Amlin Insurance S.E.

Solvency and Financial Condition Report 2016

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2016

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Executive summary

This initial annual Solvency and Financial Condition Report (SFCR) for the year ended 31 December 2016 has been prepared for Amlin Insurance S.E. ('AISE' or 'the Company'). This summary comprises a concise overview of AISE's business and performance, system of governance, risk profile, valuation for solvency purposes and own funds over the reporting period, including any material changes therein, along the prescribed structure of this report.

Business and performance

Amlin Insurance S.E. is a wholly owned subsidiary of MS Amlin plc (formerly Amlin plc), the parent company of the MS Amlin Group ('the Group' or 'MS Amlin'), one of the foremost specialist insurers and underwriters for Reinsurance, Marine & Aviation (M&A) and Property & Casualty (P&C) business internationally. On 4 January, 2016, Amlin Europe N.V. (AENV) cross-border merged into Amlin Insurance (UK) plc (AIUK) with AIUK being the surviving entity. Following the merger, Amlin Insurance S.E. was incorporated as at the same date, being the corporate successor of AIUK. Please note that all references to Day 1 positions throughout this report are really the post-merger positions on 4 January 2016. Also, all comparative 2015 numbers presented have been prepared on a merged pro-forma basis as if AISE existed already. On 1 February 2016, the MS Amlin plc acquisition by Mitsui Sumitomo Insurance Company Limited (MSI), a wholly-owned subsidiary of MS&AD Insurance Group Holdings, Inc., was completed following receipt of applicable regulatory and legal approvals. From this date, MS&AD Insurance Group Holdings, Inc. is AISE's ultimate parent company. The chart presenting the group structure can be found in section A.1.

AISE is a leading independent provider of corporate insurance in Western Europe. AISE's business is organised around the two Strategic Business Units (SBUs) Marine and Aviation (M&A) and Property and Casualty (P&C). AISE underwrites business in both its domestic as well as foreign markets, with the countries of the European Union forming the most important markets.

Following the referendum vote for the UK to leave the European Union (EU) in 2016, UK membership is expected to cease in April 2019. This may result in passporting rights to underwrite business in the EU terminating at that date. The Board of AISE are therefore exploring options for the company which may include a move of domicile. Due to the Societas Europaea status of the Company and the significant market presence in continental Europe, there are good options to ensure that continuity for brokers and clients is assured.

AISE has shown growth and improved underwriting performance during 2016, both in terms of gross written premiums (2016: €568.3 million and 2015: €543.2 million) and profitability (2016: €58.7 million and 2015: €7.2 million) as presented in below table.

The increased M&A underwriting performance compared to last year is mainly driven by lower claims expenses due to prior year releases and positive developments of attritional and large losses. Partly offsetting effects include the transfer of the Protection & Indemnity (P&I) business from AISE to its sister company MS Amlin Underwriting Limited (AUL) and lower premiums in the Hull business due to market developments.

The growth in P&C underwriting performance was primarily driven by improvement in the Fire and other damage to property lines of business, in particular in Belgium and France due to positive large loss development in 2016 and prior year releases. The main offsetting effects were in the Motor vehicle liability and other motor and General Liability insurance lines of business. Within the Motor business positive results were offset by adverse prior year developments in Belgium and large loss development in The Netherlands. Also within the General liability business negative prior year effects were encountered in The Netherlands.

AISE's investment income over 2016 amounted to €9.9 million (2015: €25.5 million income). The decrease compared to last year is mainly due to negative returns on equities after a volatile start to the year. All other asset classes contributed positively to AISE's investment returns in 2016.

Please refer to Section A of this report for further details relating to AISE's business and performance during the reporting period.

Underwriting result	Total 2016 €'000	M&A 2016 €'000	P&C 2016 €'000	Total 2015 €'000	M&A 2015 €'000	P&C 2015 €'000
Gross written premium	568,321	128,768	439,553	543,151	162,222	380,929
Net written premium	493,194	120,515	372,679	464,445	152,941	311,504
Net earned premium	493,482	132,479	361,003	476,474	170,097	306,377
Net claims	(232,614)	(42,681)	(189,933)	(271,686)	(91,064)	(180,622)
Incurred expenses	(202,134)	(51,097)	(151,037)	(197,583)	(68,971)	(128,612)
Underwriting result	**58,734**	**38,701**	**20,033**	**7,205**	**10,062**	**(2,857)**

System of governance

The AISE Board regards AISE's system of governance as effective though it continues to be refined, in particular to protect the interests of AISE as a regulated entity in the potential event that these diverge from those of the SBUs or of the Group generally.

AISE has a Board of Directors ('the Board' or 'the AISE Board'), which is constituted to include an appropriate balance of executive and non-executive directors. The Board has authority over the conduct of the whole of the affairs of the Company, recognising that it is a wholly-owned subsidiary and therefore needs to operate within a framework, strategy and structure set by its immediate parent MS Amlin plc. The parent is represented in the Board, but this does not impair the Board's ability to make decisions which are contrary to the wishes of its parent, in particular if it does not believe that those wishes are compatible with the Board's obligations to act in the interests of policyholders. AISE must also report to its parent on aspects of its operations in line with reporting requirements set by MS Amlin plc from time to time. The AISE Board has a number of committees, to which it delegates oversight and decision-making in accordance with documented terms of reference. AISE's underwriting operating structure is managed through the M&A and P&C SBUs which are both represented at the Board. This enables AISE's Board and other senior management to exercise strategy and control oversight over AISE's (business) affairs. No material changes in the system of governance have taken place over the reporting period.

AISE has a "Fit & Proper Standard" which sets out how the organisation ensures that senior management and other key function holders across the Group are fit and proper in accordance with both internal and external regulatory requirements. This Fit & Proper Standard is set at the MS Amlin Group level and is adopted by AISE as an MS Amlin Group subsidiary.

AISE's risk management system is aligned with the system implemented at the MS Amlin Group level. Risk management is an integral part of business planning. Risk management objectives seek to bring business strategy, capital management, and enterprise risk management together to optimise the relationship between these elements to achieve the best long-term sustainable outcome for shareholders, policyholders, staff and other stakeholders. As part of the Risk Management Framework the risk tolerances are monitored and reported on a quarterly basis to AISE's Executive Committee, Risk Committee and Board.

As part of its risk management system AISE conducts, at least annually, an Own Risk and Solvency Assessment (ORSA) taking into account its risk profile, business strategy and related capital requirements. AISE performs its ORSA independently from the Group. The ORSA is fully embedded into the overall Risk Management Framework and is aligned to capital strategy and business planning related processes.

AISE operates a system of internal controls. AISE's internal controls contributed to meeting various objectives, including operational effectiveness and efficiency, reliable financial reporting, compliance with laws and regulations and management of reputational and strategic risk. In order to contribute to J-SOX compliance of its ultimate parent MS A&D Insurance Group Holdings, Inc. by 31 December 2017, AISE's internal control framework and software are being enhanced in several aspects in 2017.

AISE has a compliance officer responsible for the Compliance function within AISE. The role of the Compliance function is to provide assurance to the executive management and Board of AISE that the Company complies with all regulatory requirements, associated laws, and relevant MS Amlin policies that are followed. The compliance officer reports to the AISE Audit Committee regarding progress against the Compliance Plan, Compliance Monitoring and regulatory returns. The compliance officer also reports to the AISE Risk Committee on integrity risks and regulatory breaches.

The Internal Audit function is a centralised MS Amlin Group function servicing AISE. Its independence and objectivity are guaranteed through direct reporting lines to the MS Amlin plc Audit Committee and the AISE Board and Audit Committee. The AISE Board has delegated its responsibility for overseeing the internal audit activity to its Audit Committee. The internal audit function's programme of work is based on an annual group-wide audit plan compiled by the Chief Internal Auditor and presented to the MS Amlin plc Audit Committee for approval annually. Subsequently the AISE Audit Committee is asked to approve the audit plan from an AISE perspective.

The Actuarial function is a global MS Amlin Group team servicing AISE via a local actuarial team supporting the legal entity. AISE's local actuarial team focuses on providing capital modelling and reserving services. It also determines AISE's reserves and required capital using the Standard Formula Solvency Capital Requirement (SF SCR) and the Group's approved Internal Model. The Lead Actuary Europe and AISE's Capital & Performance Modelling Manager advise the AISE Board and report to the AISE Risk Committee.

As an MS Amlin Group company, AISE follows the MS Amlin Outsourcing Policy which includes requirements set to undertake the outsourcing of critical or important operational functions and activities in an adequate and consistent way. Outsourced underwriting activities are managed through AISE's Binder Control Framework.

Please refer to Section B of this report for further details relating to AISE's system of governance.

Executive summary
continued

Risk profile

AISE's risk profile can be categorised into a framework of six core risk categories being insurance risk, market risk, credit risk, liquidity risk, operational risk and strategic risk. For each risk category AISE:

- Sets the risk definition and appetite;
- Measures exposures and concentrations through use of the standard formula and the internal model;
- Performs stress, scenario and sensitivity testing; and
- Has risk mitigating techniques in place, tailored for each risk category.

AISE's Risk Management Framework ensures the management of risk, while ensuring consistency in process and approach where possible, and simultaneously managing cross category correlations. Each of the categories of risk is owned by either an AISE Board member or function head with appropriate expertise and authority to manage the risk on a day to day basis. Reporting to AISE's Risk Committee occurs on a quarterly basis. No significant changes in AISE's risk profile have been identified over the reporting period.

Please refer to Section C of this report for further details relating to AISE's risk profile.

Valuation for solvency purposes

As at 31 December 2016, AISE held assets on a Solvency II valuation basis of €1,480.4 million, against gross technical provisions of €912.9 million (net €797.3 million) and other liabilities of €112.8 million.

AISE Solvency II net assets of €454.7 million is €64.9 million lower than IFRS net assets of €519.6 million. This is mainly driven by Solvency II valuation adjustments including the exclusion of inadmissible goodwill, deferred acquisition costs and other intangible assets. This is however, partially offset by lower net technical provisions under Solvency II as compared to IFRS as Solvency II net technical provisions incorporates future cash flows (inclusion of future premiums not accounted under IFRS reporting).

Please refer to Section D of this report for further details relating to AISE's valuation for solvency purposes.

Own funds

As at 31 December 2016, Solvency II available own funds amounted to € 457.1 million (Day 1: €455.0 million) representing a Solvency Capital Ratio of 127.9% (Day 1: 121.1%) computed under the Standard Formula. The SCR calculated at the end of the reporting period was €357.5 million (Day 1: €375.7 million) and the Minimum Capital Requirement (MCR) was €128.8 million (Day 1: €126.8 million).

	2016 €000	Day 1 €000
IFRS net assets	**519,599**	**474,794**
Solvency II valuation adjustments	(64,940)	(22,357)
Excess of assets over liabilities as per Solvency II	**454,659**	**452,437**
Subordinated liabilities	2,452	2,612
Available own funds	**457,111**	**455,049**
Standard Formula Solvency Capital Ratio (SF SCR)	**127.9%**	**121.1%**
SF SCR	**357,511**	**375,712**
Standard Formula Minimum Capital Ratio (SF MCR)	**334.6%**	**351.9%**
SF MCR	**128,819**	**126,809**

Tier 1 available own fund items amounted to €428.6 million (Day 1: €443.6 million) and represent AISE's ordinary share capital, share premium and the reconciliation reserve. Furthermore AISE had intra-group subordinated liabilities of €2.5 million (Day 1: €2.6 million) classified as Tier 2 and an amount equal to the value of net deferred tax assets of €26.1 million (Day 1: €8.8 million) classified as Tier 3. All AISE's available own funds are basic.

The movement in IFRS net assets during the year is primarily driven by AISE's positive net result for the year of €43.7 million.

Solvency II valuation adjustments increased compared to last year, mainly due to increased deferred acquisition costs and intangible assets balances under IFRS which are valued at zero under Solvency II. Furthermore updated methodologies and parameters used for the calculation of the Solvency II net technical provisions (e.g. the discount rate and updated expense allocation parameters) resulted in an increased valuation adjustment compared to last year.

The decrease in the SF SCR compared to last year of €18.2 million can be explained almost completely by the tax mitigation development of €18.1 million.

Please refer to Section E of this report for further details relating to AISE's own funds.

Directors' responsibility statement

We acknowledge our responsibility for preparing the Amlin Insurance S.E. Solvency and Financial Condition Report in all material respects in accordance with the PRA Rules and the Solvency II Regulations.

We are satisfied that:

a) throughout the financial year in question, Amlin Insurance S.E. has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations applicable to Amlin Insurance S.E.; and

b) it is reasonable to believe that Amlin Insurance S.E. has continued so to comply subsequently and will continue so to comply in future.

For and on behalf of the Board of Amlin Insurance S.E.

Kim Hvirgel
Chief Executive Officer

Reijer Groenveld
Chief Financial Officer

18 May 2017

Independent auditors' report

Report of the external independent auditor to the Directors of Amlin Insurance S.E. ("the Company") pursuant to Rule 4.1(2) of the External Audit Chapter of the PRA Rulebook applicable to Solvency II firms.

Except as stated below, we have audited the following documents prepared by the Company as at 31 December 2016:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2016, (**'the Narrative Disclosures subject to audit'**); and
- Company templates S02.01.02, S17.01.02, S23.01.01, S25.01.21, S28.01.01 (**'the Templates subject to audit'**).

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

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

- The "Business and performance", "System of governance" and "Risk profile" sections of the Solvency and Financial Condition Report;
- Information relating to 1 January 2016 voluntarily disclosed by the Company in the 'Valuation for solvency purposes' and 'Capital management' sections of the Solvency and Financial Condition Report;
- Company templates S05.01.02, S05.02.01, S19.01.21;
- The written acknowledgement by the Directors of their responsibilities, including for the preparation of the Solvency and Financial Condition Report (**'the Responsibility Statement'**).

Respective responsibilities of directors and auditor

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

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

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

Scope of the audit of the relevant elements of the solvency and financial condition report

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

Opinion on the relevant elements of the solvency and financial condition report

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

Emphasis of matter – basis of accounting

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

Matters on which we are required to report by exception

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

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

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

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

KPMG LLP
15 Canada Square
London
E14 5GL

18 May 2017

- The maintenance and integrity of Amlin Insurance Societas Europaea's website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Solvency and Financial Condition Report since it was initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of Solvency and Financial Condition Reports may differ from legislation in other jurisdictions.

Appendix – Relevant Elements of the Solvency and Financial Condition Report that are not subject to audit

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 RO290 to RO310 – Amount of transitional measure on technical provisions.
- Elements of Narrative Disclosures subject to audit identified as 'unaudited'.

Section A:

Business and performance

(unaudited)

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10 A.1 Business
12 A.2 Underwriting performance
15 A.3 Investment performance
15 A.4 Performance of other activities
15 A.5 Any other information

Section A: Business and performance

A.1 Business

Name and legal form of the undertaking

The name of the undertaking is Amlin Insurance S.E. ('AISE' or 'the Company'). The legal form of the undertaking is a "Societas Europaea" or "S.E.".

The Company is domiciled in the United Kingdom. The address of its registered office is:

Amlin Insurance S.E.
122 Leadenhall Street
London EC3V 4AG
United Kingdom

Group structure

AISE is a wholly owned subsidiary of MS Amlin plc, a public limited company incorporated in England and Wales. On 4 January 2016, MS Amlin Plc completed the cross-border merger of two of its insurance company subsidiaries, Amlin Europe N.V. and Amlin Insurance (UK) plc (AIUK). The combined post-merger insurance company was converted into a European corporate entity and was called Amlin Insurance S.E. This merged entity is subject to supervision by the UK's Prudential Regulation Authority (PRA) and conduct regulation by the UK's Financial Conduct Authority (FCA) as well as its branch country regulators.

On 1 February 2016, the acquisition of MS Amlin plc by Mitsui Sumitomo Insurance Company, Limited (MSI), a wholly-owned subsidiary of MS&AD Insurance Group Holdings, Inc., was completed following receipt of applicable regulatory and legal approvals. MSI acquired the entire issued and to be issued share capital of MS Amlin plc. Thus from this date, MS&AD Insurance Group Holdings, Inc. became AISE's ultimate parent company.

The registered address of MSI is 3-9, Kanda Surugadai, Chiyoda-ku, Tokyo, Japan.

The registered address of MS&AD is Tokyo Sumitomo Twin Building (West Tower), 27-2, Shinkawa 2-chome, Chuo-ku, Tokyo, Japan.

AISE is organised and managed through distinct operating segments, referred to as Strategic Business Units (SBUs). Segments are as follows:

- **Marine & Aviation** – Primarily focusing on cargo, energy, hull, liability and aviation portfolios, and other specialist areas such as specie and fine art risks. Operates through offices (branches) in Antwerp (Belgium), London (United Kingdom), Paris (France) and Rotterdam (The Netherlands);
- **Property & Casualty** – Providing insurance coverage in five main areas – property, casualty, and motor. Operates through offices (branches) in Amstelveen (The Netherlands), Brussels (Belgium), Hamburg (Germany), London (United Kingdom) and Paris (France).

The simplified Group structure chart on the next page explains the relationships between AISE and its parent company MS Amlin plc. AISE does not have material related undertakings where a proportion of ownership is held. The branches represent operational centres for AISE's SBUs.

Significant events during the period

Despite intense competition and a challenging market environment AISE has shown strong performance both in terms of growth and profitability. Gross written premium grew by 4.6% in 2016 and the underwriting result for the full year was €58.7 million.

With AISE's principal markets remaining soft during the year, client service remained a key priority across the business, resulting in an average retention ratio of 90% (2015: 87%) with new business of approximately €78 million achieved through a broad spread of brokers and cover holders.

A tough new business environment is perceived across Europe due to the high market retention levels and excess capacity available in the markets. Markets remain soft with flat rates across Europe, though some hardening is perceived in the motor insurance market in The Netherlands and Belgium and in Cargo liability across Europe.

Brexit

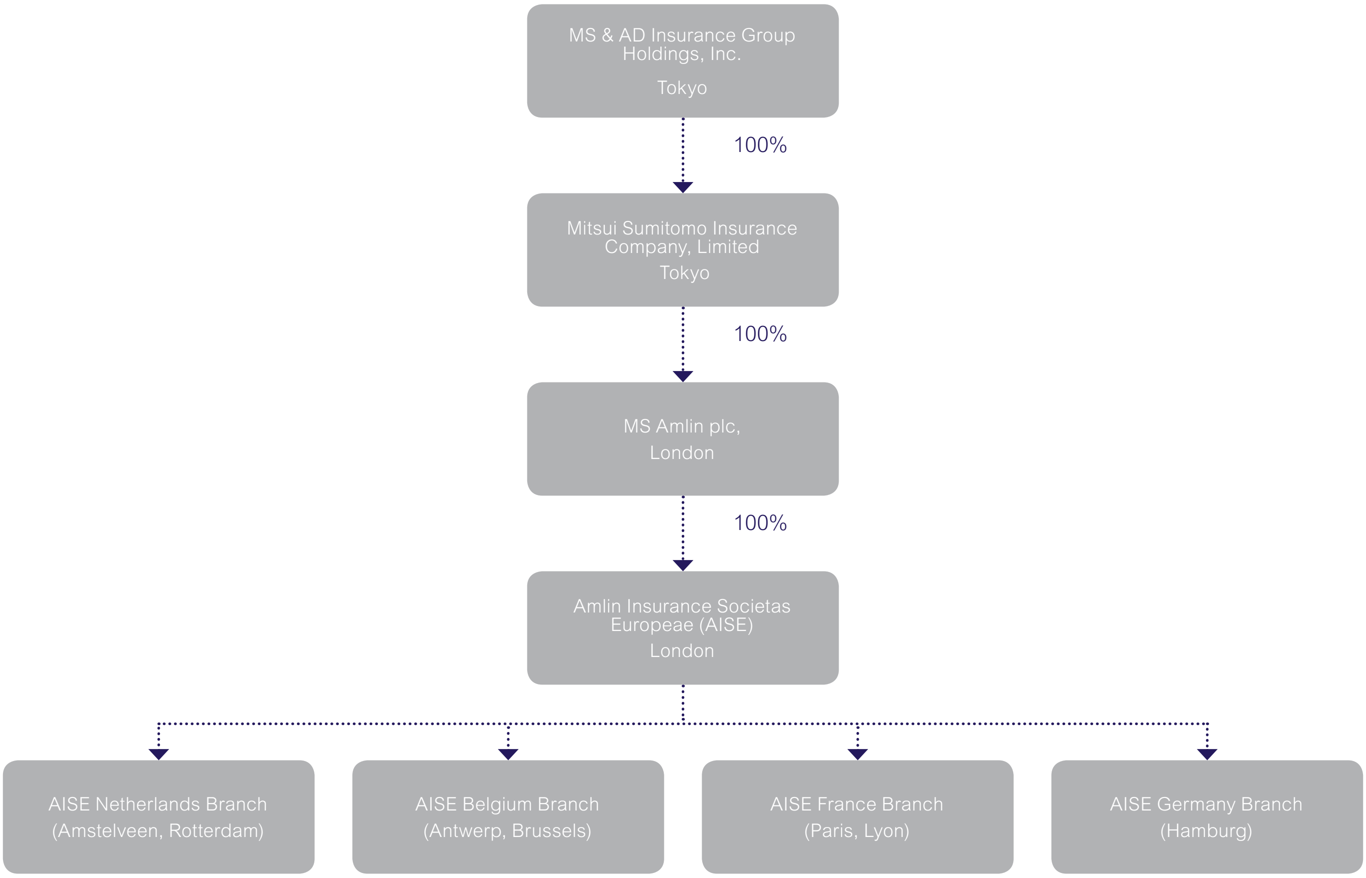
Following the referendum vote for the UK to leave the European Union (EU) in 2016, UK membership is expected to cease in April 2019. This may result in passporting rights to underwrite business in the EU terminating at that date. The Board of AISE are therefore exploring options for the company which may include a move of domicile. Due to the Societas Europaea status of the Company and the significant market presence in continental Europe, there are good options to ensure that continuity for brokers and clients is assured.

Supervisor information

AISE's supervisor is the Prudential Regulation Authority (PRA), Bank of England, 20 Moorgate, London EC2R 6DA, England (contact: Andy Doig – Senior Associate, Prudential Regulation Authority part of the Bank of England).

External auditor information

The Company's appointed external auditors are KPMG LLP, Chartered Accountants, 15 Canada Square, London, E15 5GL, England (contact: Timothy Butchart, Senior Statutory Auditor).


MS & AD Insurance Group Holdings, Inc.
Tokyo
100%
Mitsui Sumitomo Insurance Company, Limited
Tokyo
100%
MS Amlin plc,
London
100%
Amlin Insurance Societas Europeae (AISE)
London
AISE Netherlands Branch
(Amstelveen, Rotterdam)
AISE Belgium Branch
(Antwerp, Brussels)
AISE France Branch
(Paris, Lyon)
AISE Germany Branch
(Hamburg)

A.2 Underwriting performance

A.2.1. Total underwriting performance

The table below presents a breakdown of AISE's total underwriting performance and is consistent with the values included in the S.05.01 Quantitative Reporting Template (QRT) (as included in the Annex to this report):

Total underwriting performance

	2016 €000	2015 €000
Gross written premium	568,321	543,151
Net written premium	493,194	464,445
Net earned premium	493,482	476,474
Net claims	(232,614)	(271,686)
Incurred expenses	(202,134)	(197,583)
Underwriting result	**58,734**	**7,205**
Claims ratio	47.1%	57.0%
Expenses ratio	41.0%	41.5%
Combined ratio	88.1%	98.5%

AISE has shown strong performance in 2016, both in terms of growth and profitability. Gross written premium (GWP) grew by 4.6% in 2016 and the full year underwriting result was €58.7 million. The retention rate for the year was 90% (2015: 87%), driving the largest part of the growth. The renewal rate was marginally positive at 0.4%, mainly explained by rate strengthening in the Motor and Cargo liability portfolio. Net claims amounted to €232.6 million in 2016 (2015: €271.7 million), significantly better than last year driven by a strong result in the Marine and Property business. The Marine result benefited from prior year releases and the improved development of attritional losses, while limited large loss activity was experienced in the Property portfolio.

A.2.2. Underwriting performance by material line of business

In the following subparagraphs AISE's underwriting performance is analysed by material line of business. Lines of business considered not material consist of several smaller business lines with total gross written premium of €65.2 million (2015: €52.5 million) and total underwriting result of €10.6 million (2015: €12.5 million).

Motor vehicle liability and other insurance

	2016 €000	2015 €000
Gross written premium	102,792	76,601
Net written premium	102,109	75,465
Net earned premium	97,918	75,602
Net claims	(76,487)	(52,742)
Incurred expenses	(45,372)	(33,753)
Underwriting result	**(23,941)**	**(10,893)**
Claims ratio	78.1%	69.8%
Expenses ratio	46.3%	44.6%
Combined ratio	124.4%	114.4%

1. **Gross written premium.** The AISE Motor business grew significantly by €26.2 million (34.2%) in 2016 compared to 2015. This was driven by strong growth of the portfolio in The Netherlands. Most of the growth in the Dutch book is explained by large coverholder contracts, with total new business in 2016 of €19.1 million.

2. **Retention.** The strong focus on profitable growth resulted in re-underwriting parts of the portfolio during the year, as reflected by the retention rate of 88%.

3. **Rate.** Rate increases were experienced in both The Netherlands (+2.8%) and Belgium (+2.1%) as a result of the increased re-underwriting activities as described above. First signs of a hardening market have been seen and further rate strengthening has been experienced during the January renewal in 2017.

4. **Profitability.** The underwriting result in 2016 was €23.9 million negative, explained by the net claims development in both the Netherlands as well as Belgium. Also, prior year's deterioration was experienced in The Netherlands, mainly explained by the binder portfolio and the taxi and courier segment. Furthermore incurred expenses increased, driven by and in line with growth of gross written premiums. The strong focus on bottom-line result in combination with the re-underwriting activities started in 2016 should support restoring profitability in 2017.

Marine, aviation and transport insurance

	2016 €000	2015 €000
Gross written premium	128,768	162,222
Net written premium	120,515	152,941
Net earned premium	132,479	170,097
Net claims	(42,681)	(91,064)
Incurred expenses	(51,097)	(68,971)
Underwriting result	**38,701**	**10,062**
Claims ratio	32.2%	53.5%
Expenses ratio	38.6%	40.5%
Combined ratio	70.8%	94.0%

1. **Gross written premium.** The marine, aviation and transport insurance business in AISE showed a decrease in premium in 2016. GWP reduced by approximately 20%. This is mainly due to the transfer of parts of the fixed premium P&I business written by MS Amlin Marine N.V., the largest coverholder for this business, to MS Amlin's Lloyd's Syndicate in London (Syndicate 2001).

   Decreased premiums were driven by lower premium in Hull, mainly caused by lower Builders Risk and Ocean Hull business. Key drivers behind premium reductions are lay up of vessels, less vessels being built and less towage within a number of contracts. Furthermore renewals have taken place in the Cargo portfolio in Rotterdam, Antwerp and Paris to restore profitability in the Commodity sector.

2. **Retention.** The overall retention rate is 85%, which has been strongly influenced by the transfer of the fixed premium P&I business to AUL.

3. **Rate.** The overall rate increase was relatively flat with 0.1% mainly impacted by strong competition on the international Hull and Yacht portfolio.

4. **Profitability.** The marine, aviation and transport result over 2016 was a profit of €38.7 million (2015: €10.1 million profit). The increased profit is due to a lower attritional claims development (notably in Cargo, Fixed Premium P&I and Hull), less non-catastrophe losses and incurred large losses during the year and a positive prior year development.

