed in mid-2019. This is partially offset by higher net premiums written in miscellaneous financial loss (£122m in 2019; £112m in 2018) and legal expenses (£70m in 2019; £53m in 2018) which is in-line with the Company's strategy for measured growth in these two line of business. The reduction in net premiums earned is lower at only £8m in 2019 (£284m in 2019 versus £292m in 2018) as premiums on the longer-tail business are earned over more than twelve months and represent the larger portion of the impacted business.

Net claims incurred increased by £28m versus prior year at £202m (2018: £174m) primarily in miscellaneous financial loss (£69m in 2019; £49m in 2018) and general liability (£70m in 2019; £66m in 2018). This increase in miscellaneous financial loss is primarily attributable to the increase in net premiums earned and the increase in general liability is the result of incremental claims development in both the medical malpractice and PI sublines of business. This deterioration in claims incurred was related to certain older underwriting years in the medical malpractice public hospital segment and two specific funded schemes in the PI solicitors book (mostly from the 2015 and 2016 underwriting years).

As a result of having lower premiums, there is a corresponding £8m reduction in net operating expenses in 2019 (£118m in 2019 versus £126m in 2018) primarily from a reduction in net acquisition costs which are included in net operating expenses. In addition, there are additional bad debt provisions in miscellaneous financial loss and legal expenses related to concerns over the collection of premiums on certain terminated accounts.

A.2.2 Material Geographic Areas

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

2019	United Kingdom	Italy	Malaysia	Norway	Peru	Sweden	Other countries	Total
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Gross premiums written	235,533	61,909	29,516	20,167	12,580	11,545	54,983	426,233
Reinsurers' share	71,328	14,174	6,635	1,755	6,750	3,129	16,431	120,202
Net premiums written	164,205	47,735	22,881	18,412	5,830	8,416	38,552	306,031
Gross premiums earned	195,375	76,213	21,952	23,115	13,833	11,172	52,583	394,243
Reinsurers' share	56,903	17,224	4,941	5,090	7,308	4,199	14,560	110,225
Net premiums earned	138,472	58,989	17,011	18,025	6,525	6,973	38,023	284,018
Gross claims incurred	158,113	98,692	16,900	19,832	3,912	8,810	38,186	344,445
Reinsurers' share	61,171	48,759	4,217	6,454	2,334	4,174	15,000	142,109
Net claims incurred	96,942	49,933	12,683	13,378	1,578	4,636	23,186	202,336
Net operating expenses	57,668	19,038	6,232	7,349	5,451	1,713	20,246	117,697
Net technical result	(16,138)	(9,982)	(1,904)	(2,702)	(504)	624	(5,409)	(36,015)

2018	United Kingdom	Italy	Malaysia	Norway	Peru	Sweden	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	37,980	34,778	3,762	7,133	9,708	3,530	28,688	125,579
Net technical result	(4,963)	(5,112)	1,360	(3,315)	4,562	1,000	(1,387)	(7,855)

The geographical split shows that net premiums written have increased in:

- The United Kingdom by £19m versus prior year to £164m (2018: £145m), primarily due to increases in the legal expenses business; and

- Malaysia by £8m versus prior year to £23m in 2019 (2018: £15m), related to a significant increase in accepted proportional reinsurance A&H (personal accident) business written in that country in 2019.

Conversely, net premiums written have decreased in:

- Italy by £29m versus prior year to £48m in 2019 (2018: £77m), reflecting the movement of Italian medical malpractice renewals to AIU as part of the Company's Brexit plans;
- Peru by £10m versus prior year to £6m in 2019 (2018: £16m), related to accepted proportional reinsurance credit (surety bond) business as the AmTrust Group sold the majority of its surety business to Liberty Mutual in 2019;
- Sweden by £7m versus prior year to £8m in 2019 (2018: £15m), due to a continued decline in A&H and warranty, primarily electrical business; and
- Other Countries by £19m versus prior year to £39m in 2019 (2018: £58m), due to declining legal expenses business in Australia and liability business in France.

A.3 Investment Performance

The Company has an investment portfolio consisting of bonds (corporate and government), an equity participation, property, subsidiary undertakings and loans from affiliates.

The management of the bond portfolio and the equity participation is outsourced to another company within the AmTrust 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.

2019	Bonds and equity	Property	Investment in subsidiaries	Other Investments	Total
	£'000	£'000	£'000	£'000	£'000
Net income (expense) from investments	9,751	639	0	1,863	12,253
Unrealised gain/(loss) on investments	1,597	339	(35,201)	0	(33,265)
Realised gain on sale of investments	9,271	0	5,631	0	14,902
Dividend income from subsidiaries	0	0	29,614	0	29,614
Investment management and other expenses	(3,590)	(155)	0	(150)	(3,895)
Total	17,029	823	44	1,713	19,609

2018	Bonds and equity	Property	Investment in subsidiaries	Other Investments	Total
	£'000	£'000	£'000	£'000	£'000
Net income (expense) from investments	6,697	723	0	0	7,420
Unrealised gain/(loss) on investments	(5,509)	(1,187)	(20,240)	0	(26,936)
Realised gain on sale of investments	1,308	0	0	0	1,308
Dividend income from subsidiaries	0	0	32,494	0	32,494
Investment management and other expenses	(573)	(1,577)	0	0	(2,150)
Total	1,923	(2,041)	12,254	0	12,136

Net income from the bond and equity investments was higher by £15m versus prior year at £17m in 2019 (2018: £2m). This represents interest income, net of investment expenses, of £6m (2018: £6m), unrealised gains of £2m (2018: loss of £6m) and realised gains on sale of £9m (2018: £1m). The increase in net income from these investments year over year was primarily related to the strengthening in 2019 of bond valuations in the countries in which the Company invests and the relative valuation of the Pounds Sterling in relation to foreign currencies in which some of the investments are denominated.

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 subsidiary is AMIL, a regulated insurance company. The unrealised loss on investment relates to a reduction in carrying value of AMIL, Italia and Collegiate as a result of dividends received from those subsidiaries.

A.4 Performance of Other Activities

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

A.5 Any Other Information

None noted.

System of Governance

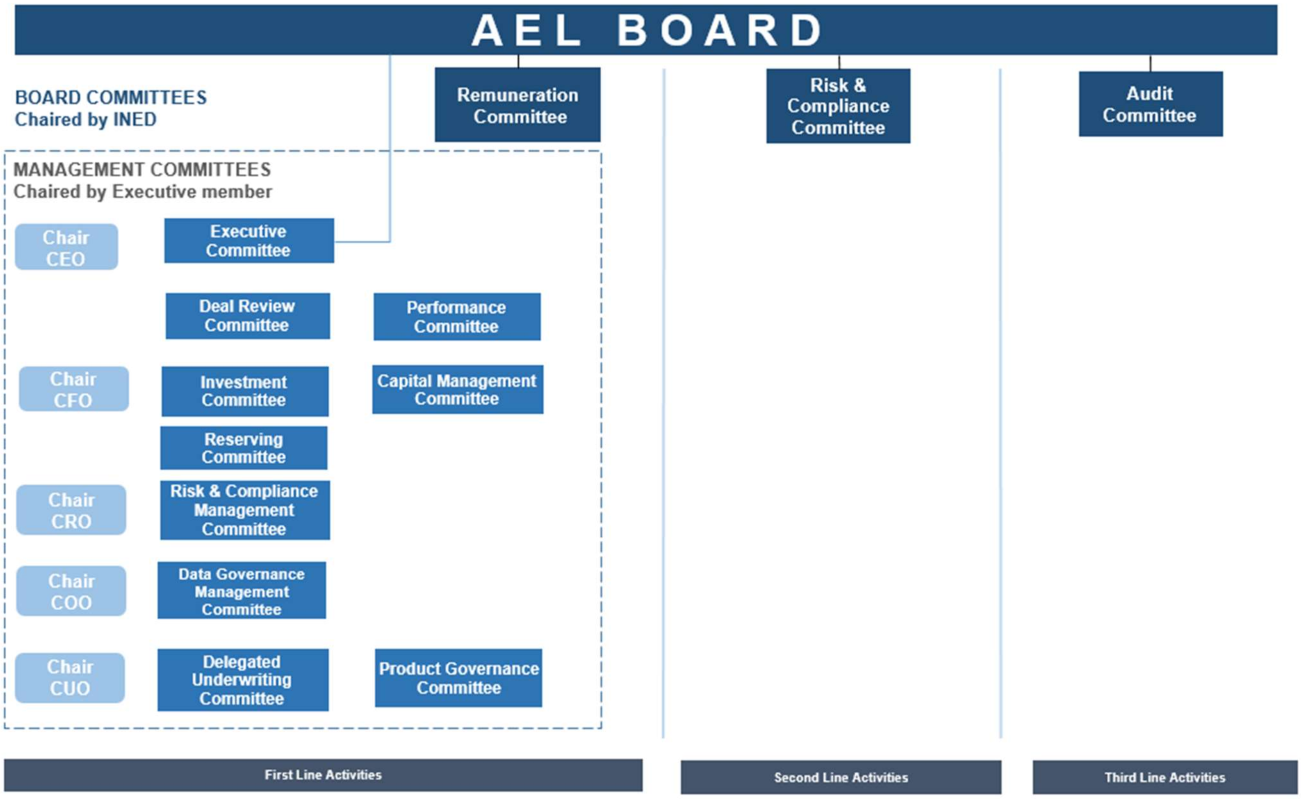
Section B

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.
- Second Line of Defence - responsible for reviewing risks across the first line. No risk-taking activities take place here. Key control functions such as Risk Management and Compliance reside here.
- Third Line of Defence – the first and second lines together form the Company's system of governance and internal control. The third Line is independent of the 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 Key Functions

The four key functions are Risk Management, Compliance, Internal Audit and Actuarial. Further information on each of these key functions is detailed in sections B.3.2, B.4.1 and B.5 and B.6 respectively.

