Solvency and Financial Condition Report 2019

MS Amlin Insurance S.E.

msamlin.com

Cautionary Statement

This Report includes statements with respect to future events, trends, plans, expectation or objectives relating to MS Amlin Insurance S.E.'s ('MS 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 MS 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 MS 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. MS 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 2019 has been prepared for MS Amlin Insurance S.E. ('MS AISE' or the 'Company').

Business

At the reporting date 31 December 2019, the Company was a wholly owned subsidiary of MS Amlin Limited (formerly 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 and Property & Casualty business internationally.

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

As at 1 January 2019 the Company re-domiciled and transferred its registered office from the United Kingdom to Belgium. This was 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. As a result, the supervisory authority has changed to the National Bank of Belgium.

The report has as a basis of presentation Solvency II as well as BEGAAP and IFRS for comparative purposes. IFRS principles are presented as this is the basis by which the shareholder manages the Company and by which the Management Committee and Board mainly used in steering the Company.

The UK left the EU on 31 January 2020 and there is currently a 'transition' period until the end of 2020 while the UK and EU negotiate additional arrangements. As there is still uncertainty as to the final terms of the UK's new relationship with the EU, MS Amlin has implemented a business approach assuming a so called 'Hard Brexit', which could still occur at the end of the political negotiation period, 31 December 2020. This means MS Amlin continues to support the Company's clients throughout the UK and Europe to the same high standard while assuming the UK will cease to have passporting rights required to solicit, intermediate and write European Economic Area (EEA) business.

On 3 December 2019, MS Amlin plc, the Company's former immediate parent company, was re-registered as a private limited company in the United Kingdom. As a result of this, the name changed to MS Amlin Limited.

Furthermore, on 19 November 2019, Mitsui Sumitomo Insurance Co. Limited ('MSI') announced a reorganisation of the international division of which MS Amlin is a significant component. This involved the removal of the regional, intermediate holding companies within MSI, including MS Amlin Limited, from 1 January 2020. Thus from 1 January 2020, the Company became a wholly owned subsidiary of MSI. MSI's immediate and ultimate parent is MS&AD Insurance Group Holdings, Inc., which is also MS AISE's ultimate parent company. The chart presenting the group structure can be found in section A.1.

Shared business services across the former MS Amlin entities will be provided by MS Amlin Business Services ('ABS'), which is the trading name of the company MS Amlin Corporate Services Limited ('MS ACS'). ABS will act as a centre of excellence and provide specialised services to the MS Amlin entities, including MS AISE.

As a result, certain governance and reporting structures have changed as from 1 January 2020 compared to the reporting year 2019. If this is the case, the report includes, in the related governance or risk section, a clarification on these changes as from 2020 onwards.

COVID-19 pandemic

The Management Committee of MS Amlin Insurance SE has implemented its crisis management plan regarding the COVID-19 pandemic. A dedicated crisis team composed of all members of the Management Committee along with other senior members of staff and subject matter experts was established.

Gradual measures were taken in line with the business continuity policy of the company.

As of 16 March 2020, the company decided to close all its offices except in very limited circumstances. Since that time virtually all staff is working remotely from home. Continuity measures are in place and will last as long as the situation will require such measures.

The Management Committee has evaluated the impact both from a solvency, operational, liquidity and profitability perspective:

- Due to its exceptional nature, the final impact of the COVID-19 pandemic on MS AISE's solvency and financial position is difficult to predict. Estimations have and are continuing to be done based on scenario analyses mostly driven by different assumptions on duration of the lock-down situation and the effectiveness of the public health and economic policy response on the overall economy. As of 31 May 2020, none of the scenarios indicate a major threat to the sustainability of the Company. However, a stabilization of the situation and further information will be needed to achieve sufficient confidence in these conclusions.
- It is noted that the COVID-19 pandemic is considered a non-adjusting subsequent event and as a consequence did not have any impact on the financial position as at 31 December 2019 and the income statement for the year.
- The financial markets have experienced a high-level of volatility. The Company is exposed to this volatility by its investments in:
    - Equity representing 1% of its total investments as of 31 December 2019. This category is quite sensitive to the financial markets evolution but adequately diversified (as of 22 May 2020 it represents 4% of total investments and has a positive year to date return of 2.5%).
    - Bonds funds representing 50% of its total investments. This category was sensitive to the financial market evolution in March and has since partially recovered (as of 22 May 2020 it represents 48% of total investments and has a negative year to date return of 1.2%).
    - Real estate funds representing 8% of its total investments. This category is less sensitive to the financial market evolution (as of 22 May 2020 it represents 7% of total investments and has a positive year to date return of 3.3%).
    - The remaining position 41% as of 31 December 2019 (41% as of 22 May 2020) is held in cash and cash equivalents.
- As a non-life insurance company operating in various geographical areas and specialized in property and casualty insurance, the impact on the written premiums, claims expense and in particular the technical result is expected to be significant. At this moment in time it is not yet possible to provide a reliable estimate. The final impact is highly dependent on the final duration of the COVID-19 pandemic.
- Management is continuously following the evolution of the situation in order to take adequate measures ensuring the continuity of the operations.

