Solvency and Financial Condition Report 2017

Amlin Insurance S.E.

msamlin.com

Cautionary Statement

This Report includes statements with respect to future events, trends, plans, expectation or objectives relating to Amlin Insurance S.E.'s ('AISE') future business, financial condition, results of operations, performance and strategy. Forward looking statements are not statements of historical fact and may contain the terms, "may", "will", "should", "continue", "aims", "estimates", "projects", "believes", "intends", "expects", "plans", "seeks" or "anticipates" or words which have a similar meaning. No undue reliance should be placed on such statements because, by their nature, they are subject to unknown risks and uncertainties and can be affected by other factors that could cause actual results and plans of AISE to differ materially from those expressed or implied in the forward looking statements (or from past results). Factors such as, but not limited to (i) general economic conditions and competitive factors, particularly in key markets, in each case on a local, regional, national and/or global basis (ii) the risk of a global economic downturn (iii) performance of financial markets (iv) levels of interest rates and currency exchange rates (v) the frequency, severity and development of insured claims events (vi) policy renewal and lapse rates (vii) changes in laws and regulations and in the policies of regulators (viii) increases in loss expenses may all have a direct bearing on the results of operations of AISE and on whether any targets may be achieved. Many of these factors may be more likely to occur or be more pronounced as a result of catastrophic events. AISE does not undertake or assume any obligation to update or revise any of these forward looking statements, whether to reflect any new information, future events or circumstances or otherwise, except as required by applicable laws and regulations.

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Executive Summary

This annual Solvency and Financial Condition Report ('SFCR') for the year ended 31 December 2017 has been prepared for Amlin Insurance S.E. ('AISE' or 'the Company').

Amlin Insurance S.E. is a wholly owned subsidiary of MS 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 and Property & Casualty business internationally. 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 at the end of March 2019. In response, MS Amlin announced on 28 June 2017 its intention to re-domicile AISE to Belgium, where AISE already operates offices in Brussels and Antwerp. This is a strategic move that ensures our European brokers and clients experience no disruption from the UK's exit from the EU, whilst continuing to enjoy the same high-quality service they have come to associate with MS Amlin. Subject to regulatory approval from the National Bank of Belgium ('NBB'), the proposed change is expected to be completed by 1 January 2019. The current business underwritten in the UK will be transferred into a branch activity.

Basis of preparation

This SFCR has been prepared in line with the requirements as set out in the regulations relating to Solvency II as passed by the European Union, and guidelines issued by the European Insurance and Occupational Pensions Authority and the Prudential Regulation Authority ('PRA'). This report is to meet the Company's regulatory reporting requirements, and for no other purpose, and should not be relied upon for any other such purpose.

Financial information included in this report is based on the Company's Annual Report and Financial Statements, prepared for the Company's shareholder and in accordance with UK Companies Act requirements. Unless stated otherwise, this report represents the position of the Company as at 31 December 2017 only and will not necessarily reflect all changes in the Company's operations since that date.

The reader is reminded of the cautionary statement on page 1.

Business and performance

Underwriting performance

AISE written premium has grown in 2017, but overall underwriting performance has worsened as presented in below table.

	2017			2016		
Underwriting result	**Total €000**	**M&A €000**	**P&C €000**	**Total €000**	**M&A €000**	**P&C €000**
Gross written premium	612,487	131,732	480,755	568,321	128,768	439,553
Net written premium	552,151	128,847	423,304	493,194	120,515	372,679
Net earned premium	547,559	134,998	412,561	493,482	132,479	361,003
Net claims	(411,504)	(81,841)	(329,663)	(232,614)	(42,681)	(189,933)
Incurred expenses	(224,728)	(51,667)	(173,061)	(202,134)	(51,097)	(151,037)
Underwriting result	**(88,673)**	**1,490**	**(90,163)**	**58,734**	**38,701**	**20,033**

The marine, aviation and transport insurance business in AISE showed an increase in written premium in 2017 over 2016. Result for the period is a profit of €1.5 million.

The growth in P&C gross written premium is driven by increased AISE Motor business from a strong growth of the binder portfolio in The Netherlands, increased Property business experienced in all countries but mostly in France and an increase in General Liability business from strong retention.

Net claims are €178.9 million higher than prior year, which is the result of an increase in net premiums (€25.5 million net claims impact based on the 2016 claims ratio),a €57.0m unplanned strengthening on prior accident year reserves, and adverse current year performance, the latter notably in Motor and Property.

Investment performance

AISE's investment income over 2017 amounted to €25.3 million (2016: €9.9 million income). The increase compared to last year is mainly due to improved returns on equities (€17.1 million), investment pools (€3.4 million) and derivative instruments (€2.4 million), which are partially offset by a decreases in returns on debt securities (€4.6 million), property funds (€ 0.4million) and lower dividend income (€2.5 million).

In the second half of 2017, the Group implemented a strategic initiative to alter its investment management structure. This was in response to the growth in the size of the Group along with the corresponding growth in assets under management. Both of these factors exposed constraints in the previous structure, particularly in relation to scalability, flexibility and operating efficiency. An Irish domiciled UCITS-vehicle, called the Toro Prism Trust (the 'Trust'), was determined to be the optimal fund structure for the new environment. The Trust is structured into 3 sub-funds (a fixed income securities fund, a liquidity fund and an equity securities fund) and a number of currency based share classes. MS Amlin Group entities transitioned the majority of their existing directly held assets, split between a large number of portfolio holdings, into shares in the Trust.

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

System of governance

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, while recognising that it is a wholly-owned subsidiary of MS Amlin plc and therefore needs to operate within a Group framework, strategy and structure set by its immediate parent.

The AISE Board has a number of committees, to which it delegates oversight and decision-making in accordance with documented terms of reference.

The parent is represented on the 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 Group reporting requirements from time to time.

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.

The Board regards the Company’s system of governance as effective, in particular to protect the interests of AISE as a regulated entity in the event that these diverge from those of the SBUs or of the Group generally. This is subject to continual refinement and review in line with good governance practice.

From 1 June 2017, the AISE remuneration committee was disbanded and the individual entity boards delegated remuneration matters to a newly formed joint MS Amlin Remuneration Committee (the ‘Committee’). Two non-executive directors of AISE are members of this committee. The Board of AISE, through its Nomination Committee, will be kept updated on the work of the Committee on an annual basis.

In accordance with the Investment Framework of MS Amlin, the Investment Oversight Committee (‘IOC’) is part of the executive function that operates concurrently in an advisory and/or decision making committee for the Group’s Boards, supporting them fulfil their prudential investment management responsibilities. The IOC’s remit includes, but is not limited to, approving the Investment Standard/Policy, Investment Guidelines and Approved Counterparties alongside advising entity boards on investment matters. In addition to this, the IOC will review and challenge investment management information, investment risk and the economic/market outlook.

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

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

Risk profile

AISE’s risk profile is explained using the six categories of the Risk Management Framework. In line with the business model and strategic objectives, insurance risk dominates AISE’s risk profile.

The impact of strategic developments on AISE’s risk profile are measured using the Own Risk and Solvency Assessment (‘ORSA’). The process takes into account scenario analysis, stress testing and sensitivity analysis to assess both qualitative and quantitative impact. Strategic developments taken into account are:

- achieving profitable growth in a highly competitive market with averages close to a 100% combined ratio;
- political and economic conditions (e.g. Brexit and regulatory requirements, low interest rate environment); and
- developments within the Group on AISE to execute its strategy.

Insurance risk is mainly driven by underwriting activities and reserving from prior underwriting years. Underwriting risk is concentrated around natural perils such as windstorm or fire, events such as terrorism or cyber, and large risks such as shipyards. These risks are mainly managed by assuring that for every class:

- a maximum line size, exposure and monitoring program is available; and

- by assuring adequate pricing models are in place.

Primary classes driving reserving risk are: General, Marine, Medical, Casualty, Motor and Professional Indemnity.

Market and liquidity risk is being managed in line with the Prudent Person Principle which requires AISE to only conduct investment management activities as long as we can reasonably demonstrate an appropriate level of understanding of the underlying investment. Exposure to market risk is limited to the extent that investments are balanced to:

- optimise investment income whilst focusing on ensuring it maintains sufficient capital to meet solvency requirements; and
- maintain sufficient liquid funds to meet liabilities when they fall due.

Credit risk is mainly driven by exposures to reinsurers and to a lesser extent by exposures to brokers and cover holders. This risk is related to creditworthiness of counterparties and therefore has an impact on AISEs ability to meet its claims obligations. Credit risk is managed by having an on-boarding process for both reinsurers and brokers and by managing exposures and outstanding balances to these counterparties.

AISE operates a diverse business across a number of offices and jurisdictions and is expected to comply with legal, regulatory and best-practice standards. The potential exists for a failure of critical business processes, people or systems resulting in an interruption to normal operations. AISE has a negative attitude to operational risk. 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.

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

The Company has excess assets over liabilities under Solvency II of €433.5 million (2016: €454.7 million), compared to €458.4 million (2016: €519.6 million) of net assets under IFRS. The adjustments made to move from IFRS balance sheet to Solvency II balance sheet are set out below:

	2017 €000	**2016 €000**
Net assets - IFRS	**458,361**	**519,599**
Disallowed items - Goodwill, Intangible assets, Prepayments and Deferred Acquisition Costs	(91,128)	(94,817)
Solvency II technical provisions adjustment	160,493	103,971
Future premiums and claims adjustments	(94,137)	(81,244)
Recognition of contingent liabilities	–	(5,798)
Deferred tax on adjustment items	(131)	12,948
Excess of assets over liabilities – Solvency II	**433,458**	**454,659**

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

Own funds

	2017 €000	2016 €000
Excess of assets over liabilities	**433,458**	**454,659**
Subordinated liabilities	2,385	2,452
Total Available own funds	**435,843**	**457,111**
Solvency Capital Requirement ('SCR')	362,311	357,511
Ratio of Eligible own funds to SCR ('Solvency Ratio')	**120.3%**	**127.9%**

AISE's policy is to actively manage capital so as to meet regulatory requirements. AISE wants to contribute to the Group target to deliver a cross-cycle return on equity in excess of 12%. This return on equity target will be reviewed periodically to ensure that it remains appropriate. AISE's internal target Solvency Ratio is 125% (based on the Standard Formula) with the purpose to be able to absorb, among other reasons, adverse claim development. As at 31 December 2017 AISE's Solvency Ratio was 120.3% (2016: 127.9%) reflecting adverse claims performance in the year. A range of plans are in place which are expected to enable AISE to return to the 125% internal target.

The below table analyses the movement in the Solvency Ratio,

	€000	%
Total Available own funds over SCR at 1 January 2017	**99,600**	**127.9**
Change in IFRS net assets	(61,238)	(17.2)
Change in Solvency II valuation adjustments	40,037	11.2
Change in subordinated liabilities value	(67)	–
Change in SCR	(4,800)	(1.6)
Available own funds over SCR at 31 December 2017	**73,532**	**120.3**

The change in IFRS net assets, which includes the impact of a loss after tax of €59.9 million for the Company, is explained in more detail in the Strategic Report of the Company's annual report.

The change in Solvency II valuation adjustments reflects those movements in sections D.1 to D.3 of this report.

The change in SCR (as well as the MCR) is explained in section E.2 of this report.

Capital structure and arrangements

As per the above, the Company has own funds of €435.8 million. Per the requirements for Solvency II, this is split into tiers as below:

	2017 €000	2016 €000
Tier 1	417,136	428,567
Tier 2	2,385	2,452
Tier 3	16,322	26,092
Total Available Own Funds	**435,843**	**457,111**

Tier 1 own funds are made up of the Company's entire share capital along with its share premium and reconciliation reserve. There is no restriction on tier 1 own funds. See section E.1 on page 94 for more information on this tier.

Tier 2 own funds relate to the subordinated debt the Company has issued, which is classified within this tier as per Solvency II transitional arrangements.

Tier 3 relates to the net deferred tax asset position of the Company, as this is required to be classified as tier 3. See section D.1 on page 79 for more information on the net deferred tax asset.

Use of Standard Formula

The Company uses the standard formula rules prescribed in the Solvency II directive, in the calculation of its SCR. There have been specific simplifications utilised in certain risk modules and sub modules of the standard formula. The standard formula calculations also uses specific information held within the Group's internal model. Please see section E.2 page 98 for more information on the application of the standard formula calculation.

On 19 December 2017, the regulatory status of the Company's parent, MS Amlin plc, was changed to a mixed activity insurance holding company (previously it was an insurance holding company). Thus the requirements for Solvency II reporting at the Group level no longer apply, which includes the requirement to calculate a Group Solvency Capital Requirement. In respect of the latter, approval for the Group's Internal Model was also formally withdrawn. However, the Group continues to use the Internal Model for internal capital setting processes and in support of various strategic and tactical initiatives, as well as supporting AISE's standard formula calculations.

As part of the re-domicile of the Company to Belgium, it is exploring an application to the National Bank of Belgium for approval to use the same Internal Model in future SCR calculations.

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 ('SFCR') 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 (the 'Rules') and the Solvency II Regulations (the 'Regulations') which are applicable to Amlin Insurance S.E. and all necessary reporting adjustments arising from the application of these Rules and Regulations to our processes have been made; and

b) in respect of the period from 31 December 2017 to the date of the publication of the SFCR, Amlin Insurance S.E. has continued so to comply and will continue so to comply for the remainder of the financial year to 31 December 2018.

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

Kim Hvirgel
Chief Executive Officer

Reijer Groenveld
Chief Financial Officer

26 April 2018

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

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

Opinion

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

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2017, ('the Narrative Disclosures subject to audit'); and
- Company templates S02.01.02, S17.01.02, S23.01.01, S25.01.21, S28.01.01 ('the Templates subject to audit').

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

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

- The 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;
- Company templates S05.01.02, S05.02.01, S19.01.21;
- The written acknowledgement by Directors of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('the Responsibility Statement').

In our opinion, the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report of the Company as at 31 December 2017 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

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

Emphasis of Matter – special purpose basis of accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' 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 this matter.

Conclusions relating to going concern

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

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

Other Information

The Directors are responsible for the Other Information.

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

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the Relevant Elements of the Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Relevant Elements of the Solvency and Financial Condition Report or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Solvency and Financial Condition Report

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

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

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

It is our responsibility to form an independent opinion as to whether the Relevant Elements of the Solvency and Financial Condition Report are prepared, in all material respects, with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

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

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

Report on Other Legal and Regulatory Requirements

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

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

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

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

KPMG LLP
15 Canada Square
London
E14 5GL

26 April 2018

- *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

Solo standard formula

The Relevant Elements of the Solvency and Financial Condition Report that are not subject to audit comprise:

- The following elements of template S.12.01.02
    - Rows R0110 to R0130 – Amount of transitional measure on technical provisions
- The following elements of template S.17.01.02
    - Rows R0290 to R0310 – Amount of transitional measure on technical provisions
- The following elements of template S.22.01.21
    - Column C0030 – Impact of transitional on technical provisions
- Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.

Section A - Business and Performance (unaudited)

A.1 Business

Legal form

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:

The Leadenhall Building
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. AISE 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.

MS Amlin plc is a wholly owned subsidiary of Mitsui Sumitomo Insurance Company, Limited (‘MSI’), which itself is a wholly owned subsidiary of MS&AD Insurance Group Holdings, Inc. (‘MS&AD). Both MSI and MS&AD are registered in Japan.

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.