B.1.1.2 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 the Company. 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 the Company.

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

- Setting the Company's strategic direction, within AIL Group Risk Appetite;
- Developing and maintaining the Company's 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 the Company's operations;
- Ensuring the appropriate and necessary financial and human resources are in place to meet the Company's 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; and
- Developing the Company's culture.

B.1.1.3 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 INEDs;
- 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; and
- Overseeing the development and implementation of the Company's remuneration policies and practices.

B.1.1.4 The Role of the Independent Non-Executive Directors and Non-Executive Directors

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; and
- Satisfying themselves on the integrity of financial information, and that financial controls and systems of risk management are robust and effective.

B.1.1.5 The Role of the Chief Executive Officer

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

- Ensuring the Company remains solvent at all times and that customers are treated fairly;
- Ensuring the Company 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 ('SMCR');
- Managing the Company'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 the Company; and
- Approving all capital and revenue transactions, including acquisitions and disposals, not specifically reserved for the Board.

B.1.1.6 Board Composition

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

Board Member	Board Role	Board	Remuneration	Risk and Compliance	Audit	Executive
Chairman of The Board	Independent	Chair	Chair	X	X	
Independent Non-Executive Director	Independent	X		X	Chair	
Independent Non-Executive Director	Independent	X		Chair	X	
Non-Executive Director	Group Role	X	X			
Non-Executive Director	Group Role	X	X			
Chief Executive Officer	Executive	X				Chair
Chief Finance Officer	Executive	x				x

During 2019, the following changes were made to the Board:

- The Chief Risk Officer ('CRO') retired on 30th September 2019. The newly appointed CRO is not a Board member.
- The Chief Operating Officer ('COO') resigned on 8th April 2019. The newly appointed COO is not a Board member.
- The CFO was appointed to the Board on 15th July 2019.

B.1.2 Responsibilities and Reporting Lines

B.1.2.1. First Line Board Committees

B.1.2.1.1 Remuneration Committee

The key purpose of the committee is to approve the Company's 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 INED. The other two members of the committee are NEDs.

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

The committee reports on Executive compensation; reviews succession and leadership plans for all Executive Management; sets remuneration and compensation policies and proposes compensation arrangements for Executive Management and the CEO for Board approval.

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

B.1.2.1.2 Executive Committee

The key purpose of the committee is to support the CEO 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 prioritisations and allocation of resources.

The committee is made up of the CEO, the CFO, the COO, the CRO, the Chief Underwriting Officer ('CUO'), the Chief Claims Officer ('CCO') and the General Counsel.

B.1.2.2 First Line Management Committees

There are several sub-committees in place to support the Executive Committee in discharging its duties. These committees are chaired by members of the Company's Executive Management team. The committees are as follows:

- Deal Review Committee – chaired by the CEO
- Performance Committee – chaired by the CEO
- Investment Committee – chaired by the CFO
- Capital Management Committee – chaired by the CFO
- Reserving Committee – chaired by the CFO
- Data Governance Management Committee – chaired by the COO
- Delegated Underwriting Committee – chaired by the CUO
- Product Governance Committee – chaired by the CUO

Each committee is governed by an approved terms of reference and meets at least quarterly. Details of the responsibilities and membership of each committee is set out below.

B.1.2.2.1 Deal Review Committee

The purpose of the committee is to review and approve new or renewed underwriting opportunities that are outside of plan, outside of underwriter's authority or unique, in accordance with the board approved Business Plan Escalation Matrix.

The committee consists of six members including the CEO, CUO, CRO, General Counsel, CFO and CCO.

B.1.2.2.2 Performance Committee

The key purpose of the committee is to monitor and manage underwriting performance, portfolio mix, pricing adequacy, delegation of authority and the execution of business plans. The key responsibilities of the committee are:

- To monitor and review the Company's underwriting policies, guidelines, authorities, processes and procedures to ensure they meet its underwriting risk appetite and approved business plan;
- To advise and monitor on insurance and reinsurance risk profile and exposures;
- To monitor claims movements and large losses;
- To monitor pricing adequacy and underwriting performance; and
- To assess the Company's underwriting opportunities within its chosen markets.

The committee consists of thirteen members, including all other members of the Executive Management team and the lead underwriters for the core lines of business.

B.1.2.2.3 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 recommend them for approval to the Board; and
- Monitor investment risk and associated credit and liquidity risk.

The committee consists of four members including the CFO, CRO, Head of Finance and Head of Capital Management.

B.1.2.2.4 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 SCR.

The committee consists of five members including the CFO, CRO, Head of Capital Management, Chief Actuary and CEO.

B.1.2.2.5 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 committee to challenge management's view of the reserves. The discussions and challenges around the reserve setting process are formally minuted.

The committee consists of four members, who are the CEO, CRO, CFO and CUO.

B.1.2.2.6 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 committee consists of five members, including the COO, Risk Manager, CFO, Head of Capital Management and Head of Compliance.

B.1.2.2.7 Delegated Underwriting Committee

The purpose of the committee is to oversee the Company's delegation of underwriting, claims and complaints handling authority and the partners to whom the Company delegates, or aims to delegate.

The committee consists of five members including the CCO, Head of Compliance, COO and Underwriting Governance Manager.

B.1.2.2.8 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 COO, CRO, CEO, General Counsel, Head of Compliance, CUO and CFO.

B.1.2.3. Second Line Board Committees

B.1.2.3.1 Risk and Compliance Committee

The key duties and responsibilities of the committee in relation to risk management are:

- To oversee all aspects of the Company'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; and
- 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; and
- To ensure the compliance function is adequately resourced.

The committee consists of three members, including the Chairman of the Board and two other INEDs.

B.1.2.4. Second Line Management Committees

B.1.2.4.1 Risk and Compliance Management Committee

The committee supports the Risk and Compliance Committee. The purpose of the committee is to oversee all aspects of risk management and compliance. The key responsibilities and duties of the committee is to support the Board in the implementation of a robust risk management framework, including identifying, monitoring and managing risks to assist the Board in the delivery of the strategic objectives and business plans.

The Committee consists of five members, including the CRO, the COO, the CUO, the CFO, and the Head of Compliance.

B.1.2.5. Third Line Board Committees

B.1.2.5.1 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 oversee the firm's policies and processes for financial and prudential regulatory reporting, and ensure the propriety and effectiveness of internal and external audit arrangements;
- To monitor the effectiveness of the internal financial controls regarding the financial report;
- To approve the Internal Audit Plan, and receive reports from internal audit on the effectiveness of internal controls;
- To monitor the statutory audit of the annual financial statements, in particular, its performance, taking into account, where applicable, any findings and conclusions of the Financial Reporting Council, pursuant to Article 26(6) of the Statutory Audit Regulation;
- To make a recommendation for the appointment of the external audit firm;
- To review and monitor the external auditor's qualifications and independence;
- To review and monitor the suitability of the provision of non-audit services to the Company in accordance with Article 5 of the Statutory Audit Regulation;
- To review and monitor compliance by the Company with legal and regulatory requirements relating to audit and financial reporting functions; and review and monitor the Company's internal audit function; and
- To review the adequacy and security of the Company's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.

The committee consists of three members including the Chairman of the Board and two other INEDs.

B.1.3 Changes in the System of Governance

The following changes were made to the Company's governance structures during 2019:

- Apart from the CFO, newly appointed members of the Executive Management team were not appointed to the Board in order to create better balance between the number of Executive and Non-Executive Directors;

- The Underwriting Committee and Pricing Committee were consolidated to form the Performance Committee in order to provide better oversight of underwriting and claims performance; and

- The CUO became the chair of the Product Governance Committee as the Company continues to embed enhanced product governance processes within the business.

The Company continues to make improvements in its governance structures and has plans to make the following further changes in 2020:

- A Board-level Conduct Committee will commence in early 2020 to provide oversight of all conduct related matters;
- The Remuneration Committee will be reconstituted as the Remuneration and Nomination Committee and the membership of the committee will be expanded to include the other two INEDs and the CEO;
- The Capital Management and Investment Committees will be combined into a single committee; and
- The Risk and Compliance Management Committee will be converted into a working group.

B.1.4 Remuneration Policy

The Board is responsible for the establishment and implementation by management of the Remuneration Policies for the Company and is authorised to review and approve the remuneration plans and programmes that fall within the Remuneration Policies. Policies, plans and programmes are either defined at the AIL Group level or follow the AmTrust Group principles with variation as appropriate to the Company with regard to prevailing regulatory and/or legislative requirements.

B.1.4.1. 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;
- Provide market-appropriate pay structures which includes a role-appropriate level of variable pay in line with market norms and an appropriate benefits programme;
- Ensure that pay programmes are aligned as applicable to business strategy, risk appetite statements, codes of conduct and applicable regulations; and reward only appropriate behaviour with both short and long-term performance 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; and
- No member of the Remuneration Committee is involved in deliberations or decision making on his/her own pay or the pay of the other members of the Remuneration Committee.

B.1.4.2. 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 base pay as relevant to remit and seniority;
- 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 business 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 applicable competency framework. Business performance is aligned to agreed financial metrics and the individual component is designed to drive certain behaviours, including the exhibiting of the Company's values, advancing its culture and complying with the requirements of the regulatory regimes under which it operates;
- All variable pay programmes allow for no awards to be made based upon either individual and/or company performance;
- The variable pay structures ensure that AmTrust's senior employees are aligned not only to the annual goals but also to the long-term success of the relevant business and the AmTrust Group through deferral and long-term incentive arrangements linked to AmTrust Group performance over a multi-year period, typically 4 years; and
- All programmes allow flexibility and discretion to ensure alignment to risk and performance of the business with provisions as applicable to the business and/or population enabling the relevant Boards or Remuneration Committees to make a downward adjustment to proposed awards at either aggregate or individual level or to prevent the vesting of some or all of a tranche of a deferred award in line with the performance of either the individual or business.