Fire and other damage to property insurance

	2016 €000	2015 €000
Gross written premium	145,537	138,381
Net written premium	122,161	115,017
Net earned premium	126,198	110,132
Net claims	(53,202)	(91,410)
Incurred expenses	(47,647)	(48,869)
Underwriting result	**25,349**	**(30,147)**
Claims ratio	42.2%	83.0%
Expenses ratio	37.8%	44.4%
Combined ratio	80.0%	127.4%

1. **Gross written premium.** The property business in AISE showed an increase in premium in 2016. Gross written premium grew by €7.2 million in 2016 which is mainly explained by growing portfolios in Belgium and The Netherlands.

2. **Retention.** The overall retention for the year was strong at 91%, reflecting a broader market trend across Europe.

3. **Rate.** The Property market across Europe remained soft in 2016, resulting in flat renewal rates for all countries.

4. **Profitability.** The underwriting result in 2016 improved significantly compared to 2015 (€55.5 million). The result was driven by strong profitability in both France and Belgium, explained by a positive large loss development in 2016 and prior year releases. A notable development during the year was a series of large claims for geothermal drilling in Germany (net claim €4.4 million).

General liability insurance

	2016 €000	2015 €000
Gross written premium	126,027	113,495
Net written premium	113,558	98,184
Net earned premium	108,421	97,484
Net claims	(53,454)	(32,397)
Incurred expenses	(46,928)	(39,378)
Underwriting result	**8,039**	**25,709**
Claims ratio	49.3%	33.2%
Expenses ratio	43.3%	40.4%
Combined ratio	92.6%	73.6%

1. **Gross written premium.** The Casualty portfolio grew by 11.0% in 2016, mainly explained by an improved retention rate. Gross written premium over 2016 amounted to €126.0 million mainly due to strong growth of this line of business in Belgium and The Netherlands.

2. **Retention.** Strong retention in the Casualty business was realised. The retention rate was 92% reflecting a larger market trend across Europe.

3. **Rate.** Overall rate increase (+0.2%) was relatively flat across Europe, with the exception of the Medical Malpractice portfolio in Germany where rate increases of over 4% were experienced.

4. **Profitability.** The underwriting result in 2016 is €8.0 million and mainly driven by strong profitability in both France and Belgium. The French business benefited from prior year releases and better than expected large loss and attritional development. The positive result was offset by adverse prior year development in the Belgium Medical Malpractice portfolio and large loss development in the professional liability portfolio in The Netherlands. A notable development during the year was the Brussels Airport terrorist attack (gross claim €29.5 million). However this claim was fully covered by the Belgian Terrorist Pool. AISE's contribution to the pool to cover the losses was limited to €1.2 million.

Section A: Business and performance continued

A.2.3. Underwriting performance by material geographical area

The table below presents AISE's underwriting performance by material geographical area:

2016	UK €000	Netherlands €000	Belgium €000	France €000	Germany €000	Other €000	Total €000
Gross written premium	13,345	289,654	152,938	86,354	20,928	5,102	568,321
Net written premium	13,247	277,051	105,206	72,323	20,275	5,092	493,194
Net earned premium	8,092	286,357	102,147	74,699	20,555	1,632	493,482
Net claims	(15,653)	(127,699)	(51,892)	(20,027)	(15,253)	(2,090)	(232,614)
Incurred expenses	(4,934)	(103,293)	(54,063)	(30,348)	(7,594)	(1,902)	(202,134)
Underwriting result	**(12,494)**	**55,365**	**(3,808)**	**24,323**	**(2,292)**	**(2,360)**	**58,734**
Claims ratio	193.4%	44.6%	50.8%	26.8%	74.2%	128.1%	47.1%
Expenses ratio	61.0%	36.1%	52.9%	40.6%	36.9%	116.6%	41.0%
Combined ratio	254.4%	80.7%	103.7%	67.4%	111.2%	244.6%	88.1%

2015	UK €000	Netherlands €000	Belgium €000	France €000	Germany €000	Other €000	Total €000
Gross written premium	12,365	282,537	132,087	93,502	16,242	10,510	547,243
Net written premium	11,086	269,212	81,821	80,691	15,545	6,090	464,445
Net earned premium	12,947	278,662	84,600	81,563	12,269	6,433	476,474
Net claims	(13,560)	(133,423)	(74,807)	(38,410)	(10,220)	(1,266)	(271,686)
Incurred expenses	(4,498)	(102,782)	(48,051)	(34,014)	(5,909)	(2,329)	(197,583)
Underwriting result	**(5,111)**	**42,457**	**(38,258)**	**9,139**	**(3,860)**	**2,838**	**7,205**
Claims ratio	104.7%	47.9%	88.4%	47.1%	83.3%	19.7%	57.0%
Expenses ratio	34.7%	36.9%	56.8%	41.7%	48.2%	36.2%	41.5%
Combined ratio	139.4%	84.8%	145.2%	88.8%	131.5%	55.9%	98.5%

From a geographical perspective growth of the AISE business in 2016 is driven by Belgium (€20.8 million), The Netherlands (€7.1 million) and Germany (€4.7 million).

Compared to the previous year, the 2016 underwriting result improved for all Continental European countries, especially in France where strong profitability was experienced across the whole business. The 2016 underwriting result in Germany ended at a loss of €2.3 million, explained by the relative high expense base of this start-up location.

The 2016 underwriting result in the UK was impacted by two large late losses – the Tianjin claim (€2.9 million) and the Space-X claim (€4.8 million), both on a Variable Quota Share contract with Syndicate 2001, a wholly owned syndicate of MS Amlin plc. AISE no longer writes this contract.

A.3 Investment performance

Investment performance by asset class

Below is an analysis of AISE's investment income and (expenses) by relevant asset class.

	2016 €000	2015 €000
Government bonds	2,549	3,817
Equities	(2,167)	25,608
Collective Investment Undertakings	9,461	(3,950)
Cash and deposits	83	–
Total	**9,926**	**25,475**

All asset classes contributed positively to the AISE investment return in 2016 except equities. The property allocation held via investment funds (included in line item Collective Investment Undertakings) was the standout performer. AISE's property assets are only held within the capital portfolios where liquidity is less of a constraint than policyholders' funds. The equity allocation produced a negative return after a volatile start to the year.

The improved macro-economic outlook should provide support for property and equity market performance via higher rental or earnings growth. Fixed income yields are still very low when compared historically, despite recent increases. These yields are expected to rise further and therefore AISE continues to run asset durations lower than that of liabilities within policyholders' portfolios.

Gains and losses directly recognised in equity

Gains and losses directly recognised in equity relate to the valuation result on certain immaterial investments classifying as alternative valuation methods under Solvency II.

Investments in securitisation

Investments in securitisation amounted to €2.8 million as at 31 December 2016 (Day 1: €4.9 million).

The portfolio contains a very small amount of investments in securitisation and this has reduced by 43% since Day 1. These investments are held within the European core segregated mandate. The securities are held in line with portfolio guidelines and overall risk limits.

A.4 Performance of other activities

Other material income and expenses

Other material income and expenses are items in the statement of profit or loss not included in sections A.2 or A.3 of this report.

AISE has no other material income and expenses.

Leasing arrangements

AISE entered into several non-cancellable rental and operating lease arrangements. The table below shows future commitments in respect of non-cancellable operating lease and rental agreements at year end.

	2016 €000	2015 €000
Not later than 1 year	4,263	3,376
Later than 1 year and not later than 5 years	10,382	8,408
More than 5 years	3,042	2,845
Total	**17,687**	**14,629**

The rent of the office space in:

- Brussels is €0.5 million annually and is yearly adjusted for inflation. The contract ends 31 July 2024;
- Amstelveen is €0.6 million annually and is yearly adjusted for inflation. The contract ends 31 December 2017. The contract has been renewed early in 2017 with effective date 1 July 2017 and end date 31 December 2022;
- Rotterdam is €0.4 million annually and is yearly adjusted for inflation. The contract ends 31 May 2018;
- Antwerp is €0.1 million annually and is yearly adjusted for inflation. The contract ends 30 September 2024;
- Hamburg is €0.2 million annually and is yearly adjusted for inflation. The contract ends 31 March 2020;
- Paris is €1.3 million annually and is yearly adjusted for inflation. The contract ends 28 February 2022.

AISE leases various cars under operating lease agreements. The remaining lease terms are between 0 and 5 years. The total future lease commitment as per 31 December 2016 is €2.9 million (Day 1: €3.3 million).

AISE does not have any finance lease arrangements.

A.5 Any other information

No other material information regarding AISE's business and performance has been identified.

Section B:

System of governance (unaudited)

In this section
Pages 16 to 37

18 B.1 General information on the system of governance
24 B.2 Fit and proper requirements
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Section B: System of governance

B.1 General information on the system of governance

B.1.1 Structure of the Board and management

AISE has a Board of Directors, which is constituted to include an appropriate balance of Executive and Non-Executive directors. The Board has authority over the conduct of the entire affairs of the Company, recognising that it is a wholly-owned subsidiary of MS Amlin plc and therefore needs to operate within a framework, strategy and structure set by its immediate parent. The parent is represented on the AISE Board, but this does not impair the Board's ability to make decisions which could be contrary to the wishes of its parent, in particular if it does not believe that those wishes are compatible with the Board's obligations to act in the interests of policyholders.

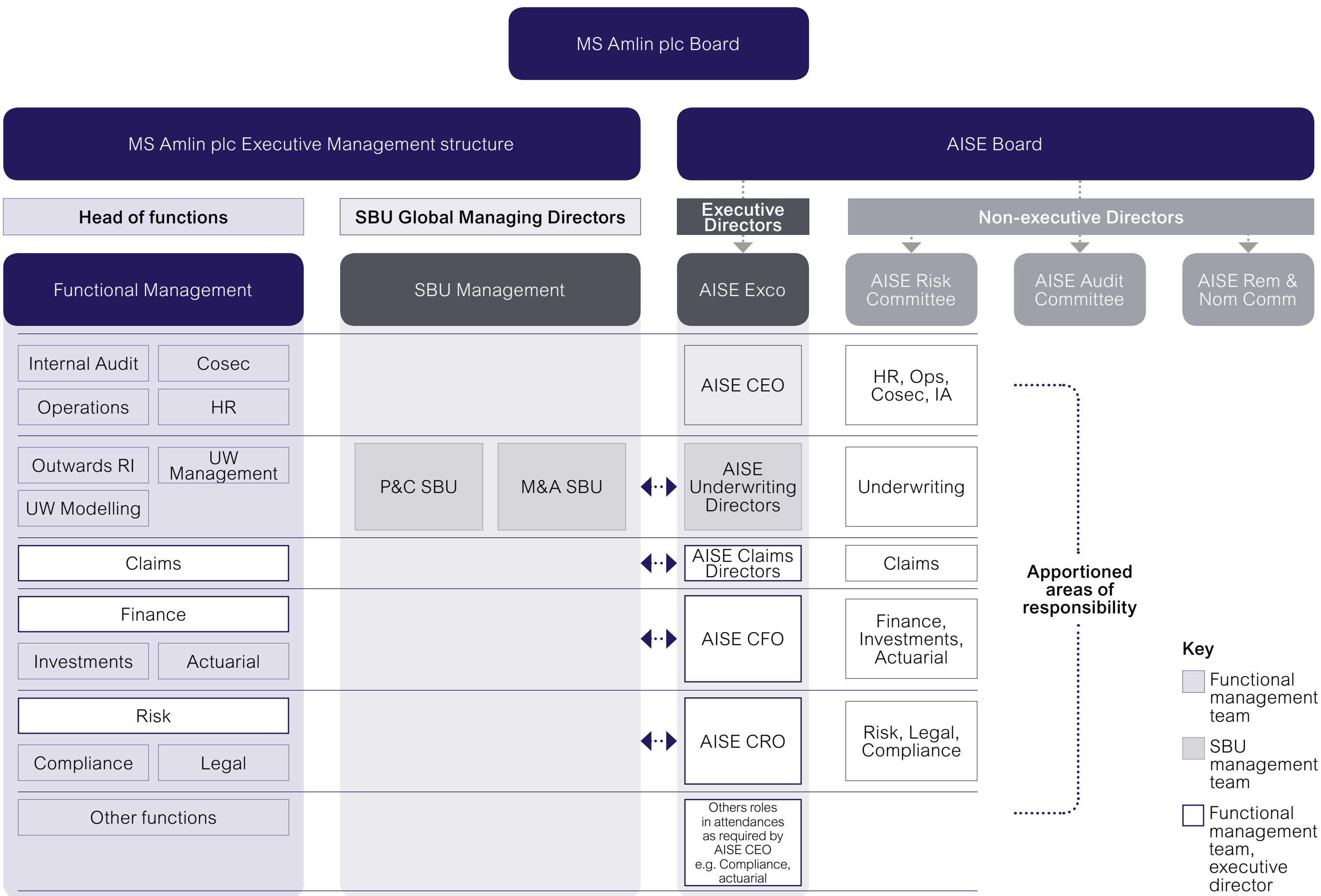
AISE must also report to its parent on aspects of its operations in line with reporting requirements set by MS Amlin plc from time to time. The AISE Board sets the strategic direction of AISE and provides leadership within the risk appetite and framework of systems and controls. The AISE Board ensures AISE has the right balance of skills, experience, independence, knowledge and diversity for our evolving business. The AISE Board achieves this by:

- An on-going programme of AISE Board effectiveness evaluation;
- A bespoke training and development programme for all AISE directors;
- Continued rigorous analysis by the Remuneration & Nomination Committee of the balance of skills, experience and diversity when appointing new AISE directors;
- Continued focus on the development of potential employees with AISE Board readiness specifically in mind, as well as corresponding succession planning and talent development.

The responsibilities of the individual Executive and Non-Executive directors are described later in this section.

The AISE Board has a number of committees, to which it delegates oversight and decision-making powers in accordance with documented Terms of Reference. These are described in more detail later in this section.

The diagram below sets out the AISE legal entity governance framework, as well as the linkage with the MS Amlin plc governance framework for completeness. In the diagram below, the term SBU refers to Strategic Business Units which are virtual organisations operating as profit centres with management teams, but that have no legal personality. SBUs are customer focused units established around classes of underwriting, being reinsurance (RI), property and casualty (P&C) and marine and aviation (M&A). AISE relevant SBUs are P&C and M&A.

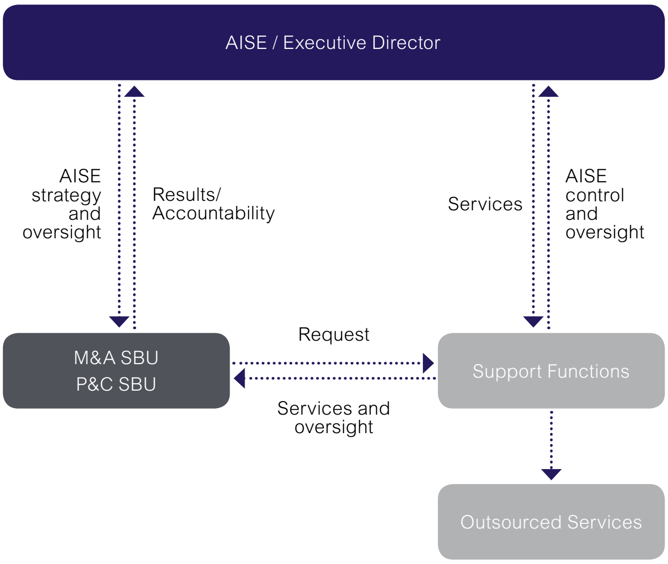


AISE's operating structure

The principles underpinning AISE's operating structure through the SBUs P&C and M&A are to:

- Facilitate client intimacy as a source of competitive differentiation and enable profitable growth;
- Enable greater efficiency and minimal duplication of effort; and
- Ensure strong management control and oversight and more consistent application of service and oversight processes.

AISE's directors and other members of senior management do not necessarily have "command and control" over all the resources required in order to discharge their duties, but instead operate a "commissioning" model across a matrix structure with MS Amlin plc. The below diagram sets out how AISE is governed within this structure and how AISE's Board and executive directors exercise strategy and control oversight over their affairs.



The support functions servicing AISE are Actuarial, Business Change, Claims, Communications, Company Secretarial, Compliance, Facilities, Finance, HR, Internal Audit, Internal Control Framework, Investment Management, IT, Legal, Marketing, Modelling, Risk, Strategy and Underwriting Operations.

All Support Functions have clearly defined roles, responsibilities, budgets and service delivery objectives that are documented and monitored. Internal Service Catalogues document functional services provided to each SBU and legal entity, including AISE. These are subject to agreement by the Group Operations Committee and the CEO of AISE. The Group Operations Committee proposes the overall functional budgets and allocations to SBUs and AISE. The cost allocation is agreed by the AISE Board as part of the business planning processes. Variances are subject to an equivalent approval processes depending on materiality. Performance monitoring occurs at various levels across the structure. It is underpinned by a suite of key performance indicators, satisfaction surveys and review mechanisms to highlight underperformance and drive improvement. The output of these processes is summarised each quarter in functional scorecards for SBU and AISE management. The AISE Board receives a report from the CEO each quarter on service performance. Actions to address any service issues are agreed with the heads of functions and where necessary escalated.

Main roles and responsibilities of the AISE board

The AISE Board is responsible for the leadership, direction and control of AISE, and for ensuring that the Company complies with all of its legal and regulatory obligations. The Board supports the Company's strategy for its primary purpose as an insurer, and has resolved a set of matters reserved to the Board. These matters reserved are reviewed periodically by the Board to ensure that they remain appropriate.

The Board meets at least four times per year, with regular contact between Executive and Non-Executive Directors throughout the year. All directors have access to the advice of the Company Secretary, and all directors, committees, and the Board itself may procure professional advice at AISE's expense in the furtherance of their duties.

Within the AISE Board of Directors the following roles exist:

Executive/ Non-Executive Director	Role
Executive	Chief Executive Officer
Executive	Chief Finance Officer
Executive	Chief Risk Officer
Executive	Chief Underwriting Officer: Property & Casualty
Executive	Chief Underwriting Officer: Marine & Aviation
Executive	Claims Director
Non-Executive	Chairman and Chairman of the Remuneration & Nomination Committee
Non-Executive	Group Chief Risk Officer (parent representative)
Non-Executive	Chairman of the Audit Committee (parent representative)
Non-Executive	Chairman of the Risk Committee

Section B: System of governance
continued

Segregation of responsibilities within the AISE Board

The table below sets out how key Board level responsibilities under the Senior Insurance Managers Regime (SIMR) have been allocated to Senior Insurance Managers, all of whom are duly approved by either the PRA or the FCA. The allocation of these responsibilities is reviewed and approved by the AISE Board periodically, as part of the process of reviewing the governance map more broadly.

AISE Board Member	Executive / Non-Executive	Responsibilities
Chief Executive Officer	Executive	• Responsibility for ensuring that AISE has complied with the obligation in Insurance – Fitness and Propriety 2.1 to ensure that every person who performs a key function, including every person in respect of whom an application under section 59 of FSMA is made, is a fit and proper person. • Responsibility for overseeing the adoption of AISE's culture in the day-to-day management of the Company. • Responsibility for the development and maintenance of AISE's business model by the governing body. • Responsibility for monitoring effective implementation of policies and procedures for the induction, training and professional development of all of AISE's Key Function Holders (other than members of the Company's governing body).
Chief Finance Officer	Executive	• Responsibility for the production and integrity of AISE's financial information and its regulatory reporting. • Responsibility for management of the allocation and maintenance of AISE's capital and liquidity.
Chief Risk Officer	Executive	• Responsibility for performance of AISE's Own Risk & Solvency Assessment (ORSA).
Chairman of the Board	Non-Executive	• Responsibility for leading the development of AISE's culture by the governing body as a whole. • Responsibility for leading the development, and monitoring effective implementation of policies and procedures for the induction, training and professional development of all members of the Company's governing body.
Chairman of the Remuneration Committee	Non-Executive	• Responsibility for overseeing the development and implementation of AISE's remuneration policies and practices.
Chairman of the Audit Committee	Non-Executive	• Responsibility for oversight of the independence, autonomy and effectiveness of AISE's policies and procedures on whistleblowing, including the procedures for protection of staff who raise concerns from detrimental treatment as captured in the Speak Up Policy.

The Governance and Risk Management Frameworks clearly articulate the procedures for decision making. These are documented within the terms of reference for the Board Committees, Management Committees, and in matters reserved to the AISE Board. The frameworks include both corporate and regulatory requirements, such as strategic matters and Solvency II requirements. The Governance Framework also details explicit procedures for key activities such as financial reporting disclosures and contingent future management actions in the event of certain matters arising.

Key AISE Board committees are:

The Audit Committee

The AISE Audit Committee meets at least quarterly. Its remit includes financial reporting and Solvency II reporting matters, as well as issues pertaining to regulatory compliance, internal control, internal audit, and external audit.

The Risk Committee

The AISE Risk Committee meets at least quarterly. Its remit includes risk management issues, Solvency Capital Requirements, and a review of internal controls.

The Remuneration and Nomination Committee

The AISE Remuneration & Nomination Committee meets at least annually. It leads the process for appointments to the AISE Board, and reviews and approves the remuneration of Senior Executives, and changes to incentive schemes.

Reporting to the AISE Board and its committees

Monthly and quarterly management information reports are prepared and tabled for discussion, review, consideration and challenge at the AISE Board and its Committees' meetings, including Executive Committee meetings. The reporting covers various business areas including, but not limited to, Underwriting, Reinsurance, Claims, Actuarial and Reserving, Finance, Investments, Human Resources, Compliance, Legal, Internal Audit, External Audit, Risk, Internal Control and Strategy. The reporting facilitates informed decision making.

AISE's Own Risk and Solvency Assessment (ORSA) reporting process supports risk management and capital related decisions. The Standard Formula and Internal Model output are key data sources for the ORSA. For regulatory capital, AISE calculates capital using the Standard Formula. AISE also operates an Internal Model (as part of the MS Amlin Group Internal Model) that captures key economic and risk factors that could impact the Company's performance. It is used in such decisions as business planning and performance management. The methods, assumptions and calibrations associated with the Internal Model are documented and validated annually as part of the Group process.

Roles and responsibilities of key functions

The AISE management structure aligns to the requirements of the Senior Insurance Managers Regime (SIMR), with all Key Function Holders within AISE identified and empowered. All staff, including Key Function Holders, have clearly defined roles and responsibilities detailed in their job specifications. Performance appraisals take place where staff are assessed against their performance objectives and the requirements of their roles.

The table below comprises the business areas identified by AISE as Key Functions in accordance with the Solvency II Directive, along with the individuals identified as Key Function Holders, and their management reporting lines.

Key Function	Main Responsibilities	Key Function Holder	Reports To	AISE Board Responsibility
Risk Management function	Responsibility for the performance of AISE's Own Risk & Solvency Assessment (ORSA). For further information, please refer to section B.3.	Chief Risk Officer	Group Chief Risk Officer	Chief Risk Officer
Internal Audit Function	To assist the AISE Board to meet the agreed strategic and operational objectives of the Company, through the provision of an independent appraisal of the adequacy and effectiveness of the internal control framework in operation. For further information, please refer to section B.5.	Chief Internal Auditor	Non-Executive Director (Audit Committee Chairman) Group Executive Officer (administratively)	Non-Executive Director (Audit Committee Chairman)
Actuarial Function	To provide capital modelling and reserving services to AISE. For further information, please refer to section B.6.	Group Actuary	Group Chief Finance & Operations Officer	Chief Financial Officer
Compliance Function	To provide an appropriate degree of assurance to the AISE Board that the Company is operating in a way which is compliant with relevant rules and regulations.	Group Head of Compliance	Group Director of Legal & Corporate Affairs	Chief Risk Officer

The assurance functions are adequately resourced and are staffed by appropriately qualified, skilled and experienced individuals. The assurance functions are authorised and empowered to operate within their agreed terms of reference/charters. The third line of defence operates with complete independence from both the first and second lines to enable them to provide objective and independent assurance to the AISE Audit Committee and Board. The Chief Internal Auditor reports functionally to the Audit Committee Chair, an Independent Non-Executive Director.

Assurance reports are also made available to Executive Management for their review and consideration, but are not subject to Executive approval.

The three lines of defence model

The AISE three lines of defence model mirrors the MS Amlin Group's three lines of defence model. The model explicitly defines the roles and responsibilities of all staff across AISE on the basis of their remit and authority. The three lines of defence model can be explained as follows:

First line	Second line	Third line
SBUs/Functions	**Risk Function** **Compliance Function**	**Internal Audit Function**
Control Operators, Control Owners and Risk Owners have primary responsibility for: • Owning and managing their risks • Designing, implementing and operating internal controls • Overseeing the quality and completeness of internal controls performed by individuals within a given process/business area • Performing on-going monitoring of internal control design and operational effectiveness/control self-certification • Conducting regular reporting of internal control effectiveness, control exceptions and remediation to management and escalating control exceptions to Risk Management • Participating in root cause analysis and internal control remediation activities	• Providing guidance, support, and advice on effective internal control • Undertaking evidence based, thematic reviews on internal control effectiveness • Ensuring that the Internal Control Framework is fit for purpose • Preparing risk reporting to management, the Boards and relevant committees • Leading root cause analysis reviews	• Maintaining their independence of both the business and Risk Management function • Testing effectiveness of internal controls performed in first and second lines of defence • Providing independent and objective assurance on the internal control environment • Reporting audit findings to the Audit Committee and management

Regulator(s)
External Audit

Governance and oversight performed by MS Amlin's Committee structures

AISE's first line of defence is supported by the Internal Control Framework (ICF) function, an MS Amlin Group function, which acts as a catalyst for effective assurance in AISE. As an embedded pre-emptive support function it enables and helps the first line of defence to implement and operate their controls. The ICF function promotes individual accountability by encouraging excellence through an effective and efficient control environment.

Segregation of duties is a key control within AISE that supports transparent governance and culture, and promotes clear accountability for activities. It is built into the Corporate Governance Framework, Organisational Structure, Key Persons Framework Design, Risk Management Framework and Internal Control Framework.

Information systems

AISE operates within the MS Amlin Group Management Information (MI) reporting framework, under which monthly and quarterly MI reports are received by the AISE Board and senior management, containing underwriting, finance, risk, human resources (HR), investment, actuarial and internal control MI. Copies of the reporting are also available to the AISE Executive Committee, giving them oversight of the MI and any issues arising. This reporting forms part of AISE's ORSA process with information contributing to both risk management and capital related decisions.

Segregation of duties

Segregation of duties is a key control within AISE that supports transparent governance and culture, and promotes clear accountability for activities. It is built into the MS Amlin Group Corporate Governance Framework, organisational structure, Key Persons Framework design, Risk Management Framework and Internal Control Framework. AISE operates within these MS Amlin Group frameworks and structures.

Risk Management Framework

AISE has a Risk Management Framework that seeks to support the fulfilment of its long-term strategic objectives, whilst protecting the interests of all third parties, including its policyholders.

The framework complements the systems of governance, ensuring risk management is inherent in the day to day activities of the business and in the key decisions made by the AISE Board and its committees.

A fully resourced Risk function ensures that there are adequate mechanisms in place to identify, measure and monitor all material risks faced by AISE, including exposures to intra-group transactions and aggregate risk concentrations. The framework ensures that information on both qualitative and quantitative aspects of AISE's material risks is made available to the AISE Board and its Committees, including the Risk Committee and the Executive Committee, and that decisions take account of available own funds to support the mitigation of risks.

Further details on AISE's key risk management activities are detailed in section B.3 of this report.

Internal Control Framework

AISE operated a system of internal controls for the full year ended 31 December 2016. AISE's Internal Control Framework is derived from the MS Amlin Group Internal Control Framework and was adopted by AISE after formal approval by the AISE Audit Committee. The framework was developed in consultation with the Internal Audit, Compliance and Risk functions, is based on a set of core principles (control environment, risk assessment, control activities, information and communication and monitoring and testing), references the AISE three lines of defence model and sets out roles and responsibilities for AISE staff of all levels as it relates to matters of internal control.