Based on its review, the Management Committee recommended to the Board of Directors to keep the current Strategic Asset Allocation mandate unchanged. The Management Committee also recommended refraining from paying any dividend on results 2019 in line with NBB recommendations. The Board of Directors approved all recommendations as of 23 April 2020 and asked the annual General Shareholders Meeting not to pay any dividend on the 2019 results.

The Company does expect an impact of the COVID-19 pandemic on its results in 2020 but does not consider that the COVID-19 pandemic would threaten its continuity or going-concern. The Company has robust financial and operational grounds to sustain the impacts of this pandemic.

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 NBB. 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 generally accepted financial standards IFRS as well as the Company's annual report and financial statements, prepared for the Company's shareholder and in accordance with Belgian accounting standards and requirements ('BEGAAP'). Unless stated otherwise, this report represents the position of the Company as at 31 December 2019 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.

Performance

Underwriting performance

MS AISE net written premium has increased in 2019 by €63.4 million and overall underwriting result has improved by €3.1 million compared to 2018. The improvement is driven by rate increases as well as new business. One of the largest drivers offsetting these is the 2019 allocations to the equalisation reserve for catastrophes according to BEGAAP principles. This has no impact on the 2018 performance as this reserve is built up as from 1 January 2019 onwards.

		2019			2018	
Underwriting result	**Total**	**M&A**	**P&C**	**Total**	**M&A**	**P&C**
	€'000	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**
Gross written premium	770,463	267,454	503,009	600,519	146,665	453,854
Net written premium	593,324	180,122	413,202	529,915	140,545	389,369
Net earned premium	579,350	166,681	412,668	530,913	133,230	397,682
Net claims	(359,988)	(96,194)	(263,794)	(346,989)	(78,662)	(268,327)
Equalisation reserve	(15,904)	-	(15,904)	-	-	-
Incurred expenses	(232,263)	(82,734)	(149,530)	(215,857)	(56,899)	(158,958)
Underwriting result	**(28,806)**	**(12,247)**	**(16,559)**	**(31,933)**	**(2,331)**	**(29,603)**

The marine, aviation and transport insurance business in MS AISE showed an increase in written premium in 2019 over 2018. Result for the period is a loss of €28.8 million.

The net written premium of P&C increased as well and is mainly driven MS AISE Motor business across the Netherlands and the UK. This is primarily caused by new business and higher renewal rates of the current insurance portfolio compared to previous year. Furthermore, the casualty portfolio in MS AISE also increased due to high retention rates and new business.

Net claims are €360.0 million which is €13.0 million more than 2018 (€347.0 million). This is in large driven by prior accident year net claims worsening by €4.0 million (2018: €11.0 million profit) coupled with €15.0 million increase for the current year.

Furthermore, as explained above, there is a €15.9 million impact on underwriting result from 2019 allocations to the BEGAAP equalisation reserve.

Investment performance

MS AISE's IFRS investment income over 2019 amounted to €29.4 million (2018: €1.7 million income). Overall, the increase compared to last year is mainly due to solid performance of the stock markets in 2019. According to BEGAAP accounting principles, after cancellation of the unrealised investment results, the investment income is amended to €8.4 million. In addition to this, an impairment on the financial assets has to be booked according to BEGAAP principles which added €8.0 million at 31 December 2019.

The assets are primarily dominated by shares in MS Amlin Group's investment vehicle, an Irish domiciled UCITS-vehicle which is called the Toro Prism Trust (the 'Trust'). 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.

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

System of governance

MS AISE has a Board of Directors (the 'Board') and a Management Committee. The Board 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, over reporting year 2019, it was a wholly-owned subsidiary of MS Amlin Limited which in turn was wholly owned by MSI. As from 2020 onwards, as explained earlier, MS AISE's immediate parent changed from MS Amlin Limited to MSI. MS AISE 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.

The Board has a number of committees, to which it delegates oversight and decision making powers in accordance with documented Terms of Reference, which are contained within the By-Laws. In line with Belgian regulations, a Management Committee was established as a Committee of the Board as from 1 January 2019.

MS AISE must also report to its parent on aspects of its operations in line with Group reporting requirements from time to time.

MS AISE's underwriting operating structure is managed through the M&A and P&C SBUs which are both represented in the Management Committee. This enables MS AISE's Board, through members which are also part of the Management Committee, and other senior management to exercise strategy and control oversight over MS AISE's (business) affairs. As indicated above, MSI announced on 19 November 2019 a reorganisation of its international business. This involved the removal of the regional, intermediate holding companies within MSI, including MS Amlin Limited. Therefore, a change in control was prepared whereby MS AISE will directly be owned by, and report to MSI, effective from 1 January 2020. No other material changes in the system of governance have taken place over the reporting period.

The Board regards the Company's system of governance as effective, in particular to protect the interests of MS 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.

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

Risk profile

MS 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 MS AISE's risk profile.