B.1.4.3. Supplementary Pension Scheme for Board Members

Board members who are also employees of the Company are entitled to join an applicable and appropriate workplace pension scheme. The Company does not provide any supplementary pension to its INEDs.

B.1.5 Material Transactions with Shareholders, Persons with Significant Influence and Board Members

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

In June 2019, the Company ended its quota share agreement with AIIL, which is an indirect shareholder in the Company.

In 2018, the Company entered a loan agreement with AIIL for €29.8 million, repayable over 5 years. Also in 2018, it accepted from Italia, its wholly owned subsidiary at the time (subsequently sold in 2019 to AIAI), two loan agreements with AIAI totalling €33.8m, repayable over 10 years. In 2019, these loan agreements were consolidated into a new single loan agreement with AIIL for £47.7m, repayable over 5 years.

In 2019, the Company converted a receivable with its parent, AIL, and a wholly owned subsidiary of AIL, AmTrust Management Services Limited, into a single loan agreement with AIL for £39.3m, repayable on demand.

B.1.6 Adequacy of the System of Governance

The Board is satisfied that the system of governance of the Company is adequate for to the nature, scale and complexity of the risks inherent in its business. The Board conducted an external review of Board effectiveness in 2019 and has drawn up a plan to assess and implement the findings during 2020 and 2021.

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. The Company 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, it 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 the Company.

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 experience, skills and competencies. 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 and 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 coordinates risk management activities within the Company 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 key function holder for the risk management function is the CRO.

The risk management process at the Company begins with the strategy and corresponding risk appetites set by the Board. Using a "top-down" risk assessment tool, the risk management function 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 Own Risk and Solvency Assessment ('ORSA') process (see section B.3.3 below), and the capital position is stressed to test for the Company's resilience to unexpected events. The ORSA process brings together all aspects of risk management and capital management.

Through risk management's various reporting mechanisms, the Board is kept informed and the strategy is reviewed at least annually in light of the Company's risk profile. The key aspects of its risk management processes are:

B.3.2.1 Risk and Control Self-Assessments

Risk and Control Self Assessments ('RCSAs') are performed by each department, under the oversight of the risk department. Risks and controls are recorded in the Company's 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 give rise to new challenges, uncertainties and opportunities which are already having, or may at some stage in the future, have an impact on the Company's strategic objectives. The risk management function maintains a log of all identified emerging risks and associated action plans and provide quarterly updates to the Risk and Compliance Committee.

B.3.2.3 Annual Strategic Planning Process

The Company's senior management team, including the CRO, attend an off-site business planning session to review the Company'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

All risks and controls are recorded in the Company's Risk Management Information System. Each risk is assigned an owner, who is responsible for assessing the risk or performing the control.

B.3.2.5 Key Risk Indicator Reporting

Key Risk Indicators ('KRIs') are used to measure whether the Company remains within the Board's stated Risk Appetite. KRIs are monitored by 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. The Company's risk management and capital management functions work collaboratively to consider a range of scenarios based on the risks identified in the RCSAs and the top-down risk assessment. The scenarios that 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 the Company.

B.3.2.7 Incident Reporting and Escalation

The Company 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 function. Incidents are recorded in the risk management system and this acts as the main repository for incident reporting. Incidents will be reviewed by the risk management function 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 Management Information System 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 the risk management function, the internal audit function, the compliance function and other support functions within the Company. Key controls are prioritised for regular assessment, with the remainder of the control framework being subject to annual or biennial assessment as a minimum.

B.3.2.9 Capital Modelling

The Company has developed an internal 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 with representation from both the risk management and capital management functions to ensure all material risks are considered.

B.3.2.10 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 for the plan to be invoked; example scenarios that would cause the triggers to be pulled; 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 object of the Resolution Plan is to ensure orderly closure of a 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. Both plans are formulated with input from the capital management function.

B.3.3. Risk Exposure

The significant risks to which the Company is exposed are covered in more detail in section C of this report. The Company has developed an internal stochastic capital model to assess Economic Capital that incorporates these risks which is used to set its Solvency Risk Appetite. The Board determines the Company's risk appetite as a 1-in-10 probability of the regulatory solvency ratio falling below 100% over a 1-year time horizon. The Solvency Risk Appetite is then set in terms of the solvency ratio required to be held over the Standard Formula SCR in order to achieve this, based on the expected losses at that percentile determined by the capital model. The calculations and results of this calibration are set out in the ORSA report.

B.3.4. Own Risk and Solvency Assessment

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 the Company faces or may face and to determine the Own Funds necessary to ensure the Company'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.

The Company completes its full ORSA process annually following the approval by the Board of its strategy and business plan, or whenever there is a material change in its risk profile. Changes in risk profile are monitored through the quarterly KRI process.

The Company 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

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

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

The system of internal control constitutes the first and second lines of the "three lines of defence" risk management model (referred to above).

The Internal Audit function is responsible for auditing the control environment as part of the internal 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 controls. 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.

B.4.1. Compliance Function

The key function holder for the compliance function is the Head of Compliance.

The AIL Group compliance function operates under a shared service arrangement and services the Company via a dedicated compliance function based in London.

This dedicated function provides second line oversight and advice in accordance with the Company's compliance terms of reference and annual Compliance Plan, with the Head of Compliance also driving regulatory change programmes, and supporting the CEO both in the management of the relationship with the FCA and regulatory remediation programmes.

The objectives of the compliance function are to:

- Advise the Company on the identification, measurement and management of its compliance risks, including those regarding regulation and conduct;
- Monitor the effectiveness of the first line of defence Delegated Underwriting, Claims and Complaints Authority Internal Control Framework ('ICF'); and
- Provide assurance reporting to the Risk and Compliance Committee.

In respect of the Company's compliance with Solvency II, the compliance function:

- Provide input into the ORSA with regards to FCA, Insurance Distribution Directive ('IDD'), Conduct and Delegated Underwriting, Claims and Complaints Authority related regulatory risks; and
- Use operational risk model outputs to inform compliance monitoring activities.

The Compliance Function maintains its independence through the reporting line of the SMF16 and Head of Compliance to the Chief Compliance Officer for the AmTrust Group, with a dotted line to the CEO, and unfettered access to the Chair of the Risk and Compliance Committee.

B.5 Internal Audit Function

The key function holder for the internal audit function is the Head of Internal Audit.

The internal audit function is a global AmTrust Group function which reports independently to each entity's Audit Committee. Internal audit provides senior management and the Audit Committees with information, analysis and recommendations about the adequacy, effectiveness and efficiency of the business operations and internal control environment.

The mission of the internal audit function is to help the Board and Executive Management to protect the assets, reputation and sustainability of the organisation.

This is achieved by:

- Assessing whether all significant risks are identified and appropriately reported by management and the risk function to the Board and Executive Management;
- Assessing whether they are adequately controlled; and
- 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 Chair of the Audit Committee, with a day-to-day administrative reporting line to the AmTrust Group Chief Audit Officer. Internal audit has free and unrestricted access to the Chair of the Board, the Chair of the Audit Committee and the CEO. The Head of Internal Audit has full and free access to the Audit Committee including attending all Audit Committee meetings, meeting privately with members at least annually (or more frequently as needed), and individual meetings on a regular basis.

Those working within the internal audit function are not permitted to perform day-to-day control procedures or take operational responsibility for any part of the Company's operations outside of 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 key function holder for the actuarial function is the Chief Actuary.

The Chief Actuary is a qualified actuary and a member of the Institute and Faulty of Actuaries. 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 purpose of the actuarial function within the Company is to provide support in many areas including reserving, pricing and capital management. In addition to the core actuarial work, other statistical and management information support is provided where necessary. This work is required to be undertaken in an objective and independent manner whilst incorporating feedback from the business where appropriate.

The Chief Actuary or an appropriate representative attends the Performance Committee, the Capital Management Committee and the Reserving Committee. The actuarial function is also involved in the reinsurance purchasing process where appropriate. 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 is managed, having regard to the available data;
- Assessment of whether the information technology systems used in the calculation of the technical provisions sufficiently support the actuarial and statistical procedures;
- Monitoring the actuarial best estimate reserves against actual experience;
- Reporting to the entity-level Boards on the reliability and adequacy of the technical provisions calculation;
- Expressing an opinion regarding the Underwriting Policy at entity level;
- Providing a statistical framework to price various lines of business;
- Reviewing new business opportunities and providing feedback on the underlying models and assumptions or any external actuarial models used;
- Working with underwriters to provide support on product performance;
- Providing input to the Performance Committee as appropriate;
- Providing assistance in the preparation of the business plans including independent input into the ultimate loss ratios for each line of business;

- Providing inputs into the calculation of the Standard Formula SCR;
- 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;
- Assessment of risk parameters used in the Economic Capital model;
- Validating the inputs into the Economic Capital model; and
- Reviewing reinsurance arrangements.

Annually, the Chief Actuary prepares and submits an Actuarial Function Report to the Board that sets out the actuarial function's work in the above areas and, in particular expresses an opinion on underwriting policy and reinsurance arrangements in accordance with Solvency II requirements.

B.7 Outsourcing

Outsourcing is an important aspect of the Company's business model. The majority of the Company'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 the Company's operations, and without which, the Company 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 the Company's internal controls, or increase risks associated with the PRA's ability to monitor the Company's compliance obligations under the regulatory system.

The Company's 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 the Company;
- 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 the Company'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 Company at the time of underwriting.