Further details on AISE's internal control framework are provided in section B.4 of this report.

Policies and Standards Framework

AISE is supported by a group-wide Policies and Standards Framework that articulates the roles, responsibilities and activities that staff must fulfil in relation to these policies and standards. This framework also covers AISE, and key policies and standards are translated for non-English speaking staff. All AISE staff are required to attest that they have read each of the policies and standards that are relevant to their role. Through the respective assurance programmes of the Risk, Compliance and Internal Audit functions, compliance with policies and standards is monitored, reviewed and challenged.

- Explicit ownership by named heads of functions or executives;
- Monitoring by the Compliance function to ensure policies and standards are kept up to date and that staff have read them;
- Escalation of breaches to relevant committees and governance forums.

B.1.2 Remuneration policy and practices

Remuneration Strategy

The aim of the MS Amlin Remuneration Standard is to ensure that the way MS Amlin Group's people are rewarded is in accordance with and supportive of the Group's vision, objectives and strategy – including the Group's risk profile and risk management practices. The MS Amlin Remuneration Standard was set in the MS Amlin Remuneration Committee at the MS Amlin Group level. The standard is followed by AISE and was adopted for use by the AISE Remuneration & Nomination Committee.

By achieving this aim, the maximum possible alignment between the interest and long-term career development of employees is secured, with the ambitions of the Company and the creation of long term shareholder value (in accordance, at all times, with agreed levels of ambition and risk appetite).

The MS Amlin Remuneration Committee, subject to Solvency II and relevant remuneration regulatory principles, develops, implements and monitors the remuneration policy and practices designed to attract, retain and motivate employees to add value to MS Amlin plc and its subsidiaries (including AISE) but prevents having to remunerate at levels which are not merited.

There is a formal and transparent procedure for developing policy on remuneration and for setting the remuneration packages of employees. The AISE Remuneration & Nomination Committee has the right to input into individual and functional performance assessment of the AISE CEO and directors that hold more than one board position and is informed of how this input impacts performance and remuneration outcomes. The AISE Remuneration & Nomination Committee approves performance related pay outcome and changes to remuneration of the other AISE directors and other AISE Solvency II identified staff. No individual is involved in deciding their own remuneration. MS Amlin supports and adheres to regulatory and other appropriate remuneration guidelines unless there is clear rationale to justify departure or alternative arrangements.

Without prejudice to the foregoing, reward arrangements and practices are designed, implemented and maintained:

- Taking into account best practice where appropriate;
- With an understanding of the external pay environment;
- With the necessary level of transparency to ensure that AISE's shareholder may see the link between remuneration paid to directors and senior executives, and corporate performance (taking into account the cost of capital incurred in delivering such performance where appropriate);
- Ensuring that the financial position and financial soundness of the organisation is taken into account at the time such remuneration is paid:
- Incorporating appropriate safeguards to avoid conflicts of interest;
- Ensuring that an ethical, high-performance culture exists within AISE, which is aligned to AISE's values; and
- Rewarding staff differentially related to performance (AISE does not reward for failure).

MS Amlin supports the principles of equal opportunities and the management of diversity in employment. Remuneration structures are fair and equitable and are free from bias on grounds of gender, ethnic origin, nationality, religious beliefs, disability or any other legally protected characteristic.

Remuneration structure

The remuneration structure for administrative, management or supervisory body employees (excluding Non-Executive Directors) reflects the potential impact on our risk exposure arising from the actions and decisions of these categories of staff. This is achieved by having remuneration arrangements which contain the following characteristics:

- The fixed component of remuneration represents a sufficiently high proportion of the total remuneration (in accordance with the target fixed-variable remuneration ratio agreed in the MS Amlin Remuneration Committee);
- The variable component of remuneration is based on a combination of MS Amlin, business unit / function (as appropriate) and personal performance (using both financial and non-financial measures), as described by the plan rules and/or accompanying guidelines or individual participant communications, designed with the intent that top quartile performance is rewarded with top quartile total remuneration and the intent of paying no variable component where a minimum performance threshold is not reached. The non-financial measures referenced in remuneration setting include the degree of employee alignment with role specific competencies, established company values (and going forward cultural ambition) and agreed risk appetite;
- A proportion of the variable remuneration is subject to deferral over a period of not less than three years, in accordance with the deferral target ratio agreed in the MS Amlin Remuneration Committee (and adopted for use by the AISE Remuneration & Nomination Committee), and is also subject to appropriate malus and clawback requirements. Non-financial risk factors which might result in ex-post risk adjustment would include risk failings considered to be material such as adverse audit findings (internal and external), adverse special investigation findings, failure of internal control, risk appetite breaches, regulatory considerations (including conduct risk) and certain types of misconduct cases;
- The calculation of the aggregate non-discretionary annual variable and non-discretionary individual awards cost is subject to suitable adjustment for factors (both financial and non-financial) of current and future risk;
- Termination and/or redundancy payments are linked to the performance of the individual to ensure failure is not rewarded on pro-rata basis;
- There is a prohibition from using any personal hedging strategies or remuneration and liability-related insurance related to their remuneration arrangements.

AISE has pension plan arrangements but does not have any active supplementary pension plans. Early retirement terms from AISE sponsored pension plans are pre-determined in the plan rules. AISE does not make discretionary enhancements to these terms.

B.1.3 Material changes over the reporting period

No material changes in the system of governance have taken place over the reporting period.

B.1.4 Material transactions

In December 2016, AISE acquired an intangible asset for £17.5 million from MS Amlin Corporate Services Ltd (MS ACS), representing the net capitalised IT costs of its underwriting platform. AISE and MS ACS are wholly owned subsidiaries of MS Amlin plc.

There have been no other material transactions during the reporting period with shareholders, persons who exercise a significant influence on AISE, and with members of the AISE Board.

B.1.5 Assessment of the adequacy of the system of governance

The Board of AISE regards the system of governance of AISE as effective though it continues to be refined, in particular to protect the interests of AISE as a regulated entity in the event that these diverge from those of the SBU or of MS Amlin plc generally.

B.2 Fit and proper requirements

AISE seeks to ensure that its management body and its Board contain the appropriate balance of skills and experience to ensure that the business can be appropriately managed and controlled.

AISE's expectations in relation to fitness and propriety are set out in its "Fit & Proper Standard". The Fit & Proper Standard was set at the Group level. As an MS Amlin plc subsidiary, AISE follows this standard. The standard sets out requirements for:

- Fitness – including proper professional qualifications, required knowledge and experience, and the required balance of skills across the management body to ensure sound and prudent management of the business and the performance of an individual's role; and
- Propriety – individuals should be of good repute and have integrity.

Checks on fitness and propriety operate at two stages.

On recruitment

AISE operates procedures at the time of recruitment to ensure that individuals demonstrate appropriate levels of fitness and propriety. Precise requirements vary, depending on the role the individual is undertaking, and the location of their work, but for senior roles pre-employment checks will generally include:

- Criminal record checks;
- Credit checks;
- The taking up of regulatory and employment references; and
- Obtaining proof of professional and other qualifications.

Individuals employed to undertake roles which are Senior Insurance Management Functions are not allowed to take those roles up until they are approved by the relevant regulator.

On an ongoing basis
AISE's processes for ensuring ongoing fitness and propriety include the following:

- Training and development requirements for employees based on their role and responsibilities;
- Performance management processes, including at least an annual formal performance appraisal;
- Regular reviews of remuneration practices, to ensure that incentives are appropriate;
- A duty on employees to disclose any form of dishonest conduct or change in their fit and proper status;
- An obligation to disclose conflicts of interest; and
- An annual attestation of fitness and propriety by certain individuals.

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

This section provides an overview of AISE's risk management system including its Own Risk and Solvency Assessment (ORSA).

B.3.1 Risk management system

This risk management section gives an explanation of AISE's risk management strategy and the underlying process and reporting procedures. This section concludes with a description of how the risk management system has been integrated in the organisational structure and decision making processes.

Risk management strategy
AISE's risk management system is aligned with the system implemented at the MS Amlin Group. MS Amlin Group has a top down approach to risk management whereby a high level risk and capital management statement is adopted at the MS Amlin Group level and its adoption is mandated through an associated supporting Risk Management Policy that is applicable to all subsidiaries of the MS Amlin Group. MS Amlin's vision and core values provide the strategic focus for the risk management system to deliver "effective risk management which optimises return for the risks we take" with the objective to deliver long-term value. This is achieved by actively seeking and accepting risks while managing the risks within acceptable bands.

To this extent, the Risk Management Policy is committed to:

- Establishing and maintaining a sustainable enterprise risk management process as an integral part of its business model supporting business planning and capital management;
- Providing transparency to its stakeholders on how its risk strategy is set, implemented and periodically reviewed;
- Ensuring that there is a clear understanding of appetite for key risks and that there are agreed maximum risk limits or tolerances in place;
- Providing the infrastructure required to create a sustainable risk management framework;
- Clearly defining ownership and responsibilities for managing, identifying, assessing and improving risk across the organisation;
- Creating a risk aware culture across the organisation by informing, training and motivating staff to consider risk within their day-to-day decision making; and
- Delivering an ORSA process capable of maintaining, monitoring and reporting developments to inform the Board and senior management on risk status on an ongoing basis.

The implementation of the Risk Management Policy within AISE ensures the analysis of risk on an on-going basis where assessments consider current risk exposures, as well as forward looking exposures. The analysis considers future plans as well as emerging trends and potential scenarios.

Alignment to business strategy
Risk management is an integral part of business planning. Risk management objectives seek to optimise business strategy, capital management, and enterprise risk management to achieve the best long-term sustainable outcome for shareholders, policyholders, staff and other stakeholders. This approach allows the business to maximise its return on risk where there is opportunity to do so, subject to limitations over potential economic downside. This is done through the adoption of risk appetites and tolerances that link closely to the capital management strategy.

Linkage to capital management
Capital is a key consideration in setting business plans and strategies. AISE has a target economic capital level based on the MS Amlin Group mechanism for the calculation of 'economic capital'. In order to assess whether returns are sufficient to compensate for the risks taken, AISE allocates virtual risk assessed capital as a consistent measurement tool to each business unit and class. AISE's capital management strategy is further explained in the ORSA section (B.3.2) and in section E.1 of this report.

Risk appetite
Risk appetite is defined as the amount and type of risk that the MS Amlin Group is willing to take in order to meet its strategic objectives. It is the basis of the implementation of the Enterprise Risk Management framework. A Group Risk Appetite Statement is agreed at the MS Amlin plc Board that is aligned with the overall MS Amlin Group Strategy. AISE articulates its own risk appetite and associated tolerances within the context of the overall MS Amlin Group appetite. As part of the risk management framework the risk tolerances are monitored and reported on a quarterly basis to Entity Executive Committee, Risk Committee and Board. AISE's risk management process and reporting procedures are detailed below.

Risk management framework

AISE's risk management system consists of a suite of processes and procedures required to sustain the risk management framework in practice. The scope of AISE's risk management process is entity wide and applies to all business activities, countries, functions, systems and employees. It covers day to day activities, acquisitions, disposals, outsourcing arrangements, joint ventures, new products and strategic projects.

To fulfil the needs of MS Amlin's Risk Management Policy, a Risk Management Framework has been developed that is an integral component of AISE's operating model and also forms part of AISE's overall approach to internal control. It provides the infrastructure within risk governance and also sets out the processes required to sustain risk management within AISE.

Categorisation

AISE's risk management framework categorises its core risks into six key groups as specified in the table below. The framework ensures management of all of them, while ensuring consistency in process and approach where possible, and simultaneously managing cross correlation of risks. Each of the categories of risk is owned by either a Board member or head of function with appropriate expertise and authority to manage the risk on a day to day basis. The risk categories are further elaborated in section C which explains AISE's risk profile.

Except for Strategic risk, the below material risks are all included in the calculation of AISE's Solvency Capital Requirement as set out in Article 101(4) of Directive 2009/138/EC.

Risk category	Definition	Scope	Paragraph in section C
Insurance risk	Risk of loss arising from the inherent uncertainties in the occurrence, amount and timing of insurance liabilities and premiums. This includes reserving risk or claims arising on business written prior to the year in question.	Underwriting, catastrophe, reserving, claims, reinsurance (excluding reinsurance credit risk)	C.1
Market risk	Risk arising from fluctuations in values of, or income from, assets, interest rates and investment returns.	Investment market volatility, currency fluctuation	C.2
Credit risk	Risk of loss if counterparty fails to perform its obligations or fails to perform in a timely fashion.	Reinsurers, brokers, cover holders, insureds, investment counterparties	C.3
Liquidity Risk	Risk arising from insufficient financial resources being available to meet liabilities as they fall due.	All assets and potential liabilities	C.4
Operational & Group risk	Risk resulting from inadequate or failed internal processes, people and systems, or from external events. Risks faced by MS Amlin entities that may arise as a result of MS Amlin's particular Group structure. This covers risks that arise through growth, acquisition or resource overstretch that could impact one or all entities.	Systems, processes, people, regulatory (including compliance), external circumstances	C.5
Strategic risk	Risk of the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions or lack of responsiveness to industry changes.	Group, political & economic, conduct, capital management, merger & acquisition	C.6

Risk management process

AISE uses a holistic view (also referred to as Enterprise Risk Management) in managing the risks in the framework. In a holistic process risks are not managed in silos of single risk categories, but are managed via an integrated system at the enterprise level. Risks are associated with one or more portfolios of principal risks, which when results in an aggregated impact on the organisation as a whole.

The process assures portfolios of principal risks are managed effectively, measured and monitored on a continuous basis, both on an individual as well as at an aggregated level. It is an iterative process with high involvement of AISE's Board and first line of defence.

Aligning strategy and risk appetite

The first phase in the process is aligning AISE's strategy with its risk appetite. The Board is responsible for realising this activity with support from the risk function. The outcome of this process is a risk appetite statement per risk category. As described in the previous section, the risk appetite statements are aligned to the context of MS Amlin Group's risk appetite. These statements should be seen as a guide to aiding better decision making, and a point of reference where there is any doubt.

Risk identification and tolerance setting

In the next phase risks are identified for every risk category. These are measured by Key Risk Indicators (KRIs). For every KRI a risk owner is appointed and tolerances are set in which the KRI needs to be managed. AISE's Board is involved in the process of KRI identification and tolerance setting. AISE's SBUs and support functions (first line of defence) are responsible for performing activities to manage risk within tolerance, with the Risk function (second line of defence) reviewing and challenging the output. For further details on the three lines of defence system please refer to subsection B.1.1.

As part of the risk management system additional risks are identified at a more operational level. The effectiveness of controlling these risks is measured via the Internal Control Framework. The relationship between the risk management process and the Internal Control Framework is explained in section B.4.

Modelling, stress and scenario testing

AISE uses an Internal Model to aggregate its risk profile. Via this stochastic model a wide range of parameters are stressed and future developments are mapped using scenario analysis. A more detailed description of these processes is given in the next section which elaborates on the ORSA.

Deep dives and periodic risk reviews

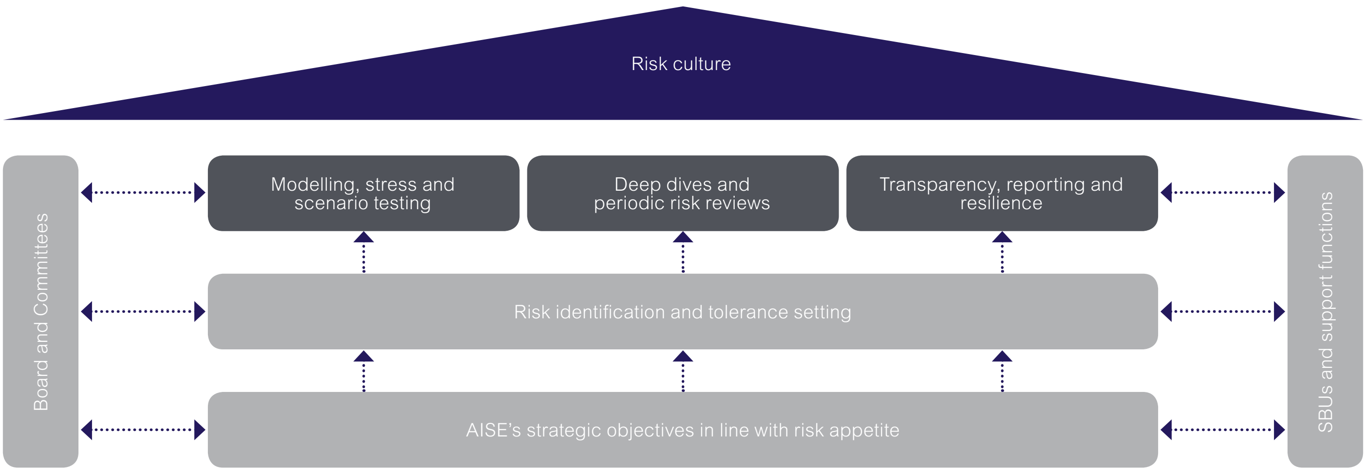
Key risks and associated data are retained in a risk register for all key operating entities where risks are owned by executive management and assessed by way of periodic catch-ups with first line risk managers and analytical deep dives. The purpose of these monitoring activities is to review, report and communicate adherence with the agreed risk strategy, appetite and tolerance.

Transparency, disclosure and resilience

Reporting is done by the Risk function on a monthly basis to AISE's Executive Committee and on a quarterly basis to AISE's Risk Committee. The reporting includes every category of risk included in the Risk Management Framework. Besides creating transparency, the aim of reporting is threefold:

- Communicate adherence with the agreed risk strategy, appetite and tolerance;
- Communicate clear guidance on risk level limits and cascade to all staff with responsibility for managing risks within limits; and
- Provide clear direction on the prioritisation of risk management actions commensurate with risk appetite.

Lessons learned from the risk management process are used as input in the strategy setting process for the next year, but also for improving risk culture and awareness entity wide.



Decision making processes

All key decisions made within AISE, e.g. with regards to underwriting and reserving, claims management, asset-liability management, investment risk management, liquidity risk management, concentration risk management, operational risk management and reinsurance and other insurance risk mitigating techniques, follow internal governance processes including an assessment of the risk exposure and mitigation strategies.

AISE's Board is responsible for taking key decisions across the organisation, but delegates some of its decision making responsibilities to its committees, e.g. the Executive Committee, Risk Committee and Audit Committee. The output of the risk management system is reviewed by the Risk Committee with a summary of key items taken to the Board. Information on risk is taken to the decision making committees by the Risk function following their review. This process facilitates the integration of the risk management system in the decision making process.

An important instrument which explains how the risk management function is integrated into the organisation decision making processes is the ORSA reporting process. This process is detailed in the next section.

B.3.2 Own Risk & Solvency Assessment (ORSA)

As part of its risk management system every insurance undertaking shall conduct at least annually an ORSA taking into account its risk profile, business strategy and related capital requirements. AISE is performing its ORSA independently of, but in conjunction with, the Group. The ORSA is fully embedded into the overall Risk Management Framework and aligned to capital strategy and business planning related processes as required within Solvency II regulations. The Risk Management Policy states that:

"The Board is accountable for entity risk management and must, at least:

- Sustain a robust own risk and solvency assessment (ORSA) process that informs management risk judgements."

AISE defines its ORSA process as:

- The entirety of its risk management processes and procedures that seek to identify, assess, monitor, manage, and report the short and long term risks of the business and its strategy;
- The processes and activities used to determine the adequacy of own funds necessary to ensure that the overall solvency needs of the business are met at all times;
- A process that links and articulates the development and management of the businesses risk profile and associated capital requirements.

The ORSA process and report is a management tool used to inform or determine:

- Risk strategy and business strategy;
- Risk exposures:
  - Overall risk drivers;
  - Movements in risk profile (actual risk or modelling methodology).
- Risk mitigation and control;
- Solvency adequacy;
- Risk management process effectiveness;
- Use of assumptions and expert judgement;
- Assurance and validation activities.

Link to capital management

AISE's capital policy seeks to actively manage capital in alignment to the size of its aggregated risk profile, taking account of its regulatory obligations, requirements to hold contingent capital to support growth and a desire to deliver a cross-cycle return on capital as set by the Board. As a result the capital policy plays an integral role within the ORSA process informing risk appetite and concurrently being used as a benchmark of own solvency needs versus aggregated risk profile.

AISE calculates capital requirements using both the Standard Formula as set in Solvency II legislation and a stochastic Internal Model. The Standard Formula is used, as agreed by the Board, for calculating and reporting regulatory Solvency II capital requirements for reporting to regulators. The Internal Model is used specifically for internal reporting and its management activity.

The Internal Model is approved at the MS Amlin Group level for solvency capital requirement purposes. The model is used within AISE for aggregation of its risk profile (exposures and concentration) and calculation of internal capital requirements. The Risk function at the Group level is the owner of the Internal Model and is responsible for ensuring the model is appropriately governed, and that processes are followed. The actuarial capital modelling team is responsible for the day to day management of the model including the calculation kernel, model parameterisation, Economic Simulator generator, Catastrophe Models and operational risk input.

The table below presents the use of the Standard Formula and Internal Model both within the MS Amlin Group level and within AISE.

Process	MS Amlin Group level	AISE
Communicate SCR to regulator	Internal Model	Standard Formula
Internal capital requirement	Internal Model	Standard Formula, Internal Model
Decision making	Internal Model	Standard Formula, Internal Model
Risk assessment	Internal Model	Standard Formula, Internal Model

ORSA processes

AISE sees the ORSA process as being two aligned and concurrent distinct processes to determine own solvency needs. These two processes are Current Year Monitoring (quarterly) and Forward Looking Forecasting (annual). In addition ad hoc ORSA Reruns are performed in response to specific events or requirements. The processes cover all six categories of risk as described in the Risk Management Framework.

Assurance

The Risk Committee is accountable for challenging the effectiveness and adherence to the Risk Management Policy, of which the ORSA is a subcomponent. Therefore reporting on the adherence of the key risk processes is presented to the Risk Committee. Additionally, independent assurance is also provided by internal audit (not every time but cyclical).

The remainder of this section provides a description of the quarterly, annual and ad hoc ORSA processes undertaken by AISE in 2016.

Current year monitoring

The current year monitoring ORSA process is designed to provide executive management and the Board with a clear understanding of the solvency position of each entity at a particular point in time, given its risk exposures, and seeks to ensure the business plan and levels of risk remain within predefined risk appetites.

Current year monitoring runs from the start of the financial year running to 31 December with the reporting typically based to the first working day of each quarter. The iterative current year monitoring takes account of all (net) current risk exposure that determines solvency requirements via the Internal Model. Capital requirements are assessed versus actual own funds.

The process is predicated on:

- A predefined and approved business plan;
- Predefined, approved and allocated tolerances;
- The availability of capital to support the business plan and risk exposures.

The quarterly outcomes of current year monitoring are used to support decision making and are standing agenda items for the Risk Committee and Board.

Forward looking forecasting

Forward looking forecasting seeks to identify, assess, monitor, manage and report the longer term risks and forecast returns faced by the organisation and to consider how AISE's solvency is impacted by changes in these risks. It is an annual process with numerous inputs and outputs throughout the year that are summarised into the annual ORSA report. Capital requirements are calculated using both the Standard Formula and the Internal Model.

The process is based on a number of sub-processes operated through the year to identify, assess and manage the possible risks AISE may face in the next financial year and beyond, and to ascertain the own funds necessary to guarantee that complete solvency requirements would be met at all times in these future periods.

This ORSA process is strategic in nature. It runs concurrently to the business planning process, following a structured timetable that allows the processes to operate in lock-step with business planning on an annual cycle and allows the challenge of the evolving business plan and strategy.

Section B: System of governance
continued

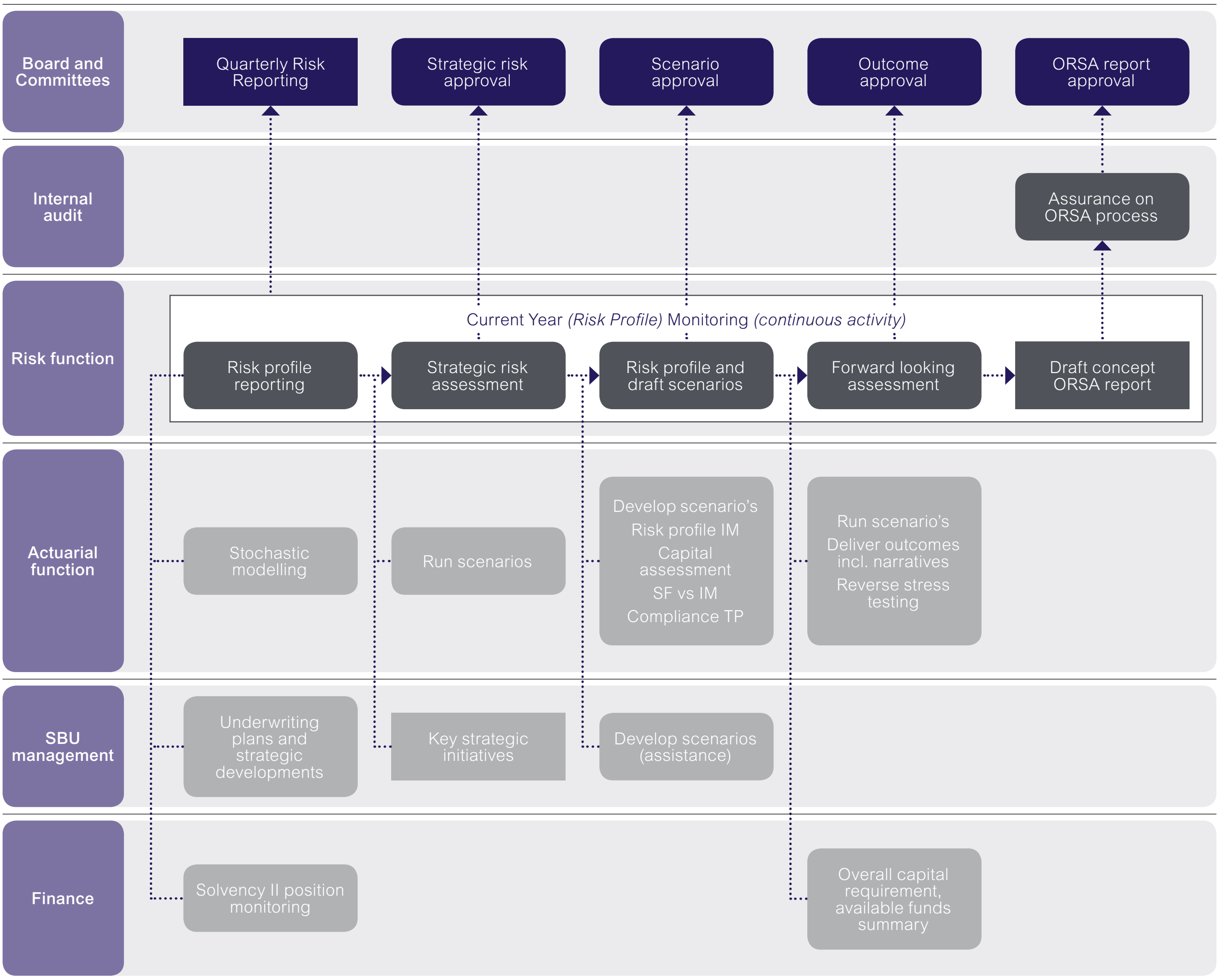
Business planning process
The business planning process is a key business control aimed at ensuring that financial planning is undertaken in a structured manner. The process ensures that aspects of underwriting cycle management, risk exposure management, investment planning, cash flow management, reinsurance, planning and expense management are coordinated. This involves class by class income and pricing expectations which are included in the Internal Model. The process creates operational plans that support the delivery of key business objectives for the subsequent year and deliver requirements for each division's regulatory submissions.