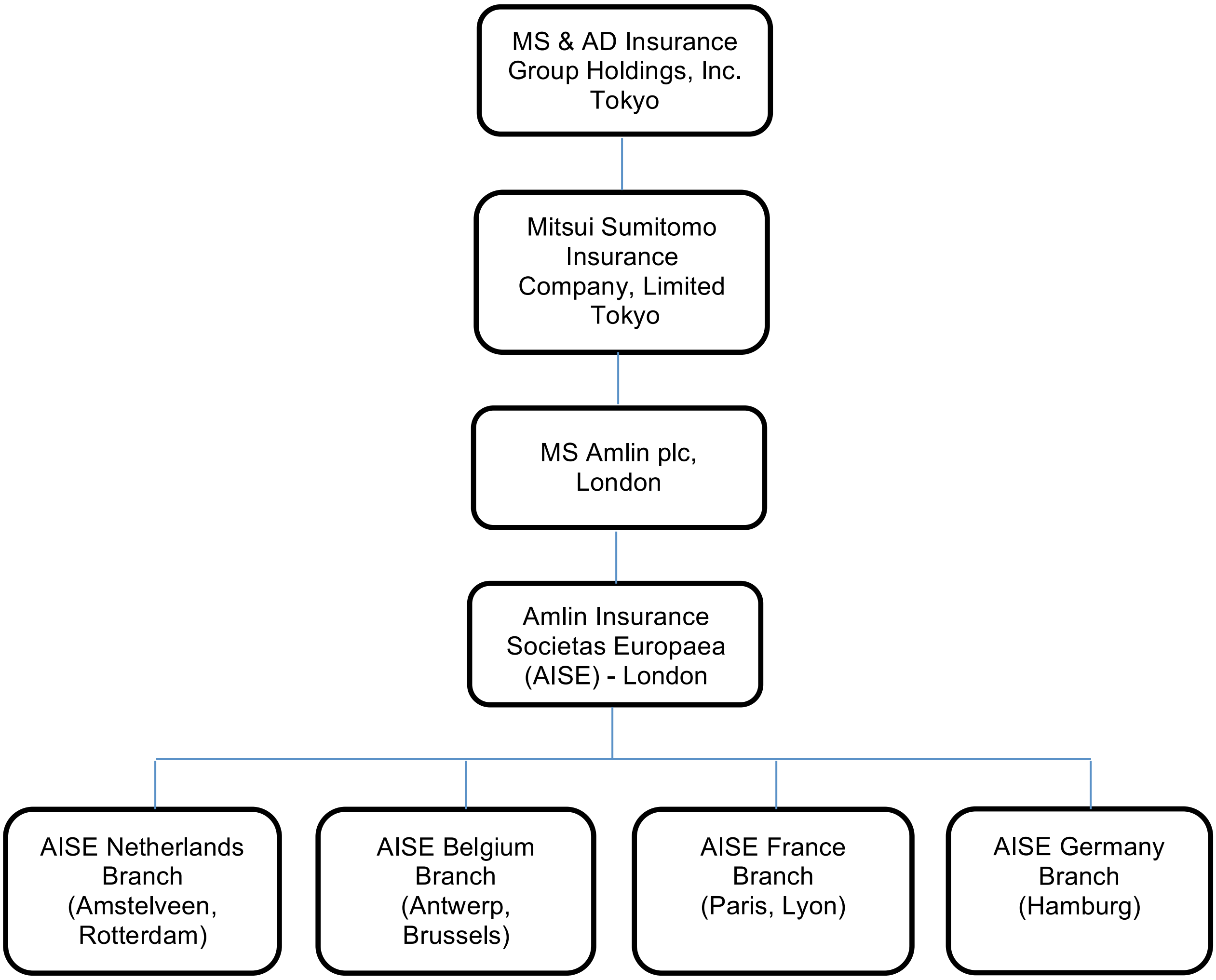
MS&AD is the ultimate parent of AISE, and the consolidated accounts of MS&AD represent the largest group in which the results of the Company are consolidated.

AISE operates in five countries, and is organised and managed through two 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 three 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 structure chart below explains the relationships between AISE and its parent companies. AISE does not have material related undertakings where a proportion of ownership is held.



Significant events during the period

MS Amlin announced on 28 June 2017, its intention to re-domicile AISE to Belgium in response to Brexit, where AISE already operates offices in Brussels and Antwerp. Brexit is the common name given to the result of the referendum on European Union ('EU') membership held in the UK in June 2016, where the UK elected to leave the EU. This is a strategic move that ensures our European brokers and clients experience no disruption from the UK's exit from the EU, whilst continuing to enjoy the same high-quality service they have come to associate with MS Amlin. Subject to regulatory approval from the National Bank of Belgium ('NBB'), the proposed change is expected to be completed by 1 January 2019.

On 19 December 2017, the regulatory status of the Company's parent, MS Amlin plc, was changed to a mixed activity insurance holding company (previously it was an insurance holding company). Thus the requirements for Solvency II reporting at the Group level no longer apply, which includes the requirement to produce a Solvency and Financial Condition Report and to calculate a Group Solvency Capital Requirement. In respect of the latter, approval for the Group's Internal Model was also formally withdrawn. However, the Group continues to use the Internal Model for internal capital setting processes and in support of various strategic and tactical initiatives, as well as supporting AISE's standard formula calculations.

Significant events after the reporting period

No significant events have been identified between the reporting date and the date on which this Solvency and Financial Condition Report was approved.

Supervisor information

AISE's supervisor is the Prudential Regulation Authority (PRA), Bank of England, 20 Moorgate, London EC2R 6DA, England.

External auditor information

The Company's appointed external auditors are KPMG LLP, Chartered Accountants, 15 Canada Square, London, E15 5GL, England.

A.2 Underwriting performance

The values in this section are consistent with the values included in the following Quantitative Reporting Templates (QRTs), as included in the Annex to this report,

- S.05.01 ‘Premiums, claims and expenses by line of business’, and
- S.05.02 ‘Premiums, claims and expenses by country’

There are some classification differences in the preparation of these QRTs, when compared to the calculation of underwriting performance on an IFRS basis as per the Company’s financial statements,

- Underwriting foreign exchange gains or losses are excluded
- Claims management expenses are presented as part of incurred expenses in the QRTs, whereas they would be reported as part of Net claims under IFRS

In all other respects, the accounting for underwriting performance on both Solvency II and IFRS bases is the same, being prepared in accordance with IFRS accounting standards.

Underwriting performance by material line of business

2017	Motor vehicle liability and other insurance €000	Marine, aviation and transport insurance €000	Fire and other damage to property insurance €000	General liability insurance €000	Other non-material lines of business €000	Total €000
Gross written premium	126,361	131,732	175,908	128,922	49,564	612,487
Net written premium	125,015	128,847	156,133	121,074	21,082	552,151
Net earned premium	128,447	134,998	152,247	108,640	23,227	547,559
Net claims	(118,646)	(81,842)	(123,877)	(79,326)	(7,813)	(411,504)
Incurred expenses	(58,893)	(51,667)	(59,573)	(45,459)	(9,136)	(224,728)
Underwriting result	**(49,092)**	**1,489**	**(31,203)**	**(16,145)**	**6,278**	**(88,673)**
Claims ratio	92.4%	60.6%	81.4%	73.0%	33.6%	75.2%
Expenses ratio	45.9%	38.3%	39.1%	41.8%	39.3%	41.0%
Combined ratio	138.3%	98.9%	120.5%	114.8%	72.9%	116.2%

2016	Motor vehicle liability and other insurance €000	Marine, aviation and transport insurance €000	Fire and other damage to property insurance €000	General liability insurance €000	Other non-material lines of business €000	Total €000
Gross written premium	102,792	128,768	145,537	126,027	65,197	568,321
Net written premium	102,109	120,515	122,161	113,558	34,851	493,194
Net earned premium	97,918	132,479	126,198	108,421	28,456	493,482
Net claims	(76,487)	(42,681)	(53,202)	(53,454)	(6,790)	(232,614)
Incurred expenses	(45,372)	(51,097)	(47,647)	(46,928)	(11,090)	(202,134)
Underwriting result	**(23,941)**	**38,701**	**25,349**	**8,039**	**10,568**	**58,734**
Claims ratio	78.1%	32.2%	42.2%	49.3%	23.8%	47.1%
Expenses ratio	46.3%	38.6%	37.8%	43.3%	39.0%	41.0%
Combined ratio	124.4%	70.8%	80.0%	92.6%	62.8%	88.1%

Overview

AISE written premium has grown in 2017, but overall underwriting performance has worsened.

Gross written premium (GWP) grew by 7.8% in 2017 and the full year underwriting result was a €88.7 million loss. The retention rate for the year was 90% (2016: 90%), with new business of €77.0 million driving the largest part of the growth. The renewal rate was marginally negative at 0.2%, mainly explained by rate worsening in the Hull portfolio.

Net claims are €178.9 million higher than prior year, which is the result of an increase in net premiums (€25.5 million net claims impact based on the 2016 claims ratio),a €57.0m unplanned strengthening on prior accident year reserves, and adverse current year performance, the later notably in Motor and Property.

Motor vehicle liability and other insurance

The AISE Motor business written premium grew significantly by €23.6 million (22.9%) in 2017 compared to 2016. This was driven by strong growth of the binder portfolio in The Netherlands.

The underwriting result in 2017 was a €49.1 million loss, explained by unfavourable claims development in The Netherlands and Belgium for both the current and prior year. Rate increases were experienced in the Netherlands (+3.4%) as a result of a hardening of the market. To re-store profitability the account will be further re-underwritten in 2018.

Marine, aviation and transport insurance

The marine, aviation and transport insurance business in AISE showed an increase in written premium in 2017 over 2016, as an increase of 2.3%. The increase is reflected in a high retention rate of 89.5%, mainly impacted by a strong retention rate of the Hull book; although rate increases were relatively flat at 0.5%, mainly impacted by strong competition on the international Hull, Yacht and Fixed Premium P&I book.

Result for the period is a profit of €1.5 million.

Fire and other damage to property insurance

The property business in AISE showed an increase in premium in 2017. Gross written premium grew by €30.3 million (20.9%) in 2017. Growth was experienced in all countries, but mainly in France. The overall retention for the year was strong at 87%, reflecting a broader market trend across Europe.

The underwriting result in 2017 worsened significantly compared to 2016 (from €25.3 million profit to €31.2 million loss). The result was driven by large loss activity in The Netherlands and Germany. The largest loss was experienced in Property Germany with €12.5 million where a fire burned down a research institute.

General liability insurance

The Casualty portfolio grew by 2.3% in 2017. Gross written premium over 2017 amounted to €128.9 million. Strong retention in the Casualty business was realised. The retention rate was 89% reflecting a larger market trend across Europe. Across Europe market remained soft with slightly negative rate development.

The underwriting result in 2017 is a €16.1 million loss and mainly driven by prior year claims development in Belgium and Germany. To restore underwriting profitability, the medical malpractice portfolio in both countries will be further re-underwritten in 2018 and 2019. This is offset by the French business benefiting from much better than expected large loss and attritional development.

Underwriting performance by material geographical area

2017	UK €000	Netherlands €000	Belgium €000	France €000	Germany €000	Other €000	Total €000
Gross written premium	6,864	311,705	162,554	100,160	26,359	4,845	612,487
Net written premium	6,789	303,471	123,788	89,240	23,980	4,883	552,151
Net earned premium	13,297	308,739	111,591	88,049	21,650	4,233	547,559
Net claims	(13,482)	(238,156)	(79,699)	(40,652)	(38,450)	(1,065)	(411,504)
Incurred expenses	(2,787)	(127,465)	(49,748)	(32,826)	(10,168)	(1,734)	(224,728)
Underwriting result	**(266)**	**(61,760)**	**(18,333)**	**15,938**	**(25,724)**	**1,472**	**(88,673)**
Claims ratio	81.0%	78.7%	71.8%	44.6%	171.9%	24.3%	75.2%
Expenses ratio	21.0%	41.3%	44.6%	37.3%	47.0%	41.0%	41.0%
Combined ratio	102.0%	120.0%	116.4%	81.9%	218.9%	65.3%	116.2%

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%

Movements from a geographical perspective have been covered by the line of business commentary above.

A.3 Investment performance

Investment performance by asset class

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

	2017 €000	2016 €000
Government bonds	869	2,549
Equities	12,922	(2,167)
Collective Investment Undertakings	11,344	9,461
Cash and deposits	135	83
Total	**25,270**	**9,926**

All asset classes contributed positively to the AISE investment return in 2017. Equities and the property allocation held via investment funds (included in line item Collective Investment Undertakings) were the standout performers. AISE's equity and property assets are only held within the capital portfolios where liquidity is less of a constraint than policyholders' funds.

Global economic conditions remain favourable and should provide support for property and equity market performance via higher rental or earnings growth. However, the recent pickup in volatility, having been so low in previous years, may unnerve investors whose strategies are led by short-term risk models.

With the normalisation of central bank policies we expect yields to rise further and therefore AISE continues to run asset durations lower than that of liabilities within policyholders' portfolios.

Investments are run on a multi-asset, multi-manager basis. Exposure to the asset classes is achieved using physical holdings of the asset class or derivative instruments. The assets are primarily managed within MS Amlin's UCITS umbrella, which provides sub-funds by asset class and unit classes by currency. Assets may also be managed by MS Amlin Investment Management directly or by outsourced managers, on a segregated, pooled or commingled basis. Manager selection is based on a range of criteria that leads to the expectation that they will add value to the funds over the medium to long-term. The managers have discretion to manage the funds on a day-to-day basis within investment guidelines or prospectuses applicable to their funds that ensure that they comply with the investment frameworks. The managers' performance, compliance and risk are monitored on an ongoing basis.

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

The Company has a small amount of investments in securitised assets but these are less than 5% of the total Company investment assets.

A.4 Performance of other activities

Other material income and expenses

AISE has no other material income and expenses in the statement of profit or loss not included in sections A.2 or A.3 of this report.

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.

	2017 €000	2016 €000
Not later than 1 year	4,318	4,263
Later than 1 year and not later than 5 years	11,476	10,382
More than 5 years	4,037	3,042
Total	**19,831**	**17,687**

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 €0.5 million annually and is yearly adjusted for inflation. The contract ends 31 December 2020;
- 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 2025.

AISE leases various cars under operating lease agreements. The remaining lease terms are between less than one and 5 years. The total future lease commitment as per 31 December 2017 is €3.0 million (2016: €2.9 million).

AISE does not have any finance lease arrangements.

A.5 Any other information

All material information relating to the Company's business and performance has been disclosed in sub-sections A.1 to A.4 above.

Section B - System of Governance (unaudited)

B.1 General information on the system of governance

B.1.1 Structure of the Board and management

AISE has a Board of Directors (the 'Board'), 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, while 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 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.

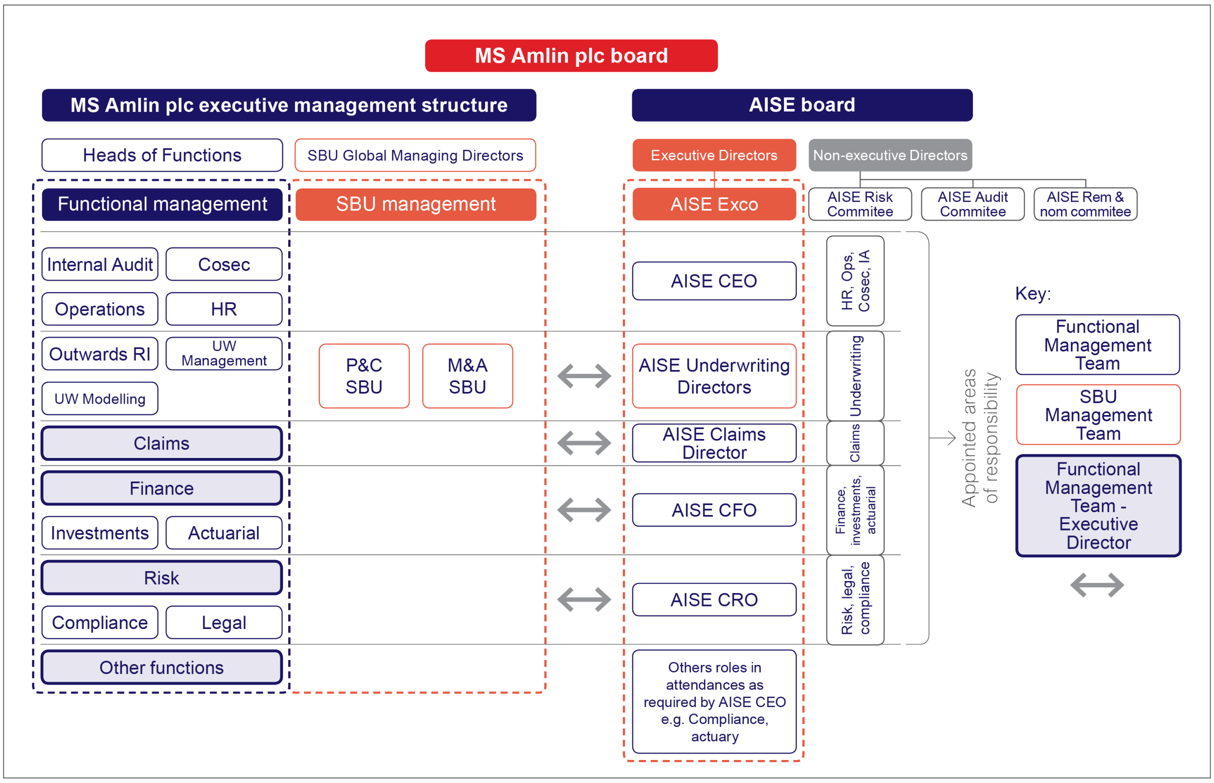
The Board sets the strategic direction of the Company and provides leadership within the risk appetite and framework of systems and controls. The Board ensures AISE has the right balance of skills, experience, independence, knowledge and diversity for an evolving business. The Board achieves this by:

- An on-going programme of Board effectiveness evaluation;
- A Group training and development programme for all directors, including AISE directors;
- Continued rigorous analysis by the MS Amlin plc Remuneration Committee and AISE Nomination Committee of the balance of skills, experience and diversity when appointing new AISE directors;
- Continued focus on the development of potential employees with 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 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.