The Company uses a suite of 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 (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 Company's material underwriting risk exposure comes from legal expenses, warranty and the Italian medical malpractice lines of business. These lines of business accounted for about 50% of the Company's total GWP for 2019. Medical malpractice is a form of casualty insurance, and the underlying claims exposures can take a long time to realise properly, hence there is a material risk of adverse reserve development on all current and prior underwriting years where the Company underwrote medical malpractice policies. The SCR quantifies the potential for adverse development as part of the calculation of the premium and reserve risk. An additional component of the SCR which is driven primarily from the Company's medical malpractice business is the SCR component for catastrophe risk, although the Company believes the medical malpractice business, and its other lines of business, are exposed to limited catastrophe risk. Due to the treatment and classification of the medical malpractice business within the SCR calculation, the Company receives a disproportionally high capital charge for catastrophe risk.

C.1.2 Material Risk Concentrations

The Company's underwriting risk exposure is concentrated in the medical malpractice and legal expenses lines of business. Around 12% of the Company's 2019 GWP is attributable to medical malpractice, as well as around 58% of total gross reserves. Around 24% of the Company's 2019 GWP is attributable to Legal Expenses.

C.1.3 Material Risk Mitigation

The Company takes on underwriting risks in order to generate a return. The Company will only write (re)insurance business in areas where the major, composite insurers have neither focus nor predominance, and only where the Company can develop long-term relationships with its clients. All business should be written in line with the underwriting guidelines.

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.

The Company also uses reinsurance to mitigate underwriting risk. For capacity to write new business the Company is reliant on a 50% whole account quota share with Swiss Re, a "AA" rated global third-party reinsurer. The current contract ends on 30 June 2020, although the Company intends to renew either with Swiss Re or with an alternative partner. On its back book, the Company is reliant on quota share arrangements with AIIL, an "A-" rated affiliated reinsurance company domiciled in Bermuda, and Maiden Re, an unrated reinsurance company domiciled in Bermuda (subsequently redomiciled in Vermont, U.S. in March 2020) with whom it has large credit exposures that are protected by collateral.

The reinsurance strategy is reviewed by management and the Risk and Compliance Committee on a regular basis to ensure it remains effective and appropriate and is approved by the Board at least annually.

C.1.4 Risk Sensitivities

The Company has performed a series of sensitivity tests on its solvency position; these are shown in section C.7.

C.1.5 Other Material Information

During 2019, the Company completed Part VII transfers of business from its subsidiaries AMIL and PLIL. In addition, in 2020 as part of its Brexit plans, the Company intends to transfer its EEA portfolios to the AmTrust Group's European subsidiaries, AIU and AA.

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 through the Investment Committee and at the Risk and Compliance 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 on 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 does not pose any material risk to the business.

The Company owns AMIL, a UK based insurance company which is a well-known provider of mortgage protection solutions in the European mortgage markets. As a separate insurance company, the Company 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's management. The Company's other equity investment, AELL, is in run-off and is not a material holding.

The Company 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. This applies both to assets and liabilities held directly by the Company and to those held in its subsidiaries – in particular, AMIL which has significant Euro assets and liabilities. The most significant currency to which the Company is exposed is the Euro.

The Company has an Italian branch operation which has significant Euro assets and liabilities, whose net assets are exposed to foreign currency translation risk.

C.2.2 Material Risk Concentrations

The Company's material market risk exposures are concentration risk due to intra-group loans, foreign currency exposure to the Euro largely as a result of medical malpractice business, and the exposure of its predominantly fixed rate corporate bond investment portfolio to spread risk.

C.2.3 Material Risk Mitigation

The Company invests 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, the Company fulfils the Prudent Person principle.

Investment management is outsourced to another company within the AmTrust Group. A set of Investment Management Guidelines are in place which governs the investment management process, adherence to which is monitored by the Investment Committee.

The Company 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 that it does not occupy or intend to occupy in future, at least in part.

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

C.2.4 Risk Sensitivities

The Company has performed a series of sensitivity tests on its solvency position; these are shown in section C.7.

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 that 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, bond rating, exposure to individual external reinsurer counterparty, exposure to single bank as percentage of 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

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

C.3.2 Material Risk Concentrations

The Company's primary exposure is to credit risk in relation to material accounts with its Reinsurance counterparties: AIIL (£453m or 59% of the Company's total exposure) and Maiden (£178m or 23% of the Company's total exposure). AIIL is a subsidiary within the wider AmTrust Group.

The Company is exposed to general economic, business and industry conditions. Adverse general economic conditions may cause, among other things, significant reductions in available capital and liquidity from banks and other credit providers. The Company's largest bank exposures are to Lloyd's Bank (£30m or 4% of the Company's total exposure), JP Morgan (£12m or 2% of the Company's total exposure) and Intesa Sanpaolo (£9m or 1% of the Company's total exposure).

The Company's largest corporate bond exposure is to HSBC USA Inc., making up of 3% of the investment portfolio. Other large bond exposures are to Scotiabank, Procter & Gamble, Daimler AG and Westpac Banking Corporation.

C.3.3 Material Risk Mitigation

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

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 Company.

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

The Company has performed a series of sensitivity tests on its solvency position; these are shown in section C.7.

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C.3.5 Other Material Information

None noted.

C.4 Liquidity Risk

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

This KRI compares current liabilities with assets, but assets are subject to an allowance based on how liquid they are. For example, 90% of the value of the corporate bond portfolio is included and only 50% of the value of investments in group undertakings, taking into account the relative likelihood of realising their full value.

C.4.1 Material Risk Exposures

There is a material exposure to liquidity risk through investments in times of severe market stress. If premium payments are not received from coverholders and policyholders, this could also lead to a liquidity risk event. In any such event, the Company increases the frequency of its cashflow forecast updates and increase cash holding when deemed appropriate to ensure the Company is in a position to honour all eligible obligations to all of its stakeholders as they come due. 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 Company.

C.4.2 Material Risk Concentrations

The Company'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 effects on the Company's financial performance. It manages these positions within an Asset Liability Management ('ALM') Framework that has been developed to minimise the risk of significant deterioration of the investment portfolio while earning profitable returns from those investments.

The Company has developed a Liquidity Risk Management Policy which details the requirements to be implemented by the Company in relation to managing liquidity risk. This includes cash flow monitoring over various time horizons and monitoring of the Company's liquidity ratio.

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.

The Company maintains enough 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 £9m. This amount is highly illiquid but represents less than 3% of the value of own funds.

C.4.5 Risk Sensitivities

The Company has performed a series of sensitivity tests on its solvency position; these are shown in section C.7.

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 external events. It arises out of actions undertaken within the Company, brokers, investment management companies or outsourced agencies and individuals.

The Company has risk management processes in place, such as third-party audit, internal audit, controls testing, project management, 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 Company's 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).

During the current coronavirus pandemic, the Company has demonstrated its ability to continue its operations remotely. However, there are additional operational risks associated with this mode of working, including reliance on IT and communications.

C.5.2 Material Risk Concentrations

The Company's material risk concentrations are in IT and outsourcing.

The majority of the Company'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 and warranty lines of business.

IT is an integral aspect of the Company's day-to-day business operations and as such, any system failure can pose a serious threat to operations. This reliance is even greater while the Company's offices are closed and employees are working remotely.

C.5.3 Material Risk Mitigation

The Company 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 and business continuity.

All of the Company's operational risks are captured within its Risk Register. The risk management function carries 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

The Company has performed a series of sensitivity tests on its solvency position; these are shown in section C.7.

C.5.5 Other Material Information

None noted.

C.6 Other Material Risks

C.6.1 Legal and Regulatory Risks

Legal and regulatory risks are the risks of non-compliance with regulation and legislation.

The Company 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 these risks through its corporate governance and internal control mechanisms. Awareness of the risks and the Company's control mechanisms are maintained through its policies and procedures framework and training programmes.

C.6.2 Strategic Risk

Strategic risk arises from the Company's failure to sufficiently define its direction and objectives, together with the resourcing and monitoring of the achievement of the same.

The Company has a well-developed business planning process and its business plans are approved by the Board. The business plans are also used in the ORSA process.

C.6.3 Governance Risk

Governance risk arises from the Company's failure to demonstrate its independent and proper stewardship of its affairs in order to safeguard the assets of its 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

Other Group risks arise from the Company's interaction with or reliance on other parts of the AmTrust Group, through parental influence, changes in overall A.M. Best rating, or direct contagion.

The Company 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 AmTrust Group that may, if crystallised, have negative impact upon its business strategy and/or cause detriment to its customers. Furthermore, the Board stays informed of the current and emerging risks at the AmTrust Group through the NEDs who sit on the Board.

C.6.5 Solvency Risk

Solvency Risk is the risk that the Company 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.

The Company ensures it is solvent at all times through: monitoring its solvency position; financial accounts; and quarterly solvency forecasting (including the annual ORSA process) and prior to any strategic decision making.

C.6.6 Reputational Risk

Reputational Risk relates to potential losses of the Company 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.

The Company 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

The Company has performed sensitivity tests to show the impact on SCR, Own Funds and SCR solvency coverage by changing the assumptions associated with each risk type in the Solvency II Standard Formula 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.

The Company has performed the following sensitivity tests on its solvency position.