Strategic risk

The impact of strategic developments on MS AISE's risk profile is 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 average combined ratios close to 100%;
- political and economic conditions (e.g. Brexit and regulatory requirements, low interest rate environment); and
- developments within the Group which may impact MS AISE's ability to execute its strategy.

Insurance risk

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, large risks (such as shipyards) and unforeseen accumulation of attritional losses. 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.

No significant changes in MS AISE's insurance risk profile have been identified over the reporting period, however an increase in gross written business was noted, and in specific for M&A classes (cargo, yacht and fixed premium protection & indemnity) driven by business transfers from MS AISE's sister entity MS Amlin Underwriting Limited ('MS AUL'). For the transferred business a quota share arrangement has been arranged over reporting year 2019 to provide protection for underwriting performance volatility.

Market risk

Market and liquidity risk is being managed in line with the Prudent Person Principle which requires MS 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 MS AISE maintains sufficient capital to meet solvency requirements;
- maintain sufficient liquid funds to meet liabilities when they fall due; and
- use derivative instruments to mitigate equity and foreign exchange risk.

There are no significant changes in MS AISE's market risk profile, however we do note a slight reduction over the year in equity and property positions in favour of cash deposits.

Credit risk

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 MS AISE's 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.

Exposure to broker credit risk increased over the year as a consequence of growth in top-line premium during 2019. Past experience showed that there is limited default risk relating to these exposures.

Operational risk

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

The risk profile for operational risk remained the same during 2019. Improvements have been realised in relation to managing information security and the IT infrastructure. Further improvements will be realised in 2020 via the IT and cyber remediation programme.

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

Valuation for solvency purposes

As at 31 December 2019, the Company had excess assets over liabilities under Solvency II of €509.3 million (2018: €501.5 million) compared to €373.8 million (2018: €409.0 million) of net assets under BEGAAP and €539.7 million (2018: €525.1 million) of net assets under IFRS. The adjustments made to move from IFRS balance sheet to Solvency II balance sheet are set out below:

	2019	2018
	€'000	€'000
BEGAAP net asset value	**373,802**	**408,952**
Allowed items – deferred taxes and IFRS16 assets & liabilities	15,504	4,632
Reversal amortisation goodwill	14,950	12,100
Financial assets at fair value	63,822	30,155
Adjustment to IFRS technical provisions	71,625	69,245
IFRS net asset value	**539,704**	**525,084**
Disallow items – goodwill, intangible assets, prepayments and deferred acquisition costs	(81,001)	(76,588)
Solvency II technical provisions adjustment	146,227	150,349
Future premiums and claims adjustments	(98,306)	(96,444)
Deferred tax on adjustment items	2,685	(855)
Excess of assets over liabilities – Solvency II	**509,309**	**501,546**

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

Own funds

	2019	2018
	€'000	€'000
Excess of assets over liabilities	**509,309**	**501,546**
Subordinated liabilities	2,275	2,398
Total Available own funds	**511,584**	**503,944**
Solvency Capital Requirement ('SCR')	369,986	368,135
Ratio of Eligible own funds to SCR ('Solvency Ratio')	**138.3%**	**136.9%**

MS AISE's policy is to actively manage capital so as to meet regulatory requirements and contribute to the Company's target to deliver a cross-cycle return on equity in excess of 7% (2018: 12%). This return on equity target has changed over the reporting year as part of the periodic review process in order to ensure that it remains appropriate. As at 31 December 2019 MS AISE's Solvency Ratio was 138.3% (2018: 136.9%). This increase is mainly driven by the high investment returns on the financial assets during the reporting year.

The subordinated liabilities at the reporting date were provided by MS Amlin Limited. On 31 March 2020, MS Amlin Limited assigned all rights and interest to the loans to MS Amlin Corporate Services Limited. These liabilities were transferred as part of the reorganisation effected by the MS&AD Group and further explained in section B.1.3.

The below table analyses the movement in the Solvency Ratio:

	€'000	%
Total Available own funds over SCR at 1 January 2019	**135,809**	**136.9%**
Change in IFRS net assets	14,517	3.8%
Change in Solvency II valuation adjustments	(6,754)	(1.8%)
Change in subordinated liabilities value	(123)	(0.1%)
Change in SCR	(1,851)	(0.5%)
Available own funds over SCR at 31 December 2019	**141,598**	**138.3%**

The change in IFRS net assets includes the impact of the IFRS profit after tax of €16.0 million for the Company.

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

The change in Solvency Capital Requirement ('SCR') as well as the Minimum Capital Requirement ('MCR') is explained in section E.2 of this report.

Capital structure and arrangements

At 31 December 2019, the Company has own funds of €511.6 million. Per the requirements for Solvency II, this is split into tiers as below:

	2019	2018
	€'000	€'000
Tier 1	491,152	497,711
Tier 2	2,275	2,398
Tier 3	18,157	3,835
Total Available Own Funds	**511,584**	**503,944**

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

Tier 2 own funds relate to the subordinated loan the Company has received, 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 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 for more information on the application of the standard formula calculation.