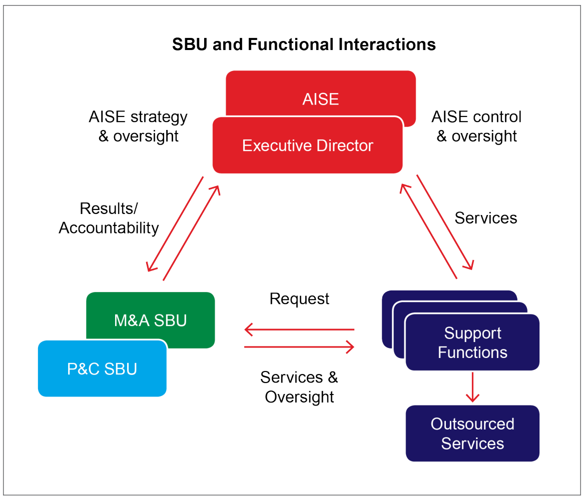


AISE's operating structure

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 include Actuarial, Business Change, Claims, Company Secretarial, Compliance, Facilities, Finance, Human Resources, Internal Audit, Investment Management, IT, Legal, Marketing, 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 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 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 Board

The 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 of the Board and Chairman of the Nomination Committee
Non-Executive	Group Chief Underwriting Officer (parent representative)
Non-Executive	Chairman of the Audit Committee
Non-Executive	Chairman of the Risk & Solvency Committee

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 Board periodically, as part of the process of reviewing the SIMR 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 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 membership is composed of Non-Executive Directors only. Its remit is determined by its Terms of Reference and 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 & Solvency Committee

The AISE Risk & Solvency Committee meets at least quarterly. Its membership is composed of Non-Executive Directors only. Its remit is determined by its Terms of Reference and includes risk management issues, solvency capital requirements, and a review of internal controls.

The Nomination Committee

The AISE Nomination Committee meets at least annually. Its membership is composed of Non-Executive Directors only. Its remit is determined by its Terms of Reference and leads the process for appointments to the AISE Board.

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 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.

The Company'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 is assessed against their performance objectives and the requirements of their roles.

The table below comprises the functional 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 on the ORSA, please refer to section B.3.2 page 39.	Chief Risk Officer[1]	Group Chief Executive 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 on the Internal Audit function, please refer to section B.5.	Chief Internal Auditor	Non-Executive Director (Audit Committee Chairman) Group Chief Executive Officer (administratively)	Non-Executive Director (Audit Committee Chairman)
Actuarial Function	To provide capital modelling and reserving services to AISE. For further information on the Actuarial function, please refer to section B.6.	Group Actuary	Group Chief Finance Officer	Chief Financial Officer

Key Function	Main Responsibilities	Key Function Holder	Reports To	AISE Board Responsibility
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

1. The Chief Risk Officer for AISE is also the Chief Risk Officer for MS Amlin plc, hence the reporting line is to the Group Chief Executive 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 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:

Three lines of defence model

First line	Second line	Third line	External Audit	Regulator (s)
SBUs / Functions	Risk Function Compliance Functions	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 functions - Testing effectiveness of internal controls performed in the first and second lines of defence - Providing independent and objective assurance on the internal control environment - Reporting audit findings to Audit Committee and management	**Governance and oversight performed by MS Amlin's Committee structures**	

AISE's first line of defence is supported by the Risk function, through its Risk Assurance team, 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 Risk Assurance team promotes individual accountability by encouraging excellence through an effective and efficient control environment.

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.

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 Group Management Information ('MI') reporting framework, under which monthly and quarterly MI reports are received by the MS Amlin plc Board and senior management, containing underwriting, finance, risk, human resources, 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 the Company'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 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 Company 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 Board and its Committees, including 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 2017. 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.

The framework also includes governing mechanisms, such as:

- 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'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 plc Remuneration Committee. The standard is adopted and followed by AISE.

By achieving this aim, the maximum possible alignment between the interest and long-term career development of employees is secured, alongside 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. From 1 June 2017, the AISE remuneration committee was disbanded and the individual entity boards delegated remuneration matters to the newly formed joint MS Amlin Remuneration Committee (the 'Committee'). Two non-executive directors of AISE are members of this committee. The Board of AISE, through its Nomination Committee, will be kept updated on the work of the Committee on an annual basis.

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 MS Amlin target fixed–variable remuneration ratio);
- 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, group cultural statement 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 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

From 1 June 2017, the AISE remuneration committee was disbanded and the individual entity boards delegated remuneration matters to a newly formed joint MS Amlin Remuneration Committee (the 'Committee'). Two non-executive directors of AISE are members of this committee. The Board of AISE, through its Nomination Committee, will be kept updated on the work of the Committee on an annual basis.

In accordance with the Investment Framework of MS Amlin, the Investment Oversight Committee ('IOC') is part of the executive function that operates concurrently in an advisory and/or decision making committee for the Group's Boards, supporting them fulfil their prudential investment management responsibilities. The IOC's remit includes, but is not limited to, approving the Investment Standard/Policy, Investment Guidelines and Approved Counterparties alongside advising entity boards on investment matters. In addition to this, the IOC will review and challenge investment management information, investment risk and the economic/market outlook.

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

B.1.4 Material transactions

There have been no 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 SBUs or of the Group 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 Company 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 a 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 Company 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

The risk management system is explained by elaborating on AISE’s risk management strategy, framework and underlying processes and reporting procedures. AISE’s risk management system is aligned with the system implemented at Group. This section concludes with a description of how the system has been integrated in the organisational structure and decision making processes.

Risk Management Strategy

MS Amlin has a top down approach to risk management whereby the MS Amlin plc Board has developed a high level risk and capital management statement and mandated its adoption through its Risk Management Policy that is applicable to all subsidiaries of the MS Amlin Group. To fulfil the needs of MS Amlin's Risk Management Policy, a Risk Management Framework has been developed.

MS Amlin’s vision and core values provide the strategic focus for the risk management system to deliver “an effective Risk Management Framework which optimises return for the risks we take” with the objective to deliver long-term value to its shareholder. This is achieved by actively seeking and accepting risks while managing the risks within acceptable bands.

MS Amlin’s risk management strategy has four key elements:

- Clearly defining ownership and responsibilities for managing, identifying and assessing risks across the organisation;
- Ensuring that there is a clear understanding of appetite for key risks and that there are agreed maximum risk limits or tolerances in place;
- Establishing and maintaining a sustainable enterprise risk management process as an integral part of its business model supporting business planning and capital management; and
- Creating a risk aware culture across the organisation by informing, training and motivating staff to consider risk within their day-to-day decision making.

The implementation of the Risk Management Policy and Framework 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

MS Amlin’s risk management objectives seek to optimise business strategy, business planning, capital management, and enterprise risk management to achieve the best long-term sustainable outcome for shareholders, policyholders, staff and other interested parties.

This approach allows the Company to maximise its return on risk where there is opportunity to, subject to limitations over acceptable risk taking. This is done through the adoption of risk appetites and tolerances that link closely to the return objectives set by the Board.

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 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 management 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 to regulators.

The Internal Model was previously approved by the PRA for MS Amlin Group for solvency capital requirement purposes. The approval was withdrawn as a consequence of the change in regulatory status of MS Amlin plc (see page 8), but continues to be used for internal 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 is the owner of the Internal Model and is responsible for ensuring the model is appropriately governed, and utilised. The Actuarial capital modelling team are 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 next table presents the use of the Standard Formula and Internal Model both within the MS Amlin Group and within AISE. AISE's capital management strategy is further explained in section E.1 of this report.

Process	MS Amlin Group	AISE
Communicate SCR to regulator	Not applicable	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

Risk Management Framework

MS Amlin's Risk Management Framework consists of a suite of standards, governance processes and procedures that put risk management in practice. It is built into the core operating model of the Company and forms part of the 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.

The scope of the Risk Management Framework 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.

Risk appetite and tolerances

Risk appetite is defined as the amount and type of risk that the Group is willing to take in order to meet its strategic objectives. A key objective of the Risk Framework is to establish risk appetites for all areas of risk identified. 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. Management is accountable for managing levels of risk within the allocated tolerances. The status of profile versus tolerance is reported quarterly to AISE Risk & Solvency Committee and Board.

Risk categorisation

MS Amlin groups its risks into six key categories as specified below. Accordingly, the Risk Management Framework has been designed to take account of these risk categories and seeks to ensure ownership, accountability and consistency in processes and approach where possible.

Each of these categories of risk is owned by either a Board member or a Senior Management Team member with appropriate expertise and authority to manage the risk on a day to day basis.

Risk category / owner	Definition	Scope	Paragraph in section C
Insurance risk / (CUOs)	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 (CFO)	Risk arising from fluctuations in values of, or income from, assets, interest & currency rates and investment returns.	Investment market volatility, investment counterparty risk, currency fluctuation	C.2
Credit risk (CFO)	Risk of loss if counterparty fails to perform its obligations or fails to perform in a timely fashion.	Reinsurers, brokers, cover holders, (re-)insureds, banks	C.3
Liquidity Risk **(CFO)**	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 **(CFO & COO)**	Risk from inadequate or failed internal processes, people and systems, or from external events. Risks faced by Amlin entities that may arise as a result of Group structure.	Systems and technology, processes, people, legal and regulatory, group structure related	C.5
Strategic risk (CEO)	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

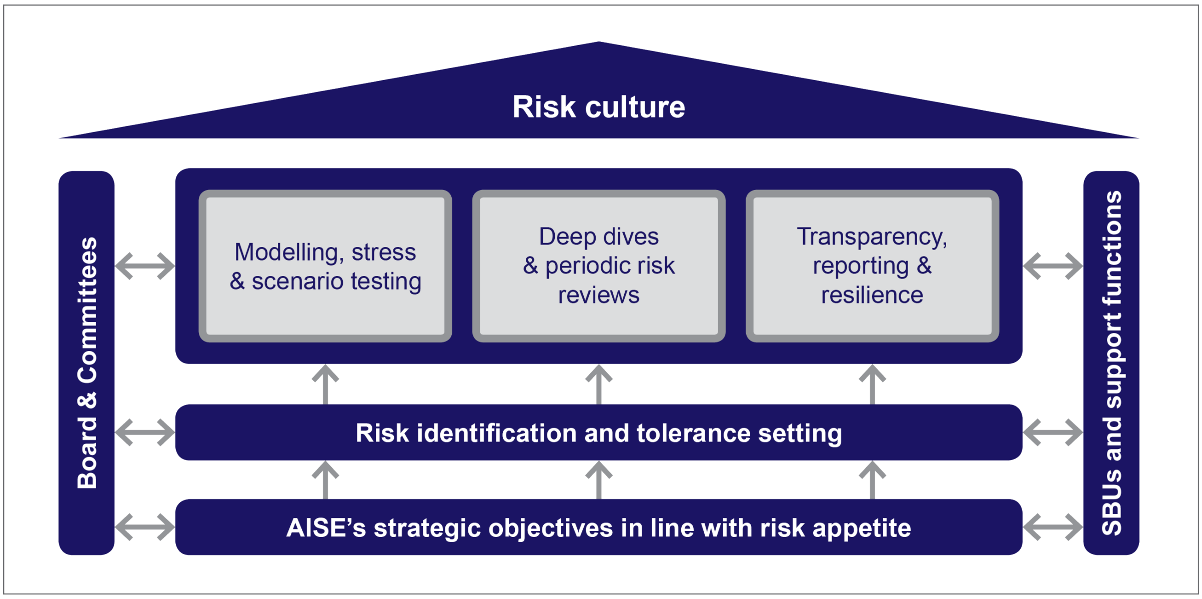
The above material risks (with the exception of strategic risks) are all included in the calculation of AISE's Solvency Capital Requirement as set out in Article 101(4) of Directive 2009/138/EC.

The risks within each of the above categories are captured in an entity specific risk register that support assessment, monitoring and reporting of the risks. The key processes of the Risk Management Framework are discussed in more detail below. The associated exposures, concentrations, mitigating strategies and reporting procedures for each category of risk are described in more detail in section C.

Risk Management Process

AISE uses a holistic view (also referred to as Enterprise Risk Management) in managing the risks in the framework. 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 results in an aggregated impact on the organisation as a whole.

The process (as presented below) 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 functions and SBUs (first line of defence).



This risk management process can be summarised via the below activities.

- The Board is responsible for aligning AISE's strategy with its risk appetite and tolerances. The outcome of this process is a risk appetite statement per risk category.
- The risk appetite statement per risk category is translated into measurable tolerances which need to be managed by the appointed risk owner. AISE's SBUs and support functions are responsible for performing activities to manage risk within tolerance.
- Via the Internal Model and Standard Formula a wide range of parameters are stressed and future developments are mapped using scenario analysis (see also next section on ORSA).
- Risks are assessed by way of periodic catch-ups with first line risk managers and analytical deep dives. The purpose of these activities is to identify areas of risk exposure and associated mitigation.
- Effectiveness of controlling operational risks is measured via the Internal Control Framework (ICF). The relationship between the risk management process and the ICF is explained in section B.4.
- Reporting on the Risk Management Framework is done by the Risk function on a monthly basis to AISE's Executive Committee and on a quarterly basis to AISE's Risk & Solvency Committee.

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

Decision Making Processes

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 & Solvency Committee and Audit Committee. The output of the risk management system is reviewed by the Risk & Solvency 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)

The ORSA is fully embedded into the overall Risk Management Framework and aligned to capital strategy and business planning related processes and decision making. AISE is performing its ORSA independently of, but in conjunction with, the Group. The Company operates an annual cycle with numerous inputs and outputs to the process throughout the year, summarised into an Annual ORSA report, presented to AISE's Risk & Solvency Committee and Board.

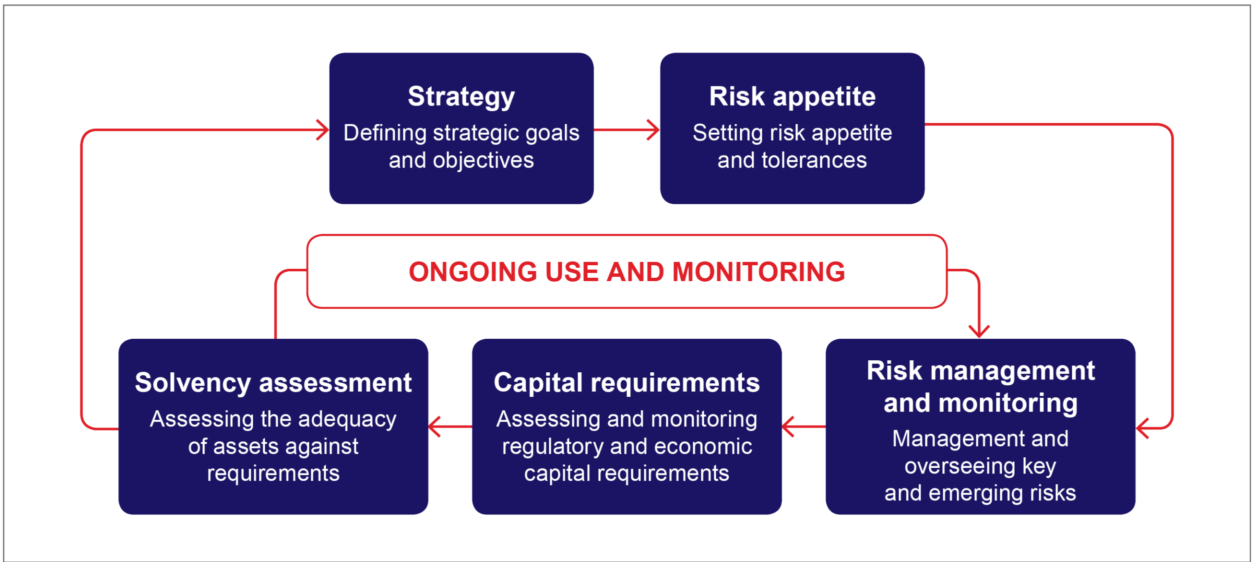
The Board is accountable for sustaining a robust ORSA process that informs management on business strategy in relation to risk exposure and solvency. AISE defines its ORSA process as:

- 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 Company 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 Company are met at all times;
- A process that links and articulates the development and management of the Company's risk profile and associated capital requirements.

The last full iteration of the ORSA process concluded with the presentation of the annual ORSA report to the AISE Risk & Solvency Committee in Q3 2017.

ORSA Processes

The ORSA leverages off key business processes, the risk appetite and tolerance framework and the systems of governance. The process runs in conjunction to the business planning process, allowing it to inform the development of the business plan as per the annual cycle. The process covers current year business plan monitoring (quarterly); and forward looking forecasting of future years.



Current year monitoring

The current year monitoring ORSA process is designed to provide AISE's executive management and Board with a clear understanding of the solvency position at a particular point in time, given its risk exposures. 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.

As part of current year monitoring AISE's business plan is assessed and challenged by the Risk function which take into consideration risk, capital and solvency implications. The development of the business plan against these considerations is monitored during the year to ensure the business plan and levels of risk remain within predefined risk appetites and tolerances.

The iterative current year monitoring takes account of all (net) current risk exposure that determines solvency requirements via the Internal Model and Standard Formula. Capital requirements are assessed versus actual own funds. The quarterly outcomes of current year monitoring are used to support decision making and are standing agenda items for the Risk & Solvency Committee and Board.

Forward looking forecasting

Forward looking forecasting seeks to identify, assess, monitor, manage and report the longer term strategic risks and forecast returns faced by the organisation and to consider how MS Amlin’s solvency is impacted by changes in these risks. Forward looking forecasting is conducted using a selection of stress and sensitivity testing which are challenged in Risk & Solvency Committee and/or Board meetings. 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.