Risk category	Test	SCR/change		Own funds/change		Solvency ratio/change	
As at 31 December 2019		*£'m*	*£'m*	*£'m*	*£'m*	*%*	*%*
Solvency position		249.4	N/A	339.2	N/A	136.0%	N/A
Underwriting	25% increase in volume of GWP in next 12 months	253.4	4.0	339.2	0.0	133.9%	(2.1%)
Underwriting	25% decrease in volume of GWP in next 12 months	246.7	(2.7)	339.2	0.0	137.5%	1.5%
Underwriting	25% increase in Claims provisions	283.1	33.7	255.4	(83.8)	90.2%	(45.8%)
Underwriting	25% decrease in Claims provisions	221.2	(28.2)	424.9	85.7	192.1%	56.1%
Market	25% increase in asset durations	252.7	3.3	339.2	0.0	134.2%	(1.8%)
Market	25% decrease in asset durations	247.3	(2.1)	339.2	0.0	137.2%	1.2%
Market	10% increase in asset concentrations	251.1	1.7	339.2	0.0	135.1%	(0.9%)
Market	Yield curve upshock	241.0	(8.4)	335.2	(4.0)	139.1%	3.1%
Credit	Downgrade of three largest reinsurers by one credit step	254.3	4.9	339.2	0.0	133.4%	(2.6%)
Operational	50% increase in TP expenses	253.6	4.2	318.9	(20.3)	125.7%	(10.3%)

The risk with the largest effect on the SCR is underwriting risk, in particular with respect to increases and decreases in claims provisions, which have the biggest impact on solvency ratio. The Company has robust procedures in place for setting reserve levels, as described in section B.1.2.2.

Valuation for Solvency Purposes

Section D

D Valuation for Solvency Purposes

This section highlights the way the Company's assets and liabilities are valued differently when calculating own funds (net equity on a Solvency II basis) and when preparing its statutory accounts. 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.

The tables below show the valuation on a Solvency II basis of the Company's assets, and liabilities as at 31 December 2019.

	Statutory Accounts Value	Reclassification Adjustments	Valuation Adjustments	Solvency II Value
	£'000	*£'000*	*£'000*	*£'000*
Assets				
Deferred acquisition costs	91,664		(91,664)	0
Deferred tax asset	8,456		1,994	10,450
Property, plant and equipment held for own use	3,214			3,214
Investments (other than assets held for index-linked and unit-linked contracts):				
Property (other than for own use)	7,756			7,756
Holdings in related undertakings, including participations	58,303		(2,110)	56,193
Equities:				
Equities - unlisted	2,102			2,102
Bonds:				
Government bonds	73,550			73,550
Corporate bonds	409,887	(27)	890	410,750
Loans and mortgages	86,935		(502)	86,433
Reinsurance recoverables from:				
Non-life excluding health	705,754	(44,802)	(20,550)	640,402
Health similar to non-life	0		35	35
Insurance and intermediaries receivables	208,455	(188,834)		19,621
Reinsurance receivables	72,033	21,338	(10,867)	82,504
Receivables (trade, not insurance)	81,817	(21,502)		60,315
Cash and cash equivalents	57,683	36		57,719
Any other assets, not elsewhere shown	1,244	44,197	(1,244)	44,197
Total assets	*1,868,853*	*(189,594)*	*(124,018)*	*1,555,241*

	Statutory Accounts Value	Reclassification Adjustments	Valuation Adjustments	Solvency II Value
	£'000	£'000	£'000	£'000
Liabilities				
Technical provisions – non-life:	1,333,147	(123,055)	(1,210,092)	0
Technical provisions – non-life (excluding health):				
Best estimate			1,074,447	1,074,447
Risk margin			42,697	42,697
Technical provisions - health (similar to non-life):				
Best estimate			(445)	(445)
Risk margin			40	40
Provisions other than technical provisions	3,101			3,101
Insurance and intermediaries payables	53,631	(43,076)		10,555
Reinsurance payables	66,523	(23,464)	(18,824)	24,235
Payables (trade, not insurance)	1,200			1,200
Any other liabilities, not elsewhere shown	60,206	1		60,207
Total liabilities	*1,517,808*	*(189,594)*	*(112,177)*	*1,216,037*
Excess of assets over liabilities	*351,045*		*(11,841)*	*339,204*

D.1 Going Concern

The Company has considerable financial resources and a balanced book of business. After review of the key performance indicators, financial and solvency (as determined under the Solvency II regime) forecasts and budgets, and the key risks as outlined in section C, the Directors have a reasonable expectation that the Company has adequate resources available to continue in operational existence for the foreseeable future.

Management prepares a number of risk assessment documents which are reviewed by the Board and shared with the PRA as appropriate. These documents also consider the Company's responses to mitigate these risks. No significant shortfalls are currently considered to exist in the Company's governance and controls environment.

In addition, the Directors have considered the ability of the Company to withstand the inevitable stresses which will arise from the rapid global spread of the coronavirus (or COVID-19) pandemic on its capital and liquidity. These stresses considered the impact on the Company of both a projected reasonable stress, as well as reverse stressing the business up to the point at which the Company's SCR solvency ratio reduces to 100%.

The Directors have evaluated the results of the assessments conducted by management, including stresses as described in section A.1.7 "Material Events" and believe that the going concern basis of preparing the 31 December 2019 financial statements is appropriate.

D.2 Assets

D.2.1 Deferred Acquisition Costs

	Statutory Accounts Value	Reclassification Adjustments	Valuation Adjustments	Solvency II Value
Assets	£'000	£'000	£'000	£'000
Deferred acquisition costs	91,664		(91,664)	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.2.2 Deferred Tax Asset

	Statutory Accounts Value	Reclassification Adjustments	Valuation Adjustments	Solvency II Value
Assets	£'000	£'000	£'000	£'000
Deferred tax asset	8,456		1,994	10,450

Deferred taxation is provided in full on timing differences which result in an obligation at the date of this report to pay more tax, or a right to pay less tax, at a future date. These timing differences have resulted in a deferred tax asset in the statutory accounts.

As a result of adjusting the UK 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.2.3 Property, Plant and Equipment Held

	Statutory Accounts Value	Reclassification Adjustments	Valuation Adjustments	Solvency II Value
Assets	£'000	£'000	£'000	£'000
Property, plant and equipment held for own use	3,214			3,214
Property (other than for own use)	7,756			7,756

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 2019.

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

The fair market value which the Company's 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 D.5 below.

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

D.2.4 Investments

D.2.4.1 Holdings in Related Undertakings

	Statutory Accounts Value	Reclassification Adjustments	Valuation Adjustments	Solvency II Value
Assets	£'000	£'000	£'000	£'000
Holdings in related undertakings	58,303		(2,110)	56,193

As mentioned within the summary section, the Company has investments in wholly owned subsidiaries. In accordance with Delegated Regulation (EU) 2015/35 Article 13, it 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 is 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 applying 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 applying 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.2.4.2 Bonds and Equity Securities

	Statutory Accounts Value	Reclassification Adjustments	Valuation Adjustments	Solvency II Value
Assets	*£'000*	*£'000*	*£'000*	*£'000*
Bonds:				
Government bonds	73,550			73,550
Corporate bonds	409,887	(27)	890	410,750
Equities:				
Equities - unlisted	2,102			2,102

The Company's investment portfolio consists primarily 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 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; and

- 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 Solvency II and therefore, no fair market valuation adjustments are made to the UK GAAP position. At 31 December 2019, the Company had £484m 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.

A reclassification adjustment is made to classify cash held within the investment portfolio within Cash and cash equivalents. A further valuation adjustment is made to corporate bonds to adjust for differences in foreign exchange rates between the financial accounts and the investment management reports.

D.2.5 Loans and Mortgages

	Statutory Accounts Value	Reclassification Adjustments	Valuation Adjustments	Solvency II Value
Assets	£'000	£'000	£'000	£'000
Loans and mortgages	86,935		(502)	86,433

Based on the valuation hierarchy described in section D.2.4.2, 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 -£0.5m 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 adverse adjustment is the effect of discounting the future cash flows of loans and mortgages assets in line with the Company's valuation methodology.

Note, the Company does not have any mortgages as at 31 December 2019. It repaid in full its mortgage on its Nottingham, UK office building, which it partially occupies, during 2019.

D.2.6 Reinsurance Recoverables

	Statutory Accounts Value	Reclassification Adjustments	Valuation Adjustments	Solvency II Value
Assets	£'000	£'000	£'000	£'000
Reinsurance recoverables from:				
Non-life excluding health	705,754	(44,802)	(20,550)	640,402
Health similar to non-life	0		35	35

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.

An adjustment is made in respect of future premiums amounts held within reinsurance payables in the UK GAAP balance sheet. These balances are reclassified within technical provisions on the Solvency II balance sheet.

Further valuation adjustments made to reinsurance recoverables are described within section D.3.3.

D.2.7 Insurance and Intermediaries Receivables, Reinsurance Receivables and Non-Insurance Trade Receivables

	Statutory Accounts Value	Reclassification Adjustments	Valuation Adjustments	Solvency II Value
Assets	*£'000*	*£'000*	*£'000*	*£'000*
Insurance and intermediaries receivables	208,455	(188,834)		19,621
Reinsurance receivables	72,033	21,338	(10,867)	82,504
Receivables (trade, not insurance)	81,817	(21,502)		60,315

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

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

D.2.8 Cash and Other Assets

	Statutory Accounts Value	Reclassification Adjustments	Valuation Adjustments	Solvency II Value
Assets	*£'000*	*£'000*	*£'000*	*£'000*
Cash and cash equivalents	57,683	36		57,719
Any other assets, not elsewhere shown	1,244	44,197	(1,244)	44,197

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 comprise 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 from 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.3 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 £476m compared to £534m on a UK GAAP basis, a difference of 10.8%.