Prior to SBU and entity managerial sign off, business plans are subjected to challenge and assessment by second line functions such as risk and actuarial, who take into consideration risk, capital and solvency implications. Once this process has been conducted at SBU and entity level an associated capital requirement is established which is complemented by an ORSA. These three key outputs are all subject to scrutiny by executive management prior to approval by the AISE Board.

Tasks and responsibilities
The diagram below provides an overview of the ORSA processes within AISE, followed by an explanation of the tasks and responsibilities of the different stakeholders.

Board and Committees
The ultimate audience for each ORSA report is the Board of AISE. The Board needs to understand the ORSA report and the process that created it to enable the Board members to challenge and approve its conclusions. This principle is implemented by presenting the outcomes of every step in the process to the Executive Committee which needs to evaluate the data and give approval. In addition, the Risk Committee is responsible for ensuring the ORSA process is adequately implemented and provides timely and useful risk information.

Internal audit
Internal audit is responsible for providing a level of assurance that the process is both effective and appropriate to AISE's business model and risk exposures.



Risk function

The ORSA process is owned by AISE's Chief Risk Officer (CRO), who in turn manages the Risk function for the planning, facilitation, management, and communication of the process, as well as for the consolidation and summary reporting of the information. Besides providing risk management related content for the ORSA, the Risk function is collecting and reviewing inputs from a wide range of functions across the MS Amlin Group. The function acts as the overall author and editor of the ORSA report and manages its production, sign off and storage.

Actuarial function

The Actuarial function is responsible for assistance in developing the scenarios and for actually calculating the impact on the capital requirements for each scenario. AISE calculates capital requirements using both the Standard Formula as set in Solvency II legislation and a stochastic Internal Model.

SBU management

SBU management is responsible for developing detailed business plans for each class of business including reinsurance arrangements and cost giving input about strategic developments and strategic initiatives. They also assist the risk department in developing the ORSA scenarios.

Finance function

The Finance function provides input about the solvency position of AISE. More specifically, the Finance function compares the capital requirements calculated by the Actuarial function with the eligible own funds under Solvency II.

Ad hoc ORSA reruns

There is a framework to determine if the ORSA process needs to be executed outside of the typical schedule. Both the quarterly current year monitoring process and forward looking process and resultant reports can be run outside of these timeframes (in full or partially) if there is a significant risk event, or series of risk events that may necessitate the immediate review and re-evaluation of AISE's solvency position or risk profile based on changed circumstances and assumptions.

A detailed process has been defined to govern such unusual circumstances. Examples of such ad hoc triggers include, but are not limited to:

- Business plan reforecasts;
- Material underwriting catastrophes, for example:
  - Large windstorms;
  - Earthquakes;
  - Floods;
  - Terrorism.
- Material financial market movements or volatility;
- Material reserve adjustments;
- Regulatory demands.

No such events arose during the reporting period ended 31 December 2016.

B.4 Internal control system

B.4.1 Internal controls system

AISE operated a system of internal controls for the full year ended 31 December 2016.

AISE's Internal Control Framework is derived from the MS Amlin Group Internal Control Framework and was adopted by AISE after formal approval by the AISE Audit Committee. The framework was developed in consultation with the Internal Audit, Compliance and Risk functions and is based on a set of core principles (control environment, risk assessment, control activities, information and communication and monitoring and testing), references the AISE three lines of defence model (as explained in section B.1.1) and sets out roles and responsibilities for AISE staff of all levels as it relates to matters of internal control.

AISE's key internal control procedures comprise company level controls, IT general and application controls and process level controls. These include, but are not limited to, access controls, oversight controls, segregation of duties, initiation and approval controls, monitoring and oversight controls, reporting controls, reconciliation controls, as well as other controls. The effectiveness of internal controls is assured through the operation of the AISE three lines of defence model.

For the year ended 31 December 2016, AISE's internal controls contributed to meeting various objectives, including operational effectiveness and efficiency, reliable financial reporting, compliance with laws and regulations, and management of reputational and strategic risks.

Until August 2016, AISE managed its internal controls on a dedicated risks and controls software solution. This required control owners within AISE to perform a quarterly self-assessment of the effectiveness of their controls. This process was managed by the AISE Risk function, which was also tasked with reporting on the results of the quarterly control self-assessment cycle to the AISE Board, Risk Committee and Audit Committee.

Following the integration with MSI, the MS Amlin Group was assessed as a significant business location for MS&AD, the ultimate parent company, which is a listed company in Japan. MS&AD must comply with J-SOX requirements in full by 31 December 2017. Although AISE is not required to attest to its compliance with J-SOX, it is a material subsidiary for the purposes of the ultimate parent MS&A&D's J-SOX attestation.

Another core enhancement in 2016 was the establishment of a dedicated Internal Control Framework (ICF) function. This is an MS Amlin Group function, and is positioned as a support function to the first line of defence, including AISE. Specifically, this function assists the first line with their documentation, enhancement and maintenance of key internal controls, provides internal control training to control owners and operators, and manages the quarterly internal control self-assessment process.

To meet J-SOX requirements and to support other planned Internal Control Framework enhancements, a decision was taken to replace the internal control software solution with a new solution aimed at delivering enhanced functionality and governance. The new internal control software solution is scheduled for deployment in June 2017. From September 2016, and until the new software solution is deployed, a SharePoint based interim solution was put in place for the purposes of managing the quarterly internal control self-assessment process. The old risk and control software solution was deactivated in October 2016.

The Internal Control Framework enhancements, including the deployment of the interim and new internal control software solutions, were supported by the AISE Executive Committee and Audit Committee.

The deployment of the new internal control software solution in June 2017 aims to enhance the monitoring and oversight capabilities over key internal controls and will benefit from the following:

- Quarterly internal control self-assessments by control operators, including the provision of supporting evidence;
- Control owner review and sign-off of the internal control self-assessment submissions received from the control operators;
- A quality assurance programme operated by the Internal Control Framework Function;
- Improved linkage with second and third lines of defence assurance activities;
- Enhanced reporting on internal control effectiveness.

The SharePoint solution facilitated:

- The performance of quarterly internal control self-assessments by control owners;
- A quality assurance programme operated by the Internal Control Framework function, which comprises a sample based review of documentation/evidence to support the control ratings assigned by the control owners;
- Reporting on internal control effectiveness.

B.4.2 Compliance function

The MS Amlin Group Compliance function (Compliance function) operates on the basis of its Terms of Reference with a compliance officer having responsibility for the Compliance function within AISE as a legal entity. The Terms of Reference set out the Compliance function's responsibilities, reporting lines, and rights to perform its duties unimpeded by management. The current version was approved by the Group Audit Committee in November 2016, and it is normally reviewed and approved annually. The Terms of Reference is adopted for use by AISE and was formally approval in the AISE Audit Committee meeting in May 2017. There have been no material changes in the Compliance function during the reporting period.

The Terms of Reference describes the role of the Compliance function as being to provide assurance to the Executive management and Boards of the Group and its subsidiary AISE that they comply with all regulatory requirements, associated laws, and relevant MS Amlin policies which are followed by AISE. These policies are adjusted to local regulations in the countries where AISE operates where necessary. The Compliance function has five key responsibilities to support the objective:

- Identification – identifying compliance risks and advise on them;
- Prevention – design and implement controls to protect AISE from identified risks, including awareness and training;
- Monitoring – monitor and report on the effectiveness of these controls;
- Resolution – resolve compliance issues if and when they occur;
- Advisory – advise the business on compliance, rules and controls in specific cases.

Quarterly, the Compliance function reports to the Audit Committee of AISE in respect of progress against the Compliance Plan, Compliance Monitoring reports and regulatory returns. To AISE's Risk Committee it reports quarterly on integrity risks and regulatory breaches (if any). The compliance officer of AISE is part of the Executive Committee and has a standing invitation to the meetings of the AISE Board.

Compliance monitoring is carried out in accordance with a plan approved annually by the AISE Audit Committee. The compliance monitoring process includes both thematic reviews and periodic data analysis, with the intention of ascertaining that:

- Processes operated by first line functions servicing AISE designed to achieve compliance with Group standards and underlying regulations would be adequate to ensure compliance if followed; and
- These processes are being followed in practice by AISE.

The universe of issues covered by compliance monitoring is set out in the MS Amlin Group Integrity Risk Framework (adopted by the AISE Risk Committee), which is the part of the AISE Risk Management Framework designed to measure AISE's compliance with regulatory obligations. Areas covered include:

- Business integrity;
- Financial crime controls;
- Customer treatment; and
- Prudential control requirements.

The Compliance function also includes a regulatory affairs team, part of whose remit is to monitor and advice on prospective changes in regulation, to ensure that the Group is in a position to be compliant with them. A quarterly report is made to the AISE Risk Committee, setting out upcoming changes, and AISE's readiness to implement them.

Compliance with Solvency II

In accordance with its Terms of Reference, the Compliance function has advised the AISE Board on a number of issues relating to Solvency II in 2016. These have included:

- Fit and proper requirements for individuals; and
- Implications of potential changes to the Group's structure on the supervision position of the MS Amlin Group and AISE.

B.5 Internal audit function

Implementation of the internal audit function

Internal Audit (IA) derives its authority from the Boards of MS Amlin plc and its subsidiaries (including AISE). Its primary reporting line is to the MS Amlin plc Audit Committee, to whom it has open access. Secondary reporting lines exist to the Boards and Audit Committees of other MS Amlin entities, including AISE. The AISE Board has delegated its responsibility for overseeing the Internal Audit activity to its Audit Committee.

For AISE the scope of IA activity includes all activities and locations of the legal entity.

IA's programme of work is compiled by the Chief Internal Auditor (CIA) in the form of an annual audit plan which is presented to AISE's Audit Committee for approval, in November each year. This audit plan covers all MS Amlin Group functions and SBUs and thus encompasses in its scope all subsidiaries and branches including AISE and its branches.

In scheduling IA's programme of work, the CIA also considers the schedule of relevant work that will be performed by the other assurance functions, e.g. the Compliance and Risk functions. The scope of IA's audits considers, as part of each audit planning stage, work recently completed or planned by these functions.

IA may vary the content of its approved programme of work to accommodate emerging risks, unplanned events and changes in risk profile. Significant changes are to be discussed and agreed as soon as possible with the chairman of the MS Amlin plc Audit Committee. All changes are presented to the MS Amlin plc Audit Committee and other relevant committees. Significant changes related to AISE are also discussed with and presented to the AISE Audit Committee.

IA has unrestricted access to all records, personnel, property and operations of AISE as required for the effective performance of its audit work, with strict responsibility for safekeeping and confidentiality.

IA work in AISE normally includes, but is not restricted to, reviewing the control framework established by management to ensure achievement of strategic and operational goals and objectives by:

- Effective identification, assessment and management of risk;
- Compliance with those policies, standards, procedures, laws and regulations which could have a significant impact on AISE's operations or reputation;
- Display of and adherence to AISE's values and culture;
- Safe custody of assets; and
- Effective and efficient use of resources.

There is specific emphasis on:

- The design and operational effectiveness of governance structures and control processes, including strategic and operational decision-making information presented to the Boards;
- The setting of and adherence to risk appetite;
- The effectiveness of the second line of defence with regards to its monitoring and oversight responsibilities;
- The Company's culture and management of conduct risk, including:
  - Key indicators of a sound risk culture, tone at the top, accountability, effective communication and challenge and incentives;
  - The risk of poor customer outcomes, giving rise to reputational or conduct risk; and
  - High-risk key corporate events, for example significant business process changes, the introduction of new products and services, or outsourcing decisions and acquisitions/divestments.

The key responsibilities of Internal Audit with regards to AISE are to:

- Develop and maintain a risk-based audit plan that takes account of emerging risks, significant corporate events, strategic change, regulatory themes and areas of control concern;
- Review the plan on a continuous basis and propose additions, cancellations and deferrals to the audit committee for approval on a quarterly basis;
- Provide reasonable assurance as to the adequacy and effectiveness of the Internal Control Framework in operation by ensuring there is appropriate audit coverage across all areas of the Group (including AISE);
- Report the results of internal audit activity, significant control issues identified, progress in delivering the audit plan and status of management remediation activities;
- Establish and deliver a programme of quality assurance activities to confirm that expected internal audit standards are being met and to report the results to the Audit Committee;
- Manage the function such that audit staff have appropriate knowledge, skills, qualifications and experience to deliver the proposed plan of work;
- Provide reasonable assurance to Executive management and the Board of AISE on management's assertions of risk exposure;
- Provide active support to the AISE Board and line management in the promotion of high standards of internal control;
- Assist and advise management on the prevention of fraud and defalcations;
- Work with the Group support function Legal (also servicing AISE), to play a leading role in the investigation of internal fraud;
- Support the Speak Up Committee in discharging its responsibility;

In the provision of assurance, IA will ordinarily provide an opinion on the strength of the control framework in operation within the subject area covered by an audit. Additionally, drawing on insights gained through its work, IA is expected to contribute ideas for improving the efficiency and effectiveness of business operations.

Independence and objectivity

The independence of IA from day-to-day line management responsibility is fundamental to its ability to deliver objective coverage of AISE. IA maintains an impartial, unbiased attitude and avoids any conflicts of interest.

To ensure its independence, the CIA reports directly to the chairman of the MS Amlin plc Audit Committee who is responsible for recommending the remuneration, setting the objectives and appraising the performance of the role. The CIA also has a secondary reporting line to the Chief Executive Officer (CEO) of MS Amlin plc. The MS Amlin plc Audit Committee is responsible for the appointment and removal of the CIA. All internal auditors have an exclusive reporting line through to the CIA.

IA remains free from interference by any element in the Company, including in matters of audit planning, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

Staff seconded to IA for particular assignments adopts the same standards and procedures as regards independence as permanent staff and operate under the direction of IA management for the duration of their work.

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. In performing their duties, internal auditors exercise due professional care at all times.

IA strives to adhere to The Chartered Institute of Internal Auditors' (CIIA) mandatory Standards including its *Definition of Internal Auditing*, its *Code of Ethics* and its *International Standards for the Professional Practice of Internal Auditing* (Standards). In addition, IA aims to comply with Practice Advisories, Practice Guides and recommendations issued by the CIIA to the extent that these apply.

B.6 Actuarial function

The Actuarial function is a global team that provides actuarial services to the whole MS Amlin Group and its subsidiary companies, including AISE. The function operates largely from London with local actuarial teams to service non-UK offices. The Group Chief Actuary is a fellow of the UK Institute and Faculty of Actuaries and is the official actuarial function holder for the UK regulated entities of which AISE is one.

The function is organised in three broad groupings:

- A single capital modelling team which manages and maintains the group-wide Internal Model, with sub-teams dedicated to legal entities including AISE;
- Local teams (or individuals) aligned to different regions/locations and mapped to the legal entities: teams in Amstelveen, Brussels and London are leading AISE on reserving and the Solvency II Standard Formula calculations; and
- A Group reserving team providing oversight, co-ordination and peer review of the reserving process.

The core Actuarial function focuses on providing capital modelling and reserving services. Whilst pricing actuaries report directly to AISE's Underwriting function there is also close co-operation between the pricing actuaries and the Actuarial function in the areas of business planning, reserving and setting of technical pricing standards.

The Actuarial function is carried out by persons who have broad knowledge of actuarial and financial mathematics, commensurate with the nature, scale and complexity of the risks inherent in the business of the insurance or reinsurance undertaking, and who are able to demonstrate their relevant experience with applicable professional and other standards.

In the Amstelveen and Brussels based teams (responsible for all AISE's branches), the main focus is on reserving and, within this, all team members have their focus areas; for P&C all reserving classes are treated and discussed per country, for Marine the main split is between Cargo and Hull. Team members review each other's classes, to improve the quality and consistency of the reserving process, and to reduce key man risk. In addition, these teams have responsibilities which align well with the reserving work e.g. calculating the Solvency II technical provisions and the Solvency Capital Requirement (SCR), actuarial compliance and maintenance of the tooling. All results and reports are discussed with the key stake holders, such as the Chief Financial Officer of the legal entity and the relevant SBUs, claim handlers, underwriters and finance departments. Actuarial takes their feedback and comments into account, but ultimately remains independent of these stakeholders.

The Actuarial function also determines the reserves and required capital using the Standard Formula SCR and the Internal Model. This is a process centrally led by the Group Chief Actuary where the AISE local actuarial team works closely together with AISE's Capital & Performance Modelling Manager and the Group Reserving team. The AISE Lead Actuary and AISE's Capital & Performance Modelling Manager advise the AISE Board and report to the Reserving Committee and Risk Committee on reserve and risk related subjects. The Group Chief Actuary reports directly to the Chief Finance & Operations Officer of MS Amlin plc but also has access to Non-Executive Directors of the Group and the AISE legal entity.

B.7 Outsourcing

B.7.1 Description of the outsourcing policy

External outsourcing

Outsourcing of critical or important functions and activities

As an MS Amlin Group company, the MS Amlin Outsourcing Policy (the policy) is applicable to AISE. The policy outlines the approach and regulatory requirements to be considered to both the third party service provider selection and the management of outsourcing agreements. The policy applies to all new and existing outsourcing agreements.

AISE has outsourced the provision of certain critical or important operational functions and activities which are listed in subsection B.7.2 of this report. The test as to what is critical or important is if any defect or failure in the performance of the outsource provider would materially impair AISE's:

- Continued compliance in accordance with the terms of its authorisation;
- Other obligations under its regulatory system;
- Financial performance; and
- Soundness or continuity of its services and operations.

Policy requirements

The policy requirements are set to undertake the outsourcing of critical or important operational functions and activities in such a way as to:

- Assure the quality of AISE's internal controls;
- Assure the quality, confidentiality and control of services provided to the clients;
- Enable the appropriate regulator to monitor AISE's compliance with all obligations under the regulatory system;
- Conduct an appropriate level of due diligence on the supplier of the services outsourced to assure the provisions of the services on an on-going basis;
- Conduct the minimum standards of due diligence for Material Outsourcing as defined in MS Amlin's Outsourcing Standard which also applies to AISE;
- Enter into appropriate written contracts for all outsourcing, and in accordance with MS Amlin's Legal Policy and Standard which also applies to AISE;
- Record material outsourcing on a register maintained by the Sourcing and Vendor Management function;
- Ensure robust due diligence is undertaken and that there is an appropriate level of internal challenge and approval prior to the ultimate decision for the outsourcing to proceed;
- Inform the Group General Counsel for guidance on regulatory communications prior to entering into a material outsourcing arrangement;
- Notify the relevant regulators of any new material outsourcing or any material changes to existing material outsourcing agreements;
- Utilise the MS Amlin Sourcing and Vendor Management function to support the commercial and contracting discussions prior to entering into or materially amending an outsourcing agreement; and
- Ensure an acceptable level of rigour and governance is maintained for the oversight, relationship management and risk management of the outsourced service and its suppliers to ensure that the interests and assets of AISE and its policy holders remain protected.

Implementation, monitoring and management of the outsourcing

AISE is responsible for implementing, monitoring and managing its outsourcing arrangements on an on-going basis to ensure the quality and efficiency of the outsourced services or functions. This is assured by:

- The Strategic Business Unit or Function reporting to the supported entities on an agreed basis and in an agreed manner sufficient to meet the entity's responsibilities;
- A register kept of all AISE's material outsourcing arrangements and the supported entities for each agreement which is provided to Sourcing and Vendor Management at least annually;
- The right from the Compliance or Internal Audit teams to audit the monitoring and management processes of critical or important outsourcing providers;
- The appointment of a functional head or similar grade for each material outsourcing agreement, who retains responsibility for ensuring all regulatory responsibilities are met by the supplier;
- Agreeing the Terms of Reference for the implementation, monitoring and management of the relationship and performance of the outsource service provider.

Expected or unexpected termination and other service interruptions

As part of the MS Amlin Group, AISE must have contingencies in place for dealing with expected or unexpected service interruptions from its outsourcing arrangements and must ensure the service provider and/or the business has adequate contingency plans to deal with emergency situations or business disruptions. AISE must comply with MS Amlin's Business Continuity Management Policy and Business Continuity Management Standard for all material outsourcing agreements.

Renewing outsourcing agreements

Not less than every two years, AISE has processes in place to:

- Review the financial health, business continuity plans and exit plans of AISE's critical and important outsource providers;
- Review the appropriateness of written agreements (both term-based and continuous) at the point of renewal or at least not less frequently than every two years;
- Report any issues identified or encountered appropriately to the entity Boards that benefit from the outsourcing.

Outsourcing of underwriting activities

Material outsource vendors for underwriting are monitored and managed through the Binder Control Framework, with data-exchange, audits, market scans and delegated authorities.

Intra-group outsourcing

Underwriting activities

Underwriting activities outsourced to another MS Amlin Group company are not within the Binder Control Framework but in all cases there is a signed General Binding Agreement in place. Pool agreements are renewed yearly.

Centralised support functions

MS Amlin Corporate Services Ltd (MS ACS) provides assets and services from its personnel to AISE and other Group companies with appropriate skills and qualifications, e.g. legal, actuarial, investments, accounting, etc. MS ACS as a legal entity does not provide any professional or regulated services itself.

The individuals employed by MS ACS provide services to AISE under the direction and supervision of the AISE management and Board either directly or through the centralised service functions established at Group level, and these individuals are accountable to the entities. MS ACS has contracted with AISE to deliver suitably qualified personnel, and the service levels to be delivered by the personnel supplied are agreed on a case-by-case basis as appropriate. The quality of the services delivered is monitored at Group level and performance information is provided to the AISE Board and management. The Group Head of Service Management serves as an initial escalation point if needed to resolve service issues with further escalation to the Group Executive Committee if necessary.

In substance the above means that AISE is serviced by centralised support functions through a commissioning model as explained in paragraph 'AISE's operating structure' in section B.1.1 of this report.

B.7.2 Outsourced key functions or activities and their local jurisdiction

AISE is currently utilising several service providers for the outsourcing of certain critical or important operational functions or activities on its behalf. Details of the outsourced key functions and activities and the jurisdiction in which the service providers of these functions and activities are provided below:

Description of outsourced key functions or activities	Jurisdiction
External outsourcing	
Delegated underwriting activity for specialised products in all business lines	The Netherlands
Equity Investment Manager (two separate service providers)	Both in the United Kingdom
Fixed Income Investment Manager (six separate service providers)	All in the United Kingdom
Global Real Estate Investment Manager	United Kingdom
Currency Manager mitigating and managing currency exposures within pre-set bandwidths	United Kingdom
End to end Claims outsource for motor insurance	Belgium
IT infrastructure provider for hosting managed network, workplace and service desk services	United Kingdom
HR managed pay roll services	Belgium, France, Germany and The Netherlands
Internal outsourcing	
MS Amlin service provider acting as delegated underwriting authority for specialised P&I, Hull, Cargo and Cargo liability products	The Netherlands
MS Amlin Group company providing personnel and infrastructure services	United Kingdom

B.8 Any other information

No other material information regarding AISE's system of governance has been identified.

Section C:

Risk profile

(unaudited)

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Section C: Risk profile

Section C presents AISE's risk profile. In describing the risk profile MS Amlin's Risk Management Framework is adhered to. Every risk category identified in MS Amlin's Risk Management Framework (insurance, market, credit, liquidity, operational, and strategic risk) is explained by means of a description of the:

- Risk exposure (including off-balance sheet positions);
- Material risk concentrations;
- Measures used to assess these risks;
- Outcomes of sensitivity analysis; and
- Risk mitigation techniques used (including a description of monitoring activities).

The description includes exposures at year end as well as developments in exposure during the year. The tables and diagrams contain AISE specific data unless otherwise stated. Besides risk categories in MS Amlin's Risk Management Framework no other risk categories have been identified.

Each subsection is constructed in the same manner. First the risk definition and appetite are provided for the risk category and subcategories, followed by an explanation for each subcategory of risk exposures and concentrations, outcomes of sensitivity analyses and a description of mitigation techniques.

Methods and assumptions are used for measuring exposures and concentrations, and sensitivity analyses applied to multiple risk categories. Therefore this introduction presents the methods and assumptions used. The exposures and concentrations, and outcomes of sensitivity analyses are presented in subsections per risk category.

Exposures and concentrations

As referred to in section B.3, in addition to the Standard Formula AISE measures its exposures and concentrations through the use of a stochastic Internal Model. The outcome of the Internal Model is an internal capital measure per risk category and an overall capital measure. The Internal Model aggregates exposures taking into account the reducing impact of the associated mitigation strategies. Exposures and concentrations are measured on a single Occurrence Exceedance Probability basis (OEP) as well as an Aggregated Exceedance Probability basis (AEP). Modelled exposures are monitored quarterly and reported to AISE's Risk Committee. The exposures and concentrations in this section are presented based on the Internal Model. Furthermore deterministic in force exposure figures are used in addition to modelled recoveries output from the Internal Model.

Sensitivity analysis

AISE has an established stress, scenario and sensitivity testing framework to assess its risk profile. Testing is carried out on the business plans and capital projections (as part of the ORSA process) of the business. The process seeks to challenge assumptions made and calibrations used in determining the expected business plan, as well as to evaluate the financial robustness of AISE in extreme circumstances. The process also challenges or improves management's preparedness for extreme events. On an ad hoc basis stress and scenario analyses are performed via the risk assessment process or via deep-dives into a specific risk category. The stress and scenario analyses combine multiple risk categories.

For the design of sensitivity analyses information is taken from the following sources:

- Subject matter experts view of our business model;
- Risk and control assessments and risk ranking;
- Risk event and near miss information;
- Emerging risks;
- Market knowledge; and
- Historic data and experience.

Sensitivity analyses can be grouped in five categories as presented in below table. For each type of tests the impact is assessed in line with risk appetite. The impacted parameters can all be traced back to the profit or loss account, balance sheet or capital requirements.

Risk mitigation techniques

For each category of risk there are mitigation techniques in place as presented in the subsections. These techniques are unique for every category, but they do follow a standardised pattern. For each category at least the following are in place:

- Policies, procedures and standards;
- Tolerance, limit setting and performance monitoring;
- Stochastic modelling;
- Scenario analysis; and
- An Internal Control Framework.

Type	Explanation	Process	Frequency
Realistic Disaster Scenarios (RDSs)	Monitors in force exposures to specific event scenarios	Business planning, ORSA	Quarterly
Sensitivity analysis	Assessment of standardized change in a single parameter	Business planning, ORSA internal model validation	Annually
Stress testing	Assessment of severe change in a single parameter	Business planning, ORSA, internal model validation	Multiple times on different occasions
Scenario analysis	Assessment of standardized and severe change in multiple parameters	Business planning, ORSA, internal model validation	Multiple times on different occasions
Reverse stress testing	Multiple parameters to stress risk of discontinuity of business activities	ORSA, capital strategy, recovery plan	Annually

C.1 Insurance risk

AISE defines insurance risk as the risk of loss arising from the inherent uncertainties in the occurrence, amount and timing of insurance liabilities and premiums. This includes reserving risk or claims arising on business written prior to the year in question. The scope of insurance underwriting risk includes underwriting, catastrophe, reserving, claims and the mitigation effect of reinsurance (excluding reinsurance credit risk).

C.1.1 Risk definition and appetite

Insurance risk consists of two core components, namely underwriting risk and reserving risk.

Underwriting risk

Underwriting risk relates to risk from both expected and unexpected attritional loss, which can be caused by inadequate pricing, terms and conditions and/or unexpected claims frequency, and catastrophe losses from large natural or non-elemental events such as earthquake, hurricane or terrorism threats.

AISE has a positive attitude to underwriting risk and accepts that there will be claims arising from all areas of its insurance risk profile. The appetite for risk is governed by the amount of business that meets our pricing requirements but also by the capacity determined by AISE's capital base and reinsurance arrangements. AISE aims to achieve a diversified balance of exposures across lines of business and territories.