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.

Examples of such ad hoc triggers include, but are not limited to: Business plan reforecasts, material underwriting catastrophes, material financial market movements/volatility or material reserve adjustments. No such events arose for AISE during the reporting period ended 31 December 2017.

Assurance

The Risk & Solvency Committee oversees the execution of the ORSA process ensuring it is appropriate and follows the governance process. The Risk & Solvency Committee ensures that:

- The ORSA is reviewed by all members of Executive Management;
- The ORSA is presented to the Risk & Solvency Committee for review and comment; and
- The Board approves the ORSA, subject to the actions raised.

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 2017.

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 on page 29) 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 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 2017, 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. AISE managed its internal controls on a dedicated internal controls software solution that required control operators to perform a quarterly self-assessment of the effectiveness of their controls on the system, to upload supporting evidence to the system and to submit their self-assessment to an assigned control owner for review and approval. This process was managed by a dedicated Risk Assurance team within the Risk function, which was also tasked with reporting on the results of the quarterly control self-assessment cycles to the AISE Audit Committee. This process was further strengthened by quality assurance reviews that were carried out by the Risk Assurance team over the control self-assessments, which was done on a sample basis.

The Risk Assurance team is a centralised MS Amlin Group team and forms part of the second line of defence. Specifically, this function supports and challenges the first line of defence on their management, maintenance, enhancement and remediation of key internal controls, provides internal control training to control owners and operators, and manages the quarterly internal control self-assessment process.

Other assurance providers, such as the Internal Audit, Risk and Compliance functions, contributed to the enhancement of AISE's internal control framework through their respective assurance activities and reporting. Feedback loops between these assurance providers and the Risk Assurance team had been established and were operating effectively for the year ended 31 December 2017.

MS Amlin is assessed as a significant business for MS&AD, the ultimate parent company, which is a listed company in Japan. MS&AD must comply with J-SOX requirements and as such, there is a requirement for MS Amlin, which includes AISE, to attest to its compliance with J-SOX. AISE is not required to attest to its compliance with J-SOX on a stand-alone basis, but forms part of the MS Amlin Group wide J-SOX compliance programme.

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 Terms of Reference are approved by the Group Audit Committee and reviewed and approved annually. The Terms of Reference is adopted for use by AISE and its current version was formally approval in the AISE Audit Committee meeting in May 2017. Up to 2017 the Audit Committee had oversight over the full compliance plan and reporting in this aspect was performed to the Audit Committee. In 2018 it has been agreed that the Audit Committee continues to keep oversight over compliance monitoring but that the other duties of the Compliance function will be overseen by the Risk Committee.

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 functions/SBUs 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, and of Compliance Monitoring findings. To AISE's Risk & Solvency Committee it reports quarterly on integrity risks and regulatory breaches (if any). The compliance officer of AISE and has a standing invitation to the meetings of the AISE Board and its committees.

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 & Solvency 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 & Solvency 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 2017. These have included fitness and propriety requirements for individuals.

B.5 Internal Audit function

The Internal Audit (‘IA’) function is under the supervision of the Board and/or the Audit Committee of MS Amlin plc. 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.

The Chief Internal Auditor (‘CIA’) attends the AISE Audit Committee (‘AISE AC’) and reports inter-alia, on planned audit work, recent audits completed and any other matters as directed by the Board and/or the AISE AC. At least annually, the CIA will submit an annual Internal Audit plan to the MS Amlin plc Audit Committee for review and approval. Following approval, the audit plan will be communicated to all relevant Boards and Committees across the Group, including the AISE AC. This audit plan covers all MS Amlin Group Functions and Strategic Business Units (‘SBUs’) and thus encompasses in its scope all subsidiaries (incl. AISE) and branches. Audits might focus on a particular legal entity or location or can be group-wide audits.

The Internal Audit plan is developed using a risk-based methodology, including input from senior management and the Board and/or the AISE AC. IA will review and adjust the plan, as necessary, in response to changes in the organisation’s business, strategies, risks, operations, programs, systems, and controls. The CIA will communicate the impact of resource limitations and significant interim changes to the Board and/or the AISE AC and other stakeholders as deemed applicable.

IA has sufficient and timely access to key management information and a right of access to all of the organisation’s records, personnel, property and operations of the company, necessary to discharge its responsibilities, with strict responsibility for safekeeping and confidentiality.

The scope of internal auditing is based on an approved audit plan and encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation’s governance, risk management, and the internal control framework established by management, to ensure achievement of MS Amlin’s strategic and operational goals and objectives. IA will also examine the quality of performance in carrying out assigned responsibilities. This will be achieved by:

- effective identification, assessment and management of risk;
- compliance with those policies, standards, procedures, laws and regulations which could have a significant impact on MS Amlin’s operations or reputation;
- display of and adherence to MS Amlin’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 Board;
- 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, and
- the risk of poor customer outcomes, giving rise to reputational or conduct risk;
- 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 IA 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 throughout MS Amlin 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 annually;
- manage the function to ensure that audit staff have appropriate knowledge, skills, qualifications and experience to deliver the proposed plan of work;
- 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 MS Amlin Legal, to play a leading role in the investigation of internal fraud; and
- 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. IA may also be asked by management to assist with the design of control processes or to complete other work, including work of an investigatory nature. Such work will not be accepted if doing so significantly impairs IA's ability to deliver on its primary objectives.

The MS Amlin IA function reports to the MS Amlin plc Audit Committee which will:

- Approve the IA Charter;
- Approve the risk based internal audit plan;
- Approve the Internal Audit budget. (Ref: UK CIIA 23);
- Approve decisions regarding the appointment and removal of CIA;
- Evaluate the performance of the Internal Audit function on a regular basis;
- Make appropriate inquiries of management and the Internal Audit function to determine whether there is inappropriate scope or resource limitations.

Approvals above are required annually except for the approval of the IA Charter as such approvals of the IA Charter are only required when it is revised. IA has the right to attend and observe all or part of the Board, Executive Committee meetings and any other key management decision making fora. The CIA operates at a sufficiently senior level within the organisation to give him the appropriate standing, access and authority.

B.6 Actuarial function

The Actuarial function is a global team that provides actuarial services to the whole 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 co-operation between the pricing actuaries and the core team in the areas of business planning, reserving and setting of technical pricing 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 person risk. In addition, these teams have responsibilities which align well with the reserving work e.g. calculating the Solvency Capital Requirement (SCR). 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 & Solvency Committee on reserve and risk related subjects. The Group Chief Actuary reports directly to the Chief Finance 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 and Outsourcing Standard documents (the ‘policy’) are 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. Material Outsourcing refers to Outsourcing of a ‘critical or important’ operational function of, or for, an MS Amlin regulated entity. The test as to what is ‘critical or important’ is if any defect or failure in the Outsourcing performance 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.

Contracts for Third Party Administrators (‘TPAs’) are only considered Material Outsourcing if they meet the criteria detailed below.

- The service outsourced could otherwise be reasonably and viably brought in house and undertaken using MS Amlin employees, systems and facilities
- MS Amlin has the ability to change the TPA through a competitive sourcing exercise at the end of the contractual term
- The service will be provided by a TPA in a jurisdiction where MS Amlin has a material claims presence (more than 10 claims staff within the relevant line of business)
- The TPA covers multiple classes of business and/or multiple underwriting contracts; and
- The TPA is allocated a loss fund exceeding 1 million currency units (£/$/€)

The following functions will not be considered as critical or important for the purposes of Outsourcing:

- Provision of advisory services, and other services which do not form part of the core services and activities of the MS Amlin, including the provision of legal advice, the training of personnel, billing services and the security of premises and personnel;
- Purchase of standardised services, including market information services and the provision of price feeds.
- The provision of logistical support, such as cleaning or catering; and
- The provision of elements of human resources support, such as staff recruitment or payroll

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;
- 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 function/SBU 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

Outsourcing agreements may run for a fixed term, and be renewable or may be operated on a continuous basis. 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 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.

Investments activities

The Company, through its Investment Governance Framework, has invested the majority of its investment assets (€997.3 million of €1,237.3 million) with the Toro Prism Trust (the 'Trust'). The Trust also accepts subscriptions by other companies within the MS&AD Group but it is limited to those same companies. The Trust is managed by a third party fund management company, Carne Global Fund Managers (Ireland) Limited.

The Trust in turn has appointed a fellow MS Amlin subsidiary, MS Amlin Investment Management Limited ('MSAIML') as headline portfolio manager. MSAIML is regulated by the Financial Conduct Authority and is subject to the "Markets in Financial Instruments Directive" and the Trust is regulated by the Undertakings for Collective Investment in Transferable Securities (2009/65/EC) regulations. MSAIML delegates the day to day management of pools of assets within the Trust's sub funds to external investment managers.

Centralised support functions

MS Amlin Corporate Services Ltd ('MS ACS') provides services from its personnel to AISE and other Group companies with appropriate skills and qualifications, e.g. legal, actuarial, investment management, 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, United Kingdom
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 acting as heading investment portfolio manager	United Kingdom
MS Amlin Group company providing personnel and infrastructure services	United Kingdom

The table does not include external investment managers to which MSAIML delegates the day to day management of pools of assets within the Trust's sub funds.

B.8 Any other information

All material information relating to the Company's systems of governance has been disclosed in sub-sections B.1 to B.7 above.

Section C - Risk Profile (unaudited)

Section C presents AISE's risk profile in accordance with MS Amlin's Risk Management Framework which identifies the following risk categories: insurance, market, credit, liquidity, operational, and strategic. For each risk category the profile is explained by means of a description of the:

- Material risk concentrations;
- Risk exposure (including off-balance sheet positions);
- 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 concentration, exposures, outcomes of stress and scenario testing and a description of mitigation and monitoring techniques.

Methods and assumptions used for measuring exposures and concentrations, and sensitivity analyses are applicable to multiple risk categories. Therefore this introduction presents the methods and assumptions used. The actual 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 & Solvency Committee where management actions are concluded if necessary. 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 and presented in this document where applicable.

Stress, scenario and sensitivity testing framework

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 Company. 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.

Type	Explanation	Process	Frequency
Realistic Disaster Scenarios (RDS)	Monitors in force exposures to specific event scenarios	Business planning, ORSA	100% Annually with a Quarterly update of the most material scenario's
Sensitivity analysis	Assessment of standardised 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 standardised 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

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.

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 and large 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. AISE aims to achieve a diversified balance of exposures across lines of business and territories. 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.

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 a 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

Concentration and exposure

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 and 2017 based on the stochastic Internal Model. Exposures are modelled using volatility around expected claims included in business planning.

2017 rank	Class	2016 rank	Class
1	BE Property - Fire	1	BE Property - Fire
2	FR Property – Excess & Surplus	2	FR Property - Excess & Surplus
3	NL Property - Fire	3	FR Property - Specialty
4	FR Property - Specialty	4	NL Property - Fire
5	DE Property	5	DE Property

The underwriting risk is dominated by the property classes as they tend to have 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.

Over the year exposure of NL Property – Fire has increased in comparison to FR Property Specialty. The reason for this is the underwriting performance of this class in 2017 which impacts volatility around expected claims.

Scenario, stress and sensitivity testing

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

Realistic Disaster Scenarios (RDS)

The table below presents the results from the RDS analysis with the largest exposures as with effect from 1 January 2017 and 2018. Data is presented including reinsurance recoveries (net losses). Exposures as per 1 January are used to reflect positions against the reinsurance program for the coming year.

Event	Jan 2018 €000	Event	Jan 2017 €000
EU Windstorm – France, Belgium, Netherlands	32,284	EU Windstorm – France, Belgium, Netherlands	34,162
EU Windstorm – Paris Munich	25,561	EU Windstorm – Paris Munich	22,382
EU Windstorm – Bordeaux Munich	24,885	EU Windstorm – Bordeaux Munich	22,132
EU Windstorm – UK Europe	39,583	EU Windstorm – UK Europe	13,284
EU Windstorm – UK, Denmark	6,442	EU Windstorm – UK, Denmark	4,775

The table above shows an approximate standalone impact from each event on profitability. All net modelled losses are within tolerance. The 'EU Windstorm – UK Europe' scenario shows a significant increase in impact over 2017. The reason for this is that there has been a reduction in available reinsurance coverage for 2018.

The effect of reduced reinsurance coverage does not impact the 'EU Windstorm – France, Belgium, Netherlands' scenario as the loss stays well within the limits of the reinsurance program. The other RDSs show an increase in impact because all branches have shown organic growth in terms of GWP, particularly in the France office.

It should be noted that the RDS 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.

Stress testing and sensitivity analysis

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 2017 in relation to underwriting risk.

#	Sensitivity test	Impact on Available Capital €000	Impact on SCR €000	Impact on Solvency Ratio %
0	SCR – ratio per 31 December 2017	435,843	362,311	120.3%
1	20% less gross premiums received than plan	(9,171)	(15,197)	2.6%
2	10% deterioration in net loss ratio from plan	(36,685)	13,282	(14.0%)
3	20% less gross premiums received than plan, and 10% increase in net loss ratio from plan	(41,270)	(1,915)	(10.8%)
4	20% less gross premiums received than plan, and 20% increase in net loss ratio from plan	(64,000)	11,368	(20.8%)

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 close monitoring is required but immediate measures are not required as probability of these events occurring is considered relatively low. A capital management plan is in place to monitor AISE's capital position vs predefined trigger levels.

Management, mitigation and monitoring techniques

In addition to the risk management process outlined in section B.3.1, this section discloses management and mitigation techniques in relation to underwriting risk. Monitoring results are reported to AISE's Risk & Solvency 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 and Insurance Risk Standard assure 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

Concentration and exposure

Reserving risk concentrations are the accumulation of assumed claims and the uncertainty associated with the ultimate size of the claims given the extended duration it can takes for some claims to mature. Given their long tail nature, AISE's portfolio of casualty classes dominates the reserving risk profile.

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. Exposures are modelled using volatility around the amount of reported best estimates. The following table presents AISE's five largest reserving exposures as per year end 2016 and 2017.

2017 rank	Class	2016 rank	Class
1	NL Liability – General Third Party Liability	1	NL Liability – General Third Party Liability
2	BE Liability - Medical	2	BE Liability - Medical
3	BE Liability - Non-Medical	3	BE Liability - Non-Medical
4	NL Liability – Professional Indemnity	4	NL Liability – Professional Indemnity
5	DE Liability	5	NL Fleet - Liability

Primary classes driving exposure are: General, Medical, Casualty, Motor and Professional Indemnity.

'DE Liability' is now in the top 5 of largest reserving exposures. The reason for this is that this class was previously not modelled as there was little historical data available (the German branch was opened in 2015).

Stress and sensitivity testing

For reserving stress and sensitivity analysis are performed. The following selection of tests has been made from the tests completed in 2017 in relation to reserving risk:

#	Sensitivity test	Impact on Available Capital €000	Impact on SCR €000	Impact on Solvency Ratio %
0	SCR – ratio per 31 December 2017	435,843	362,311	120.3%
1	10% reserve deterioration of total carried best estimate reserves	(47,002)	12,912	(16.7%)
2	10% reserve improvement of total carried best estimate reserves	47,002	(12,912)	17.9%

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 close monitoring is required but immediate measures are not required as probability of these events occurring is considered relatively low. A capital management plan is in place to monitor AISE's capital position vs predefined trigger levels.

Management, mitigation and monitoring techniques

In addition to the risk management process outlined in section B.3.1, this section presents management and mitigation techniques in relation to reserving risk. Monitoring results are reported to AISE's Risk & Solvency 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 (underwriting) 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 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 seeks to optimise its risk adjusted investment return whilst focusing on ensuring it maintains sufficient capital to meet solvency requirements and maintain sufficient liquid funds to meet liabilities when they fall due. Exposure to market risk is therefore limited to the extent that investment strategies are balanced by these primary objectives.

Market risk is defined 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 three subcategories; investment market volatility, currency fluctuation, and investment counterparty credit risk.

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. 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.

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. AISE has a balanced appetite to currency risk, which is an unavoidable consequence of holding balance sheet assets, premiums and liabilities in foreign currencies.

Investment counterparty risk

AISE is exposed to counterparty risk primarily through its investment in the Toro Prism Trust, which is investing in financial instruments such as bonds. There is a risk of loss to AISE if its investment counterparties are unable to or are unwilling to meet their financial obligations or if they cease to operate as a business. AISE has a positive appetite for investment counterparty credit risk as part of market risk. Investment counterparty limits apply to ensure adequate diversification within the portfolio and to restrict investments in lower credit-rated investments.

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 strategy 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 aligned with the prudent person principle.

C.2.3 Investment market volatility

Concentration and exposure

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.

AISE's asset allocation as at 31 December is presented below per asset class based on a Solvency II basis. Following the implementation of the change in investment structure, bond exposures are now held through the Company's investment in the Toro Prism Trust, a collective investment undertaking.