The following tables show a summary of the Company's technical provisions under Solvency II:

31 December 2019 Class	Gross of Reinsurance (£'000)	Recoverable from Reinsurance (£'000)	Net of Reinsurance (£'000)	Risk Margin (£'000)	Total Technical Provisions (£'000)
Assistance	771	630	141	14	155
Credit and suretyship	19,632	11,125	8,507	839	9,346
Fire and other damage to property	20,216	7,398	12,818	1,264	14,082
Legal expenses	75,141	40,712	34,429	3,394	37,823
Medical expense	(445)	35	(480)	40	(440)
Miscellaneous financial loss	287,561	134,347	153,214	15,111	168,325
Other motor	595	659	(64)	14	(50)
Motor vehicle liability	15,183	7,264	7,919	781	8,700
General liability	655,348	438,267	217,081	21,280	238,361
Total	1,074,002	640,437	433,565	42,737	476,302

31 December 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 and suretyship	13,892	9,967	3,925	423	4,348
Fire and 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

The Company's UK 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's recommendations.

D.3.1 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 the Company are increased due to:

- the small size of some (sub)lines of business;
- the lack of development history and hence reliance on benchmarks in some classes;
- an increased reserve uncertainty on long-tailed lines of business. 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 line of business;
- 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.

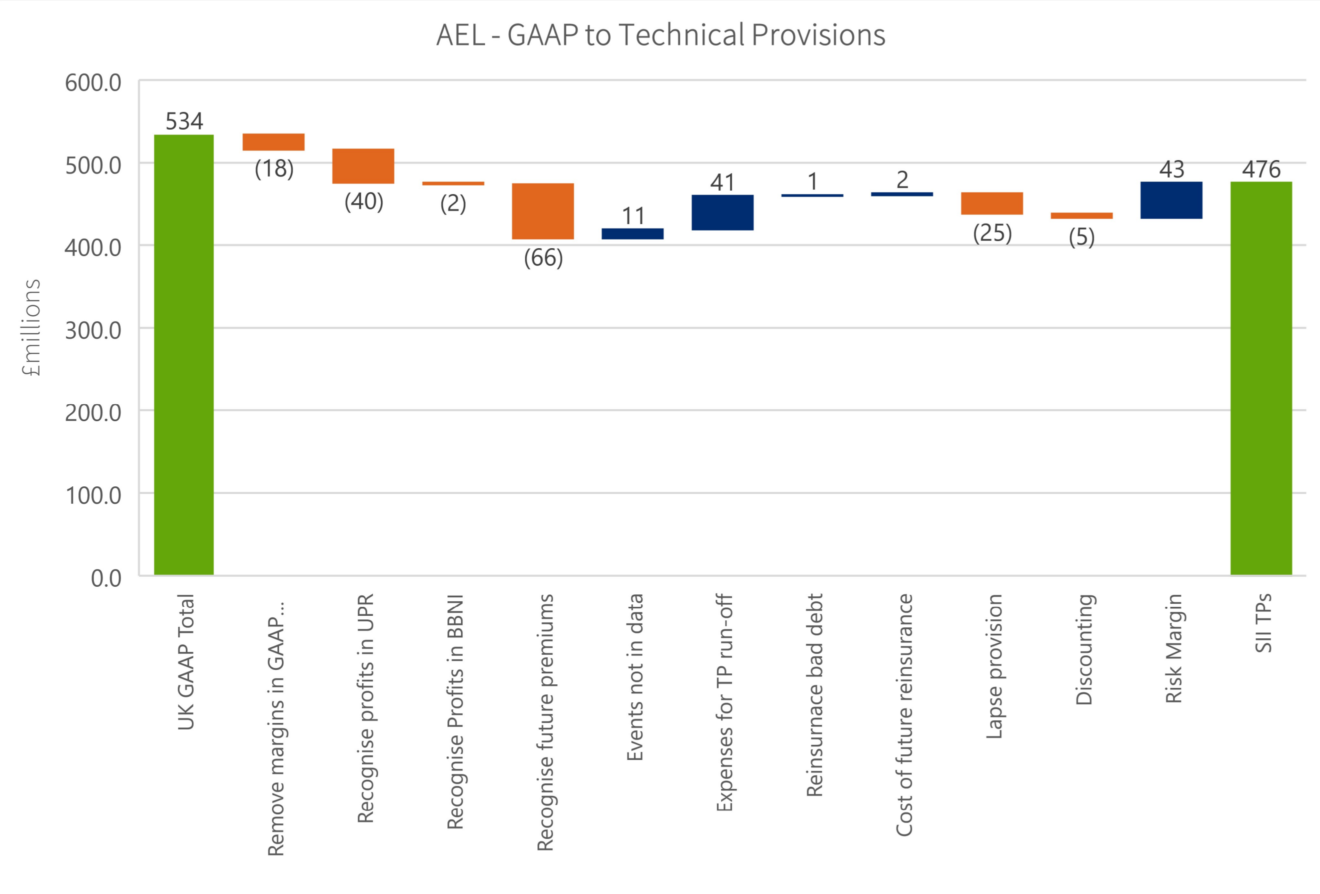
D.3.2 Solvency II Related Uncertainties

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.3.3 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 UK GAAP estimates to a Solvency II basis the following adjustments are made.



D.3.3.1 Removal of Margins in the UK GAAP Reserves

The Board 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.3.3.2 Recognition of Profit in the Unearned Premium Reserve

The full amount of unearned premiums is removed from the technical provisions. The best estimate of the claims liabilities associated with the Unearned Premium Reserve ('UPR') are added back, and expected reinsurance recoveries are allowed for separately for both proportional and non-proportional reinsurance.

D.3.3.3 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.3.3.4 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.3.3.5 Allowance for Events Not in Data

Under UK 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.3.3.6 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.3.3.7 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.3.3.8 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.3.3.9 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.3.3.10 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 EIOPA.

D.3.3.11 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 the 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 technical provisions 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.3.4 Reinsurance

Effective 30 June 2019, the Company terminated its 20% whole account quota share reinsurance arrangement with AIIL, an affiliated reinsurance company domiciled in Bermuda. This follows on from a similar action last year where the Company terminated its 20% quota share reinsurance arrangement related to its Italian medical malpractice hospitals business with Maiden Re, an unrated reinsurance company domiciled in Bermuda (subsequently redomiciled in Vermont, U.S. in March 2020). These reinsurance arrangements were replaced with a 50% whole account quota share with Swiss Re, a “AA” rated global third-party reinsurer, for all new business from 1 July 2019 with the exception of business related to mortgage and credit, which has its own third-party 50% quota share arrangements, and certain lines of business in which the Company is in process of exiting.

Other lines such as surety are also covered by a significant external quota share (50%). 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.3.5 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 2019 due to the adoption of a new estimation methodology based on “claim type” and the strengthening of tail factors and gross-to-net (of deductible) ratios;
- the credit for discounting has reduced due to the reduction in the yield curves (as provided by EIOPA); and
- there has been a reduction in the future premiums mainly as a result of a fall in the volumes of medical malpractice and legal expenses business.

D.4 Other Liabilities

D.4.1 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	3,101			3,101

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.4.2 Loans, Payables and Other Liabilities

	Statutory Accounts Value	Reclassification Adjustments	Valuation Adjustments	Solvency II Value
Liabilities	£'000	£'000	£'000	£'000
Insurance and intermediaries payables	53,631	(43,076)	(1,003)	10,555
Reinsurance payables	66,523	(23,464)	(18,824)	24,235
Payables (trade, not insurance)	1,200			1,200
Any other liabilities, not elsewhere shown	60,206	1		60,207

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. This 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. These reclassification adjustments are shown within Insurance and intermediaries payables and reinsurance payables.

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.

The valuation adjustment to reinsurance payables is in respect of deferred reinsurance commissions, which are valued at nil for Solvency II purposes.

D.5 Alternative Methods for Valuation

D.5.1 Property, Plant and Equipment Held

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 at 31 December 2019.

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.

D.5.2 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.6 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.

The Company manages its Own Funds with the objective of always being able to satisfy both the Minimum Capital Requirement ('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 Board. There have been no significant changes to the capital management objectives over the period of this report.

In 2016, the Company sought and was granted a voluntary variation of permission, which requires it 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 SCR coverage below 120%. With this in mind, the Company prepares solvency projections for the following 3 years as part of its business planning process, which form part of the ORSA. The baseline forecasts and certain stress scenarios are updated quarterly and shared with the Risk and Compliance Committee. 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; this is included in the risk function's report to the Risk and Compliance Committee.

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

The structure of Own Funds has remained consistent during the year, with no share issues being undertaken. No dividends have been paid by the Company during the year.

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

£'000	2019	2018
Ordinary share capital	75,044	75,044
Share premium	11,642	11,642
Reconciliation reserve	242,068	252,004
An amount equal to the value of net deferred tax assets	10,450	8,232
Own Funds	339,204	346,922

The Company's amount of Own Funds eligible to cover its SCR as of 31 December 2019 and 2018 are listed in the tables below.

Solvency Overview, as of 31 December 2019					
£'000	Tier	Own Funds	Eligible %	Eligible Own Funds	Solvency Ratio
SCR 249,376	1	328,754	100%	328,754	
	2	0	0	0	
	3	10,450	100%	10,450	
	Total	339,204		339,204	136%

Solvency Overview , as of 31 December 2018					
£'000	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%

The Company's amount of Own Funds eligible to cover its MCR as of 31 December 2019 and 2018 are listed in the tables below.

Solvency Overview, as of 31 December 2019					
£'000	Tier	Own Funds	Eligible %	Eligible Own Funds	Solvency Ratio
MCR 90,665	1	328,754	100%	328,754	
	2	0	0	0	
	3	10,450	0%	0	
	Total	339,204		328,754	363%

Solvency Overview, as of 31 December 2018					
£'000	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%

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 UK GAAP 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.