MS AISE will apply for the approval of its Internal Model to be used for Solvency II reporting. The process of approval by the National Bank of Belgium is expected to take course in 2021.However, MS AISE uses its Internal Model for internal capital setting processes and in support of various strategic and tactical business initiatives (like sensitivity testing and calculating exposures), as well as supporting MS AISE’s standard formula calculations.

Please refer to section E of this report for further details relating to MS AISE’s own funds.

Section A - Business and Performance

A.1 Business

Legal form

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

The Company is domiciled in Belgium. The address of its registered office is:

Koning Albert II Laan 37
1030 Brussels
Belgium

Group structure

Over reporting year 2019, MS AISE was a wholly owned subsidiary of MS Amlin plc (which became MS Amlin Limited on 4 December 2019), a public limited company (then Limited Company) incorporated and registered in England and Wales (referred hereafter to as 'MS Amlin Limited'). MS Amlin Limited 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.

As from 2020 onwards, due to the reorganisation of MS&AD's international division, MS AISE's direct parent changed from MS Amlin Limited to MSI. This reorganisation is further elaborated on in the remainder of this section.

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

For the reporting year 2019, MS AISE is subject to supervision by the National Bank of Belgium (NBB) as well as its branch country regulators.

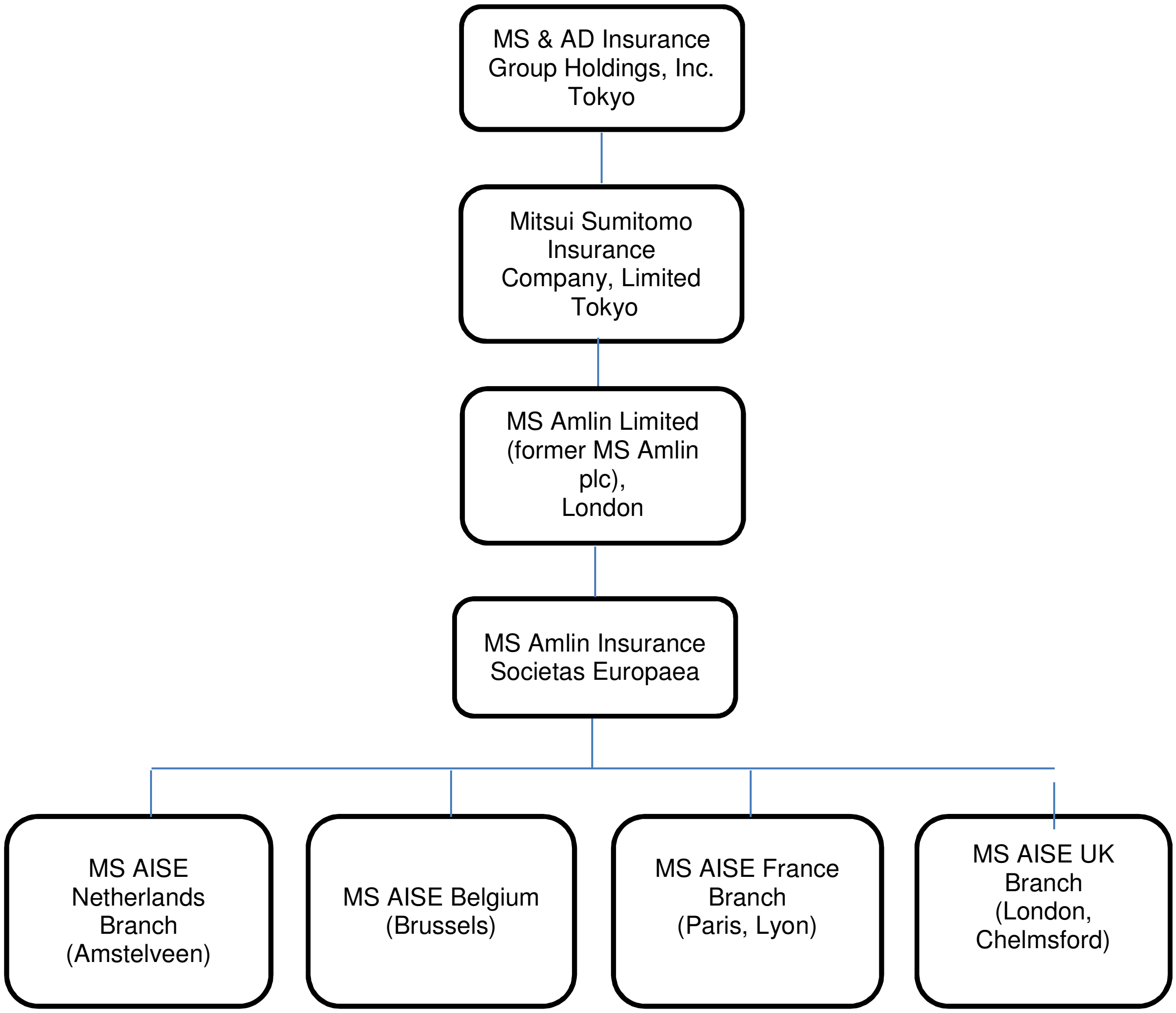
MS AISE operates in five countries, and is organised and managed through two distinct operating segments, referred to as Strategic Business Units ('SBUs'). Segments are as follows:

- **Marine**: Primarily focusing on cargo, hull, liability, fixed premium protection & indemnity and yacht portfolios, and other specialist areas such as specie. Operates through the MS Amlin Marine NV ('MS AM') cover holder which is also part of the MS&AD Group.