Reserving risk

Reserving risk relates to the possible inadequacy of claims provisions. Specifically, it relates to the uncertainty that technical provisions are adequately accounted for, taking account of fluctuations in claim settlements.

AISE has adopted a balanced approach to reserving risk, which is an unavoidable consequence of underwriting a portfolio of business where claims may develop after the policy period has elapsed. AISE's appetite is governed by a policy which ensures that reserves (technical provisions under Solvency II) are carried above the actuarial best estimate of future outcomes by adding a risk margin. Classes of business which have a higher level of uncertainty of potential development will naturally carry a higher level of reserve provision. AISE does not discount reserves to take account of the investment return generated by premium or reserves held for future claims payments and takes consideration of likely cash flow requirements when investing carried reserves.

C.1.2 Underwriting risk

Exposure and concentrations

AISE has a portfolio of property and marine insurance that has exposure to weather and earthquake exposures as well as non-elemental perils such as industrial accidents. Primary underwriting risk concentration is derived from:

- Natural perils such as windstorm, flood, fire and earthquake;
- Large loss man-made events such as terrorism, cyber, industrial accidents (e.g. oil spills);
- Large risks such as shipyards and construction;
- Correlated liability coverage such as professional liability coverage for medical practice.

The following table presents AISE's five largest underwriting class exposures as per year end 2016 based on the stochastic Internal Model.

2016 rank	Class
1	BE Property – Fire
2	FR Property – Excess & Surplus
3	FR Property – Specialty
4	NL Property – Fire
5	GE Property

The underwriting risk is dominated by the property classes as they tend to have the bigger exposures with regards to line size. They are also exposed to accumulations from catastrophes, and the reinsurance retentions for these classes are higher than the liability classes so that more risk is retained on a net basis.

Stress testing

For underwriting risk the following specific sensitivity analyses are performed; Realistic Disaster Scenarios and stress testing.

Realistic Disaster Scenarios (RDSs)

The table below presents the results from the RDSs with the largest exposures as at year end 2016. Data is given both gross (excluding reinsurance recoveries) and net (including reinsurance recoveries).

	31 December 2016		
Event	Gross loss €000	Net loss €000	Net tolerance €000
EU Windstorm – France, Belgium, The Netherlands	126,949	34,162	57,000
EU Windstorm – Lloyd's €25bn	116,981	13,284	57,000
EU Windstorm – Paris, Munich	72,300	22,382	57,000
EU Windstorm – Bordeaux, Munich	71,510	22,132	57,000
EU Windstorm – UK, Denmark	36,533	4,775	57,000

The exhibit above shows an approximate standalone impact from each event on profitability. It should be noted this exhibit does not take into account the potential for any additional reserve releases or other management actions that may be applied in the ordinary course of business leading up to or following an event.

Scenario testing

AISE has a suite of stress tests used for model validation, challenging business perception and business planning assumptions, shaping tolerances and to assess capital adequacy. The following selection of tests has been made from the tests completed in 2016 in relation to underwriting risk.

- Repeat of largest incurred loss; in this test the impact of the largest annual loss as actually happened in the year 2011 is tested. This is a combination of a series of large losses and investment losses.
- Catastrophe loss 1 in 10; in this test a loss which represents a catastrophe with a likelihood of 1 in 10 years is modelled.
- Increase liability losses; in this test an unforeseen increase in losses in liability classes is modelled.

- Cyber event; the introduction of a new product which covers cyber risk. In this test a large cyber event is modelled which impacts our underwriting performance.
- Reverse stress test; in this test a cluster of three windstorms in Europe is modelled, resulting in a net loss and an increase in reinsurance recoveries. The third event has no protection from reinsurers. In addition there is a reserve increase for the Marine and Property portfolios, an investment loss, and a fine for a breach of competition law.

The results of the RDSs and stress tests are compared with AISE's risk appetite and target capital outlined in AISE's Capital Management Strategy. Based on these analyses no additional measures are required.

Mitigation techniques

In addition to the risk management process outlined in section B.3.1, this section discloses mitigation techniques specifically implemented for underwriting. Monitoring results are reported to AISE's Risk Committee on a quarterly basis:

- **Strategy and business planning**. As part of business planning, strategy is elaborated into plans for the coming year. In these annual plans resources are directed to those businesses which create the most desirable expected loss costs and ultimate loss ratios during the underwriting year. The goal is to realise profitable growth;
- **Policies, procedures and standards**. The underwriting policy assures consistency across underwriting activities within AISE;
- **Tolerance, limit setting and performance monitoring**. Strategy is aligned to a risk appetite and tolerances. For every insured class there is a maximum line size, exposure, and monitoring program (using stochastic modelling). Furthermore there are underwriting authority limits and guidelines for individual underwriters in place;
- **Reinsurance**. The main instrument for risk mitigation of insurance risk is the use of reinsurance facilities. Within MS Amlin reinsurance treaties are normally purchased through Syndicate 2001 for all entities of the Group including AISE although AISE's fleet and engineering programmes continue to be protected on an entity specific basis. AISE may also purchase facultative reinsurance for specific risks;
- **Technical pricing and modelling**. Technical pricing takes account of hazards so premiums are adequate and exposures are contained within tolerances. Furthermore, stochastic modelling is used to estimate exposures to assure sufficiency of the best estimate and for price setting.

C.1.3 Reserving risk

Exposure and concentrations

AISE operates an actuarial led reserving process to estimate the reserves on a best estimate basis. Reserving risk exposures and concentration are identified through the use of the Internal Model. Volatility in forecast reserve requirements are monitored versus technical provisions on a quarterly basis. Given their long tail nature, AISE's portfolio of casualty classes dominates the reserving risk profile. Primary classes driving exposure are: General, Medical, Casualty, Motor and Professional Indemnity. The following table presents AISE's five largest reserving exposures as per year end 2016.

2016 rank	Class
1	NL Liability – General Third Party Liability
2	BE Liability – Medical
3	BE Liability – Non-Medical
4	NL Liability – Protection and Indemnity
5	NL Fleet – Liability

The reserving risk is dominated by the Liability classes and the top five classes are consistent with the classes which have the biggest gross reserves. Recent large reserve releases for the marine classes mean that none of these are now on the above list, whereas previously they would have been.

Scenario analysis

For reserving risk scenario analysis is performed. The following selection of tests has been made from the tests completed in 2016 in relation to reserving risk:

- Reverse of prior year reserve releases; in this test an increase in reserves for Marine is modelled. In addition no profits are made;
- Reserve deterioration by 10% of total carried best estimate reserves (excluding margin).

The results of the scenario analyses are compared with AISE's risk appetite and target capital outlined in AISE's Capital Management Strategy. Based on these analyses no additional measures are required.

Mitigation techniques

In addition to the risk management process outlined in section B.3.1, this section presents mitigation techniques specifically implemented for reserving risk. Monitoring results are reported to AISE's Risk Committee on a quarterly basis:

- **Process and governance** – AISE operates a consistent, actuarially driven process quarterly to assess that appropriate level of reserves are carried, taking account of the characteristics and risks of each class of business, to arrive at a best estimate. The best estimates are subject to challenge and review by management and the AISE Audit Committee on behalf of the AISE Board.
- **Policies and procedures** – consistent claims processes and accurate case reserve setting aims to ensure that adequate provision is established for advised claims.
- **Tolerance setting and monitoring** – a tolerance is set for reserving as the minimum probability of carried reserves being in excess of liabilities of at least 65%. This sufficiency of reserves is monitored on a quarterly basis via the Internal Model.
- **Risk margin** – an additional margin is proposed by management which aims to reflect the level of underlying risk and to achieve the minimum required tolerance level to determine the carried reserves. The reserve margin basis ensures year-on-year consistency in carried reserves.
- **Reinsurance** – the reinsurance programme responds to large loss developments from prior years.

C.2 Market risk

AISE defines market risk as risk arising from fluctuations in values of, or income from, assets, interest rates, currency exchange rates, market prices, and investment returns. In addition to the description of market risk, this section explains how AISE adheres to the prudent person principle.

C.2.1 Risk definition and appetite

Market risk is divided into two subcategories; investment market volatility and currency fluctuation.

Investment market volatility

This is the risk of loss resulting from fluctuations or volatility of market assets and in the value of financial securities, either directly or indirectly. This category includes investment counterparty risk. AISE has a positive attitude to investment market volatility risk, constrained by a desire to limit the potential downside risk to the value of carried assets to within a maximum tolerance. Premium and reserve investments are limited by the liquidity requirements of meeting claims as they become payable. Investment counterparty limits apply to ensure adequate diversification within the portfolio and to restrict investments in assets considered risky by MS Amlin's standards.

Currency fluctuation

Currency fluctuation is the impact on the value of balance sheet items or earnings arising from movements in the market prices of the euro against other currencies. Besides Euro (EUR) denominated exposures, AISE holds material exposures in US dollars (USD) and British Pound Sterling (GBP). AISE has a balanced attitude to currency risk, which is an unavoidable consequence of holding balance sheet assets, premiums and liabilities in foreign currencies.

C.2.2 Prudent person principle

The prudent person principle provides guidelines for undertakings about how to manage their investment strategy. Undertakings should only conduct investment management activity as long as they can reasonably demonstrate an appropriate level of understanding of the underlying investment (i.e. the ability to look through into individual positions), is able to monitor its investments (counterparty monitoring) and can justify its investments as prudent to policyholders.

The MS Amlin Investment Management function is responsible for the day-to-day management of AISE's investments and operates within the Investment Governance Framework and the Group Investment Policy, Standards and Investment Guidelines. MS Amlin Investment Management only invests in assets and instruments whose risks can be identified, measured, monitored, managed, controlled and reported. AISE's investment objective is to optimise long-term risk adjusted returns keeping in mind the interests of policyholders.

AISE's policyholder assets (backing technical provisions) are managed against a low appetite for risk, with assets held in funds which invest in money market funds and a mix of bonds, derivatives and currencies. Because liquidity is a priority for policyholder funds, AISE employs duration matching between asset and liability currencies. The management of policyholder funds is in line with the prudent person principle.

C.2.3 Investment market volatility

Exposure and concentrations

AISE's asset allocation is presented below per asset class based on a Solvency II basis.

	31 December 2016	
Solvency II asset class	Investment mix €000	Investment mix %
Collective investment undertakings (excl. Property)	881,425	68.1%
Property	113,075	8.8%
Equities	154,265	11.9%
Bonds	120,158	9.3%
Derivatives	1,246	0.1%
Cash and deposits	23,604	1.8%
Total assets invested	1,293,773	100.0%

Market concentration risk can result from holding unbalanced levels of securities in asset classes, currencies, political domiciles or other counterparties. Concentration risk is managed by assuring AISE's portfolio is well-diversified across multiple asset classes and multiple regions and is managed to tolerances that prohibit excessive market and credit risk concentrations in line with the prudent person principle.

Scenario analysis

Scenario analysis is performed for investment market volatility risk. The following selection of tests has been made from the tests completed in 2016:

- Strong deflation; models developed markets inflation persistently below 0%.
- Russian Default 1998; sharp fall in the Rouble and default in Russian Rouble denominated bonds leads to losses for hedge fund arbitrage positions, causing systemic risk.
- 9/11; a repeat of the terrorist attacks on the World Trade Center and the Pentagon in the US that leads to a sharp drop in equities.
- Repeat of financial crisis; in this test an investment loss is modelled. In addition a one notch credit downgrading for AISE's portfolio is modelled resulting in an increased spread risk capital requirement.
- Strong inflation; in this test an investment loss is modelled. In addition reserve inflation is modelled resulting in an extra loss.
- 2004 interest rate hike; the Fed initiated a surprisingly strong interest rate hiking cycle.

The results of the scenario analysis are compared with AISE's risk appetite and target capital outlined in AISE's Capital Management Strategy. Based on these analyses no additional measures are required.

Mitigation techniques

In addition to the risk management process outlined in section B.3, this section presents mitigation techniques specifically implemented for investment market volatility risk. Monitoring results are reported to AISE's Risk Committee on a quarterly basis.

- **Strategic asset allocation.** Investment opportunities are evaluated taking into consideration risk and reward, liquidity, and effects on capital requirements in relation to solvency requirements. Exposure to market risk is therefore limited to the extent that investment strategies are balanced by these primary objectives.
- **Policies, procedures and standards.** The investment policy aims to maximise risk-adjusted investment return in relation to an agreed risk budget.
- **Tolerance, limit setting and performance monitoring**. Strategy is aligned to a risk appetite and tolerances. For every asset class there is a maximum line size, exposure, and monitoring program.
- **Stochastic VaR monitoring**. Exposure is assessed using a stochastic model taking into account a one month VaR of 99.0% in line with industry practices and a one year VaR of 99.5% in line with regulatory reporting requirements.
- **Scenario and stress tests**. Within a stochastic model the assumptions may not hold in times of crisis. We recognise this limitation by performing additional scenario and stress tests.
- **Sub-advisor monitoring** – a spread of sub-advisors is appointed to carry out asset selection within the asset class they specialise in. Each sub-advisor has discretion to manage the funds on a day-to-day basis within their Investment Guidelines or Mandates. These are designed to ensure that their investments comply with the Investment Frameworks.

C.2.4 Currency fluctuation risk

Exposure and concentrations

The next table presents the year-end exposures in USD and GBP. The total balance sheet is presented based on Solvency II valuation methods and in AISE's functional currency being the EUR. Total liabilities against the balance sheet are presented including technical provisions and excluding own funds. The USD exposures mainly relate to M&A due to the international business. The GBP exposure mainly results from positions and transactions with other MS Amlin Group companies.

	31 December 2016		
Value by currency	Total balance sheet €000	USD €000	GBP €000
Total assets	1,480,377	94,476	28,727
Total liabilities	1,025,718	98,807	23,165

Sensitivity analysis

For currency fluctuation risk there are no sensitivity analyses performed.

Mitigation techniques

In addition to the risk management process outlined in section B.3.1, this section presents mitigation techniques specifically implemented for currency fluctuation risk. Monitoring results are reported to AISE's Risk Committee on a quarterly basis.

- **Hedging** – balance sheet exposure is hedged by matching assets and liabilities in AISE's key currencies EUR, USD and GBP;
- **Stochastic modelling** – is utilised to identify and report on the exposure;
- **Asset liability matching** – policyholder claim liabilities (duration and currency) are matched as closely as possible.

C.3 Credit risk

AISE defines credit risk as the risk of loss, or adverse change in the financial situation, resulting from fluctuations in the creditworthiness of issuers of debt securities, counterparties and any debtors to which AISE is exposed, in the form of counterparty default risk, or counterparty spread risk, or counterparty market risk concentrations. Credit risk could therefore have an impact upon AISE's ability to meet its claims and other obligations as they fall due and upon the investment return. Counterparties include reinsurers, brokers, cover holders, insured, finance houses and investment counterparties.

C.3.1 Risk definition and appetite

Credit risk is divided into two subcategories; reinsurance credit risk and broker credit risk.

Reinsurance credit risk

Reinsurance credit risk is the risk of loss if a reinsurance company fails to perform its obligations or fails to perform them in a timely fashion. AISE has a balanced attitude to reinsurance credit risk, which emanates from use of reinsurance to increase AISE's risk capacity and to protect AISE against severe catastrophe events and significant risk losses.

Broker credit risk

AISE defines broker credit risk as the risk of loss if an insurance or treasury intermediary fails to meet credit obligations in a timely fashion. AISE has a balanced attitude to intermediary credit risk. AISE recognises that brokers need to collect both premiums and claims as part of their services, and sets limits according to broker financial strength to control exposure for each counterparty.

C.3.2 Reinsurance credit risk

Exposure and concentrations

AISE monitors every quarter if exposures and concentrations are within risk appetite. Deterministic and stochastic tolerances apply.

There are deterministic tolerances applicable at Group level for each reinsurer reflecting MS Amlin internal credit ratings assigned by the Reinsurance Security Committee. Per reinsurer limits apply on a single loss basis and to aggregate exposure across all programmes written.

The chart below shows in force reinsurance aggregate exposure (assuming one total loss for each contract written) across all treaty programmes protecting AISE with effect from 1 January 2017, broken down by financial strength rating.

As reinsurance contracts are purchased and managed at the Group level, reinsurance credit risk stochastic Internal Model tolerance analyses are also performed at the MS Amlin Group level. The two most important analyses performed for reinsurance credit risk in 2016 were exposure based on a 1 in 50 year event and exposure based on a 1 in 200 year event. No tolerances have been breached.

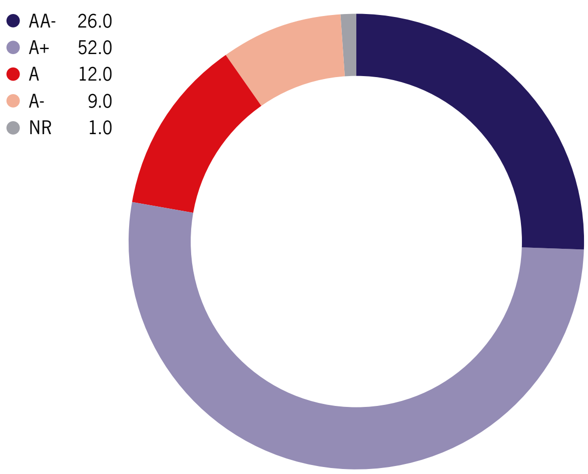
Sensitivity analysis

Reinsurance credit risk is considered in applicable stress and scenario tests conducted for purposes of business planning, risk appetite development and validation of the Internal Model.

The quarterly RDS process provides a regular opportunity to monitor potential for single event clash between programmes written by a single reinsurer. RDS scenarios consider the impact of a wide range of first and second events in peak peril regions. There were no breaches of reinsurer single event tolerances during 2016. The assumptions used within the RDS process include a provision for reinsurance credit risk based on each reinsurer's MS Amlin internal credit rating.

The results of the sensitivity analyses are compared with MS Amlin Group's and AISE's risk appetite and target capital outlined in AISE's Capital Management Strategy. Based on these analyses no additional measures are required.

AISE in force treaty exposure as at 1/1/17 split by rating (%)



Mitigation techniques

In addition to the risk management process outlined in section B.3, this section presents mitigation techniques specifically implemented for reinsurance credit risk. Monitoring results are reported to AISE's Risk Committee on a quarterly basis.

- **Accreditation** – the Reinsurance Security Committee is responsible for reinsurer accreditation and (approval of new reinsurers and review of existing reinsurers);
- **Policies, procedures and standards** – procedures for the approval of new reinsurers, review of existing reinsurers and use of unapproved reinsurers on an exception basis are set out in the MS Amlin Reinsurance Security Standard and associated process document;
- **Tolerance, limit setting and performance monitoring** – the business seeks to manage and monitor exposures to reinsurance companies by a number of risk tolerances across the risk category;
- **Stochastic modelling** – is utilised to report on modelled reinsurance recoveries;
- **Reinsurer review process** – takes account of the latest available full year financials, comparison with MS Amlin Group recommended standards, rating agency input, recent developments, and background information;
- **Debt control** – reinsurance debt credit control is carried out to limit outstanding balances owed by counterparties. Credit risk is controlled by applying maximum in force exposure limits applicable to each reinsurer, linked to their ability and willingness to pay claims;
- **Cross entity cost sharing and loss usage** – there is an MS Amlin Group protocol for cross entity (including AISE) cost sharing and loss usage in place for the allocation of reinsurance credit cost and losses;
- **Claims management** – AISE's claims management process is designed to pursue and secure claims recoveries in an efficient manner.

Section C: Risk profile
continued

C.3.3 Credit risk

Exposure and concentrations

The table below presents the breakdown at 31 December 2016 of the exposure of the bond portfolio, liquidity funds and insurance and reinsurance receivables by credit quality. The table includes credit risk exposures to reinsurers, brokers, cover holders, insured and finance houses.

Premium receivables representing amounts due from policyholders are not graded, but based on historical experience there is limited default risk relating to these amounts. Reinsurance receivables have been allocated rating bands based on assigned financial strength ratings.

Premium credit risk is managed through a number of controls including broker approval, annual financial review and internal rating of brokers and regular monitoring of premium settlement performance. There have been no material changes over the reporting period.

Sensitivity analysis

For broker credit risk there are no sensitivity analyses performed. After managing our exposures to brokers via the debt control process the residual risk is no longer significant.

Mitigation techniques

In addition to the risk management process outlined in section B.3.1, this section presents mitigation techniques specifically implemented for broker credit risk. Monitoring results are reported to AISE's Risk Committee on a quarterly basis.

- **On-boarding** – local broker committees are responsible for broker accreditation and on-boarding (approval of new brokers);
- **Policies, procedures and standards** – policies and standards are in place to explain the process of on-boarding, broker review, debt control and claims management;
- **Tolerance, limit setting and performance monitoring** – the business seeks to manage and monitor exposures to brokers by a number of risk tolerances across the risk category;
- **Broker review process** – takes account of the latest available full year financials, comparisons with MS Amlin Group recommended standards, recent developments, and background information;
- **Debt control** – broker debt credit control is carried out to limit outstanding balances owed by counterparties. Credit risk is controlled by maximum exposure limits applicable to each broker, linked to their ability and willingness to pay claims;
- **Claims management** – AISE's claims management process is designed to pursue and secure claims recoveries in an efficient manner.

C.4 Liquidity risk

Liquidity risk refers to the risk that sufficient financial resources are not available to meet liabilities as they fall due. That is, the risk that cash is not available to pay claims or other key financial commitments. In addition to the description of liquidity risk, this section presents the impact of expected profit in future premiums.

C.4.1 Risk definition and appetite

The scope of liquidity risk includes managing unexpected changes in funding sources, market conditions and cash flow planning incorporating asset-liability management. AISE has a negative attitude to liquidity risk and seeks to avoid any situation where funds are not available to meet claims as required because this would have significant reputational and regulatory impact. The Company recognises its duty to pay claims promptly and that this could result in heavy cash flow demands in the event of catastrophe claims. AISE ensures the availability of sufficient funds to cover any claims from such events and the combination of other adverse circumstances which may give rise to short term cash requirements in excess of AISE's available liquid funds. It should be noted that AISE is ultimately backed by the financial security of the MS Amlin Group.

C.4.2 Exposure and concentrations

Responsibility for cash management and the allocation of assets to ensure appropriate liquidity is delegated to the MS Amlin Investment Management function. AISE therefore aims to ensure its investment portfolios are sufficiently liquid to allow its liabilities to be settled. The prudent person principle, as described in paragraph C.2.2, is applicable to managing liquidity risk.

Liquidity risk can result from having concentrations of assets in:

- An institution or institutions that can no longer meet their financial obligations to honour payment instructions from AISE; or
- Financial instruments that cannot be liquidated quickly.

AISE periodically monitors its liquidity ratio as part of the risk appetite monitoring process. The ratio as at year end 2016 is well above the tolerance of 100%. There are no issues to report in relation to the overall liquidity risk profile.

It is important that AISE can pay its obligations as they fall due. Levels of cash are therefore managed on a daily basis and buffers of liquid assets are held in excess of the immediate requirements. This is to reduce the risk of being forced sellers of any of AISE's assets, which may result in realising prices below fair value, especially in periods of abnormal asset liquidity.

31 December 2016	Debt securities €000	%	Liquidity funds €000	%	Insurance and reinsurance receivables €000	%	Reinsurers' share of outstanding claims €000	%
AAA	32,324	3.7%	125,824	100.0%	6,884	3.6%	–	–
AA	449,988	51.4%	–	–	12,300	6.5%	82,949	47.5%
A	243,801	27.9%	–	–	42,136	22.2%	33,884	19.4%
BBB	137,629	15.7%	–	–	1,037	0.5%	204	0.1%
Other	11,060	1.3%	–	–	127,213	67.1%	57,500	32.9%
	874,802	**100.0%**	**125,824**	**100.0%**	**189,570**	**100.0%**	**174,537**	**100.0%**

AISE funds its insurance liabilities with a portfolio of cash and debt securities exposed to market risk. The chart presented below shows AISE's liquidity profile. The chart below demonstrates that 91% of AISE's assets can be liquidated within four days in normal market conditions.

C.4.3 Sensitivity analysis

Liquidity scenario testing is done annually against the catastrophe exposure using the Internal Model. In addition, the business monitors how quickly it can liquidate its financial assets and, according to the latest analysis, AISE is able to liquidate 90% of its portfolio within four days of instruction under normal market circumstances as demonstrated in the previous subsection. These results indicate that AISE is well funded and positioned to handle multiple loss events before liquidity becomes an issue.

C.4.4 Mitigation techniques

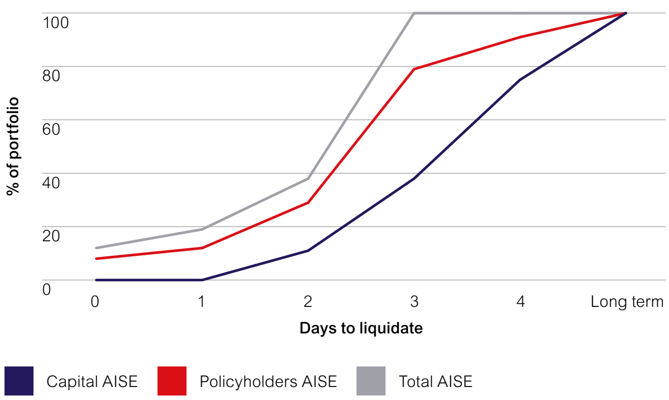
Mitigation of liquidity risk is done via cash management and Asset-Liability Management:

- Cash management is performed at the Group level at a daily basis. The rapid collection of reinsurance recoveries following settlement of major claims is a key priority within cash management;
- Durations of assets and liabilities in currencies are matched to ensure a strong liquidity position via Asset Liability Management (ALM).

C.4.5 Impact of expected profit in future premiums

Any profits expected from premiums that have not yet materialised but are expected in future periods are utilised in business planning and amounted to €60.0 million as at year end 2016 on future expected premiums of €303.0 million. AISE is aware of the risk of falling short of either the expected profit or the level of future expected premiums, both of which can contribute to liquidity risk if large enough. AISE's capital position is strong and liquid enough to absorb shocks of this magnitude and no material liquidity issues are expected to arise if the level of expected profits from expected future premiums is not met.

Liquidity profile



C.5 Operational risk

AISE defines operational risks as the risk resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risk includes regulatory control failures and cyber risk.

C.5.1 Risk definition and appetite

Operational risk is divided into five subcategories: people risk, process risk, systems and technology risk, legal and regulatory risk, and group structure related risk. Besides these categories operational risks within other risk categories are also taken into account.

AISE has a negative attitude to operational risk for all five categories. AISE does not wish to have any operational failures which may hinder trading or result in financial loss, or any regulatory sanction for inadequate compliance. It is recognised, however, that achieving complete certainty that such failures could not occur would entail an unacceptable cost.

People risk
The experience and expertise of AISE's staff is an important aspect of the business model and contributes to the strength of AISE's market franchise, the ability to underwrite profitably, and to fulfil policyholder expectations. Relationships with policyholders, investors, regulators and other external parties are all of equal benefit. Therefore, the loss of key people, who support and facilitate processes that support AISE's desired outcomes, is a risk to AISE. In addition, AISE is exposed to operational risk through the direct or indirect loss resulting from the inadequacy or failure of employees in executing their duties.

Process risk
Process risk relates to key processes which are integral to the delivery of AISE's strategy. Any failures or inefficiencies in these capabilities have the potential to cause loss or interruption to the business and potentially impact expected profit, as well as the potential to negatively impact AISE's ability to fulfil policyholder expectations. This category includes risks related to outsourcing, sourcing and vendor management, change management, data quality, financial and tax reporting, conduct and fraud risk.

Systems and technology risk
Systems and technology risks relate to the following aspects of AISE's operational environment: network availability, software, end user computing, business continuity management, information security and cyber risk.