	2019	2018
	£'000	*£'000*
Equity per financial statements	352,045	379,889
Differences in valuation of technical provision related items	(10,870)	(43,194)
Solvency II valuation adjustments to assets and liabilities	(971)	10,227
Solvency II own funds	339,204	346,922

None of the Company's Own Funds are subject to transitional arrangements. The Company does not have any Ancillary Own Funds or 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

The Company uses an off-the-shelf system, SolvencyTool, to calculate its SCR using the Standard Formula. The Company does not use any USPs. The final amount of SCR is subject to supervisory assessment.

Capital Requirements	2019	2018
	£'000	*£'000*
SCR	249,376	266,570
MCR	90,665	85,340

E.2.1 Solvency Capital Requirement

SCR by Risk Module	2019	2018	Variance	
	£'000	*£'000*	*£'000*	%
Health NSLT underwriting risk	1,506	2,986	(1,480)	(50%)
Non-Life underwriting risk	180,205	166,195	14,010	8%
Market risk	67,260	105,813	(38,553)	(36%)
Counterparty default risk	17,438	30,912	(13,474)	(44%)
Undiversified Basic SCR	266,409	305,906	(39,497)	(13%)
Diversification credit	(49,253)	(70,213)	20,960	(30%)
Basic SCR	217,156	235,693	(18,537)	(8%)
Operational risk	32,220	30,877	1,343	4%
Standard Formula SCR	249,376	266,570	(17,194)	(6%)

E.2.2 Minimum Capital Requirement

The Company 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	2019	2018
	£'000	*£'000*
Linear MCR	90,665	85,340
SCR	249,376	266,570
MCR cap	109,614	119,957
MCR floor	60,897	66,643
Combined MCR	90,665	85,340
Absolute floor of the MCR	3,181	3,326
Minimum Capital requirement	90,665	85,340

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	
	2019	*2018*	*2019*	*2018*
Medical expenses	0	3,198	5,015	17,103
Motor vehicle liability	7,919	3,378	91	6,712
Other motor	0	277	0	225
Fire and other damage to property	12,818	18,103	19,786	27,954
General liability	217,081	202,630	72,846	113,739
Credit and suretyship	8,507	3,924	11,679	11,206
Legal expenses	34,429	34,637	70,481	53,298
Assistance	141	(80)	4,119	3,380
Miscellaneous financial loss	153,214	110,654	122,245	111,471

E.2.3 Material Change in SCR and MCR

Solvency coverage has increased to 136% at 31 December 2019 from 130% at 31 December 2018. This movement is principally due to the following factors in the year:

- The consolidation of AIIL and AIAI loan assets into AIIL in 2019 resulted in a significant reduction in the concentration risk charge in market risk as the exposure was held at a higher weighted average credit quality step;
- The Company intends to dissolve both AELL and AMIL during 2020. The dissolution of AMIL is contingent on the successful completion of the Company's planned Part VII transfer of its remaining insurance business to AIU which is targeted for the fourth quarter of 2020. As a result of these plans, the Company is treating both AELL and AMIL as non-strategic participations, resulting in an increase in the equity risk charge in market risk;
- The level of outstanding and overdue debt decreased in the year, which resulted in a reduction in default type 2 charge in counterparty default risk;

- Reserve strengthening across a number of lines of business during 2019 has adversely impacted on Own Funds, as well as increased the reserve risk charge in the non-life underwriting risk calculation; and
- Government bond holdings held in the investment portfolio increased during the year, which had a positive impact on Own Funds but did not result in a corresponding increase in the spread risk calculation in market risk.

E.3 Use of Duration-Based Equity Risk Sub-Module in the Calculation of Solvency Capital Requirement

The Company 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

The Company does not use an Internal Model to calculate its SCR.

E.5 Non-Compliance with the Minimum and Solvency Capital Requirements

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

E.6 Any Other Information

None noted.

Annex

Quantitative Reporting Templates

Annex 1
S.02.01.02
Balance sheet

Assets		Solvency II value
		C0010
Intangible assets	R0030	0
Deferred tax assets	R0040	10,450
Pension benefit surplus	R0050	0
Property, plant & equipment held for own use	R0060	3,214
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	550,351
Property (other than for own use)	R0080	7,756
Holdings in related undertakings, including participations	R0090	56,193
Equities	R0100	2,102
Equities - listed	R0110	0
Equities - unlisted	R0120	2,102
Bonds	R0130	484,300
Government Bonds	R0140	73,550
Corporate Bonds	R0150	410,750
Structured notes	R0160	0
Collateralised securities	R0170	0
Collective Investments Undertakings	R0180	0
Derivatives	R0190	0
Deposits other than cash equivalents	R0200	0
Other investments	R0210	0
Assets held for index-linked and unit-linked contracts	R0220	0
Loans and mortgages	R0230	86,433
Loans on policies	R0240	0
Loans and mortgages to individuals	R0250	0
Other loans and mortgages	R0260	86,433
Reinsurance recoverables from:	R0270	640,437
Non-life and health similar to non-life	R0280	640,437
Non-life excluding health	R0290	640,402
Health similar to non-life	R0300	35
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	19,621
Reinsurance receivables	R0370	82,504
Receivables (trade, not insurance)	R0380	60,315
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	57,719
Any other assets, not elsewhere shown	R0420	44,197
Total assets	R0500	1,555,241

Annex 1

S.02.01.01

Balance sheet

Liabilities		Solvency II value
		C0010
Technical provisions – non-life	R0510	1,116,739
Technical provisions – non-life (excluding health)	R0520	1,117,144
Technical provisions calculated as a whole	R0530	0
Best Estimate	R0540	1,074,447
Risk margin	R0550	42,697
Technical provisions - health (similar to non-life)	R0560	(405)
Technical provisions calculated as a whole	R0570	0
Best Estimate	R0580	(445)
Risk margin	R0590	40
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	3,101
Pension benefit obligations	R0760	0
Deposits from reinsurers	R0770	0
Deferred tax liabilities	R0780	0
Derivatives	R0790	0
Debts owed to credit institutions	R0800	0
Financial liabilities other than debts owed to credit institutions	R0810	0
Insurance & intermediaries payables	R0820	10,555
Reinsurance payables	R0830	24,235
Payables (trade, not insurance)	R0840	1,200
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	60,207
Total liabilities	R0900	1,216,037
Excess of assets over liabilities	R1000	339,204

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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	7,195	0	0	65	-625	0	27,452	100,500	5,672
Gross - Proportional reinsurance accepted	R0120	0	0	0	0	0	0	0	20	16,891
Gross - Non-proportional reinsurance accepted	R0130									
Reinsurers' share	R0140	2,175	0	0	-127	-395	0	7,666	27,675	10,885
Net	R0200	5,021	0	0	192	-229	0	19,786	72,846	11,679
Premiums earned										
Gross - Direct Business	R0210	11,282	0	0	1,132	308	0	34,216	112,633	10,806
Gross - Proportional reinsurance accepted	R0220	0	0	0	0	0	0	0	95	14,257
Gross - Non-proportional reinsurance accepted	R0230									
Reinsurers' share	R0240	2,581	0	0	-438	175	0	7,873	26,445	12,122
Net	R0300	8,701	0	0	1,570	134	0	26,343	86,282	12,941
Claims incurred										
Gross - Direct Business	R0310	5,606	0	0	18,714	295	0	18,684	134,161	4,080
Gross - Proportional reinsurance accepted	R0320	0	0	0	0	0	0	0	367	4,099
Gross - Non-proportional reinsurance accepted	R0330									
Reinsurers' share	R0340	2,422	0	0	8,544	208	0	4,271	64,513	4,731
Net	R0400	3,184	0	0	10,169	87	0	14,413	70,015	3,448
Changes in other technical provisions										
Gross - Direct Business	R0410	0	0	0	0	0	0	0	0	0
Gross - Proportional reinsurance accepted	R0420	0	0	0	0	0	0	0	0	0
Gross - Non- proportional reinsurance accepted	R0430									
Reinsurers' share	R0440	0	0	0	0	0	0	0	0	0
Net	R0500	0	0	0	0	0	0	0	0	0
Expenses incurred	R0550	4,011	0	0	706	53	0	11,841	38,141	1,986
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	95,369	5,081	124,260	0	0	0	0	364,969
Gross - Proportional reinsurance accepted	R0120	8,092	0	36,260	0	0	0	0	61,264
Gross - Non-proportional reinsurance accepted	R0130				0	0	0	0	
Reinsurers' share	R0140	32,980	962	38,382	0	0	0	0	120,202
Net	R0200	70,481	4,119	122,138	0	0	0	0	306,031
Premiums earned									
Gross - Direct Business	R0210	56,784	4,198	113,197					344,556
Gross - Proportional reinsurance accepted	R0220	5,015	0	30,321					49,687
Gross - Non-proportional reinsurance accepted	R0230				0	0	0	0	
Reinsurers' share	R0240	16,901	646	43,920	0	0	0	0	110,225
Net	R0300	44,897	3,552	99,598	0	0	0	0	284,018
Claims incurred									
Gross - Direct Business	R0310	39,599	2,049	90,427					313,614
Gross - Proportional reinsurance accepted	R0320	4,342	0	22,024					30,831
Gross - Non-proportional reinsurance accepted	R0330				0	0	0	0	
Reinsurers' share	R0340	13,787	490	43,141	0	0	0	0	142,108
Net	R0400	30,153	1,558	69,309	0	0	0	0	202,337
Changes in other technical provisions									
Gross - Direct Business	R0410	0	0	0					0
Gross - Proportional reinsurance accepted	R0420	0	0	0					0
Gross - Non- proportional reinsurance accepted	R0430								
Reinsurers' share	R0440	0	0	0	0	0	0	0	0
Net	R0500	0	0	0	0	0	0	0	0
Expenses incurred	R0550	19,436	1,465	40,242	0	0	0	0	117,880
Other expenses	R1200								0
Total expenses	R1300								116,880