	2017		2016	
	€000	%	€000	%
Collective investment undertakings (excl. Property)	998,321	79.1%	881,425	68.1%
Property	117,203	9.2%	113,075	8.8%
Equities	120,036	9.5%	154,265	11.9%
Bonds	–	–	120,158	9.3%
Derivatives	1,772	0.1%	1,246	0.1%
Cash and deposits	23,667	1.8%	23,604	1.8%
Total assets invested	**1,260,999**	**100.0%**	**1,293,773**	**100.0%**

Exposure is assessed using the stochastic Value-at-Risk ('VaR') statistic at a 99.5% confidence interval and is reported on a monthly basis. This VaR is measured against a maximum tolerance of 8.5% and exposure remained below tolerance throughout the year.

Scenario analysis

Scenario analysis is performed for investment market volatility risk. The following selection of tests has been made from the tests completed in 2017:

#	Sensitivity test	Impact on Available Capital €000	Impact on SCR €000	Impact on Solvency Ratio %
0	SCR – ratio per 31 December 2017	435,843	362,311	120.3%
1	No investment income from plan	(17,196)	–	(4.7%)
2	Repeat of Financial Crisis: severe market decline and general instability following the bankruptcy of Lehman Brothers.	(23,000)	5,005	(7.9%)
3	Strong inflation; in this test an investment loss of €43 million is modelled. In addition 11.2% reserve inflation is modelled resulting in an extra impact on required capital.	(43,000)	59,088	(27.1%)

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 close monitoring is required but immediate measures are not required as probability of these events occurring is considered relatively low. A capital management plan is in place to monitor AISE's capital position vs predefined trigger levels.

Management, mitigation and monitoring techniques

In addition to the risk management process outlined in section B.3, this section presents management and mitigation techniques in relation to investment market volatility risk. Monitoring results are reported to AISE's Risk & Solvency 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 exposure, and monitoring program.
- *Stochastic VaR monitoring* – exposure is assessed using a stochastic model at confidence levels of 99% (one month) and 99.5% (one year).
- *Scenario and stress tests* – Stress and scenario tests are performed outside of the Stochastic VaR monitoring to provide alternate portfolio losses in a variety of stressed circumstances.
- *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

Concentration and exposure

AISE is exposed to the fluctuations in the exchange rates of currencies. Besides Euro (EUR) denominated exposures, AISE holds material exposures in US dollars (USD) and British Pound Sterling (GBP).

The next table presents the 31 December exposures in USD and GBP. The total balance sheet is presented based on Solvency II valuation methods and in AISE's functional currency being EUR. Total liabilities against the balance sheet are presented including technical provisions. 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.

	2017			2016		
Value by currency (000)	**Total – EUR**	**USD**	**GBP**	**Total – EUR**	**USD**	**GBP**
Total assets	1,451,969	74,177	13,296	1,480,377	94,476	28,727
Total liabilities	1,018,511	76,604	32,641	1,025,718	98,807	23,165

In addition to exposure on the balance sheet, AISE holds the Lilac (liquidity) and Blue (bond) Toro Prism Trust share classes in multiple currencies, with the aggregated exposures against liabilities contributing significantly to the required capital for market risk.

Sensitivity analysis

For currency fluctuation risk there are no sensitivity analyses performed. These form part of the wider market risk stress tests.

Management, mitigation and monitoring techniques

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

- *Hedging* – currency exposures in the investment portfolio are hedged by using derivatives for key currencies (EUR, USD and GBP).
- *Asset liability matching* – assets and liabilities on the balance sheet on an IFRS valuation basis are matched as closely as possible.

C.2.5 Investment counterparty risk

Concentration and exposure

Risk concentration can occur as a result of accumulation of AISE owned assets.

The investment guidelines are designed to mitigate credit risk by ensuring diversification of the holdings. For each portfolio there are limits to the exposure to single issuers and to the total amount that can be held in each credit quality rating category, as determined by reference to credit rating agencies.

Stress Testing

There are no specific stress and sensitivity tests. These form part of the wider market risk stress tests.

Management, mitigation and monitoring techniques

In addition to the risk management process outlined in section B.3.1, this section presents management and mitigation techniques in relation to investment counterparty risk. Monitoring results are reported to AISE's Risk & Solvency Committee on a quarterly basis.

- *Counterparty on-boarding* – due diligence processes exist to pre-vet any counterparties before they are on-boarded.
- *External credit ratings* – AISE uses ratings from multiple credit rating agencies in conjunction with market Credit Default Swap prices – the latter providing a more accurate picture of existing risks to ongoing events due to being a market determined price for effectively insuring a company's bond obligations.
- *Credit rating limits* – investment counterparty exposure is managed through limits over exposure based upon credit ratings.
- *Creditworthiness monitoring* – is conducted by the investment quant/risk team for all institutions AISE transacts with, both current and potential. A summary is sent to the investment management and compliance functions.
- *Investment Counterparty Management* – the custodians of AISE's investment assets are contractually bound to hold all assets specifically on behalf of AISE and not in their own right.

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 three subcategories; reinsurance credit risk, broker credit risk and investment counterparty risk. Treasury intermediaries and other investment counterparties have a high proximity to market risk. Therefore is exposure to investment counterparties described within the market risk section.

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

Concentration and exposure

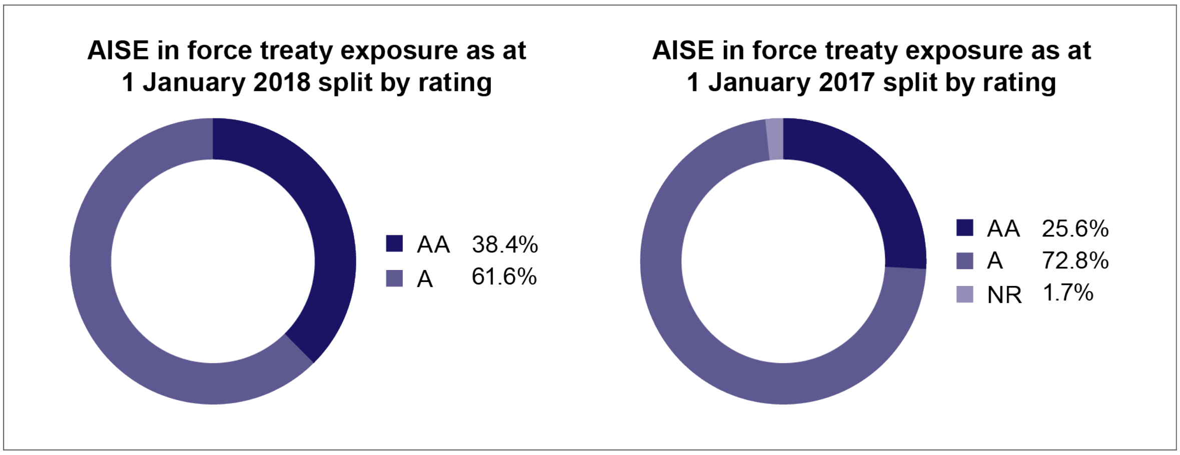
Reinsurance credit risk includes both reinsurers' share of outstanding claims, as well as amounts expected to be recovered on unpaid outstanding claims (including incurred but not reported claims) in respect of earned risks. Receivables by external credit rating due at 31 December are shown in the table below. These are stated net of provisions for impairment. The credit risk in respect of reinsurance receivables, including reinsurers' share of outstanding claims, is primarily managed by review and approval of reinsurance security by MS Amlin's Reinsurance Security Committee prior to the purchase of the reinsurance contract.

	2017		2016	
Reinsurers receivables by external credit rating	**€000**	**%**	**€000**	**%**
AA	83,113	54.4%	82,949	47.5%
A	42,375	27.7%	33,884	19.4%
BBB	1,107	0.7%	204	0.1%
Other	26,310	17.2%	57,500	32.9%
Total	**152,905**	**100.0%**	**174,537**	**100.0%**

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 and 2018, broken down by financial strength rating. Exposures as per 1 January are used to reflect positions against the reinsurance program for the coming year.



Stress, scenario and sensitivity testing

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 deterministic 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 2017. The assumptions used within the RDS process include a provision for reinsurance credit risk based on each reinsurer's MS Amlin internal credit 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 2017 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.

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.

Management, mitigation and monitoring techniques

In addition to the risk management process outlined in section B.3, this section presents management and mitigation techniques in relation to reinsurance credit risk. Monitoring results are reported to AISE's Risk & Solvency 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 Company 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.

C.3.3 Broker Credit risk

Exposure and concentrations

The table below presents the breakdown at 31 December of insurance receivables by external credit quality. The table includes credit risk exposures to brokers, cover holders, and insured.

	2017		2016	
Insurance receivables	**€000**	**%**	**€000**	**%**
AAA	–	–	6,884	3.6%
AA	12,448	6.7%	12,300	6.5%
A	8,856	4.8%	42,136	22.2%
BBB	–	–	1,037	0.5%
Other	164,160	88.5%	127,213	67.1%
Total	**185,464**	**100.0%**	**189,570**	**100.0%**

Premium receivables representing amounts due from policyholders are not graded, but based on historical experience there is limited default risk relating to these amounts.

Broker 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.

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.

Management, mitigation and monitoring techniques

In addition to the risk management process outlined in section B.3.1, this section presents management and mitigation techniques in relation to broker credit risk. The process of risk mitigation is similar for brokers and cover holders. Monitoring results are reported to AISE’s Risk & Solvency 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 Company 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.
- *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 Concentration and exposure

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 concentration can develop as a result of its combined correlative exposure to underwriting perils that can result in significant claims occurring concurrently. The strength and liquidity of the balance sheet is fundamental to our proposition as an insurer of choice, providing us with the ability to respond quickly to claims. This is particularly relevant in the event of large losses such as European windstorms.

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 of 2017 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.

C.4.3 Sensitivity analysis

The Lilac (liquidity) and Blue (bond) share classes held in the Toro Prism Trust are inherently liquid and can usually be liquidated within two days. The Company also monitors its level of High Quality Liquid Assets against Solvency Capital Requirements (after applying Basel III regulatory haircuts). The results indicate that AISE is well funded and positioned to handle multiple loss events before liquidity becomes an issue.

C.4.4 Management, mitigation and monitoring techniques

Management and 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;
- Liquidity ratio monitoring is done to assess if AISE can meet its liabilities in a stressed liquidity environment.

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 €63.9 million as at 31 December 2017 (2016: €60.0 million) on future expected premiums of €370.8 million (2016: €303.0 million).

Management are 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.

C.5 Operational risk

AISE operates a diverse business across a number of European offices and jurisdictions and is expected to comply with legal, regulatory and best-practice standards. The potential exists for a failure of critical business processes, people or systems resulting in an interruption to normal operations. Operational risk excludes strategic and reputation 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 appetite for 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.

C.5.2 Concentration and exposure

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 Company 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 sourcing & 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: cyber risk, data centres, network availability, software, end user computing, business continuity and information security.

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/or 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 operation of a centralised Group operations strategy including resource stretch, priorities clash or misunderstanding of regulatory requirements that could impact one or all entities included in the MS Amlin Group.

Top 5 operational risk drivers

Risks are identified via periodic engagement with relevant functions and SBUs to conclude on current risks and issues, project risks, emerging risks and mitigation adequacy taking into account all operational risks as described above. Deep dive assessments and other such assurance activities also seek to evaluate risks from a thematic perspective. AISE uses a stochastic model to assess which operational risks to prioritise in its risk management system. This assessment takes into account financial loss, legal and regulatory implication, reputational, and business disruption.

The top five modelled operational risk drivers (presented below) remain diverse in nature in both 2016 and 2017. Over the past year there has been more emphasis on expenses, VAT on cross-border charges and a loss of IT infrastructure. The risk drivers are ranked based on required operational capital using the Internal Model.

2017 rank	Class	2016 rank	Class
1	Breach of Competition law	1	Breach of competition law
2	Expenses exceed plan	2	Systemic Losses (more than one loss event arising from the same cause)
3	Underwriter writes unauthorised business	3	AISE suffers downgrade by rating agency
4	VAT on cross-border charges	4	Underwriter writes unauthorised business
5	Loss of IT infrastructure / Primary Data Centre	5	Non-compliance with sanctions regimes applying to AISE

AISE continuously evaluates its operational risk profile to assure internal and external developments are accurately reflected in the Company's Risk Management system and Internal Model. These evaluations resulted in a different ranking of operational risks.

A consolidation of the Risk Register took place during the year, which reduced the number of overlapping risks from 63 to 22 without reducing coverage by removing a number of control failure focused risks. This consolidation also impacted a number of lower quantified underwriting operations type risks, such as 'Systemic Losses', which are now all reflected within 'Underwriting Operations Risk'. The change in Risk Register was approved by the Boards of MS Amlin plc and its subsidiaries.

In addition to concluding risk drivers via the Internal Model there is a periodic engagement process with the relevant functions/SBUs for analysing operational risk from a more qualitative perspective. This results in attention for other operational risks related to the implementation of GDPR requirements, aligning AISE's Employee Value Proposition with expectations from the labour market and making sure that strategic projects are successfully executed.

C.5.3 Stress and 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.

The following selection of tests has been made from the tests completed in 2017 in relation to operational risk.

#	Sensitivity test	Impact on Available Capital €000	Impact on SCR €000	Impact on Solvency Ratio %
0	SCR – ratio per 31 December 2017	435,843	362,311	120.3%
1	Breach of competition law	(6,800)	–	(1.9%)
2	10% increase in expenses levels from plan	(8,000)	–	(2.2%)
3	Data breach	(6,200)	–	(1.7%)

The results of the sensitivity analysis are compared with AISE's risk appetite and target capital outlined in AISE's Capital Management Strategy. Based on these analyses close monitoring is required but immediate measures are not required as probabilities of these events is relatively low. A capital management plan is in place to monitor AISE's capital position vs predefined trigger levels.

C.5.4 Management, mitigation and monitoring techniques

In addition to the risk management process outlined in section B.3, this section presents management and mitigation techniques in relation to operational risks. Monitoring results are reported to AISE's Risk & Solvency 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. Tolerances monitor the scale of operational losses versus modelled business plan mean for the year, as well as the adequacy of the mitigation strategies via the Internal control framework. Finally, monitoring of risk treatment plans is factored into tolerance monitoring.
- *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 relevant functions/SBUs.
- *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.
- *J-SOX* – preparation for aligning the operational risk environment with J-SOX.
- *Risk assessments* – the identified risks are assessed via periodic risk discussions with relevant functions/SBUs and via 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 Company.
- *Insurance coverage* – the MS Amlin Group purchases insurance protections for all subsidiaries to cover property damage, liability, cyber risk, errors and omissions and fraud.

C.6 Other risks

Strategic risk

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 impending changes that could compromise the business model in the long term and to identify opportunities for growth through organic expansion and acquisition where market conditions allow. Once change and/or acquisition targets are secured change resources are assigned to deliver the necessary objectives.

This section explains risk concentration and exposure 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 Risk definition and appetite

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.

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

C.6.2 Concentration and exposure

AISE sees strategic risk concentration derived from:

Developments in relation to strategic objectives

The development of strategic objectives is carried out by AISE senior executives and through the decisions of the AISE Board. The strategy is fundamental to the development of AISE's market share, brand, reputation, underwriting aims, and the fulfilment of the expectations of its parent and other interested parties such as policyholders, rating agencies and regulators.

Several macro trends have been identified that will drive the future of the insurance industry. These trends serve both as opportunity and threat for achieving strategic objectives.

- *Competitive 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.
- *Increasing power of the broker* – The broker market is consolidating across Europe. Larger brokers exercise more power in the value chain. This drives our need to be more proactive and differentiate our value proposition.
- *Increasing use of technology and data* – This will lead to changes in distribution to small and medium sized enterprises (SME) and requires investment in analytical tools.
- *New markets / models & sectors emerging* – New markets (like Cyber & Decennial) and insurance business models (like digital business models and distribution partnerships) will challenge the existing status quo.
- *Push for Client Intimacy* – Market dynamics are changing as capital becomes more abundant and sophisticated than before. Proximity to broker and client will therefore be more important. End

client focus needs to be strengthened in order to be able to provide better value to brokers and clients.

- *Increased regulation* – There is a stronger push for compliance (e.g. around know your customer, sanctions and facilities) resulting in higher costs for brokers and insurers. Management insight, control and compliance processes are therefore important.

Political and economic factors

AISE is exposed to political uncertainty and resulting instability that could affect the delivery of AISE's strategy and/or the provision of its products and services. This could crystallise as a result of political decisions, events or conditions.

The main driver for political and economic uncertainty is Brexit as the UK is scheduled to leave the European Union ("EU") in March 2019. MS Amlin made the decision to re-domicile AISE from London (UK) to Brussels (Belgium) in 2017, which will be executed in the course of 2018.

Strategic Group risk

AISE is a subsidiary of the MS Amlin group and there is a risk that losses in other parts of the MS Amlin group of companies may impact on the ability of AISE to execute its strategy, especially if the impact is upon the Group's capital management strategy and limits options to recapitalise in the event of a material capital reduction. Other examples include Group's influence over entities strategy, potentially clashing with the fulfilment of local strategy.

Whilst AISE accepts these risks are pertinent to the sector and local jurisdiction, it is necessary to understand the risk and manage its potential impact where possible.