- **Property & Casualty:** Providing insurance coverage in three main areas – property, casualty and motor – for clients in The Netherlands, Belgium, France and The United Kingdom.

The simplified structure chart below explains the relationships between MS AISE and its parent companies during the reporting period. As indicated above, as from 1 January 2020, the immediate parent of MS AISE changed to MSI. This structure is not presented in the chart below.

MS AISE does not have any related undertakings where a proportion of ownership is held.



Significant events during the period

As at 1 January 2019 the Company re-domiciled and transferred its registered office from the United Kingdom to Belgium. This was 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. As a result, the supervisory authority has changed to the National Bank of Belgium.

The report has as a basis of presentation Solvency II as well as BEGAAP and IFRS for comparative purposes. IFRS principles are presented as this is the basis by which the shareholder manages the Company and by which the Management Committee and Board mainly used in steering the Company.

Furthermore, in April 2018 the MS AISE approved to place the German P&C operation into run-off and no new business has been underwritten since May 2018. The office and branch were formally closed as of 31 December 2019. The financial administration of the remaining live policies has been brought into the Belgian branch.

On 3 April 2019, by special resolution the Board approved an increase to the share capital of the Company by an amount of € 28.7 million to increase from € 1.3 million to € 30.0 million without the issuance of new shares and by incorporation of retained earnings. MS AISE's parent at the time, MS Amlin Limited, also approved the increase by special resolution. Thus the subscribed shared capital of MS AISE is represented by 1,164,000 shares at a (rounded) nominal value of € 25.77 each.

On 3 December 2019, MS Amlin plc, the Company's former immediate parent company, was re-registered as a private limited company in the United Kingdom. As a result of this, the name changed to MS Amlin Limited.

Furthermore, on 19 November 2019, a reorganisation of its international division was announced by Mitsui Sumitomo Insurance Co. Limited ('MSI') of which MS Amlin is a significant component. This involved the removal of the regional, intermediate holding companies within MSI, including MS Amlin Limited, from 1 January 2020. Thus from 1 January 2020, the Company became a wholly owned subsidiary of MSI.

Shared business services across the former MS Amlin entities will be provided by MS Amlin Business Services ('ABS'), which is the trading name of the company MS Amlin Corporate Services Limited ('MS ACS'). ABS will act as a centre of excellence and provide specialised services to the MS Amlin entities, including MS AISE.

As a result, certain governance and reporting structures may have changed as from 1 January 2020 compared to the reporting year 2019. If this is the case, the report includes, in the related governance or risk section, a clarification on these changes as from 2020 onwards.

Significant events after the reporting period

The Management Committee of MS Amlin Insurance SE has implemented its crisis management plan regarding the COVID-19 pandemic. A dedicated crisis team composed of all members of the Management Committee along with other senior members of staff and subject matter experts was established.

Gradual measures were taken in line with the business continuity policy of the company.

As of 16 March 2020, the company decided to close all its offices except in very limited circumstances. Since that time virtually all staff is working remotely from home. Continuity measures are in place and will last as long as the situation will require such measures.

The Management Committee has evaluated the impact both from a solvency, operational, liquidity and profitability perspective:

- Due to its exceptional nature, the final impact of the COVID-19 pandemic on MS AISE's solvency and financial position is difficult to predict. Estimations have and are continuing to be done based on scenario analyses mostly driven by different assumptions on duration of the lock-down situation and the effectiveness of the public health and economic policy response on the overall economy. As of 31 May 2020, none of the scenarios indicate a major threat to the sustainability of the Company. However, a stabilization of the situation and further information will be needed to achieve sufficient confidence in these conclusions.

- It is noted that the COVID-19 pandemic is considered a non-adjusting subsequent event and as a consequence did not have any impact on the financial position as at 31 December 2019 and the income statement for the year.

- The financial markets have experienced a high-level of volatility. The Company is exposed to this volatility by its investments in:

    - Equity representing 1% of its total investments as of 31 December 2019. This category is quite sensitive to the financial markets evolution but adequately diversified (as of 22 May 2020 it represents 4% of total investments and has a positive year to date return of 2.5%).

    - Bonds funds representing 50% of its total investments. This category was sensitive to the financial market evolution in March and has since partially recovered (as of 22 May 2020 it represents 48% of total investments and has a negative year to date return of 1.2%).

  - Real estate funds representing 8% of its total investments. This category is less sensitive to the financial market evolution (as of 22 May 2020 it represents 7% of total investments and has a positive year to date return of 3.3%).
  - The remaining position 41% as of 31 December 2019 (41% as of 22 May 2020) is held in cash and cash equivalents.