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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)	MY (by amount of gross premiums written)	NO (by amount of gross premiums written)	PE (by amount of gross premiums written)	SE (by amount of gross premiums written)	Total for top 5 countries and home country (by amount of gross premiums written)
		C0080	C0090	C0100	C110	C0120	C0130	C0140
Premiums written								
Gross - Direct Business	R0110	223,239	61,928	0	20,167	2	11,474	316,810
Gross - Proportional reinsurance accepted	R0120	12,294	(19)	29,516	0	12,578	71	54,441
Gross - Non-proportional reinsurance accepted	R0130	0	0	0	0	0	0	0
Reinsurers' share	R0140	71,328	14,174	6,635	1,755	6,750	3,129	103,770
Net	R0200	164,204	47,736	22,881	18,412	5,830	8,416	267,480
Premiums earned								
Gross - Direct Business	R0210	184,372	76,227	0	23,115	2	11,101	294,818
Gross - Proportional reinsurance accepted	R0220	11,002	(14)	21,952	0	13,831	71	46,842
Gross - Non-proportional reinsurance accepted	R0230	0	0	0	0	0	0	0
Reinsurers' share	R0240	56,903	17,224	4,941	5,090	7,308	4,199	95,665
Net	R0300	138,471	58,989	17,012	18,025	6,524	6,974	245,995
Claims incurred								
Gross - Direct Business	R0310	149,018	98,695	0	19,832	1	8,751	276,297
Gross - Proportional reinsurance accepted	R0320	9,095	(3)	16,900	0	3,912	59	29,963
Gross - Non-proportional reinsurance accepted	R0330		0	0	0	0	0	0
Reinsurers' share	R0340	61,171	48,759	4,217	6,454	2,334	4,174	127,108
Net	R0400	96,942	49,933	12,683	13,379	1,579	4,636	179,152
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	57,668	19,038	6,232	7,349	5,451	1,713	97,451
Other expenses	R1200							0
Total expenses	R1300							97,451

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	104	0	0	30	168	0
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	3	0	0	6	110	0
Net Best Estimate of Premium Provisions	R0150	101	0	0	24	58	0
Claims provisions							
Gross - Total	R0160	(549)	0	0	15,153	428	0
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	32	0	0	7,258	550	0
Net Best Estimate of Claims Provisions	R0250	(580)	0	0	7,895	(122)	0
Total Best estimate - Gross	R0260	(445)	0	0	15,183	595	0
Total Best estimate - Net	R0270	(480)	0	0	7,919	(64)	0
Risk margin	R0280	40	0	0	781	14	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	(405)	0	0	15,964	609	0
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	R0330	35	0	0	7,264	659	0
Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total	R0340	(440)	0	0	8,700	(50)	0

Annex 1
S.17.01.02
Non-Life technical provisions

		Direct business and accepted proportional reinsurance					
		Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss
		C0080	C0090	C0100	C0110	C0120	C0130
Technical provisions calculated as a whole	R0010	0	0	0	0	0	0
Total recoverable from reinsurance/SPV after the adjustment for expected losses due to counterparty default	R0050	0	0	0	0	0	0
Technical provisions calculated as a sum of BE and RM							
Best estimate							
Premium Provisions							
Gross - Total	R0060	3,766	12,890	72	23,691	700	182,037
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	256	7,494	(1,507)	16,100	267	79,802
Net Best Estimate of Premium Provisions	R0150	3,510	5,396	1,579	7,592	433	102,234
Claims provisions							
Gross - Total	R0160	16,450	642,458	19,560	51,450	71	105,524
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	7,142	430,773	12,632	24,612	363	54,545
Net Best Estimate of Claims Provisions	R0250	9,308	211,685	6,928	26,837	(292)	50,980
Total Best estimate - Gross	R0260	20,216	655,348	19,632	75,141	771	287,561
Total Best estimate - Net	R0270	12,818	217,081	8,507	34,429	141	153,214
Risk margin	R0280	1,264	21,280	839	3,394	14	15,111
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	21,480	676,628	20,471	78,535	785	302,672
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	R0330	7,398	438,267	11,125	40,712	630	134,347
Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total	R0340	14,082	238,361	9,346	37,823	155	168,325

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	223,458
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	0	0	0	0	102,531
Net Best Estimate of Premium Provisions	R0150	0	0	0	0	120,927
Claims provisions						
Gross - Total	R0160	0	0	0	0	850,545
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	0	0	0	0	537,907
Net Best Estimate of Claims Provisions	R0250	0	0	0	0	312,638
Total Best estimate - Gross	R0260	0	0	0	0	1,074,002
Total Best estimate - Net	R0270	0	0	0	0	433,565
Risk margin	R0280	0	0	0	0	42,737
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	1,116,739
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	R0330	0	0	0	0	640,437
Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total	R0340	0	0	0	0	476,302

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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											25,891		R0100	25,891	165,528
N-9	R0160	7,037	38,958	30,253	29,499	18,271	17,675	13,278	6,840	146	12,283			R0160	12,283	174,238
N-8	R0170	5,224	26,381	36,299	42,670	31,296	26,224	23,058	12,578	11,695				R0170	11,695	215,425
N-7	R0180	8,061	26,343	47,666	33,559	33,243	24,551	20,992	14,953					R0180	14,953	209,368
N-6	R0190	6,213	37,758	50,689	40,313	28,596	18,509	24,070						R0190	24,070	206,147
N-5	R0200	15,887	50,456	41,546	41,140	19,410	28,684							R0200	28,684	197,124
N-4	R0210	18,501	56,787	53,002	41,942	42,439								R0210	42,439	212,671
N-3	R0220	22,088	48,460	56,199	42,790									R0220	42,790	169,536
N-2	R0230	27,684	65,644	40,807										R0230	40,807	134,135
N-1	R0240	26,766	63,692											R0240	63,692	90,458
N	R0250	14,112												R0250	14,112	14,112
													Total	R0260	321,417	1,788,742

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 & +			Year end discounted
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300			C0360
Prior	R0100											910		R0100	915
N-9	R0160	0	0	0	0	0	0	0	0	0	20,072			R0160	20,134
N-8	R0170	0	0	0	0	0	0	0	0	61,634				R0170	61,791
N-7	R0180	0	0	0	0	0	0	0	61,614					R0180	61,846
N-6	R0190	0	0	0	0	0	0	82,678						R0190	82,897
N-5	R0200	0	0	0	0	0	61,887							R0200	61,777
N-4	R0210	0	0	0	0	106,138								R0210	106,218
N-3	R0220	0	0	0	135,429									R0220	135,366
N-2	R0230	0	0	132,218										R0230	132,008
N-1	R0240	0	125,061											R0240	123,890
N	R0250	109,251												R0250	108,227
													Total	R0260	895,069

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	242,068	242,068			
Subordinated liabilities	R0140	0		0	0	0
An amount equal to the value of net deferred tax assets	R0160	10,450				10,450
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	339,204	328,754	0	0	10,450
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

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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	339,204	328,754	0	0	10,450
Total available own funds to meet the MCR	R0510	328,754	328,754	0	0	
Total eligible own funds to meet the SCR	R0540	339,204	328,754	0	0	10,450
Total eligible own funds to meet the MCR	R0550	328,754	328,754	0	0	
SCR	R0580	249,376				
MCR	R0600	90,665				
Ratio of Eligible own funds to SCR	R0620	136%				
Ratio of Eligible own funds to MCR	R0640	363%				

		Total	
		C0060	
Reconciliation reserve			
Excess of assets over liabilities	R0700	339,204	
Own shares (held directly and indirectly)	R0710	0	
Foreseeable dividends, distributions and charges	R0720	0	
Other basic own fund items	R0730	97,136	
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	0	
Reconciliation reserve	R0760	242,068	
Expected profits			
Expected profits included in future premiums (EPIFP) - Life business	R0770	0	
Expected profits included in future premiums (EPIFP) - Non- life business	R0780	14,965	
Total Expected profits included in future premiums (EPIFP)	R0790	14,965	

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	67,260		0
Counterparty default risk	R0020	17,438		
Life underwriting risk	R0030	0	0	0
Health underwriting risk	R0040	1,506	0	0
Non-life underwriting risk	R0050	180,205	0	0
Diversification	R0060	(49,253)		
Intangible asset risk	R0070	0		
Basic Solvency Capital Requirement	R0100	217,156		

Calculation of Solvency Capital Requirement		C0100
Operational risk	R0130	32,220
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	249,376
Capital add-on already set	R0210	0
Solvency capital requirement for undertakings under consolidated method	R0220	249,376
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	0
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	0
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	0
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	0
Diversification effects due to RFF nSCR aggregation for article 304	R0440	0

Annex 1
S.28.01.01
Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Linear formula component for non-life insurance and reinsurance obligations

		C0010
MCRNL Result	R0010	90,665

		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	0	5,015
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	7,919	91
Other motor insurance and proportional reinsurance	R0060	0	0
Marine, aviation and transport insurance and proportional reinsurance	R0070	0	0
Fire and other damage to property insurance and proportional reinsurance	R0080	12,818	19,786
General liability insurance and proportional reinsurance	R0090	217,081	72,846
Credit and suretyship insurance and proportional reinsurance	R0100	8,507	11,679
Legal expenses insurance and proportional reinsurance	R0110	34,429	70,481
Assistance and proportional reinsurance	R0120	141	4,119
Miscellaneous financial loss insurance and proportional reinsurance	R0130	153,214	122,245
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	90,665
SCR	R0310	249,867
MCR cap	R0320	109,614
MCR floor	R0330	60,897
Combined MCR	R0340	90,665
Absolute floor of the MCR	R0350	3,181
		C0070
Minimum Capital Requirement	R0400	90,665

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