C.6.3 Scenario analysis and reverse stress testing

At a strategic level scenario analysis and reverse stress testing are used to evaluate the financial robustness of AISE in extreme circumstances. These assessments are performed as part of the ORSA process of which outcomes are reported to the regulator.

The scenario testing is performed over a 3-year business planning horizon with multiple losses against the business plan assumptions. The scenarios take into account major catastrophe losses, reserve releases, an investment loss and a change in business mix. Outcomes are analysed to conclude on potential mitigating actions.

Reverse stress testing is performed to assess scenarios and circumstances that would render AISE's business model unviable, thereby identifying potential business vulnerabilities. These tests take into account qualitative parameters like data quality, process inefficiencies, project overload and quantifiable market stresses and sever business plan breaches

The results of the scenario analysis and reverse stress testing are compared with AISE's risk appetite and target capital outlined in AISE's Capital Management Strategy. Based on these analyses close monitoring is required but immediate measures are not required as probabilities of these events is relatively low.

C.6.4 Management, mitigation and monitoring techniques

In addition to the risk management process outlined in section B.3, this section presents management and mitigation techniques in relation to strategic risk. Monitoring results are reported to AISE's Risk & Solvency Committee on a quarterly basis.

- *Group Strategy Alignment* – AISE's strategic objectives and decisions take account of the expectations also include consideration of the strategies requirements of the MS Amlin group and its parent MS&AD, including capital needs, and regulatory requirements and risks.

- *Culture* - AISE's culture and strategic objectives take account of customer needs and expectations.
- *Strategy commitment* - There is resource commitment to support the duration of the executed strategy, strategies have flexible re-directive decision points in their plan.
- *Market monitoring* - Horizon scanning of external factors takes place often, decisions take account of current and longer term market movements.
- *Governed decision making* – Strategic risks are assessed taking account of all requirements and risk acceptance is undertaken within a controlled manner taking account of capital constraints and the cost of capital.
- *Capital management* - Aggregate risk exposure is continually monitored against available capital, and response is taken where solvency ratios are deemed unacceptable. Contingency and resilience plans are developed to manage adverse capital events.
- *Stress Testing* - Business plans are thoroughly considered and reviewed against the potential impact of external factors and developments.
- *Merger & Acquisition risk assessments* - Due diligence and risk assessment processes are conducted for acquisitions.

C.7 Any other information

All material information relating to the Company’s risk profile has been disclosed in sub-sections C.1 to C.6 above.

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

	Note	As reported under IFRS €000	SII re-class €000	IFRS re-presented €000	SII valuation adjustment €000	SII balance sheet 2017 €000	SII balance sheet-2016 €000
Cash and cash equivalents	1	22,946	721	23,667	–	23,667	23,604
Investments (incl. participations)	2	1,237,350	(18)	1,237,332	–	1,237,332	1,270,169
Reinsurers' recoverables	3	187,881	–	187,881	(76,106)	111,775	115,600
Insurance, reinsurance and intermediaries receivables	4	185,464	–	185,464	(157,142)	28,321	25,914
Receivables (trade, not insurance)	5	34,465	(692)	33,773	(1,113)	32,660	16,275
Deferred acquisition costs	6	34,921	–	34,921	(34,921)	–	–
Deferred tax asset	7	11,200	–	11,200	5,122	16,322	26,092
Property, plant & equipment held for own use	8	1,891	–	1,891	–	1,891	2,723
Goodwill	9	28,843	–	28,843	(28,843)	–	–
Intangible assets	10	20,986	–	20,986	(20,986)	–	–
Total Assets		**1,765,947**	**11**	**1,765,958**	**(313,989)**	**1,451,969**	1,480,377
Total Liabilities		**1,307,586**	**11**	**1,307,597**	**(289,086)**	**1,018,511**	1,025,718
Excess of Assets over Liabilities		**458,361**	–	**458,361**	**(24,903)**	**433,458**	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 2017. The 2016 Solvency II balance sheet has been included for comparative purposes.

The breakdown into asset classes in the above table is less granular than the S.02.01 Balance sheet QRT, as presented in the Annex; this is to allow a clearer understanding of the valuation differences. In particular this granularity change relates to the breakdown of investments by type of asset.

Solvency II reclassification

For Solvency II reporting purposes, investment related receivables and payables are reclassified to be included in the Investments (incl. participations) line. Also differing treatments for cash and cash equivalents, as well as a grossing up of derivative values, results in further reclassifications in and out of the Investments (incl. participations) line.

These reclassifications are presentational in nature, thus do not impact the excess of assets over liabilities balance. They have been summarised in the below table.

	As reported under IFRS €000	SII re-class €000	IFRS represented €000
Cash and cash equivalents	22,946	721	23,667
Investments (incl. participations)	1,237,350	(18)	1,237,332
Receivables (trade, not insurance)	34,465	(692)	33,773
Derivative liabilities	(1,485)	(11)	(1,496)
Total	**1,293,276**	**–**	**1,293,276**

Solvency II valuation adjustments

In order to arrive at the Solvency II balance sheet, the following valuation adjustments are required,

- De-recognition of Deferred Acquisition Costs, Goodwill and Intangible assets, as well as certain prepayment assets;
- Conversion of IFRS best estimate net insurance liabilities and net future receivables to Solvency II technical provisions standard;
- Re-calculation of net Deferred Tax Asset to consider impact of above valuation changes

Set out in the remainder of this section 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 Solvency II. Under IFRS, cash equivalents include short-term, highly liquid investments which are believed to be subject to an insignificant risk of changes in value. For Solvency II reporting, 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.

The different definitions have resulted in re-classifications of IFRS cash equivalents to different asset categories for Solvency II reporting. Cash and cash equivalents are valued at fair value under both Solvency II and IFRS.

2. Investments (incl. participations)

Investments are recognised at fair value both under Solvency II and IFRS. The valuation of Investments (incl. participations) under IFRS does not differ from Solvency II requirements. Therefore no valuation differences exist for investments. There were no significant changes to the valuation techniques during the year.

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.

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 €1,236.2 million (2016: €1,269.1 million).

The remaining assets of €1.2 million (2016: €1.1 million) are classified as available-for-sale investments and these relate to equity stakes in certain investments that do not have a quoted market price and whose fair value cannot be measured reliably. Hence, the IFRS value is considered a suitable approximation of the Solvency II market consistent valuation requirement.

AISE recognises its investment in the Toro Prism Trust (the ‘Trust’) as a participation in line with the requirements of the Solvency II directive. The Company has a share of 22.9% of the total investments under management, so the Trust must be considered a participation and classified as per Article 335 of the Solvency II directive. Under this article, the Trust is classified as an ‘Other financial sector’ undertaking and thus the net investment value must be presented within the ‘Holdings in related undertaking, including participations’ line in the S.02.01 QRT. This is a presentation effect, and the investment in the Trust is described further in the Collective investment undertakings section below.

Fair Value Hierarchy

For Solvency II reporting purposes, AISE classified its Investments (incl. 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	1,022	997,302	117,200	1,115,524
Equities	118,832	-	1,204	120,036
Derivative assets	-	1,772	-	1,772
Total investments	**119,854**	**999,074**	**118,404**	**1,237,332**

Furthermore AISE has derivative financial instruments amounting to €1.5 million included in Other Liabilities also classifying as Adjusted quoted market prices under Solvency II and disclosed in section D.3 of this report.

Collective investment undertakings

Collective investment undertakings include AISE’s investment in the Toro Prism Trust (the ‘Trust) of €997.3 million, a managed fund co-invested into with other MS&AD companies.

In the second half of 2017, the Group implemented a strategic initiative to alter its investment management structure. This was in response to the growth in the size of the Group along with the corresponding growth in assets under management. Both of these factors exposed constraints in the previous structure, particularly in relation to scalability, flexibility and operating efficiency. An Irish domiciled UCITS-vehicle, called the Toro Prism Trust (the ‘Trust’), was determined to be the optimal fund structure for the new environment. The Trust is structured into 3 sub-funds (a fixed income securities fund, a liquidity fund and an equity securities fund) and a number of currency based share classes. MS

Amlin Group entities transitioned the majority of their existing directly held assets, split between a large number of portfolio holdings, into shares in the Trust.

The investment in the funds is valued using adjusted quoted market prices (as opposed to quoted prices for the previously directly held assets). The fair value of the unlisted investment in the Trust funds is based on an unadjusted net asset value, which represents the value at which the units are redeemable as at the reporting date.

The collective investment undertakings balance also includes investments in property fund portfolios of €117.2 million. 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.

The remainder of the collective investment undertakings balance relates to investments in money market funds of €1.0 million.

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 ('OTC') 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 OTC 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 2017 this resulted in a marginal increase of both derivative assets and liabilities in the Solvency II balance sheet compared to the IFRS financial statements. 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 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. Under IFRS the above receivables are initially recognised at fair value and subsequently measured at amortised costs using the effective interest rate method.

Amounts which are not yet due are considered within the calculation of the technical provisions as future premium, resulting in an adjustment of €157.1 million to receivables.

Due to the short-term nature of the remaining overdue receivables, the IFRS carrying value (amortised cost net of bad debt provision) is considered not materially different from the fair value under Solvency II. Therefore no other adjustment is made.

5. Receivables (trade, not insurance)

Receivables (trade, not insurance) include prepayments, sundry debtors and other receivables. Investment related receivables are re-classified to be part of the Investments (incl. participations) line.

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 considered to have fair market value of nil resulting in an adjustment of €1.1 million.

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 €5.1 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 and German losses. These losses incurred can be offset against future profits for an indefinite period. AISE expects to be able to utilise the losses in due time.

As at 31 December 2017, AISE had unused tax losses of €27.2m in its German branch for which no deferred tax asset is recognised in the balance sheet.

8. Property, plant and equipment held for own use

Property and equipment are the physical assets utilised by the Company to carry out business activities and generate revenues and profits. It consists of the following:

- Fixtures and fittings
- Computer equipment

The Company does not own any ‘plant’, so the text that follows only refers to property and equipment as described above.

Property and equipment is included in the IFRS financial statements at historical cost less accumulated depreciation and provision for impairment where appropriate. Solvency II requires property and equipment to be valued at fair value. In all respects, the IFRS carrying value is deemed not materially different from the fair value under Solvency II.

9. Goodwill

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

For information on the IFRS valuation and basis of Goodwill held by the Company, please see the 2017 annual report for details.

10. 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 valued as nil in 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 since the last Solvency and Financial Condition Report.

D.2 Technical provisions

D.2.1 Overview

This section contains an analysis of the AISE Solvency II technical provisions.

Below is a summary bridge of the components of the technical provisions from IFRS to Solvency II. The 2016 Solvency II values have been included for comparative purposes.

	As reported under IFRS €000	**SII valuation adjustment €000**	**SII balance sheet 2017 €000**	SII balance sheet 2016 €000
Technical provisions	1,162,766	(236,600)	926,166	912,923
Reinsurers' recoverables	(187,881)	76,106	(111,775)	(115,600)
Deferred acquisition costs	(29,656)	29,656	–	–
Net technical provisions	**945,229**	**(130,838)**	**814,391**	797,323

The increase in Solvency II net technical provisions is driven by an increase of IFRS net claim reserves from significant settlements of claims in combination with the increase in the loss ratio during the year following from the reserving class performance. This increase has been partly offset by the decrease of the settled but not unpaid amount and the release of IFRS margin compared to last year.

D.2.2 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.

	Fire & 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 2017 €000**	Total non-life obligation 2016 €000
Total best estimate - gross	135,361	370,740	192,344	127,258	40,816	866,519	854,898
Less: Total best estimate - reinsurance	(15,711)	(82,437)	(6,082)	(3,415)	(4,130)	(111,775)	(115,600)
Total best estimate - net	**119,650**	**288,303**	**186,262**	**123,843**	**36,686**	**754,744**	739,298
Add: Risk margin	11,465	19,345	15,708	8,665	4,464	59,647	58,025
Technical provisions - total	**131,115**	**307,648**	**201,970**	**132,508**	**41,150**	**814,391**	797,323

D.2.3 Description of bases, methods and main assumptions

Introduction

The Solvency II technical provisions are calculated as the sum of a best estimate of the insurance liabilities 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 initial expected prior loss ratios and net to gross assumptions are consistent with the quarterly reserving process which produces the accident year projections and the budget. The initial expected prior loss ratios are consistent with the business plan, unless the actuarial view differs materially. During the year these loss ratios can be updated, if the performance of the class or new information leads to a materially different view.

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).

The resulting future premium value is allocated by class, and then split between the claims and premiums portions of the technical provisions. This apportionment is done by comparing the rate of cash collection for a class to the rate of earned premium. If the rate of cash collection is greater than the rate of earned premium, then the future premium is allocated in full to the premiums provision. If the converse is true, then the future premium is allocated based on how much of the difference between cash collected and ultimate premium is represented by the difference between cash collected and earned premium. In respect of the latter, it will be allocated to the claims provision, with the remainder to the premiums provision.

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, only underlying policies 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 relevant lines of 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.2.4 Level of uncertainty associated with the Solvency II technical provisions

The majority of the uncertainty in the Solvency II technical provisions arises in the process of setting quarterly reserves. The inputs for the net earned future claims and future premiums come directly from the quarterly projections of the ultimate premiums and ultimate claims.

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.

Sources of uncertainty that are more specific to the nature of underwriting risks 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 relevant lines of 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.

Other components of the Solvency II technical provisions also have some uncertainty, although typically to a lesser extent. The material areas of uncertainty related to each of the other components is set out below:

Expenses: In estimating the expenses, the starting point is the expense budget for the upcoming year. Assumptions are used to estimate the proportion of annual expenses required to service existing policies, and the run-off pattern of the liabilities. There is a medium level of uncertainty on all of these assumptions. There is additional uncertainty around the expense assumptions since the methodology is relatively new.

Unincepted legally obligated contracts: A large proportion of policies that AISE writes incepts at 1 January each year. This means that at year-end there are large amounts of future premiums and future claims arising from these unincepted but legally obligated contracts. Uncertainty in these items arises not only from the same factors mentioned above with regard to setting the reserves, but also from the quality of the business plan used to set assumptions, including premium volumes by inception month, loss ratios, and the volume of binders written. There is also uncertainty around whether the business plan will be achievable given the commercial conditions in place at the time of writing.

Factors influencing whether the unincepted premium will be more or less than expected are less material to the overall technical provisions, as any difference in unincepted premium will partially be offset by a corresponding movement in the unincepted claims. Factors relating to the loss ratio used to calculate the unincepted claims lead to a large level of uncertainty in the overall technical provisions.

Future Reinsurance premiums: Assumptions are made for the proportion of reinsurance contracts that are losses-occurring during, earnings patterns and the nature of the reinsurance contracts (quota share or excess of loss). The key assumption underlying all of these is that management will continue to buy the same/similar reinsurance program in future years. While this assumption is reasonable based on past years, there is uncertainty over the availability and price of reinsurance in future years, which could influence management decisions.

Events not in data (ENIDs): As discussed above, the method employed to calculate ENIDs is necessarily highly subjective. However, since the net figure is small in the context of the overall technical provisions, then considerable uncertainty in this amount does not lead to significant uncertainty in the overall technical provisions.

Reinsurance bad debt: There is considerable uncertainty in this amount, driven by whether or not recoverable events occur, future economic conditions and the long-term solvency of our individual reinsurers. However, the reinsurance bad debt makes up a relatively immaterial part of the total technical provisions, so there is little uncertainty in the overall technical provisions arising from this item.

Risk Margin: The methodology to calculate the risk margin is prescribed, and depends only on the SCR (which is calculated using the standard formula) and the expected run-off of the SCR. Uncertainty arises from the inputs into the standard formula, and from the assumed cash flows used to run-off the SCR.

Discount Credit: The yield curves used for discounting are prescribed by EIOPA. Uncertainty arises from assumptions around the timing of any cash flows, driven by both the timing of claim events, and the period needed to settle claims. Although yields are increasing, they are still low by historical standards, meaning that the overall discount credit is relatively small. Therefore the uncertainty on the overall technical provisions is low.

D.2.5 Material differences between IFRS and Solvency II technical provisions

The adjustments required to bridge the gap from IFRS reserves to Solvency II technical provisions as at 31 December 2017 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. Additional items are explained below the table. IFRS data split by Solvency II line of business is approximate since not all business is allocated at source to a line of business therefore in some cases judgement has been used.

	Fire & 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 2017 €000
IFRS net technical provisions	**152,179**	**357,074**	**234,417**	**153,796**	**47,763**	**945,229**
Adjustments to IFRS technical provisions	(29,197)	(68,509)	(44,976)	(29,508)	(9,164)	(181,354)
Best estimate net earned future claims	**122,982**	**288,565**	**189,441**	**124,288**	**38,599**	**763,875**
Other future claims on incepted contracts	20,695	48,558	31,878	20,915	6,495	128,541
Future premiums including unincepted	(61,712)	(137,245)	(93,108)	(59,446)	(20,235)	(371,746)
Unincepted claims	31,835	74,697	49,037	32,173	9,992	197,734
SII expenses	5,556	13,036	8,558	5,615	1,742	34,507
ENID's	1,518	3,562	2,339	1,535	476	9,430
Discounted credits	(1,880)	(4,410)	(2,895)	(1,900)	(590)	(11,675)
Risk Margins	11,465	19,345	15,708	8,665	4,464	59,647
Other	656	1,540	1,011	663	208	4,078
SII net technical provisions	**131,115**	**307,648**	**201,969**	**132,508**	**41,151**	**814,391**

Adjustments to IFRS reserves: This includes removal of the management margin (held over and above the best estimate - €40.2 million) and UPR net of DAC (€141.2 million).