- As a non-life insurance company operating in various geographical areas and specialized in property and casualty insurance, the impact on the written premiums, claims expense and in particular the technical result is expected to be significant. At this moment in time it is not yet possible to provide a reliable estimate. The final impact is highly dependent on the final duration of the COVID-19 pandemic.
- Management is continuously following the evolution of the situation in order to take adequate measures ensuring the continuity of the operations.

Based on its review, the Management Committee recommended to the Board of Directors to keep the current Strategic Asset Allocation mandate unchanged. The Management Committee also recommended refraining from paying any dividend on results 2019 in line with NBB recommendations. The Board of Directors approved all recommendations as of 23 April 2020 and asked the annual General Shareholders Meeting not to pay any dividend on the 2019 results.

The Company does expect an impact of the COVID-19 pandemic on its results in 2020 but does not consider that the COVID-19 pandemic would threaten its continuity or going-concern. The Company has robust financial and operational grounds to sustain the impacts of this pandemic.

On 31 March 2020, MS Amlin Limited assigned all rights and interest in the subordinated debt provided to MS AISE, to MS Amlin Corporate Services Limited.

Aside from the COVID-19 pandemic and other items mentioned above no significant events have been identified between the reporting date and the date on which this Solvency and Financial Condition Report was submitted.

Supervisor information

For reporting year 2019, MS AISE's supervisor is the National Bank of Belgium ('NBB'), de Berlaimontlaan 14, 1000 Brussels, Belgium.

External auditor information

The Company's appointed external auditor is KPMG Bedrijfsrevisoren CVBA, Luchthaven Brussel Nationaal 1K, 1930 Zaventem, Belgium, represented by Frans Simonetti.

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'.

The classification principles of these QRTs are:

- Underwriting foreign exchange gains or losses are excluded;
- Claims management expenses are presented as part of incurred expenses in the QRTs.

The presentation of underwriting performance, as shown below, is in accordance with BEGAAP accounting standards. The underwriting performance for non-proportional reinsurance has not been presented separately in the tables below. The figures are included in the corresponding, more general, Solvency II classifications for lines of business.

Underwriting performance by material line of business

2019	Motor vehicle liability and other motor 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	125,778	267,454	181,484	134,033	61,713	770,463
Net written premium	122,636	180,122	145,758	124,339	20,469	593,324
Net earned premium	119,125	166,681	145,975	126,319	21,249	579,350
Net claims	(73,748)	(96,194)	(128,731)	(53,043)	(8,272)	(359,988)
Equalisation reserve	-	-	(3,858)	(12,046)	-	(15,904)
Incurred expenses	(35,828)	(82,734)	(56,627)	(48,334)	(8,740)	(232,263)
Underwriting result	**9,549**	**(12,247)**	**(43,241)**	**12,896**	**4,237**	**(28,806)**
Claims ratio	61.9%	57.7%	90.8%	51.5%	38.9%	64.9%
Expenses ratio	30.1%	49.6%	38.8%	38.3%	41.1%	40.1%
Combined ratio	92.0%	107.3%	129.6%	89.8%	80.1%	105.0%

2018	Motor vehicle liability and other motor 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 w ritten premium	104,341	146,665	178,528	123,492	47,494	600,519
Net w ritten premium	102,903	140,545	149,797	113,021	23,648	529,915
Net earned premium	108,334	133,230	146,717	118,515	24,116	530,913
Net claims	(88,929)	(78,662)	(127,373)	(45,665)	(6,360)	(346,989)
Equalisation reserve	-	-	-	-	-	-
Incurred expenses	(43,855)	(56,899)	(59,272)	(47,920)	(7,910)	(215,857)
Underw riting result	**(24,449)**	**(2,331)**	**(39,928)**	**24,929**	**9,846**	**(31,933)**
Claims ratio	82.1%	59.0%	86.8%	38.5%	26.4%	65.4%
Expenses ratio	40.5%	42.7%	40.4%	40.4%	32.8%	40.7%
Combined ratio	122.6%	101.7%	127.2%	79.0%	59.2%	106.0%

Overview

MS AISE written premium increased by €170.0 million. The underwriting result improved by €3.1 million to a loss of €28.6 million with corresponding combined ratio of 105.0% (2018: 106.0%). The improvement is driven by rate increases as well as new business. One of the largest drivers offsetting these is the 2019 allocations to the equalisation reserve for catastrophes according to BEGAAP principles. This has no impact on the 2018 performance as this reserve is built up as from 1 January 2019 onwards.

Gross written premium of €770.5 million equates to a growth of 28.3% or €170.0 million driven by new business of €163.1 million (2018: €69.4 million) coupled with positive renewal rate of 2.8% (2018: 2.9%). Transfer of business from MS Amlin Underwriting Limited ('MS AUL') to MS AISE accounts for €134 million of the income growth. The retention ratio for the year was 84% (2018: 86%).

Net written premium of €593.3 million increased by €63.4 million or €11.9% with associated cost for reinsurance equating to 23.0% of gross income (2018: 11.8%).