Legal and regulatory risk
AISE operates within a legal and regulatory framework in many jurisdictions around the world and failure to operate within prescribed rules could result in investigations and sanctions through fines and limitations on future trading. This category includes governance, breach of competition law, sanctions, data protection, conduct risk, and new laws and regulations.

Group structure related risk
Risks faced by AISE that may arise as a result of MS Amlin's particular Group structure as explained in sections B.1.1 and B.7.1. This includes risks that arise through growth, acquisition or resource overstretch that could impact one or all entities included in the MS Amlin Group.

C.5.2 Exposure and concentrations

AISE uses a stochastic model to assess which operational risks to prioritise in its risk management system. The main operational risk drivers are legal and regulatory related; driven by the materiality of penalties for potential breaches and the increasing complexity of the regulatory environment.

The top five modelled operational risk drivers (presented below) remain diverse in nature. However over the past year there has been more emphasis on potential failed processes and systems. The risk drivers are ranked based on required operational capital using the internal stochastic model.

2016 rank	Class
1	Breach of Competition Law
2	Systemic Losses (more than one loss event arising from the same cause)
3	AISE suffers downgrade by rating agency
4	Underwriter writes unauthorised business
5	Non-compliance with sanctions regimes applying to AISE

C.5.3 Sensitivity analysis

Operational stress tests seek to identify management actions to mitigate exposure or to develop future management actions that would be utilised if the event was to occur. Recent operational stress tests have covered office outages, crisis management simulations and cyber-attacks. Where possible historic internal or external events are utilised to build simulations. Results showed the existing resilience and preparedness of AISE to such events.

C.5.4 Mitigation techniques

In addition to the risk management process outlined in section B.3.1 Risk management system, this section presents mitigation techniques specifically implemented for operational risks. Monitoring results are reported to AISE's Risk Committee on a quarterly basis.

- **Policies, procedures and standards** – the Operational Risk Standard ensures all significant operational risks are identified, assessed, evaluated, managed, monitored and reported in a consistent manner across the organisation. The Internal Control Framework explains the standards required for the ownership, operation and performance of internal controls. Besides these standards there are policies in place for managing business continuity, data quality, information security, outsourcing, and procurement;
- **Tolerance setting** – strategy is aligned to a risk appetite and tolerances. For every operational risk there is a maximum exposure (Key Risk Indicator, KRI) and monitoring program (Key Control Indicator, KCI);
- **Risk Management Framework** – the implementation of a framework for the identification, assessment and control of operational risks ensures that operational risks are understood and managed by the business;
- **Internal Control** – effectiveness of managing operational risk is measured via the Internal Control Framework. This framework measures operation of key controls in day to day operations;
- **Risk assessments** – the identified risks are assessed via discussions with the business and in so called periodic risk reviews and thematic deep dive assessments;
- **Risk events and near misses** – are reported to raise awareness and identify areas for improvement. AISE's risk appetite is used as the basis for evaluating risk events;
- **Scenario analyses** – are used to determine the level of regulatory and economic capital required to support the level of operational risk within the business;
- **KCI and KRI reporting** – takes place regarding actual residual risk exposure within risk appetite;
- **J-SOX** – preparation for aligning the operational risk environment with J-SOX.
- **Insurance coverage** – the MS Amlin Group purchases insurance protections for all subsidiaries to cover property damage, cyber risk, errors and omissions and fraud.

C.6 Strategic risk

AISE also considers material strategic risks. Strategic risks are defined as risks to current and prospective earnings or capital arising from adverse business decisions, improper implementation of decisions or lack of responsiveness to industry changes. These include risks associated with the appropriateness of business strategy in the face of the current and future commercial, political, legislative, and economic environment. Within AISE, strategic risks are considered to include those associated with acquisitions and divestments as well as ethical and reputational policies.

AISE has a positive attitude to strategic risk as it actively pursues ways of developing the business. AISE also faces a number of external factors which may impact demand for or supply of our products. These risks are analysed and actions agreed to adapt the strategic approach to cater for them.

This section explains risk exposures and concentrations and concludes with a description of mitigation techniques. In this section no outcomes of sensitivity analyses are given. Sensitivity analyses can all be grouped to one of the other risk categories as described in this chapter.

C.6.1 Exposure and concentrations

AISE recognises internal and external factors which can impact its business. Strategic risks are assessed and prioritised using likelihood versus impact analysis. We recognise several opportunities for managing these risks. Taking these opportunities support a stronger foundation of AISE's position in the market:

- AISE operates in highly competitive markets with market averages close to a 100% combined ratio. Under these competitive conditions achieving profitable growth is challenging;
- As a result of the Brexit vote there is a risk of losing passporting rights to the EU if AISE remains domiciled in the UK;
- Regulatory requests for information, such as Solvency II Pillar III, are increasing and there is a risk the costs to deliver will increase;
- Group governance is complex due to a matrix organisation of SBUs and legal entities potentially impacting decision making and execution of strategy.

C.6.2 Mitigation techniques

AISE has a strategy setting process in place to respond effectively to changes in the internal and external environment. The Board is closely involved in the strategy setting process. The aim of the process is to identify opportunities for growth through organic expansion and acquisition where market conditions allow. Once change and/or acquisition targets are secured, project teams need to successfully implement the corporate transaction and integration.

The strategy setting process serves as input for the ORSA process in which the strategy is assessed in relation to risks and solvency (as explained in section B.3.1). Outcomes are discussed and approved by the Board. Follow-up actions are recorded and monitored periodically in an improvement plan. This plan provides guidance to the risk management activities in the coming year.

Other key mitigation strategies, processes and controls are as follows:

- Trends in the external environment are regularly monitored including emerging risks which might arise on the longer term;
- Business plans are thoroughly considered and reviewed against the potential impact of external factors and developments;
- Long-term strategies are developed to diversify underwriting platforms;
- Due diligence and risk assessment processes are conducted for acquisitions;
- Risk event and near-miss reporting processes capture loss circumstances and actions to prevent recurrence;
- Strategic risks are reviewed and monitored at the AISE Board level.

C.7 Any other information

No other material information regarding AISE's risk profile has been identified.

Section D:

Valuation for solvency purposes

In this section
Pages 50 to 61

52 D.1 Assets
55 D.2 Technical provisions
59 D.3 Other liabilities
61 D.4 Alternative methods for valuation
61 D.5 Any other information

Section D: Valuation for solvency purposes

D.1 Assets

D.1.1 Solvency II valuation method and differences compared to IFRS per material asset class

Assets	Notes	As reported under IFRS €000	SII re–class €000	IFRS represented €000	SII valuation adjustment €000	SII balance sheet €000
Cash and cash equivalents	1	27,296	(3,692)	23,604	–	23,604
Investments (incl. participations)	2	1,268,760	1,409	1,270,169	–	1,270,169
Reinsurers' recoverables	3	211,821	–	211,821	(96,221)	115,600
Insurance, reinsurance and intermediaries receivables	4	189,569	–	189,569	(163,655)	25,914
Receivables (trade, not insurance)	5	29,196	(11,780)	17,416	(1,141)	16,275
Deferred acquisition costs	6	37,146	–	37,146	(37,146)	–
Deferred tax asset	7	12,686	–	12,686	13,406	26,092
Property, plant and equipment held for own use	8	2,723	–	2,723	–	2,723
Goodwill	9	28,843	–	28,843	(28,843)	–
Intangible assets	10	27,687	–	27,687	(27,687)	–
Total Assets		**1,835,727**	**(14,063)**	**1,821,664**	**(341,287)**	**1,480,377**
Total Technical Provisions (gross)		**1,113,116**	**–**	**1,113,116**	**(200,193)**	**912,923**
Total Other Liabilities		**203,012**	**(14,063)**	**188,949**	**(76,154)**	**112,795**
Excess of Assets over Liabilities		**519,599**	**–**	**519,599**	**(64,940)**	**454,659**

The above table shows the reclassification of assets from IFRS to Solvency II presentation, as well as Solvency II valuation adjustments, as at 31 December 2016.

The breakdown into asset classes in the above table is a summary of the Solvency II S.02.01 QRT. Set out below are the Solvency II valuation principles for material asset classes with a comparison to the corresponding IFRS valuation principles, if different.

1. Cash and cash equivalents

Cash and cash equivalents are defined differently under IFRS than under Solvency II. Under IFRS, cash equivalents are defined as short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Therefore under IFRS, an investment normally qualifies as a cash equivalent when it has a short maturity of three months or less from the date of acquisition. For Solvency II reporting purposes, cash equivalents are defined as deposits exchangeable for currency on demand at par and which are directly usable for making payments by cheque, draft, giro order, direct debit/credit, or other direct payment facility, without penalty or restriction. Bank accounts shall not be netted off, thus only positive accounts shall be recognised gross whilst bank overdrafts are shown on the liabilities side of the balance sheet. The different definitions have resulted in reclassifications of IFRS cash and cash equivalents to different asset categories for Solvency II reporting purposes, as well as the presentation of investments on a look-through basis. Cash and cash equivalents are measured at fair value under both Solvency II and IFRS.

2. Investments

Investments are recognised at fair value both under Solvency II and IFRS.

AISE classifies its investment securities either as fair value through profit or loss or available-for-sale. The classification drives how the financial instruments are measured under IFRS, though both are at fair value. Management determines the classification of its investment securities at initial recognition.

Under IFRS, AISE's investments are initially recognised at fair value and are subsequently re-measured to fair value at each reporting date. AISE's investments designated at fair value through profit or loss amounted to €1,269.1 million as at 31 December 2016. This amount includes Property funds of €113.1 million.

The available-for-sale investments of €1.1 million relate to equity stakes in certain investments that do not have a quoted market price and whose fair value cannot be measured reliably.

The valuation of Investments (including participations) under IFRS does not differ with Solvency II requirements. Therefore no valuation differences exist for investments. There were no significant changes to the valuation techniques during the year.

For Solvency II reporting purposes, AISE classified its Investments (including participations) into the three Solvency II levels of fair value hierarchy as follows:

Quoted market prices – Quoted prices (unadjusted) in active markets for identical assets or liabilities. An active market is a market where transactions for the asset occur with sufficient frequency and volume to provide readily and regularly available quoted prices.

Adjusted quoted market prices – Where the use of quoted market prices in active markets for the same assets or liabilities is not possible, the Company will value assets and liabilities using quoted market prices in active markets for similar assets and liabilities with adjustments to reflect differences. Those adjustments reflect specific and relevant factors such as:

(a) the condition or location of the asset or liability;

(b) the extent to which inputs relate to items that are comparable to the asset or liability; and

(c) the volume or level of activity in the markets within which the inputs are observed.

Alternative valuation methods – Inputs to a valuation model for the asset or liability that are not based on observable market data (unobservable inputs) and are significant to the overall fair value measurement. Unobservable inputs may have been used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date (or market information for the inputs to any valuation models). As such, unobservable inputs reflect the assumptions that market participants would use in pricing the asset.

At the reporting date, AISE's Investments (including participations) classified by hierarchy is as follows:

Investments classification under Solvency II	Quoted market prices €000	Adjusted quoted market prices €000	Alternative valuation methods €000	Total €000
Collective investment undertakings	881,425	–	113,075	994,500
Equities	153,194	–	1,071	154,265
Bonds	120,158	–	–	120,158
Derivatives	–	1,246	–	1,246
Total investments	**1,154,777**	**1,246**	**114,146**	**1,270,169**

Furthermore AISE has derivative financial instruments amounting to €8.4 million included in Other Liabilities also classifying as Adjusted quoted market prices under Solvency II and disclosed in section D.3 of this report.

As at 31 December 2016, AISE held more than 20% (an amount of €206.6 million) of the total funds under management of the Solo Absolute Bonds and Currency Fund (the Solo fund), which is one of AISE's fixed income funds and is co-invested into with other MS Amlin companies. Therefore the Solo fund is considered a participation under Solvency II and has been included as such in AISE's Investments (including participations) balance.

Solvency II reclassification of collective investment undertakings

For Solvency II reporting purposes, underlying assets (e.g. investment related receivables and payables) of collective investment undertakings and other investments are presented as part of Investments (including participations). Additionally cash positions held by funds are presented as cash and cash equivalents for Solvency II reporting purposes and derivative balances are presented on a gross basis.

The above presentational differences are summarised in below table and do not impact the excess of assets over liabilities.

	As reported under IFRS €000	SII re-class €000	IFRS represented €000
Cash and cash equivalents	27,296	(3,692)	23,604
Investments	1,268,760	1,409	1,270,169
Receivables (trade, not insurance)	29,196	(11,780)	17,416
Derivatives	(7,096)	(1,310)	(8,406)
Payables (trade, not insurance)	(75,495)	15,373	(60,122)
Total	1,242,661	–	1,242,661

Collective investment undertakings and bonds

The fair value of collective investment undertakings and bonds is based upon quotes from pricing services where available. These pricing services derive prices from an average of quotes provided by brokers. Where multiple quotes are not available, the fair value is based upon evaluated pricing services, which typically use proprietary cash flow models and incorporate observable market inputs, such as credit spreads, benchmark quotes and other trade data. If such services do not provide coverage of the asset, then the fair value is determined manually using indicative broker quotes, which are corroborated by recent market transactions in similar or identical assets.

Where there is an active market for these assets and their fair value is the unadjusted quoted market price, these are classified as Quoted market prices. This is typically the case for government bonds. Quoted market prices also include bond funds, where fair value is based upon quoted prices. Where the market is inactive or the price is adjusted, but significant market observable inputs have been used by the pricing sources, then these are considered to be Adjusted quoted market prices. This is typically the case for government agency debt, corporate debt, mortgage and asset-backed securities and catastrophe bonds. Certain assets, for which prices or other market inputs are unobservable, are classified as Alternative valuation methods. AISE does not have debt and other fixed income securities classifying as Adjusted quoted market prices.

Participations in investment pools are units held in money market funds. Values are based on unadjusted, quoted and executable prices provided by fund managers and these participations are classified as Quoted market prices.

AISE's property fund portfolios are valued by using an alternative valuation method. Alternative valuation methods are explained in section D.4 of this report.

Equities

As stated above, AISE has both listed and unlisted equities which are respectively classified as investments classifying as Quoted market prices and Alternative valuation methods under Solvency II.

Derivatives

Listed derivative contracts are valued using quoted prices from the relevant exchange and are classified as Quoted market prices. Over the counter currency options are valued by the counterparty using quantitative models with multiple market inputs such as foreign exchange rate volatility. The market inputs are observable and the valuation can be validated through external sources. Therefore listed derivative contracts are classified as Adjusted quoted market prices.

In the IFRS financial statements derivatives assets and liabilities are netted off if IAS 32 offsetting criteria are met. Under Solvency II, derivatives are presented on a gross basis. At 31 December 2016 this resulted in a €1.3 million increase of both derivative assets and liabilities in the Solvency II balance sheet compared to the IFRS financial statements. The value of derivative assets has been included in Investments. The value of derivative liabilities has been included in Other liabilities for which reference is made to section D.3 of this report.

3. Reinsurance recoverables

In the Solvency II balance sheet Reinsurance recoverables represent amounts due from reinsurers on unsettled claims arising from the related reinsurance contracts. Under IFRS this is presented as the Reinsurers' share of outstanding claims as well as the Reinsurers' share of unearned premium.

Please refer to subsection D.2.4 of the Technical Provisions section for a bridge table from IFRS to Solvency II net technical provisions.

4. Insurance, reinsurance and intermediaries receivables

Under Solvency II the insurance, reinsurance and intermediaries receivables represent amounts due as at the balance sheet date valued at fair value. Amounts which are not yet due are considered within the calculation of the technical provisions as future premium. Under IFRS the above receivables are initially recognised at fair value and subsequently measured at amortised costs using the effective interest rate method.

All insurance, reinsurance and intermediaries receivables are eliminated from the Solvency II balance sheet (by netting against the technical provisions) except for overdue positions resulting in an adjustment of €163.7 million.

Due to the short-term nature of the receivables, the resulting Solvency II balance of overdue positions does not differ from the IFRS balance of overdue positions valued at amortised cost and net of bad debt provision.

5. Receivables (trade, not insurance)

Receivables (trade, not insurance) include prepayments, sundry debtors and other receivables. Under Solvency II, receivables are measured at fair value. The IFRS receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method.

For Solvency II reporting purposes prepayments are assessed for recoverability resulting in an adjustment of €1.1 million for prepayments considered irrecoverabe. Due to the short-term nature of the other receivables, the IFRS carrying value is considered not materially different from the fair value under Solvency II. Therefore no other adjustment is made.

6. Deferred acquisition costs

Acquisition costs comprise brokerage incurred on insurance contracts written during the financial year.

Under Solvency II deferred acquisition costs are included in the best estimate of future cash outflows of the technical provisions. Therefore deferred acquisition costs are valued at zero.

Under IFRS, the deferred acquisition costs are amortised over the period in which the related premiums are earned.

7. Deferred tax assets

In the Solvency II balance sheet, AISE recognises and values deferred taxes on the basis of the difference between values of the assets, liabilities and technical provisions recognised and valued in accordance with Solvency II valuation methods and the values ascribed to assets and liabilities as recognised for tax purposes.

Under IFRS the valuation of deferred tax assets and liabilities is based on IAS 12, whereby for deferred tax assets, an assessment is made of the probability of future taxable profits and the realisation of the deferred tax asset within a reasonable time frame. There are no methodology differences between Solvency II and IFRS for the valuation of deferred tax assets and liabilities.

A deferred tax asset is recognised to the extent that AISE is capable and allowed to utilise it within the applicable tax legislation. AISE does not discount its deferred tax assets and liabilities. AISE offsets deferred tax assets and liabilities only if it has a legally enforceable right to set off and if it relates to taxes levied by the same tax authority on the same taxable undertaking.

Therefore the Solvency II deferred tax assets are adjusted for the amount of €13.4 million to reflect the tax impact of differences in valuation of assets, liabilities and technical provisions under IFRS and Solvency II.

Next to the impact of the above valuation differences, deferred tax assets relate mainly to Belgian losses. These losses incurred can be offset against future Belgian profits for an indefinite period. AISE expects to be able to utilise the losses in due time. The legal group restructuring in early 2016 did not affect the loss carry forward potential of AISE.

As at 31 December 2016, AISE had no unused tax losses or unused tax credits for which no deferred tax asset is recognised in the balance sheet.

8. Goodwill

Goodwill is valued at nil within the Solvency II balance sheet in accordance with article 12 of Delegated Regulations.

Under IFRS, goodwill represents the excess of the fair value of the consideration transferred over the fair value of the Group's share of the identifiable net assets acquired at the date of acquisition. Goodwill is tested for impairment annually, or when events or changes in circumstances indicate that it might be impaired, by comparing the net present value of the future earnings stream of the cash generating unit to which goodwill has been allocated, against the carrying value of the goodwill and the carrying value of the related net assets.

9. Intangible Assets

Intangible assets are recognised in the Solvency II balance sheet at a value other than zero only if they can be sold separately and it can be demonstrated that there is a value for the same or similar assets that is derived from quoted market prices in active markets.

Intangible assets of AISE consist of internally developed software that do not meet these criteria. As a result the intangible assets are eliminated from the Solvency II balance sheet.

D.1.2 Financial and operational leasing arrangements per material asset class

AISE entered into several non-cancellable operating lease arrangements for office space and cars. No material class of assets is subject to any operating lease arrangement. Please refer to section A.4 for details on the Company's leases.

AISE does not have any finance lease arrangements.

D.1.3 Changes made to the recognition and valuation bases used or to estimations

No changes to the recognition and valuation bases used or to estimations have been made during the reporting period.

D.2 Technical provisions

D.2.1 Best estimate plus risk margin by Solvency II line of business

The table below shows the Solvency II technical provisions, including the amount of the best estimate and risk margin separately for each material line of business.

D.2.2 Description of bases, methods and main assumptions

Introduction

The Solvency II technical provisions are calculated as the sum of a best estimate and a risk margin. The best estimate portion of the Solvency II technical provisions represents the sum of probability-weighted average future cash flows in respect of all policies that are legally obligated as at the valuation date, taking into account the time value of money (expected present value of future cash flows) using the EIOPA risk-free interest rate term structure. These future cash flows include future premium receipts, future claims payments, future reinsurance spend, future reinsurance recoveries and associated future expense cash flows.

The risk margin represents the risk premium that would be required to be paid to a third party in order to take over and meet the insurance and reinsurance obligations over their lifetime.

Best estimates: the foundation of the IFRS and Solvency II technical provisions

The actuarial best estimate reserves calculated as part of the IFRS balance sheet form the foundation of the best estimate portion of the Solvency II technical provisions. This is adjusted to allow for Solvency II principles.

Full year projections

Projections are carried out at a reserving class level using standard actuarial techniques and incorporating actuarial judgement. Ultimate premiums and claims are selected using a graphical reserving tool which allows a variety of standard actuarial reserving methods to be used with a high level of efficiency whilst displaying a range of key diagnostics. Input from underwriters is provided at an early stage of the process in order to capture information such as changes in the portfolio and softer information such as market conditions.

All assumptions are reviewed in light of the diagnostics and other information. All projections are subject to review by actuaries and by a wider audience including representatives from the finance, underwriting, risk, claims and senior management teams.

In the case of large or catastrophe losses, the actuaries make use of expert knowledge from the claims and underwriting departments.

Actuarial judgement

The projections are subject to a significant amount of actuarial judgment as many, often conflicting, factors are considered when determining the ultimate income and losses.

Accident full year projections – calculation of earned portion and estimation of unearned incepted claims

For the majority of AISE, accident year projections are carried out. At year-end valuation dates, the net of reinsurance earned incurred but not reported (IBNR) reserve is a natural output of the process. At non year-end valuation dates, the accident year ultimates are split between earned to date and expected earnings through the rest of the accident year.

The unearned incepted claims which form part of the premiums provision is calculated by applying an initial expected prior loss ratio and net to gross ratio assumptions to the unearned premium reserve (UPR) from the IFRS balance sheet. The prior loss ratios and net to gross assumptions are consistent with the quarterly reserving process which produces the accident year projections and the budget.

Underwriting full year projections – separation into earned and unearned portions

For a small section of AISE, underwriting year projections are carried out and these are split into earned and unearned portions for both IFRS and Solvency II.

In order to separate the earned and unearned portions, either the initial expected losses associated with the unearned premiums are calculated.

	Direct business and accepted proportional reinsurance					
AISE Technical Provisions as at 31 December 2016	Fire and other damage to property insurance €000	General liability insurance €000	Marine Aviation and transport insurance €000	Motor vehicle liability insurance €000	Other SII Lines of Business €000	Total Non-Life obligation €000
Total best estimate – gross	116,672	366,521	237,242	100,363	34,100	854,898
Less: Total best estimate – reinsurance	(12,218)	(84,374)	(11,181)	(3,842)	(3,985)	(115,600)
Total best estimate – net	104,454	282,147	226,061	96,521	30,115	739,298
Add: Risk margin	10,666	19,368	17,809	6,657	3,525	58,025
Technical provisions – total	**115,120**	**301,515**	**243,870**	**103,178**	**33,640**	**797,323**

Gross future premiums
Solvency II requires technical provisions to include all gross future premium cash flows except overdue premium debtors.

The starting point for this amount is the IFRS not-yet-due premium debtors figure. This is adjusted for specific known differences in the basis of preparation between Solvency II and IFRS which are explained below (see sections on binders adjustment and discount credit).

Reinsurance future premiums
The Solvency II technical provisions include:

- All future reinsurance premiums that are legally obligated; and
- A contribution towards reinsurance to be bought in the future providing cover to inwards legally obligated gross business.

Similar to gross future premiums, the basis of the legally obligated portion is the not-yet-due reinsurance premium debtors from the IFRS balance sheet, to which the minimum legally obligated unincepted reinsurance programmes cost is added. This cost is calculated consistently with inputs into the capital model. The future cost portion is calculated on a “correspondence” basis where the cost of the cover is shared across the relevant legally obligated and non-legally obligated gross business.

Expenses
Under Solvency II, all future expenses that will be incurred in servicing existing policies are allowed for.

Future expense cash flows are captured using expense percentage assumptions to apply to future cash flows. Expense percentage assumptions are calibrated using the current forecast annual expense budget for AISE, scaled to allow for only the portion relating to servicing existing business.

Unincepted legally obligated contracts
IFRS only consider incepted contracts at the valuation date whereas Solvency II requires the inclusion of future cash flows in respect of all contracts that are legally obligated as at the valuation date. This includes contracts that will incept after the valuation date but have been written prior to the valuation date. AISE takes into account that the insurance contracts have a cancellation clause of two or three months and that AISE is legally obligated to contracts expected to incept within this period.

Expected premiums from contracts meeting this criterion are obtained and initial expected loss ratios are applied to calculate expected losses. Other items such as reinsurance bad debt, expenses, discount credit, binder adjustments and events not in data (ENIDS) associated with these contracts are calculated as per other sections of this document.

Reinsurance obligation adjustments
The Solvency II technical provisions include all future reinsurance premiums that are legally obliged and a contribution towards reinsurance to be bought in the future providing cover to inwards legally obligated gross business. The latter is done on a ‘correspondence’ basis where the cost of the cover is shared across the relevant legally obligated and non-legally obligated gross business.

Binders adjustment
Solvency II requires gross contracts to be recognised on a legal obligation basis. Under IFRS binding authorities are recognised in full at inception whereas under Solvency II, they are not deemed to be insurance contracts and hence only underlying polices that are legally obligated should be included. Therefore, a look-through approach to the underlying contracts should be taken. Simplifying assumptions are made since full look through data is not available (the main assumption being that in most cases insurance contract are assumed to incept evenly throughout the duration of the binder). AISE also takes into account the previously mentioned two to three month cancellation clause when determining the legal obligation under the binding authority contract.

Reinsurance recoveries on the gross binder adjustment are calculated by applying net to gross ratios to the gross binder adjustment.

Settled but unpaid claims
Gross settled but unpaid claims are transferred from insurance creditors into the Solvency II technical provisions which have a neutral impact on the Solvency II balance sheet.

Events Not In Data (ENIDS)
Under Solvency II the mathematical mean of the distribution of all possible future outcomes should be captured. A load is added to the earned and unearned future losses to allow for ENIDS which would not be captured in the best estimate calculated on an IFRS basis.

The load varies by entity depending on the skewness of the underlying distribution of potential outcomes and a judgment as to how much allowance has already been made for this skewness within the existing best estimates. An allowance is made for reinsurance recoveries which consider the relatively high likelihood of the loss being reinsured but also considers the increased probability of default under these conditions.

Since historical data does not include the full distribution of all possible outcomes, all methods employed to calculate ENIDs are necessarily simplifications and are highly subjective.

Reinsurance bad debt
Where appropriate an allowance is made for potential bad debt on reinsurance recoveries. Charge factors are applied to the outwards reinsurance cash flows as they run off over time. Charge factors represent the mix of reinsurer ratings for the business, probability of default and expected recoveries given default.

Discount credit

Under Solvency II all cash flows are discounted for the time value of money. The yield curves are the risk-free interest rates issued by EIOPA.

Segmentation

Solvency II requires technical provisions to be reported by line of business and original currency. Reserves are analysed at a level which ensures that volumes of data remain credible. Therefore only in rare cases an allocation is required before Solvency II technical provisions can be mapped to lines of business and original currency. Mappings of the Solvency II technical provisions to lines of business is consistent with the mapping of IFRS balance sheet items to Solvency II lines of business to maintain consistency across the AISE Solvency II submission.

Risk margin

The risk margin is calculated using the Standard Formula SCR for AISE and represents the risk premium that would be required to be paid to a third party in order to take over and meet the insurance and reinsurance obligations over their lifetime.