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.2.6 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.2.7 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.2.8 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.

D.3 Other liabilities

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

	Note	As reported under IFRS €000	SII re-class €000	IFRS represented €000	SII valuation adjustment €000	SII balance sheet 2017 €000	SII balance sheet-2016 €000
Technical provisions		1,162,766	–	1,162,766	(236,600)	926,166	912,923
Retirement benefit obligations	1	10,683	–	10,683	–	10,683	9,020
Deferred tax liabilities	2	4,331	–	4,331	5,254	9,585	17,270
Derivative liabilities		1,485	11	1,496	–	1,496	8,406
Insurance & intermediaries payables	3	29,538	–	29,538	(25,455)	4,083	9,727
Reinsurance payables	3	32,285	–	32,285	(32,285)	–	–
Payables (trade, not insurance)	4	64,113	–	64,113	–	64,113	60,122
Subordinated liabilities	5	2,385	–	2,385	–	2,385	2,452
Contingent liabilities	6	–	–	–	–	–	5,798
Total Other Liabilities		**1,307,586**	**11**	**1,307,597**	**(289,086)**	**1,018,511**	1,025,718
Total Assets		**1,765,947**	**11**	**1,765,958**	**(313,989)**	**1,451,969**	1,480,377
Excess of Assets over Liabilities		**458,361**	–	**458,361**	**(24,903)**	**433,458**	454,659

The above table shows the reclassification of liabilities from IFRS to Solvency II presentation, as well as Solvency II valuation adjustments, as at 31 December 2017. The 2016 Solvency II balance sheet has been included for comparative purposes.

The breakdown into liability classes in the above table is less granular than the S.02.01 Balance sheet QRT, as presented in the Annex; this is to allow a clearer understanding of the valuation differences.

For information on the Solvency II reclassifications please refer to the explanation in section D.1 Assets. For information on Technical provisions, please refer to section D.2 Technical provisions.

Set out in the remainder of this section are the Solvency II valuation principles for material liability classes with a comparison to the corresponding IFRS valuation principles, if different.

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.

There is no change in the valuation of pension liability between IFRS and Solvency II.

For further information on the defined benefit pension plans in operation by the Company, please see note 19 of the Company's annual report.

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.

There is a Solvency II adjustment to deferred tax liability of €5.3 million for the tax impact of differences in valuation of assets, liabilities and technical provisions under IFRS and Solvency II.

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 €25.4 million (Insurance and intermediaries payables) and €32.3 million (Reinsurance payables) (2016: €43.4 million and €39.1 million respectively) 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 collateral repayable on derivative contracts, revolving credit facility and other sundry payables. Amounts payable for investments purchased are re-classified to be part of the Investments (incl. participations) line.

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

5. Subordinated liabilities

The company has received three subordinated interest loans from MS Amlin plc, the Company's parent, for a total amount of £1.9 million. Interest is accrued at the rate of 1% above the 3-month LIBOR set on the effective date and then on the first business day of each calendar quarter to be capitalised at 31 December each calendar year. This agreement is in effect and the interest is payable upon repayment of the loan. The IFRS value is considered a suitable approximation of the Solvency II market consistent valuation requirement.

For further information on the Company's borrowings, please see note 15(e) of the Company's annual report.

6. Contingent liabilities

AISE does not have any material contingent liabilities to disclose. The contingent liabilities disclosed in 2016 related to terrorism pools the Company participates in. In 2017, it was decided to recognise potential liabilities from these pools within technical provisions.

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. 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 note 19 of the Company's annual report.

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.

All other material information relating to the Company's valuation for solvency purposes has been disclosed in sub-sections D.1 to D.4 above.

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 policy is to actively manage capital so as to meet regulatory requirements and contribute to the Group target to deliver a cross-cycle return on equity in excess of 12%. This return on equity target will be reviewed periodically to ensure that it remains appropriate. AISE's internal target Solvency ratio is 125% (based on the Standard Formula).

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 Company, 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 operates a planning period of between three and five years. Business plans are reviewed and debated at executive level and approved by the Board. 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).

Differences between IFRS and Solvency II Net Asset Value

	2017 €000	2016 €000
IFRS net asset value	**458,361**	**519,599**
Disallow items – Goodwill, Intangible assets, Prepayments and Deferred Acquisition Costs	(91,128)	(94,817)
Solvency II Technical Provision adjustment	160,493	103,971
Future premiums and claims adjustments	(94,137)	(81,244)
Recognition of contingent liabilities	–	(5,798)
Deferred tax on adjustment items	(131)	12,948
Excess of assets over liabilities – Solvency II	**433,458**	**454,659**

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

Available Own Funds

As at 31 December 2017, AISE had available own funds of €435.8 million (2016: €457.1 million). AISE does not have any non-available or non-transferrable own funds. AISE's available own funds are made up of:

	2017 €000	2016 €000
Excess of assets over liabilities	433,458	454,659
Subordinated liabilities	2,385	2,452
Total Basic and Available Own Funds	**435,843**	**457,111**

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 below.

AISE does not have any ancillary own funds.

Own Funds structure

	2017				2016			
	Total €000	Tier 1 €000	Tier 2 €000	Tier 3 €000	Total €000	Tier 1 €000	Tier 2 €000	Tier 3 €000
Ordinary share capital	1,582	1,582	–	–	1,582	1,582	–	–
Share premium account	–	–	–	–	406,952	406,952	–	–
Reconciliation reserve	415,554	415,554	–	–	20,033	20,033	–	–
Subordinated liabilities	2,385	–	2,385	–	2,452	–	2,452	–
An amount equal to the value of net deferred tax assets	16,322	–	–	16,322	26,092	–	–	26,092
Total Own Funds	**435,843**	**417,136**	**2,385**	**16,322**	**457,111**	**428,567**	**2,452**	**26,092**

The table above shows the composition and quality of own funds as at 31 December 2017 and 31 December 2016.

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

- 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 and reconciliation reserve are Tier 1 items.

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.

The reconciliation reserve consists of IFRS retained earnings of €430.8 million, IFRS other reserves of €26.0 million; offset by the cumulative effect of differences between IFRS net assets and Solvency II excess of assets over liabilities of €41.2 million. The other reserves primarily relates to the merger reserve which is a result of the application of Group Reconstruction Relief as per Section 611 of the Companies Act 2006 and arose on the creation of AISE on 4 January 2016. For details on the other reserves, please see note 20 of the Company's annual report.

Tier 3 own funds represent Net deferred tax assets only. Please refer to section D.1 for details of deferred tax assets valuation.

Analysis of significant changes to Available own funds during the period

Ordinary share capital and share premium account

There have been no movement in the ordinary share capital balance.

On 13 December 2017 the High Court approved the cancellation of the Company's share premium account. Consequently the balance of this account (€407.0 million) has been transferred to retained earnings and forms part of the Company's reconciliation reserve.

For further information on these balances, please refer to note 20 of the Company's annual report.

Movements in the reconciliation reserve

The other main constituent of Available 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 2017 are presented in the table below:

	€000
Reconciliation reserve at 31 December 2016	**20,033**
Movements in Solvency II balance sheet	
Decrease in Financial assets (excluding cash & cash equivalents)	(32,837)
Increase in Other assets	14,199
Increase in Technical provisions	(13,243)
Decrease in Other liabilities	20,450
	(11,431)
Other movements	
Transfer in of cancelled share premium	406,952
	406,952
Reconciliation reserve at 31 December 2017	**415,554**

The Movements in Solvency II balance sheet is inclusive of the impact of changes to the IFRS net assets, as well as movements in the Solvency II valuation adjustments. Movements in net deferred tax asset are excluded. For more details on the changes to the IFRS net assets, please see the Strategic Report in the Company's annual report.

The decrease in financial assets is primarily driven by the impact of underwriting losses under IFRS (claim payments greater than premium income) net of the impact of investment income on the assets.

The increase in Technical provisions is described in section D.2 of this report.

Own Funds to cover solvency capital requirements and minimum capital requirements

The eligible amounts by tier to cover the Solvency Capital Requirement ('SCR') and the Minimum Capital Requirement ('MCR') are shown in the table below:

	2017				**2016**			
	Total €000	**Tier 1 €000**	**Tier 2 €000**	**Tier 3 €000**	**Total €000**	**Tier 1 €000**	**Tier 2 €000**	**Tier 3 €000**
Eligible own funds covering SCR	435,843	417,136	2,385	16,322	457,111	428,567	2,452	26,092
Eligible own funds covering MCR	419,521	417,136	2,385	–	431,019	428,567	2,452	–
SCR	362,311				357,511			
MCR	134,983				128,819			
Solvency Ratio	120.3%				127.9%			
MCR ratio	310.8%				334.6%			

AISE's policy is to actively manage capital so as to meet regulatory requirements and contribute to the Group target to deliver a cross-cycle return on equity in excess of 12%. This return on equity target will be reviewed periodically to ensure that it remains appropriate. AISE's internal target Solvency Ratio is 125% (based on the Standard Formula) with the purpose to be able to absorb, among other reasons, adverse claim development. As at 31 December 2017 AISE's Solvency Ratio was 120.3% (2016: 127.9%)

reflecting adverse claims performance in the year. A range of plans in place which are expected to enable AISE to return to the 125% internal target.

There is no restriction to Tier 1 capital. The amount of eligible own funds to cover the MCR has been adjusted to exclude tier 3 capital, as ineligible. No adjustments to tier 1 and 2 capital are required.

The SCR is calculated using the Standard Formula basis as prescribed in the Solvency II Directive, and the calculation is explained in section E.2 of this report.

Analysis of significant changes to Solvency Ratio during the period

	€000	%
Total Available own funds over SCR at 1 January 2017	**99,600**	**127.9**
Change in IFRS net assets	(61,238)	(17.2)
Change in Solvency II valuation adjustments	40,037	11.2
Change in subordinated liabilities value	(67)	–
Change in SCR	(4,800)	(1.6)
Available own funds over SCR at 31 December 2017	**73,532**	**120.3**

The change in IFRS net assets, which includes the impact of a loss after tax of €59.9 million for the Company, is explained in more detail in the Strategic Report of the Company’s annual report.

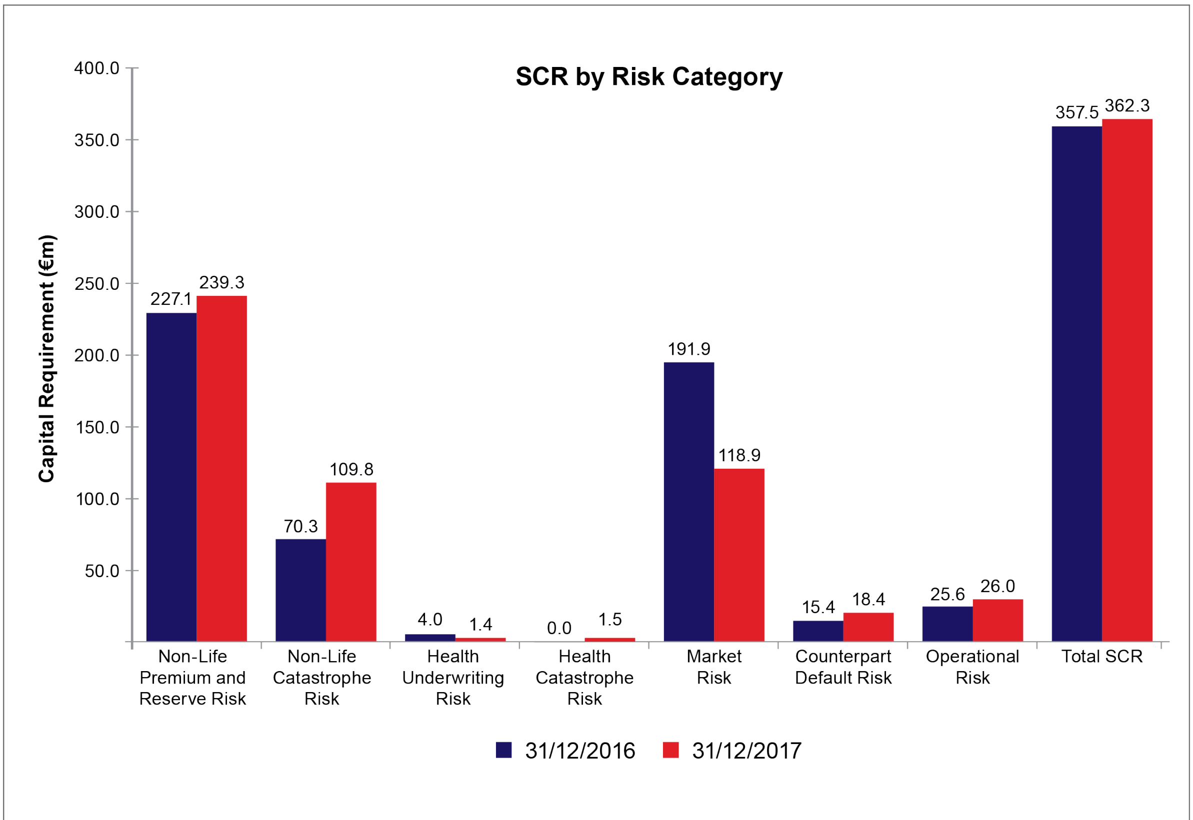
The change in Solvency II valuation adjustments reflects those movements in sections D.1 to D.3 of this report.

The change in SCR (as well as the MCR) is explained in section E.2 of this report.

E.2 Minimum Capital Requirement and Solvency Capital Requirement

Solvency Capital Requirement

The following chart summarises the components and relative movements in standalone capital by risk type as produced by the Standard Formula calculations on and 31 December 2016 and 31 December 2017



The total SCR as at 31 December 2017 was €362.3 million (2016: €357.5 million). Please see the next page for an analysis of the movement in the SCR.

The sum of the standalone risk categories is greater than the total SCR, owing to the benefits available to AISE through diversification. This is by way of the geographic, product and capital diversity AISE employs in managing its risks. This is also to reflect the likelihood that not all risks will emerge concurrently.

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

1. Non-Life Premium and Reserve Risk (€239.3 million), of which the majority of the risk (~60%) is due to reserve risk.
2. Market Risk (€118.9 million). This is comprised of several sub-risks, the largest of which is Currency Risk. This size of the sub-risks will be heavily dependent on the chosen investment strategy.
3. Non-Life Catastrophe Risk (€109.8 million). This is mitigated by reinsurance programmes which lower the required capital significantly.
4. Operational Risk (€26.0m). Information on the operational risks in AISE can be found in section C.5 of this report.

5. Counterparty Default Risk (€18.4m). This covers the risk of default from other parties including cash at bank, reinsurers and brokers
6. Health Premium and Reserve Risk (€3.4m) and Catastrophe Risk (€1.5m). Relative to the Non-Life sections the exposure to health risks is small.

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.

Movement in SCR

The movement in the SCR during the year is shown in the table below:

	€000
SCR as at 31 December 2016	**357,511**
Risk changes	(75,169)
Impact of diversification	47,044
Modelling changes	13,337
Assumptions changes	19,588
	4,800
SCR as at 31 December 2017	**362,311**

1. Risk changes

Over the period the movements in the standalone individual risk types due to data alone are as below:

- Market Risk (reduction of €75.0 million): By far the most significant movement from underlying risks comes from the currency component of the Market Risk. This has reduced significantly as a result of AISE's response to the use of risk mitigating techniques that were deemed inadmissible under the standard formula. Changes to the policy around these to ensure that they are compliant have significantly reduced the unprotected exposure and hence the currency risk component of the Standard Formula ('SF') SCR. In addition the equity portfolio has decreased leading to a further lowering of the Market Risk SF SCR. Movements in the other components of Market Risk are far smaller. In addition to exposure on the balance sheet, AISE holds the Lilac (liquidity) and Blue (bond) Toro Prism Trust share classes in multiple currencies, with the aggregated exposures against liabilities contributing significantly to the required capital for market risk.
- Non-life Premium and Reserve Risk (reduction of €3.5 million): The decrease is driven by a reduction in premium volumes (~14.8%) for Non-Life lines of business. This has been partially offset by an increase in reserve volumes (~7.6%).

- Counterparty Default Risk (increase of €2.6 million): There has been a slight increase in counterparty default risk. This is partly due to increased exposures to a single counterparty and partly due to an increase in Type 2 exposures due for more than 3 months.
- The remaining movement (€0.7 million) is due to small changes in Health Premium and Reserve risk, Non-life and Health Catastrophe risk and Operational risk.

2. Impact of diversification

The impact of the movements in the standalone risks types is significantly lower at a total SF SCR level due to diversification between the risk types. This offsets the standalone movement by €47.0 million. This is driven by the large reduction in standalone Currency Risk which has a smaller impact on the standalone Market Risk, and total SF SCR.