Net claims, without the impact of the equalisation reserve, of €360.0 million are €13.0 million higher than 2018 (€347.0 million), in large driven by prior accident year net claims worsening by €4.0 million (2018: €11.0 million profit) coupled with €15.0 million increase for the current accident year. The corresponding claims ratio of 64.9% (2018: 65.4%) improved by 0.5%.

Furthermore, as explained above, there is a €15.9 million impact from 2019 allocations to the BEGAAP equalisation reserve. The only SII lines of businesses impacted are fire and other damage to property insurance and general liability insurance.

Incurred expenses of €232.3 million are €16.4 million higher than 2018 and translates into an expense ratio of 40.1% (2018: 40.7%), being the result of cost effective measures in relation to operational expenses, increased override commission received in respect of the quota share on transferred business, coupled with income growth which improved the expense ratio .

Motor vehicle liability and other motor insurance

The MS AISE motor business written premium increased in 2019 from €104.3 million to €125.8 million (€21.5 million or 20.6% increase) across Netherlands and United Kingdom, primarily driven by new business and higher renewal rates of the current insurance portfolio compared to previous year (+7.5%).

The underwriting result in 2019 was a €9.5 million profit compared to a €24.4 million loss in 2018. This is mainly explained by favourable claims development in Netherlands, Belgium and United Kingdom.

Marine, aviation and transport insurance

The marine, aviation and transport insurance business in MS AISE showed an €120.8 million or 82% increase in written premium in 2019 from €146.7 million to €267.5 million. Majority of the growth is realised in yacht, cargo, war and fixed premium protection & indemnity classes, primarily driven by new business and positive renewal rate (+3.8%). Income growth in the classes benefitting from the transfer of business from MS AUL to MS AISE is €97 million.

Result for the period is an underwriting loss of €12.2 million compared to €2.3 million loss in 2018. Cost of reinsurance in 2019 is 32.7% (2018: 4.2%) and reduces net earned premium to €166.7 million which is €33.5 million (or 25.2%) higher than 2018.

Net claims of €96.2 million are €17.5 million higher than 2018 (€78.7 million) or a decrease in the claims ratio of 1.3% from 59.0% in 2018 to 57.7% in 2019, in large driven by €14.8 million deterioration in prior year claims offset by current year improvements.

Fire and other damage to property insurance

The property business in MS AISE showed a small increase in premium in 2019. Gross written premium grew by €3.0 million (1.6%) in 2019, mainly driven by growth in binder business in the Netherlands. The overall retention for the year was strong at 81.8% (2018: 88.1%), reflecting a broader market trend across Europe.

The underwriting result in 2019 worsened compared to 2018 on the back of continued large loss activity (from €39.9 million loss to €43.2 million loss). Net earned premium in 2019 is €146.0 million which is €0.7 million lower than 2018 as result of higher reinstatement premiums. Net claims are €128.7 million, which is €1.3 million more than 2018 predominantly driven by exceptional large claim performance.

The 2019 allocation to the BEGAAP equalisation reserve of €3.9 million deteriorated the underwriting result further.

General liability insurance

In 2019, the casualty portfolio in MS AISE increased by 8.5% (or €10.5 million) with gross written premium of €134.0 million compared to €123.5 million in 2018. The retention ratio remained high at 89.6% (2018: 90.3%) coupled with new business.

The underwriting result in 2019 is a profit of €12.9 million which is €12.0 million lower than last year (2018 €24.9 million profit). Net claims of €53.0 million are €7.3 million higher than 2018, the latter benefiting from exceptional positive prior year claims development in 2018.

Furthermore, the 2019 allocation to the BEGAAP equalisation reserve amounted up to of €12.0 million for general liability insurance.

Underwriting performance by material geographical area

2019	Belgium €'000	Netherlands €'000	UK €'000	France €'000	Other €'000	Total €'000
Gross written premium	195,377	404,652	53,606	102,929	13,898	770,463
Net written premium	112,479	352,328	36,882	77,785	13,849	593,324
Net earned premium	118,545	336,863	25,084	81,052	17,806	579,350
Net claims	(67,762)	(196,466)	(6,753)	(68,725)	(20,282)	(359,988)
Equalisation reserve	(2,540)	(9,582)	(1,850)	(1,645)	(287)	(15,904)
Incurred expenses	(45,845)	(139,046)	(12,740)	(32,068)	(2,564)	(232,263)
Underwriting result	**2,397**	**(8,231)**	**3,741**	**(21,385)**	**(5,328)**	**(28,806)**
Claims ratio	59.3%	61.2%	34.3%	86.8%	115.5%	64.9%
Expenses ratio	38.7%	41.3%	50.8%	39.6%	14.4%	40.1%
Combined ratio	98.0%	102.4%	85.1%	126.4%	129.9%	105.0%