Conceptually, the risk margin is calculated as the discounted cost of capital required to be held to run off legally obligated business. For this, an SCR is calculated for each future year during the run off period. Market risk is not included in the calculation of the SCR because if the insurance liabilities were transferred to a third party it would be expected that they would be able to mitigate this risk.

The SCR is assumed to run off proportionally to the technical provisions, taking into account the delay in run off of the premium risk. This assumption is a good approximation, since most sub-risks are heavily influenced by the size of the technical provisions. For example, the counterparty default risk is dependent on the size of the reinsurance, which in itself is closely related to the net technical provisions. The remaining risks are not material. It is a requirement to allocate the risk margin to Solvency II line of business. The risk margin is allocated to Solvency II line of business in proportion to the future claims as at the Balance Sheet date.

D.2.3 Level of uncertainty associated with the Solvency II technical provisions

The assessment of the reserves is based on commonly accepted actuarial techniques applied in a consistent manner. Whilst professional judgment has been exercised in all instances, projections of future ultimate losses and loss expenses are inherently uncertain due to the random nature of claim occurrences. The accuracy of the results is dependent upon the accuracy of the underlying data and additional information supplied to the actuarial teams.

The projections are also dependent on future contingent events and are affected by many additional factors, including:

- Claim reserving procedures and settlement philosophy;
- Social and economic inflation;
- Legislative changes;
- Changing court and jury awards;
- New sources of claims;
- Changes in the frequency and/or severity of extreme weather events;
- Improvements in medical technology;
- Changes in policyholder behaviour;
- Underwriting and reserving cycles;
- Other economic, legal, political and social trends; and
- Random fluctuations, particularly on small accounts.

For longer tail classes, where development potential exists but is not present in historical data, allowance is made for this within the IBNR. The level of uncertainty naturally reduces over time as claims are reported and settled, depending upon the nature of the event, the complexity of the losses and the potential for disputes.

Uncertainties associated with the other components of the Solvency II technical provisions include the following:

- Assumptions used to estimate the proportion of annual expenses required to service existing policies;
- Fluctuations in the timing of claim events;
- Fluctuations in the period needed to settle claims;
- Fluctuations in yield curves and;
- The exercise of discretionary future management actions.

Sources of uncertainty that are more specific to the nature of the business written are as follows:

Property catastrophe losses: catastrophe losses by their nature are large and often unpredictable and hence can often give rise to additional uncertainty. There is a relatively large amount of uncertainty in respect of future events. In respect of historic events the uncertainty may not always be that large as a percentage of the overall reserves, but often the magnitude of the losses arising means the uncertainty is still material.

Large (disputed) "risk" losses: individual large losses can give rise to relatively high levels of uncertainty, particularly where there is an element of dispute, litigation or uncertainty as to the form of the claimed losses, including reinsurance collections.

Emergence of new latent claims: some classes are exposed to latent claims, in particular liability classes. Where new claim types have arisen, it can take many years for the full scale of the number and size of claims to emerge. For claims yet to arise there is additional uncertainty around how much allowance to make for future unknown claim types.

Established long-tailed classes: longer-tailed classes can give rise to relatively large amounts of uncertainty due to the size of the best estimate reserves held in respect of them and the fact that the oldest years may not be fully developed. In particular the possibility exists for legislative changes applying both prospectively and potentially retrospectively that could affect multiple years of account. Additionally if there are changes in development in more recent years the changes may take some time to emerge.

Changes in the mix of business/re-underwriting and case reserving procedure: some classes have undergone a change in the mix of business written or rate changes in recent years. Other classes have undergone changes in claim handling policy. These changes impact the development profile of the business and the loss ratios expected. For longer-tailed classes this can have similar considerations in respect of uncertainty as for new long-tailed classes. The effect of rate changes and re-underwriting on more recent underwriting years is uncertain and hence less weight can be placed on the historic development.

D.2.4 Material differences between IFRS and Solvency II technical provisions

The adjustments required to bridge the gap from IFRS reserves to Solvency II technical provisions are shown in the chart below both at the total level and for the lines of business that are most material for AISE.

Most of the adjustments are explained in the sections preceding this. However some items are explained in the table below. Lines of business considered not material consist of several smaller business lines with a total IFRS net balance of €50.2 million and a total Solvency II net balance of €33.6 million as at 31 December 2016.

Adjustments to IFRS reserves: This includes removal of the management margin (held over and above the best estimate (€47 million), UPR net of DAC (€136 million), ULAE (€28 million) and Reinsurance Bad Debt calculated on an IFRS basis (immaterial).

Other future claims on incepted contracts: This includes claims cash flows other than those included in the best estimate earned future claims which arise from incepted contracts. It includes settled not paid and unearned future claims.

Other: This includes the smaller adjustments e.g. reinsurance bad debt calculated on a Solvency II basis.

D.2.5 Matching adjustment, volatility adjustment or transitional measures

The Solvency II technical provisions calculations do not apply the matching adjustment, volatility adjustment or transitional measures referred to in Article 77b, d and 308c, d of Directive 2009/138/EC.

D.2.6 Reinsurance recoverables

The calculation of reinsurance recoverables is explained in more detail in prior sections (accident full year projections, unincepted legally obligated contracts, binders adjustments). In calculating the reinsurance recoveries and the reinsurance premiums, the characteristics of the AISE reinsurance program are considered.

The outward reinsurance contracts are written on a variety of bases, including risks attaching during, losses occurring during, excess of loss and quota share bases, and with a variety of reinsurers. AISE does not have outwards reinsurance contracts with special purpose vehicles.

D.2.7 Material changes in methodology and assumptions

There are no material changes in methodology and assumptions to calculate the Solvency II technical provisions since the last reporting period.

	Differences between IFRS and Solvency II technical provisions by material Solvency II Line of Business					
31 December 2016	Total €000	Subtotal material classes €000	Fire and other damage to property insurance €000	General liability insurance €000	Marine Aviation and transport insurance €000	Motor vehicle liability insurance €000
IFRS net technical provisions	870,804	820,638	148,974	316,632	247,355	107,677
Adjustments to IFRS technical provisions	(210,950)	(190,454)	(50,490)	(49,776)	(71,247)	(18,941)
Best estimate net earned future claims	659,854	630,184	98,484	266,856	176,108	88,736
Other future claims on incepted contracts	148,051	137,943	29,816	9,571	87,184	11,372
Future premiums including unincepted	(302,680)	(265,598)	(84,036)	(70,725)	(81,629)	(29,208)
Unincepted claims	144,751	128,093	45,146	40,560	27,195	15,192
SII expenses	83,448	76,178	13,199	36,162	15,890	10,927
ENID's	8,832	8,184	1,628	3,053	2,635	868
Discounted credits	(6,527)	(6,372)	(148)	(3,800)	(2,280)	(144)
Risk Margins	58,025	54,500	10,666	19,368	17,809	6,657
Other	3,569	571	365	470	958	(1,222)
Solvency II net technical provisions	797,323	763,683	115,120	301,515	243,870	103,178

D.3 Other liabilities

D.3.1 Valuation of Other liabilities

Other liabilities are all liabilities, other than technical provisions.

	Note	As reported under IFRS €000	SII re-class €000	IFRS represented €000	SII valuation adjustment €000	SII balance sheet €000
Retirement benefit obligations	1	9,020	–	9,020	–	9,020
Deferred tax liabilities	2	16,813	–	16,813	457	17,270
Derivatives		7,096	1,310	8,406	–	8,406
Insurance & intermediaries payables	3	53,083	–	53,083	(43,356)	9,727
Reinsurance payables	3	39,053	–	39,053	(39,053)	–
Payables (trade, not insurance)	4	75,495	(15,373)	60,122	–	60,122
Subordinated liabilities		2,452	–	2,452	–	2,452
Contingent liabilities	5	–	–	–	5,798	5,798
Total Other Liabilities		**203,012**	**(14,063)**	**188,949**	**(76,154)**	**112,795**
Total Technical Provisions (gross)		**1,113,116**	**–**	**1,113,116**	**(200,193)**	**912,923**
Total Assets		**1,835,727**	**(14,063)**	**1,821,664**	**(341,287)**	**1,480,377**
Excess of Assets over Liabilities		**519,599**	**–**	**519,599**	**(64,940)**	**454,659**

D.3.2 Solvency II valuation methods and differences compared to IFRS per material other liabilities class

1. Retirement benefit obligations

Under IFRS, the liability recognised in the balance sheet in respect of defined benefit pension plans is the fair value of plan assets less the present value of the defined benefit obligation at the reporting date, together with adjustments for restrictions on the recognition of a defined benefit asset due to an asset ceiling. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using discount rates set on the basis of the yield of high-quality debt instruments (AA rated or equivalent) issued by blue-chip companies, with maturities consistent with those of the defined benefit obligations. The IFRS valuation basis is fully consistent with Solvency II valuation methods.

The components of the defined benefit liability are shown in the table below:

	2016 €000
Present value of defined benefit obligation	116,580
Fair value of scheme assets	(110,515)
Net defined benefit liability	6,065
Liability for other post-employment benefits	2,447
Liability for other long-term service benefits	508
Net defined benefit liability	9,020

Dutch pension plans

In 2015, specific budgets in relation to the defined benefit scheme in The Netherlands for future indexation of accrued pension rights up to 2015 of both active and inactive pension members were agreed with the Worker's Council, as well as specific indexation principles for accrued pension rights from 1 January 2016. Additionally on 31 December 2015 a new agreement (pension plan) with the pension fund was signed and the old defined benefit contract was closed.

Defined contribution plan (from 1 January 2016)

The pension plan for accrued pension rights from 1 January 2016 (i.e. the new contract) qualifies as a defined contribution plan under IAS19R (paragraph 8), i.e. AISE pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Defined benefit plan (until 31 December 2015)

The future indexation of past accrued pension rights (before 1 January 2016) of current active pension members qualifies as a remaining obligation from the past. As this future payment relates to employee benefits and the indexation budget is not fixed, the old pension contract qualifies as a defined benefit provision under IAS 19R. Effectively this results in a balance sheet liability equal to the future indexation from 31 December 2015 onwards.

As at 31 December 2016, the defined benefit plan in The Netherlands consisted of a pension obligation of €109.2 million and scheme assets of €105.6 million, resulting in a net defined benefit liability of €3.6 million. As no new pension rights accrue from 1 January 2016 under this plan, AISE is no longer exposed to the risk of (significant) actuarial gains and losses.

Belgian pension plans
Staff in Belgium employed before 31 August 2009 (which is the majority) is included in the pension charges and liabilities arising from defined benefit plans. As at 31 December 2016, the defined benefit plan in Belgium consisted of a pension obligation of €7.4 million and scheme assets of €4.9 million, resulting in a net defined benefit liability of €2.5 million. Belgium staff employed after 1 September 2009 is included in the defined contribution plans.

Significant actuarial assumptions used in defined benefit plans
The significant actuarial assumptions used as at 31 December 2016 were:

Significant actuarial assumptions	The Netherlands per annum	Belgium per annum
Discount rate for pension benefits	1.8%	1.1%
Price inflation	–	1.8%
Expected salary increases – general	–	2.8%
Indexation for active and formerly active employees	1.0%	–

The mortality assumptions used for the year end 2016 valuation included the following life expectancies:

Life expectancy (years) at age 60 for a member currently:	The Netherlands		Belgium	
	Male	Female	Male	Female
Aged 60	26.8	27.9	26.7	30.9
Aged 45	28.0	28.8	26.7	30.9

The table below shows the impact on the defined benefit obligation that a change in certain key assumptions would have:

Assumption change	2016 €000
(Increase)/decrease in discount rate by 0.25%	(5,352)/5,727
(Decrease)/increase in inflation rate by 0.25%	(2,468)/2,651
(Decrease)/increase in salary rate by 0.5%	(244)/258
(Decrease)/increase in indexation rate by 0.5%	(512)/567
(Decrease)/increase in life expectancy by one year	(3,583)/3,537

The above sensitivities of the significant actuarial assumptions have been calculated by changing each assumption in turn whilst all remaining assumptions are held constant. The limitation of this sensitivity analysis is that in practice assumptions may be correlated and therefore are unlikely to change in isolation.

Analysis of scheme assets
As at 1 January 2016, the legacy pension contract was terminated. Therefore no separate investment account remains and as a result the pension assets consist fully of insured assets.

Detailed information about the assets held by the Company's Belgian pension insurer is not available as the investment decisions are at the discretion of the insurer to whom AISE has ceded investment risk under the insurance policies taken out to meet their obligations. These assets relate to insured scheme assets.

For further details with regards to main assumptions and parameters related to retirement defined benefit obligations, please refer to note 19 of the AISE 2016 statutory IFRS financial statements.

2. Deferred tax liabilities

Please refer to Section D.1 for valuation methods and details surrounding deferred tax positions.

The IFRS deferred tax liability mainly relates to the revaluation of the Dutch investment portfolio. For Dutch tax purposes the investment portfolio is valued against cost price. As a result only realised gains are taxable. Hence a deferred tax liability is recognised to the amount of unrealised gains for accounting purposes.

Current tax liabilities are included in Payables (trade, not insurance) and are valued at fair value under Solvency II.

The treatment of deferred tax under Solvency II follows IAS 12 and deferred tax assets and liabilities are netted off in accordance with the right to off-set under IFRS. Consequently the deferred tax impact of valuation adjustments is determined per underlying tax jurisdiction as there is no right to off-set between different tax jurisdictions. This resulted in a Solvency II adjustment of €0.5 million.

3. Insurance and intermediaries payables and reinsurance payables

The IFRS insurance and intermediaries' payables and reinsurance payables are held at amortised cost. Similar to the insurance and reinsurance receivables as described under Section D.1, due to the short term nature of these payables, the IFRS carrying value is not materially different from the fair value under Solvency II and therefore, no adjustment is made.

Under Solvency II adjustments of €43.4 million (Insurance and intermediaries payables) and €39.1 million (Reinsurance payables) have been made for settled but not paid claims and reinsurance premiums payable but not-yet-due at the balance sheet date. These amounts have been transferred to technical provisions and form part of the valuation of technical provisions. Please refer to section D.2 for further details on technical provisions and the valuation thereof.

4. Payables (trade, not insurance)

Trade and other payables represent liabilities to pay for goods or services that have been received or supplied in the normal course of business, invoiced by the supplier before the balance sheet date, but for which payment has not yet been made. Trade payables comprise principally of amounts payable for investments purchased, collateral repayable on derivative contracts, revolving credit facility and other sundry payables. This resulted in a reclassification of €15.4 million which is explained in subsection D.1.1.

Similar to trade receivables (as described in section D.1 of this report), the IFRS carrying value is not materially different from the fair value under Solvency II due to the short-term nature of the payables. Therefore, no adjustment is made.

5. Contingent liabilities

Under Solvency II, insurers are required to recognise material contingent liabilities as a liability. Contingent liabilities are material if information about the current or potential size or nature of those liabilities could influence the decision-making or judgement of the intended user of that information (including supervisors). Such liabilities are valued at the expected present value of future cash flows required to settle the contingent liability, discounted at the basic risk-free interest rate term structure.

Under IFRS, a contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity or, a present obligation that arises from past events, but is not recognised because:

1. It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

2. The amount of the obligation cannot be measured with sufficient reliability. A contingent liability must be probable in order to be recognised as a liability. The anticipated cash flows to settle an obligation are discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the liability, if the effect is material.

As a result of the above, AISE recognised contingent liabilities relating to terrorism pools amounting to €5.8 million in its Solvency II balance sheet. AISE participates in several national terrorism pools. In case of an incident AISE is required to pay its participant share to the pool. This share is determined annually based on the relative share of AISE's business compared to the total market.

D.4 Alternative methods for valuation

Methods of valuation for items other than net technical provisions recognised in the Solvency II balance sheet and valued based on quoted market prices or adjusted quoted market prices have been disclosed in section D.1 and D.3 of this report.

AISE's property fund portfolios are valued by using an alternative valuation method. The most recent net asset value provided by the fund managers is used. The net asset values, which may be a quarter in arrears, are determined by the fund managers using proprietary cash flow models. Property returns of 6% per year are expected over the forecast horizon. Rental growth and income are expected to be the predominant drivers of returns rather than capital appreciation. In certain instances, adjustments are made to bring the net asset value to a more current valuation. The inputs into that valuation, such as discount rates, are primarily unobservable and as a result, these assets are classified as Alternative valuation methods. Where an investment is made into a new property fund the transaction price is considered to be the fair value if that is the most recent price available.

Furthermore the present value of AISE's defined benefit pension plan obligation is determined by using an alternative valuation method which is explained in section D.3.2.

During the reporting period, AISE had no other material assets or liabilities valued by using alternative valuation methods in accordance with Article 10(5) of the Delegated Regulation.

D.5 Any other information

The risks associated with the assets and liabilities set out in sections D.1 to D.4 of this report and how these are managed in accordance to Article 260 of the Delegated Regulation (EU) 2015/35 are explained in Section C of this report.

No material other information with regards to the valuation for solvency purposes has been identified.

Section E:

Capital management

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Section E: Capital management

E.1 Own funds

Capital management

AISE's approach to capital management aims to ensure that AISE maintains sufficient capital for regulatory and rating agency purposes, can withstand major catastrophe claims, can attract good quality business and be in a position to exploit opportunities for profitable growth.

AISE's diverse spread of underwriting risk and geographical exposure among thirty principal classes of business, spread over four material Solvency II lines of business which are described in section A of this report, helps to increase capital efficiency through diversification of risks.

AISE's objective is to deliver long-term value for its shareholder MS Amlin plc, with an average cross-cycle return on equity of at least 12% per annum. This target ensures that AISE remains focused on effective capital management and optimising return for the risks taken. The delivery of shareholder value comes from actively seeking and accepting risk while managing that risk within acceptable bounds. The Standard Formula Model, strong risk-management framework, informed use of catastrophe risk models and culture of continuous improvement, all contribute to achieving this goal. AISE uses risk-adjusted capital metrics to measure and track the performance of the business.

AISE believes that significant value can be added over the insurance cycle, through a combination of organic growth and carefully selected acquisitions. AISE's goal is to maintain a diverse and balanced portfolio, which reduces volatility and enhances capital efficiency.

Capital needs are determined by the Solvency II Standard Formula for AISE but are also assessed through Dynamic Financial Analysis (DFA). The DFA model forecasts a range of potential financial outcomes for each area of the business, incorporating underwriting, investment and operational risk. This provides the economic capital, capital requirements and return on capital projected over the business planning time period of five years.

Capital deployment to meet short and long-term business needs is balanced with the need to meet the requirements of stakeholders. AISE ensures that it continuously maintains own funds of suitable quality and permanence to meet the relevant tier requirements of Solvency II, whilst making prudent use of instruments to enhance the earnings of the entity. At least 50% of the SCR should be covered by Tier 1 own funds and no more than 15% of the SCR should be covered by Tier 3 own funds (with the balance being Tier 2 basic own funds). The position under Solvency II is complex, so in the interests of prudence and simplicity the following general principles apply:

- Tier 1: AISE will ensure that Tier 1 own funds (principally equity and retained earnings) will be carried to cover 100% of the MCR and 80% of the SCR (for both solo and group undertakings);
- Tiers 2 and 3: The sum of eligible amounts of Own funds items in these tiers must not exceed 50% of the Solvency Capital Requirement;
- Tier 3: The eligible amount of Tier 3 items must be less than 15% of the Solvency Capital Requirement.

Own funds to cover Solvency Capital Requirements and Minimum Capital Requirements

The eligible amounts by tier to cover the Solvency Capital Requirements (SCR – please see section E.2) and the Minimum Capital Requirements (MCR – please see section E.2) are shown in the table below:

There is no restriction to Tier 1 capital.

The SCR is calculated based on the Standard Formula and amounted to €357.5 million as at 31 December 2016. The amounts by tier to cover the SCR are as per the eligible own funds structure table.

Material changes in the MCR and SCR over the reporting period are explained in section E.2 of this report.

	As at 31.12.2016				As at Day 1 unaudited			
	Total €000	Tier 1 unrestricted €000	Tier 2 €000	Tier 3 €000	Total €000	Tier 1 unrestricted €000	Tier 2 €000	Tier 3 €000
Eligible own funds covering Solvency and Minimum Capital Requirements	457,111	428,567	2,452	26,092	455,049	443,605	2,612	8,832
Solvency Capital Requirements	357,111	–	–	–	375,712	–	–	–
Minimum Capital Requirements	128,819	–	–	–	126,809	–	–	–
Solvency Capital Ratio	127.9%	–	–	–	121.1%	–	–	–
Minimum Capital Ratio	334.6%	–	–	–	351.9%	–	–	–

Own Funds Structure

As at 31 December 2016, AISE had available own funds of €457.1 million (€455.0 million as at Day 1). AISE does not have non-available or non-transferrable own funds. AISE's available own funds are made up of:

	2016 €000	Day 1 unaudited €000
Excess of assets over liabilities as per the Solvency II balance sheet	454,659	452,437
Subordinated liabilities	2,452	2,612
Total Basic and Available Own Funds	457,111	455,049
Solvency capital requirements	357,511	375,712
Solvency capital ratio	127.9%	121.1%

AISE's Available own funds only consists of Basic own fund items. Basic own funds primarily consist of the Solvency II excess of assets over liabilities as well as subordinated liabilities presented as own funds as part of the Solvency II transitional measures. For further details please refer to the reconciliation of own funds to excess assets over liabilities on the next page.

AISE does not have any ancillary own funds.

The table below shows the composition and quality of own funds as at 31 December 2016 and Day 1 2016.

Available own funds are classified into Tiers based on the extent to which they possess the characteristics of permanency and subordination. Four additional features also taken into consideration are:

- Sufficient duration;
- An absence of incentives for redemption;
- An absence of mandatory servicing costs; and
- An absence of encumbrances.

Based on these classification criteria allotted, called up and fully paid ordinary shares, share premium and reconciliation reserve are Tier 1 items.

Apart from the negative difference between IFRS net assets and Solvency II excess of assets over liabilities of €64.9 million (as explained below), the reconciliation reserve mainly consists of retained earnings of €59.2 million and the merger reserve of €45.4 million. The merger reserve is a result of the application of Group Reconstruction Relief as per Section 611 of the Companies Act 2006 and arose on the date of the merger 4 January 2016.

Subordinated liabilities recognised in the IFRS balance sheet have been assessed for classification purposes under Solvency II. It was concluded that subordinated liabilities do not meet the classification criteria for Tiers 1 or 3. As Tier 3 criteria were not met, AISE assessed classification under the grandfathering/transitional provisions. These provisions state that where at 17 January 2015 insurers had in issue basic own fund items that complied with the requirements of the Solvency I Directives then these items are eligible for inclusion within Tier 1 or Tier 2 basic own funds for a period of ten years from the implementation of Solvency II. Therefore AISE's subordinated liabilities are classified as Tier 2.

Deferred tax assets are classified as Tier 3 capital in accordance to Delegated Act Article 76.

Basic and Available Own Funds

	As at 31 December 2016					As at Day 1 unaudited			
Own Funds Item	Total €000	Tier 1 unrestricted €000	Tier 2 €000	Tier 3 €000	Total movement €000	Total €000	Tier 1 unrestricted €000	Tier 2 €000	Tier 3 €000
Ordinary share capital	1,582	1,582	–	–	–	1,582	1,582	–	–
Share premium account related to ordinary share capital	406,952	406,952	–	–	–	406,952	406,952	–	–
Reconciliation reserve	20,033	20,033	–	–	(15,038)	35,071	35,071	–	–
Subordinated liabilities	2,452	–	2,452	–	(160)	2,612	–	2,612	–
An amount equal to the value of net deferred tax assets (DTA)	26,092	–	–	26,092	17,260	8,832	–	–	8,832
Total Own Funds	457,111	428,567	2,452	26,092	2,062	455,049	443,605	2,612	8,832

Section E: Capital management
continued

Analysis of significant changes during the period

The significant changes in the period from Day 1 to 31 December 2016 were:

- The decrease of the reconciliation reserve by €15.0 million, which is explained in the next paragraph;
- The treatment of deferred taxes under Solvency II follows IAS 12 and deferred tax assets and liabilities are netted in accordance with the right to off-set under IFRS. As a result the Tier 3 capital allocation is based on the net deferred assets per underlying tax jurisdiction as there is no right to off-set between different tax jurisdictions. The increase of Tier 3 capital by €17.3 million originates from both increases in net deferred tax assets of the underlying tax jurisdictions as well as the increased impact of valuation differences between IFRS and Solvency II net assets.

Movements in the reconciliation reserve

The main constituent of own funds is the reconciliation reserve which comprises the excess of assets over liabilities as valued for the Solvency II balance sheet. The movements in the reconciliation reserve during 2016 are presented in the table below:

	€000
Reconciliation reserve at Day 1	35,071
Decrease in Net Technical Provisions	28,930
Increase in Other Liabilities	(8,178)
Decrease in Investments (incl. participations)	(32,502)
Increase in Other Assets (excl. Reinsurance recoverables)	13,994
Increase in an amount equal to the value of Net DTA reserve	(17,282)
Reconciliation reserve at 31 December 2016	20,033

The decrease in Solvency II net technical provisions is driven by a decrease of IFRS net claim reserves from significant settlements of claims combined with positive prior and current year claims developments during 2016. This decrease has been partly offset by increased valuation differences from IFRS to Solvency II compared to last year.

The decrease in Investments is primarily driven by the previously mentioned settlement of a large amount of claims and the purchase of a software package from MS Amlin Corporate Services Limited (an MS Amlin Group company). The transfer of certain investments into cash during the year also contributed to the decrease of Investment asset values and the increase of all other assets. The purchase of the software package is not reflected in the increase of other increase as this intangible asset is not recognised in the Solvency II balance sheet.

The increase in an amount equal to the value of the net DTA reserve is due to the movement in the Solvency II net technical provision and the purchase of the software package as explained above.