3. Modelling changes

Over the period the approach to calculating the standard formula has changed from using the spreadsheet template provided by Lloyd's, to using an Igloo module. In the process of moving from one approach to the other, a number of enhancements to the modelling process were implemented. These are detailed below:

- Non-Life Catastrophe Netting Down: Previously the reinsurance assumptions were being applied to the Gross SCR for a given non-life catastrophe peril, which is made up of several constituent losses. A close reading of the articles when building the new calculation module indicated that it would be more appropriate to net the constituent losses down individually before aggregating them to get the net SCR. The impact of this is an increase in the SCR due to a greater retained loss.
- Concentration Risk: The standard formula articles state that counterparties should be grouped together into single name exposures for the calculation of concentration risk. Only exposures above a certain threshold are considered to be a risk. As there was no mechanism to do this within the Lloyd's template, this was not previously being reflected in the concentration risk calculation.
- Counterparty Default Risk: As for concentration risk, counterparties should be grouped together into single name exposures for the calculation of counterparty default risk, with the probability of default for the single name exposure being determined by that of the individual counterparties within it. There was no mechanism to do this within the Lloyd's template. In addition the Igloo module is able to allocate the CPD exposure from underwriting risk to the actual reinsurers covering each programme, where the Lloyd's template assumes that this can be pro-rated to reinsurers with AISE has been exposed to historically.

In total, modelling changes when calculating the standard formula have increased the final number by €13.3 million.

4. Assumption changes

There have been two significant changes to the assumptions used in calculating the standard formula over the period which have led to an increase in the SF SCR. These are detailed below:

- Acquisition costs (€16.1 million): Previously the SF SCR premium and reserve risk has been calculated using data that is net of acquisition costs. Whilst the treatment of acquisition costs is not specifically addressed in the standard formula articles, recent discussions with consultants and additional information and feedback from EOPIA implies this this should be being calculated on a Gross of Acquisition costs basis. This change has led to an increase in SF SCR of €16.1m.
- Man-made fire scenario (€3.4 million): The gross SCR for man-made fire is given by the largest sum insured for individual or groups of buildings that are partly or fully located within an area with a radius of 200m. Previously it has been assumed that this can be approximated by the largest single risk that AISE writes, however advances in techniques to capture exposure have enabled a

more accurate estimate of the required exposure to be calculated. The new scenario covers multiple buildings and policies within the specified radius; therefore it is more appropriate that the reinsurance assumptions for this scenario relate to the Catastrophe programme rather than the Per Risk programme. The catastrophe programme has a higher retention therefore this leads to an increase in the SF SCR of €3.4 million.

Minimum Capital Requirement

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 Witten Premium in the previous 12 months and the Net Best Estimate Technical Provisions (excluding risk margin).

The total MCR is €135.0 million, 37% of the SCR (2016: €128.8 million and 36.0%). The €6.2 million increase in the MCR can be explained by the increase in gross written premium for the Fire and Other Damage to Property line of business, and an increase in net best estimate technical provisions for the Direct and Proportional Motor Vehicle Liability Line 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

All material information relating to the Company's capital management has been disclosed in sub-sections E.1 to E.5 above.

Annex - specific Quantitative Reporting Templates (all amounts expressed in EUR thousands)

Includes the following public QRTs:

- S.02.01.02
- S.05.01.02
- S.05.02.01
- S.17.01.02
- S.19.01.21
- S.23.01.01
- S.25.01.21
- S.28.01.01

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	0
R0040	Deferred tax assets	16,322
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	1,891
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	1,237,332
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	997,302
R0100	*Equities*	120,036
R0110	*Equities - listed*	118,832
R0120	*Equities - unlisted*	1,204
R0130	*Bonds*	0
R0140	*Government Bonds*	0
R0150	*Corporate Bonds*	0
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	118,222
R0190	*Derivatives*	1,772
R0200	*Deposits other than cash equivalents*	0
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	0
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	0
R0260	*Other loans and mortgages*	0
R0270	Reinsurance recoverables from:	111,775
R0280	*Non-life and health similar to non-life*	111,775
R0290	*Non-life excluding health*	111,644
R0300	*Health similar to non-life*	131
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	0
R0330	*Life excluding health and index-linked and unit-linked*	0
R0340	*Life index-linked and unit-linked*	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	9,140
R0370	Reinsurance receivables	19,182
R0380	Receivables (trade, not insurance)	32,660
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	23,667
R0420	Any other assets, not elsewhere shown	
R0500	**Total assets**	1,451,969

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	926,166
R0520	*Technical provisions - non-life (excluding health)*	919,433
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	860,292
R0550	*Risk margin*	59,141
R0560	*Technical provisions - health (similar to non-life)*	6,733
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	6,227
R0590	*Risk margin*	506
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	0
R0640	*Risk margin*	0
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	0
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	0
R0680	*Risk margin*	0
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	0
R0710	*Best Estimate*	0
R0720	*Risk margin*	0
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	0
R0760	Pension benefit obligations	10,683
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	9,585
R0790	Derivatives	1,496
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	4,083
R0830	Reinsurance payables	0
R0840	Payables (trade, not insurance)	64,112
R0850	Subordinated liabilities	2,385
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	2,385
R0880	Any other liabilities, not elsewhere shown	
R0900	**Total liabilities**	1,018,511
R1000	**Excess of assets over liabilities**	433,458

S.05.01.02

Premiums, claims and expenses by line of business

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	Gross - Direct Business	0	6,728	0	73,706	52,655	131,697	175,908	128,922	0	602	0	42,235					612,452
R0120	Gross - Proportional reinsurance accepted	0	0	0	0	0	35	0	0	0	0	0	0					35
R0130	Gross - Non-proportional reinsurance accepted																	0
R0140	Reinsurers' share	0	131	0	781	565	2,885	19,775	7,847	0	196	0	28,156					60,336
R0200	Net	0	6,597	0	72,924	52,090	128,847	156,133	121,074	0	406	0	14,079					552,151
	Premiums earned																	
R0210	Gross - Direct Business	0	8,868	0	76,105	53,691	138,574	174,620	117,509	0	441	0	40,358					610,167
R0220	Gross - Proportional reinsurance accepted	0	0	0	0	0	35	0	0	0	0	0	0					35
R0230	Gross - Non-proportional reinsurance accepted																	0
R0240	Reinsurers' share	0	135	0	790	559	3,612	22,373	8,869	0	196	0	26,109					62,643
R0300	Net	0	8,732	0	75,315	53,132	134,998	152,247	108,640	0	245	0	14,250					547,559
	Claims incurred																	
R0310	Gross - Direct Business	0	2,174	0	79,273	41,097	80,434	132,650	78,258	0	1,034	0	8,996					423,917
R0320	Gross - Proportional reinsurance accepted	0	0	0	0	0	990	0	0	0	0	0	0					990
R0330	Gross - Non-proportional reinsurance accepted																	0
R0340	Reinsurers' share	0	-6	0	1,685	39	-418	8,773	-1,068	0	-1,245	0	5,643					13,403
R0400	Net	0	2,181	0	77,588	41,058	81,842	123,877	79,326	0	2,279	0	3,354					411,504
	Changes in other technical provisions																	
R0410	Gross - Direct Business	0	0	0	0	0	0	0	0	0	0	0	0					0
R0420	Gross - Proportional reinsurance accepted	0	0	0	0	0	0	0	0	0	0	0	0					0
R0430	Gross - Non-proportional reinsurance accepted																	0
R0440	Reinsurers' share	0	0	0	0	0	0	0	0	0	0	0	0					0
R0500	Net	0	0	0	0	0	0	0	0	0	0	0	0					0
R0550	**Expenses incurred**	0	4,391	0	35,654	23,238	51,667	59,573	45,459	0	261	0	4,484					224,728
R1200	**Other expenses**																	
R1300	**Total expenses**																	224,728

S.05.02.01

Premiums, claims and expenses by country

Non-life

		C0010	C0020	C0030	C0040	C0050	C0060	C0070
		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations			Top 5 countries (by amount of gross premiums written) - non-life obligations		Total Top 5 and home country
R0010			NL	BE	FR	DE		
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	Gross - Direct Business	6,829	311,705	162,554	100,160	26,359		607,607
R0120	Gross - Proportional reinsurance accepted	35	0	0	0	0		35
R0130	Gross - Non-proportional reinsurance accepted	0	0	0	0	0		0
R0140	Reinsurers' share	75	8,234	38,766	10,920	2,378		60,374
R0200	Net	6,789	303,471	123,788	89,240	23,980	0	547,269
	Premiums earned							
R0210	Gross - Direct Business	13,329	318,351	150,537	99,346	24,372		605,935
R0220	Gross - Proportional reinsurance accepted	35	0	0	0	0		35
R0230	Gross - Non-proportional reinsurance accepted	0	0	0	0	0		0
R0240	Reinsurers' share	67	9,612	38,946	11,297	2,722		62,644
R0300	Net	13,297	308,739	111,591	88,049	21,650	0	543,326
	Claims incurred							
R0310	Gross - Direct Business	12,795	239,609	84,903	41,481	44,063		422,851
R0320	Gross - Proportional reinsurance accepted	990	0	0	0	0		990
R0330	Gross - Non-proportional reinsurance accepted	0	0	0	0	0		0
R0340	Reinsurers' share	303	1,453	5,204	829	5,613		13,403
R0400	Net	13,482	238,156	79,699	40,652	38,450	0	410,438
	Changes in other technical provisions							
R0410	Gross - Direct Business	0	0	0	0	0		0
R0420	Gross - Proportional reinsurance accepted	0	0	0	0	0		0
R0430	Gross - Non-proportional reinsurance accepted	0	0	0	0	0		0
R0440	Reinsurers' share	0	0	0	0	0		0
R0500	Net	0	0	0	0	0	0	0
R0550	**Expenses incurred**	3,222	126,986	49,682	32,881	10,220		222,992
R1200	**Other expenses**							
R1300	**Total expenses**							222,992

S.17.01.02

Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				Total Non-Life obligation
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	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	
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
R0010	**Technical provisions calculated as a whole**	0	0	0	0	0	0	0	0	0	0	0	0					0
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																	0
	Technical provisions calculated as a sum of BE and RM																	
	Best estimate																	
	Premium provisions																	
R0060	Gross	0	-716	0	1,343	-865	-28,377	-16,753	-18,448	0	-157	0	-14,750					-78,724
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	0	-21	0	-519	20	-2,002	-8,793	-2,502	0	-15	0	-13,109					-26,941
R0150	**Net Best Estimate of Premium Provisions**	0	-695	0	1,862	-885	-26,375	-7,961	-15,946	0	-143	0	-1,641					-51,783
	Claims provisions																	
R0160	Gross	0	6,943	0	125,915	6,976	220,720	152,114	389,188	0	2,698	0	40,689					945,243
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	0	152	0	3,934	-21	8,084	24,504	84,939	0	407	0	16,716					138,716
R0250	**Net Best Estimate of Claims Provisions**	0	6,791	0	121,981	6,997	212,636	127,610	304,249	0	2,290	0	23,973					806,527
R0260	**Total best estimate - gross**	0	6,227	0	127,258	6,110	192,344	135,361	370,740	0	2,540	0	25,939					866,519
R0270	**Total best estimate - net**	0	6,096	0	123,843	6,112	186,262	119,650	288,303	0	2,148	0	22,332					754,744
R0280	**Risk margin**	0	506	0	8,665	1,920	15,708	11,465	19,345	0	130	0	1,909					59,647
	Amount of the transitional on Technical Provisions																	
R0290	Technical Provisions calculated as a whole																	0
R0300	Best estimate																	0
R0310	Risk margin																	0
R0320	**Technical provisions - total**	0	6,733	0	135,923	8,030	208,051	146,826	390,085	0	2,671	0	27,848					926,166
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**	0	131	0	3,416	-1	6,082	15,711	82,437	0	393	0	3,607					111,775
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**	0	6,602	0	132,508	8,031	201,969	131,115	307,648	0	2,278	0	24,241					814,391

S.19.01.21

Non-Life insurance claims

Total Non-life business

Z0020 Accident year / underwriting year: Accident Year

Gross Claims Paid (non-cumulative)

(absolute amount)

		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
	Year	Development year											In Current year	Sum of years (cumulative)
		0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior											11,371	11,371	11,371
R0160	2008	161,291	206,162	66,344	36,670	27,510	14,562	12,416	5,240	7,442	5,919		5,919	543,556
R0170	2009	102,855	153,586	72,874	35,986	37,493	9,637	4,475	7,451	4,819			4,819	429,176
R0180	2010	112,812	183,495	81,831	49,863	55,856	9,931	9,561	5,743				5,743	509,092
R0190	2011	115,031	150,770	64,616	50,689	13,132	14,623	5,999					5,999	414,861
R0200	2012	73,192	140,552	59,704	17,077	15,124	23,332						23,332	328,981
R0210	2013	95,297	129,731	57,392	21,133	11,150							11,150	314,703
R0220	2014	86,434	129,272	62,142	17,306								17,306	295,154
R0230	2015	93,441	124,838	52,383									52,383	270,663
R0240	2016	96,195	122,765										122,765	218,959
R0250	2017	103,823											103,823	103,823
R0260												Total	364,609	3,440,339

Gross Undiscounted Best Estimate Claims Provisions

(absolute amount)

		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
	Year	Development year											Year end (discounted data)
		0	1	2	3	4	5	6	7	8	9	10 & +	
R0100	Prior											97,372	97,042
R0160	2008	0	0	0	0	0	0	0	0	24,935	15,362		15,279
R0170	2009	0	0	0	0	0	0	0	59,725	52,993			52,754
R0180	2010	0	0	0	0	0	0	40,529	43,236				42,804
R0190	2011	0	0	0	0	0	39,733	30,334					29,957
R0200	2012	0	0	0	0	60,200	28,432						28,154
R0210	2013	0	0	0	43,966	38,003							37,463
R0220	2014	0	0	66,971	49,886								49,019
R0230	2015	0	132,999	91,484									89,910
R0240	2016	228,204	158,445										156,046
R0250	2017	349,607											346,815
R0260												Total	945,243

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	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	1,582	1,582		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	415,554	415,554			
R0140	Subordinated liabilities	2,385		0	2,385	0
R0160	An amount equal to the value of net deferred tax assets	16,322				16,322
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
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**	0				
R0230	**Deductions for participations in financial and credit institutions**	0				
R0290	**Total basic own funds after deductions**	435,843	417,136	0	2,385	16,322
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	435,843	417,136	0	2,385	16,322
R0510	Total available own funds to meet the MCR	419,521	417,136	0	2,385	
R0540	Total eligible own funds to meet the SCR	435,843	417,136	0	2,385	16,322
R0550	Total eligible own funds to meet the MCR	419,521	417,136	0	2,385	
R0580	**SCR**	362,311				
R0600	**MCR**	134,983				
R0620	**Ratio of Eligible own funds to SCR**	120.30%				
R0640	**Ratio of Eligible own funds to MCR**	310.79%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	433,458
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	17,904
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	415,554
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	63,947
R0790	**Total Expected profits included in future premiums (EPIFP)**	63,947

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	118,942		0
R0020	Counterparty default risk	18,404		
R0030	Life underwriting risk	0		0
R0040	Health underwriting risk	9,275	3,5	0
R0050	Non-life underwriting risk	287,155	7,8	0
R0060	Diversification	-85,748		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	348,028		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	25,996
R0140	Loss-absorbing capacity of technical provisions	-615
R0150	Loss-absorbing capacity of deferred taxes	-11,098
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency Capital Requirement excluding capital add-on**	362,311
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	362,311
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

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	134,983

		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	0	0
R0030	Income protection insurance and proportional reinsurance	6,096	6,597
R0040	Workers' compensation insurance and proportional reinsurance	0	0
R0050	Motor vehicle liability insurance and proportional reinsurance	123,843	72,924
R0060	Other motor insurance and proportional reinsurance	6,112	52,090
R0070	Marine, aviation and transport insurance and proportional reinsurance	186,262	128,847
R0080	Fire and other damage to property insurance and proportional reinsurance	119,650	156,133
R0090	General liability insurance and proportional reinsurance	288,303	121,074
R0100	Credit and suretyship insurance and proportional reinsurance	0	0
R0110	Legal expenses insurance and proportional reinsurance	2,148	406
R0120	Assistance and proportional reinsurance	0	0
R0130	Miscellaneous financial loss insurance and proportional reinsurance	22,332	14,079
R0140	Non-proportional health reinsurance	0	0
R0150	Non-proportional casualty reinsurance	0	0
R0160	Non-proportional marine, aviation and transport reinsurance	0	0
R0170	Non-proportional property reinsurance	0	0

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCR_L Result	0

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		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	134,983
R0310	SCR	362,311
R0320	MCR cap	163,040
R0330	MCR floor	90,578
R0340	Combined MCR	134,983
R0350	Absolute floor of the MCR	2,500
R0400	**Minimum Capital Requirement**	134,983

MS Amlin
The Leadenhall Building
122 Leadenhall Street
London
EC3V 4AG

Tel: +44 (0)20 7746 1000

msamlin.com