Differences between IFRS and Solvency II net asset value

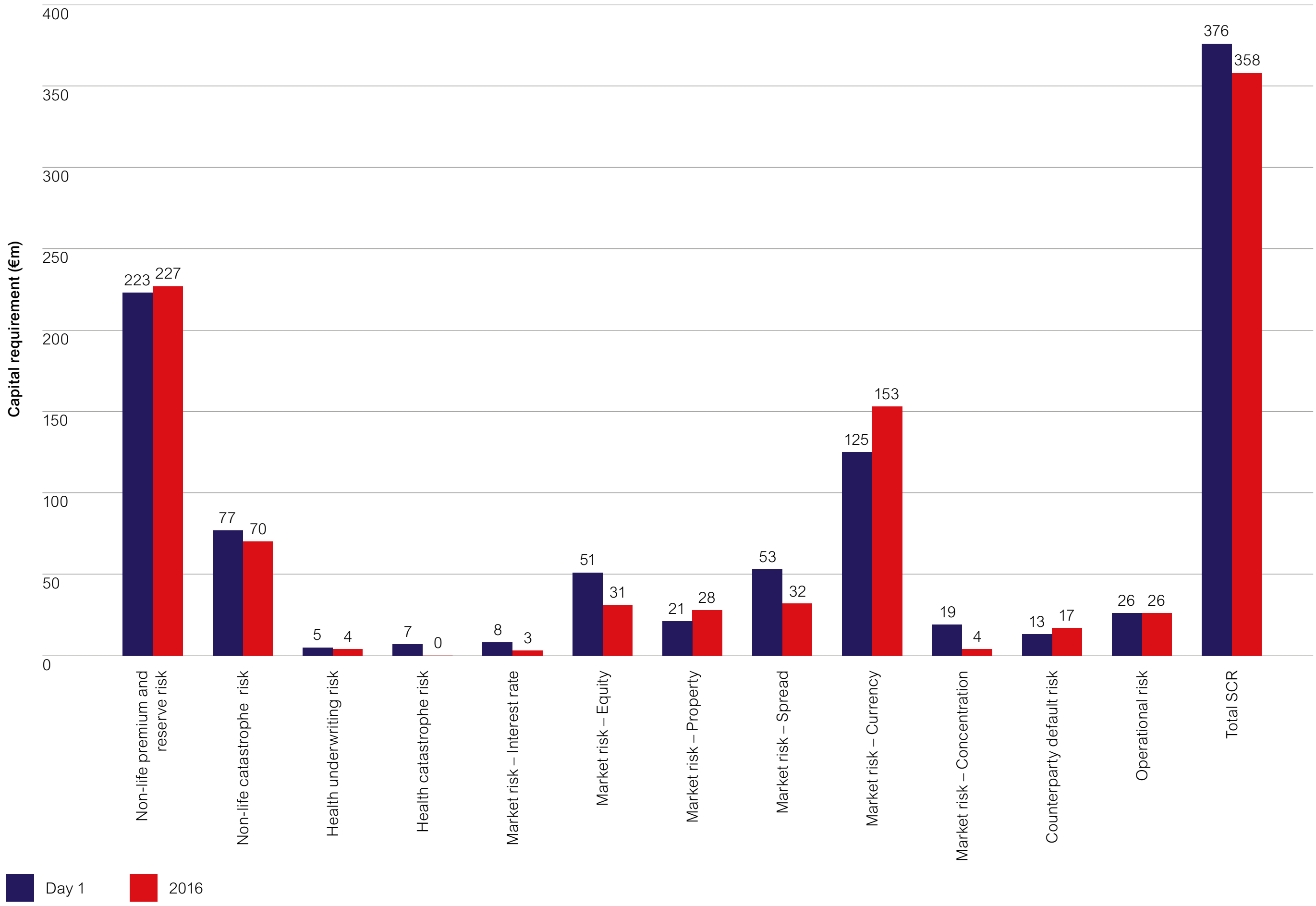
	31 December 2016 €000
Excess of assets over liabilities – IFRS	519,599
Disallow items – Goodwill, Intangible assets, Prepayments and Deferred Acquisition Costs	(94,817)
Solvency II Technical Provision adjustment	103,971
Future premiums and claims adjustments	(81,244)
Recognition of contingent liabilities	(5,798)
Deferred tax on adjustment items	12,948
Excess of assets over liabilities – Solvency II	454,659

Sections D.1 to D.3 of this report explain the Solvency II valuation methods and adjustments to IFRS.

E.2 Minimum Capital Requirement and Solvency Capital Requirement

E.2.1 Required capital by risk module

The following chart summarises the components and relative movements in standalone capital by risk type as produced by the Standard Formula calculations on Day 1 and 31 December 2016 and the total SCR as at Day 1 and 31 December 2016.



Day 1 figures presented in above table are unaudited.

The total SCR as at 31 December 2016 was €357.5 million.

Section E: Capital management
continued

The main components and sources of the SCR of AISE are:

1. Underwriting risk (€301.4 million) is dominated by the Non-Life risk (€297.4 million), since only a few minor reserving classes are classified as Health. The non-life premium and reserve risk constitute the largest share (€227.1 million), of which the reserve risk contributes the most (approximately 60%). The catastrophe risk is mitigated by reinsurance programmes; lowering the required capital significantly (€70.3 million).
2. The next largest component is the market risk (€251.8 million). The size of these risks is heavily dependent on the chosen investment strategy, e.g. the equity portfolio was reduced last year to limit the exposure (€31.2 million). The relatively similar size of the property (€28.3 million) and spread (€31.9 million) risks results in optimal diversification benefits. The bonds and liabilities are matched to limit the exposure to the interest rate risk (€3.2 million). Currency risk is the most significant risk (€153.4 million) as risk mitigation techniques for derivative contracts with duration of less than three months were excluded from the calculation of the Standard Formula in accordance with the Delegated Acts (EU) 2015-35.
3. The Type 1 counterparty risk is dominated by an equal share of exposures to reinsurance contracts and cash-at-bank (€8.6 million). The Type 2 counterparty risk is dominated by exposures to brokers (€7.9 million).
4. The operational risk is stable (€25.6 million).
5. The total diversification between these different risks is €237.8 million, although this does not take into account the diversification included within the risk modules mentioned above. For example, the diversification between the underwriting risks of various lines of business can be very significant as well. The diversification figure also includes tax mitigation (€32.6 million).

The movements in the SCR from Day 1 (€375.7 million) to year end 2016 (€357.5 million), i.e. a decrease of €18.2 million, can be explained almost completely by the tax mitigation development between Day 1 (€14.5 million) and year-end 2016 (€32.6 million). This is evident from the table which shows similar values for the Basic SCR and Operational risk between the two reporting periods.

The following notable pre-diversification movements in sub risks are worth consideration. These are offset by cumulative diversification benefits of €32.0 million

1. A decrease in the technical reserve positions, predominantly caused by the closing of large Marine claims, leads to a decrease of the underwriting risk (decrease of €16.0 million).
2. Remapping business interruption covers of the Fire and Engineering portfolios to the Miscellaneous line of business, which has a higher risk charge (adverse positive impact of €12.0 million) which is included in the total premium and reserve risk.
3. Health underwriting risk decreased by €7.3 million mainly resulting from the exclusion of the non-proportional health catastrophe scenario which is a Lloyd's specific risk addition. The risk capital requirement for health catastrophe risks Mass Accident and Accident Concentration however is immaterial.
4. The drivers of the spread risk (spreads on bonds and loans, spreads on repackaged securities (Type 1 and 2) and spreads on credit derivatives) were reduced in size, leading to a decrease in the risk profile (decrease of €21.3 million).
5. De-risking of the investments by decreasing the relative share of the equity portfolio leads to less equity risk (negative impact €20.2 million), offset by a limited increase of the capital charge of other investment such as property (increase of €7.0 million).
6. Currency risk was significantly affected due to a simplification required in the calculation of the standard formula resulting from insufficient information on the specific characteristics of each of the derivative instruments within the look-through data of collective investment undertakings. Following Article 84(3) simplifying assumptions have been made in calculating the duration of effective currency hedging positions. In addition, the exclusion of the risk-mitigation effect resulted in a significantly higher risk charge. Exposure increases in mainly the British Pound, Japanese Yen and US Dollar FX portfolios resulted in a higher risk charge (increase of €28.0 million).
7. In-depth analysis into the counterparties defined as EEA governments and central banks lead to improvements in ratings of the exposures, decreasing the risk profile (decrease of €14.8 million).

Simplified calculations are used in some of the risk modules and sub-modules of the Standard Formula.

The following simplification has been applied for AISE:

- Non-life Catastrophe risk – the EEA catastrophe risk exposures should be provided by CRESTA zone, but as the data is not available at that level of granularity, it is provided by country instead. If the calculation is to follow the Delegated Regulation (EU) 2015/35 requirements, each CRESTA zone within a country would have a specific damage factor applied, and these would then be aggregated to country level totals using a correlation matrix. As the exposure data is only available by country, AISE applies a damage factor of 1 to the total exposure for each country.

For the calculation of the AISE Standard Formula SCR, no undertaking specific parameters or matching adjustments are being used. This also applies for the duration-based equity risk module which was not used.

The final amount of the Solvency Capital Requirement is still subject to supervisory assessment.

The calculation of Minimum Capital Requirement (MCR) combines a linear formula with a floor of 25% and a cap of 45% of the SCR. The MCR is subject to an absolute floor depending on the nature of the undertaking (as defined in Article 129 (1) (d) of the Directive 2009/138/EC). The linear formula is calculated using the Net Written Premium in the previous 12 months and the Net Best Estimate Technical Provisions (excluding risk margin).

The total MCR is €128.8 million, 36.0% of the SCR. The €9.4 million increase in MCR from Day 1 to 31 December 2016 can be explained by the increase in gross written premium for the Other Motor, General Liability and Miscellaneous Financial Loss lines of business.

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

AISE does not use the duration-based equity risk sub-module in the calculation of its Solvency Capital Requirement.

E.4 Differences between the standard formula and any internal model used

AISE uses only the Standard Formula in the calculation of its Solvency Capital Requirement. Therefore this section is not applicable.

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

As disclosed in section E.2, AISE holds sufficient capital in excess of the MCR and SCR. This helps to ensure AISE's Eligible Own Funds exceed SCR and MCR requirements on a continuous basis.

There are currently no foreseeable risks that could result in non-compliance with the SCR and/or MCR requirements.

E.6 Any other information

No other material information regarding AISE's capital management has been identified.

Annex

Specific Quantitative Reporting Templates (all amounts expressed in € thousands)

In this section
Pages 70 to 85

72 S.02.01.02 – Balance sheet
74 S.05.01.02 – Premiums, claims and expenses by line of business
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78 S.17.01.02 – Non-Life Technical Provisions
80 S.19.01.21 – Non-Life insurance claims
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84 S.25.01.21 – Solvency Capital Requirement – for undertakings on Standard Formula
85 S.28.01.01 – Minimum Capital Requirement – Only life or only non-life insurance or reinsurance activity

S.02.01.02 Balance sheet

		Solvency II value
	Assets	C0010
R0010	Goodwill	
R0020	Deferred acquisition costs	
R0030	Intangible assets	–
R0040	Deferred tax assets	26,092
R0050	Pension benefit surplus	–
R0060	Property, plant and equipment held for own use	2,723
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	1,270,066
R0080	Property (other than for own use)	–
R0090	Holdings in related undertakings, including participations	206,568
R0100	Equities	154,265
R0110	Equities – listed	153,194
R0120	Equities – unlisted	1,071
R0130	Bonds	120,158
R0140	Government Bonds	109,475
R0150	Corporate Bonds	7,890
R0160	Structured notes	–
R0170	Collateralised securities	2,792
R0180	Collective Investments Undertakings	787,829
R0190	Derivatives	1,246
R0200	Deposits other than cash equivalents	–
R0210	Other investments	–
R0220	Assets held for index-linked and unit-linked contracts	–
R0230	Loans and mortgages	103
R0240	Loans on policies	–
R0250	Loans and mortgages to individuals	103
R0260	Other loans and mortgages	–
R0270	Reinsurance recoverables from:	115,600
R0280	Non-life and health similar to non-life	115,600
R0290	Non-life excluding health	115,797
R0300	Health similar to non-life	(197)
R0310	Life and health similar to life, excluding index-linked and unit-linked	–
R0320	Health similar to life	–
R0330	Life excluding health and index-linked and unit-linked	–
R0340	Life index-linked and unit-linked	–
R0350	Deposits to cedants	–
R0360	Insurance and intermediaries receivables	6,339
R0370	Reinsurance receivables	19,575
R0380	Receivables (trade, not insurance)	16,275
R0390	Own shares (held directly)	–
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	–
R0410	Cash and cash equivalents	23,604
R0420	Any other assets, not elsewhere shown	–
R0500	**Total assets**	1,480,377

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions – non-life	912,923
R0520	Technical provisions – non-life (excluding health)	904,127
R0530	TP calculated as a whole	–
R0540	Best Estimate	846,762
R0550	Risk margin	57,365
R0560	Technical provisions – health (similar to non-life)	8,796
R0570	TP calculated as a whole	–
R0580	Best Estimate	8,136
R0590	Risk margin	661
R0600	Technical provisions – life (excluding index-linked and unit-linked)	–
R0610	Technical provisions – health (similar to life)	–
R0620	TP calculated as a whole	–
R0630	Best Estimate	–
R0640	Risk margin	–
R0650	Technical provisions – life (excluding health and index-linked and unit-linked)	–
R0660	TP calculated as a whole	–
R0670	Best Estimate	–
R0680	Risk margin	–
R0690	Technical provisions – index-linked and unit-linked	–
R0700	TP calculated as a whole	–
R0710	Best Estimate	–
R0720	Risk margin	–
R0730	Other technical provisions	
R0740	Contingent liabilities	5,798
R0750	Provisions other than technical provisions	–
R0760	Pension benefit obligations	9,020
R0770	Deposits from reinsurers	–
R0780	Deferred tax liabilities	17,270
R0790	Derivatives	8,406
R0800	Debts owed to credit institutions	–
R0810	Financial liabilities other than debts owed to credit institutions	–
R0820	Insurance & intermediaries payables	9,727
R0830	Reinsurance payables	–
R0840	Payables (trade, not insurance)	60,121
R0850	Subordinated liabilities	2,452
R0860	Subordinated liabilities not in BOF	–
R0870	Subordinated liabilities in BOF	2,452
R0880	Any other liabilities, not elsewhere shown	–
R0900	**Total liabilities**	1,025,718
R1000	**Excess of assets over liabilities**	454,658

S.05.01.02 Premiums, claims and expenses by line of business

	Non-life	Line of Business for: non-life insurance and reinsurance obligations						
		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
		C0010	C0020	C0030	C0040	C0050	C0060	C0070
	Premiums written							
R0110	Gross – Direct Business	–	7,542	–	58,480	44,312	129,569	145,537
R0120	Gross – Proportional reinsurance accepted	–	–	–	–	–	(802)	–
R0130	Gross – Non-proportional reinsurance accepted							
R0140	Reinsurers' share	–	347	–	387	296	8,253	23,376
R0200	Net	–	7,195	–	58,093	44,016	120,515	122,161
	Premiums earned							
R0210	Gross – Direct Business	–	7,336	–	59,586	39,419	140,150	146,810
R0220	Gross – Proportional reinsurance accepted	–	–	–	–	–	314	–
R0230	Gross – Non-proportional reinsurance accepted							
R0240	Reinsurers' share	–	282	–	672	415	7,984	20,613
R0300	Net	–	7,054	–	58,914	39,004	132,479	126,198
	Claims incurred							
R0310	Gross – Direct Business	–	609	–	49,951	26,733	44,201	59,368
R0320	Gross – Proportional reinsurance accepted	–	–	–	–	–	2,841	–
R0330	Gross – Non-proportional reinsurance accepted							
R0340	Reinsurers' share	–	4	–	67	131	4,360	6,166
R0400	Net	–	605	–	49,884	26,603	42,681	53,202
	Changes in other technical provisions							
R0410	Gross – Direct Business	–	–	–	–	–	–	–
R0420	Gross – Proportional reinsurance accepted	–	–	–	–	–	–	–
R0430	Gross – Non-proportional reinsurance accepted							
R0440	Reinsurers' share	–	–	–	–	–	–	–
R0500	Net	–	–	–	–	–	–	–
R0550	**Expenses incurred**	–	3,960	–	25,189	20,183	51,097	47,647
R1200	**Other expenses**							
R1300	**Total expenses**							

	(direct business and accepted proportional reinsurance)				Line of business for: accepted non-proportional reinsurance				
General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation and transport	Property	Total
C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
126,027	–	1,537	–	56,119					569,123
–	–	–	–	–					(802)
					–	–	–	–	–
12,468	–	290	–	29,710	–	–	–	–	75,127
113,558	–	1,247	–	26,409	–	–	–	–	493,194
113,434	–	1,011	–	51,063					558,809
–	–	–	–	–					314
					–	–	–	–	–
5,012	–	181	–	30,514	–	–	–	–	65,674
108,421	–	830	–	20,549	–	–	–	–	493,449
86,634	–	700	–	24,945					293,141
–	–	–	–	–					2,841
					–	–	–	–	–
33,180	–	(1,160)	–	20,620	–	–	–	–	63,368
53,454	–	1,860	–	4,325	–	–	–	–	232,614
–	–	–	–	–					–
–	–	–	–	–					–
					–	–	–	–	–
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–
46,928	–	560	–	6,570					202,134
									–
									202,134

S.05.02.01 Premiums, claims and expenses by country

		C0010	C0020	C0030	C0040	C0050	C0060	C0070
			Top 5 countries (by amount of gross premiums written) – non-life obligations					Total Top 5 and home country
R0010	Non-life	Home Country	Belgium	France	Germany	The Netherlands		
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	Gross – Direct Business	13,345	152,938	86,354	20,928	289,654		563,219
R0120	Gross – Proportional reinsurance accepted	–	–	–	–	–		–
R0130	Gross – Non-proportional reinsurance accepted	–	–	–	–	–		–
R0140	Reinsurers' share	98	47,733	14,032	652	12,603		75,118
R0200	Net	13,247	105,206	72,323	20,275	277,051	–	488,102
	Premiums earned							
R0210	Gross – Direct Business	8,964	143,580	87,075	20,862	297,087		557,567
R0220	Gross – Proportional reinsurance accepted	–	–	–	–	–		–
R0230	Gross – Non-proportional reinsurance accepted	–	–	–	–	–		–
R0240	Reinsurers' share	872	41,433	12,376	306	10,730		65,717
R0300	Net	8,092	102,147	74,699	20,555	286,357	–	491,850
	Claims incurred							
R0310	Gross – Direct Business	16,256	99,941	23,941	15,739	138,015		293,892
R0320	Gross – Proportional reinsurance accepted	–	–	–	–	–		–
R0330	Gross – Non-proportional reinsurance accepted	–	–	–	–	–		–
R0340	Reinsurers' share	603	48,049	3,914	486	10,316		63,368
R0400	Net	15,653	51,892	20,027	15,253	127,699	–	230,524
	Changes in other technical provisions							
R0410	Gross – Direct Business	–	–	–	–	–		–
R0420	Gross – Proportional reinsurance accepted	–	–	–	–	–		–
R0430	Gross – Non-proportional reinsurance accepted	–	–	–	–	–		–
R0440	Reinsurers' share	–	–	–	–	–		–
R0500	Net	–	–	–	–	–	–	–
R0550	**Expenses incurred**	4,934	54,063	30,348	7,594	103,293		200,232
R1200	**Other expenses**							–
R1300	**Total expenses**							200,232

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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	Fire and other damage to property insurance
		C0020	C0030	C0040	C0050	C0060	C0070	C0080
R0010	**Technical provisions calculated as a whole**	–	–	–	–	–	–	–
R0050	Total Recoverables from reinsurance/ SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	–	–	–	–	–	–	–
	Technical provisions calculated as a sum of BE and RM							
	Best estimate							
	Premium provisions							
R0060	Gross	–	998	–	6,577	789	21,781	9,774
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	–	(176)	–	(1,074)	(748)	(10,561)	(5,963)
R0150	**Net Best Estimate of Premium Provisions**	–	1,175	–	7,651	1,537	32,342	15,737
	Claims provisions							
R0160	Gross	–	7,137	–	93,786	(674)	215,461	106,898
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	–	(21)	–	4,916	(597)	21,743	18,181
R0250	**Net Best Estimate of Claims Provisions**	–	7,158	–	88,869	(77)	193,719	88,717
R0260	**Total best estimate – gross**	–	8,136	–	100,363	115	237,242	116,672
R0270	**Total best estimate – net**	–	8,333	–	96,521	1,460	226,061	104,454
R0280	**Risk margin**	–	661	–	6,657	1,051	17,809	10,666
	Amount of the transitional on Technical Provisions							
R0290	Technical Provisions calculated as a whole	–	–	–	–	–	–	–
R0300	Best estimate	–	–	–	–	–	–	–
R0310	Risk margin	–	–	–	–	–	–	–
R0320	**Technical provisions – total**	–	8,796	–	107,020	1,166	255,052	127,338
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default – total**	–	(197)	–	3,842	(1,345)	11,182	12,218
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re – total**	–	8,993	–	103,178	2,511	243,870	115,120

					Accepted non-proportional reinsurance				
General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total Non-Life obligation
C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–
(11,872)	–	(79)	–	(8,344)	–	–	–	–	19,625
(4,085)	–	(31)	–	(10,934)	–	–	–	–	(33,573)
(7,787)	–	(48)	–	2,590	–	–	–	–	53,198
					–	–	–	–	
378,392	–	2,091	–	32,181	–	–	–	–	835,273
88,458	–	421	–	16,071	–	–	–	–	149,173
289,934	–	1,670	–	16,111	–	–	–	–	686,100
366,521	–	2,012	–	23,837	–	–	–	–	854,898
282,147	–	1,622	–	18,701	–	–	–	–	739,298
19,368	–	121	–	1,693	–	–	–	–	58,026
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–
385,888	–	2,132	–	25,530	–	–	–	–	912,923
84,373	–	390	–	5,136	–	–	–	–	115,600
301,515	–	1,742	–	20,394	–	–	–	–	797,324

S.19.01.21 Non-Life insurance claims

Total Non-life business

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

		C0010	C0020	C0030	C0040	C0050	C0060
	Year	**Development year**					
		0	1	2	3	4	5
R0100	Prior						
R0160	N-9	81,042	171,258	73,600	20,964	13,241	8,664
R0170	N-8	166,722	213,967	69,593	38,675	28,403	14,627
R0180	N-7	107,173	160,163	76,358	37,109	38,184	9,724
R0190	N-6	116,965	191,226	85,887	52,314	61,757	10,521
R0200	N-5	120,936	158,512	68,281	54,728	13,605	15,574
R0210	N-4	75,619	148,568	62,888	17,554	15,375	
R0220	N-3	97,639	135,047	61,191	21,868		
R0230	N-2	88,040	134,771	65,674			
R0240	N-1	95,508	126,597				
R0250	N	97,184					
R0260							

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

		C0200	C0210	C0220	C0230	C0240	C0250
	Year	**Development year**					
		0	1	2	3	4	5
R0100	Prior						
R0160	N-9	–	–	–	–	–	–
R0170	N-8	–	–	–	–	–	–
R0180	N-7	–	–	–	–	–	–
R0190	N-6	–	–	–	–	–	–
R0200	N-5	–	–	–	–	–	40,106
R0210	N-4	–	–	–	–	61,258	
R0220	N-3	–	–	–	44,896		
R0230	N-2	–	–	68,636			
R0240	N-1	–	135,229				
R0250	N	230,368					
R0260							

C0070	C0080	C0090	C0100	C0110	C0170	C0180
Development year					In Current year	Sum of years (cumulative)
6	7	8	9	10 & +		
				16,326	16,326	16,326
5,020	4,534	1,788	1,909		1,909	382,019
12,955	5,388	7,564			7,564	557,895
4,506	7,744				7,744	440,961
9,886					9,886	528,557
					15,574	431,636
					15,375	320,003
					21,868	315,744
					65,674	288,484
					126,597	222,104
					97,184	97,184
				Total	**385,701**	**3,600,915**

C0260	C0270	C0280	C0290	C0300		C0360
Development year						**Year end** (discounted data)
6	7	8	9	10 & +		
				120,360		120,519
–	–	–	12,783			12,765
–	–	25,853				25,569
–	60,119					59,923
40,794						40,654
						39,932
						60,862
						44,506
						67,948
						134,192
						228,401
					Total	**835,273**

Annex
continued

S.23.01.01 Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35
R0010	Ordinary share capital (gross of own shares)
R0030	Share premium account related to ordinary share capital
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings
R0050	Subordinated mutual member accounts
R0070	Surplus funds
R0090	Preference shares
R0110	Share premium account related to preference shares
R0130	Reconciliation reserve
R0140	Subordinated liabilities
R0160	An amount equal to the value of net deferred tax assets
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**
R0230	**Deductions for participations in financial and credit institutions**
R0290	**Total basic own funds after deductions**
	Ancillary own funds
R0300	Unpaid and uncalled ordinary share capital callable on demand
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual – type undertakings, callable on demand
R0320	Unpaid and uncalled preference shares callable on demand
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC
R0370	Supplementary members calls – other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC
R0390	Other ancillary own funds
R0400	**Total ancillary own funds**
	Available and eligible own funds
R0500	Total available own funds to meet the SCR
R0510	Total available own funds to meet the MCR
R0540	Total eligible own funds to meet the SCR
R0550	Total eligible own funds to meet the MCR
R0580	**SCR**
R0600	**MCR**
R0620	**Ratio of Eligible own funds to SCR**
R0640	**Ratio of Eligible own funds to MCR**
	Reconciliation reserve
R0700	Excess of assets over liabilities
R0710	Own shares (held directly and indirectly)
R0720	Foreseeable dividends, distributions and charges
R0730	Other basic own fund items
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds
R0760	**Reconciliation reserve**
	Expected profits
R0770	Expected profits included in future premiums (EPIFP) – Life business
R0780	Expected profits included in future premiums (EPIFP) – Non- life business
R0790	**Total Expected profits included in future premiums (EPIFP)**

	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
	C0010	C0020	C0030	C0040	C0050
	1,582	1,582		–	
	406,952	406,952		–	
	–	–		–	
	–		–	–	–
	–	–			
	–		–	–	–
	–		–	–	–
	20,032	20,032			
	2,452		–	2,452	–
	26,092				26,092
	–	–	–	–	–
	–				
	–	–	–	–	–
	457,111	428,566	–	2,452	26,092
	–			–	
	–			–	
	–			–	–
	–			–	–
	–			–	
	–			–	–
	–			–	
	–			–	–
	–			–	–
	–			–	–
	457,111	428,566	–	2,452	26,092
	431,019	428,566	–	2,452	
	457,111	428,566	–	2,452	26,092
	431,019	428,566	–	2,452	
	357,511				
	128,819				
	127.86%				
	334.59%				
	C0060				
	454,658				
	–				
	–				
	434,626				
	–				
	20,032				
	–				
	60,403				
	60,403				

S.25.01.21 Solvency Capital Requirement – for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0080	C0090
R0010	Market risk	193,931		–
R0020	Counterparty default risk	15,445		
R0030	Life underwriting risk	–	–	–
R0040	Health underwriting risk	4,016	–	–
R0050	Non-life underwriting risk	253,978	–	–
R0060	Diversification	(102,902)		
R0070	Intangible asset risk	–		
R0100	**Basic Solvency Capital Requirement**	364,467		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	25,647
R0140	Loss-absorbing capacity of technical provisions	–
R0150	Loss-absorbing capacity of deferred taxes	(32,603)
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	–
R0200	**Solvency Capital Requirement excluding capital add-on**	357,511
R0210	Capital add-ons already set	–
R0220	**Solvency capital requirement**	357,511
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	–
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	–
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	–
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	–
R0440	Diversification effects due to RFF nSCR aggregation for article 304	–

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

	Linear formula component for non-life insurance and reinsurance obligations	C0010
R0010	MCR_{NL} Result	128,819

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0020	Medical expense insurance and proportional reinsurance	–	–
R0030	Income protection insurance and proportional reinsurance	8,333	7,195
R0040	Workers' compensation insurance and proportional reinsurance	–	–
R0050	Motor vehicle liability insurance and proportional reinsurance	96,521	58,093
R0060	Other motor insurance and proportional reinsurance	1,460	44,016
R0070	Marine, aviation and transport insurance and proportional reinsurance	226,061	120,515
R0080	Fire and other damage to property insurance and proportional reinsurance	104,454	122,161
R0090	General liability insurance and proportional reinsurance	282,147	113,558
R0100	Credit and suretyship insurance and proportional reinsurance	–	–
R0110	Legal expenses insurance and proportional reinsurance	1,622	1,247
R0120	Assistance and proportional reinsurance	–	–
R0130	Miscellaneous financial loss insurance and proportional reinsurance	18,701	26,409
R0140	Non-proportional health reinsurance	–	–
R0150	Non-proportional casualty reinsurance	–	–
R0160	Non-proportional marine, aviation and transport reinsurance	–	–
R0170	Non-proportional property reinsurance	–	–

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

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0050	C0060
R0210	Obligations with profit participation – guaranteed benefits	–	
R0220	Obligations with profit participation – future discretionary benefits	–	
R0230	Index-linked and unit-linked insurance obligations	–	
R0240	Other life (re)insurance and health (re)insurance obligations	–	
R0250	Total capital at risk for all life (re)insurance obligations		–

	Overall MCR calculation	C0070
R0300	Linear MCR	128,819
R0310	SCR	357,511
R0320	MCR cap	160,880
R0330	MCR floor	89,378
R0340	Combined MCR	128,819
R0350	Absolute floor of the MCR	2,500
R0400	**Minimum Capital Requirement**	128,819

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