2018	Belgium €'000	Netherlands €'000	UK €'000	France €'000	Other €'000	Total €'000
Gross written premium	146,143	318,671	10,519	93,376	31,810	600,519
Net written premium	108,865	302,808	9,664	78,110	30,467	529,915
Net earned premium	109,497	301,492	10,594	78,847	30,483	530,913
Net claims	(85,703)	(173,649)	(12,422)	(51,923)	(23,292)	(346,989)
Equalisation reserve	-	-	-	-	-	-
Incurred expenses	(46,744)	(116,903)	(5,102)	(33,729)	(13,378)	(215,857)
Underwriting result	**(22,950)**	**10,939**	**(6,930)**	**(6,806)**	**(6,187)**	**(31,933)**
Claims ratio	78.3%	57.6%	117.3%	65.9%	76.4%	65.4%
Expenses ratio	42.7%	38.8%	48.2%	42.8%	43.9%	40.7%
Combined ratio	121.0%	96.4%	165.4%	108.6%	120.3%	106.0%

The underwriting performance of the French business decreased by €14.6 million which is in large driven by the high level of large losses incurred during 2019 (approximately €28 million).

In April 2018 the MS AISE and MS Amlin Limited Boards agreed to place the German P&C operation into run-off and no new business has been underwritten from May 2018. The office and branch were formally closed as of 31 December 2019. As a result, the German insurance portfolio has decreased significantly and is presented in the "Other" column in the tables above.

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

A.3 Investment performance

IFRS investment performance by asset class

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

	2019 €'000	2018 €'000
Equities	10,317	(959)
Collective Investment Undertakings	19,021	2,632
Cash and deposits	87	62
Total	**29,424**	**1,734**

2019 provided positive returns across most asset classes. Following the weak end to 2018 for risk assets, markets bounced back in the first quarter of 2019. The positive returns were generated despite some high profile geopolitical factors including the US-China trade war and the prospect of a no deal Brexit. The overall full-year investment return was €29.4 million.

For the collective investments undertakings, a positive return of €19.0 million was contributed by the futures, bonds, equities and liquidity funds, with continued negative interest rates in the Eurozone, and allocations to cash detracting from returns. However, this was more than compensated for by the allocations to debt securities, equities and property which all produced strong positive returns.

The current macroeconomic outlook is heavily impacted by the COVID-19 pandemic. Although the first quarter of 2020 has been truly historic from a market perspective the investment portfolio has held up relatively well given asset price moves. MS AISE's conservative equity allocation heading into this period has protected the Company from significant losses seen by other market participants. However, as the course of the COVID-19 pandemic is highly uncertain, it remains unclear how the financial markets will evolve over the remainder of the year.

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 dominated by shares in 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 Limited 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.

BEGAAP investment performance

The investment return according to IFRS principles differs significantly from the BEGAAP result.

Investments are recognised at fair value under IFRS, while for BEGAAP purposes financial assets are valued at historical cost value less impairment and allowance for bad debt. Therefore, the investment return as a result of the fair value adjustments, also known as the unrealised results, is not recognised in the BEGAAP financial statements.

As the unrealised results amount to €21.0 million over the reporting year, the BEGAAP investment return is lowered to €8.4 million. In addition to this, an impairment on the financial assets has to be booked according to BEGAAP principles which added to €8.0 million at 31 December 2019. For more information on the valuation rules for impairment, reference is made to the BEGAAP financial statements.

Investments in securitisation

The Company has a small amount of investments in securitised assets which total 4% of Company investment assets.

A.4 Performance of other activities

Other material income and expenses

MS 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

MS AISE entered into several non-cancellable rental and lease arrangements.

The rent of the office space in:

- Amstelveen is €0.7 million annually and will be amended on 31 December 2022. The rent is yearly adjusted for inflation. MS AISE has an early termination option per 31 December 2020 (termination costs of €0.3 million).
- Antwerp is €0.1 million annually and is yearly adjusted for inflation. The contract ends 30 September 2024. MS AISE has an early termination option per 30 September 2021 (no termination costs).
- Brussels is €0.5 million annually and is yearly adjusted for inflation. The contract ends 31 July 2024. MS AISE has an early termination option per 31 July 2021 (no termination costs).
- MS AISE Paris is €1.4 million annually and is yearly adjusted for inflation. The contract ends 28 February 2025. MS AISE has an early termination option per 28 February 2019 (termination costs of €0.7 million) and per 28 February 2022 (no termination costs).

MS AISE also leases various cars under operating lease agreements.

MS AISE has no purchase options on the above mentioned office buildings. Furthermore, the Company is partly sub-leasing the Paris office resulting into a €0.4 million rent income over the reporting period.

In total for reporting year 2019, MS AISE incurred €3.6 million for lease and rental expenses (2018: €4.5 million).

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

B.1 General information on the system of governance

B.1.1 Structure of the Board and management

MS AISE has a Board of Directors (the 'Board') and a Management Committee. The Board 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, over reporting year 2019, it was a wholly-owned subsidiary of MS Amlin Limitedd which in turn was wholly owned by MSI. As from 2020 onwards, as explained earlier, MS AISE's immediate parent changed from MS Amlin Limited to MSI. MS AISE 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.

MS AISE must also report to its parent on aspects of its operations in line with reporting requirements set by MS Amlin Ltd, and ultimately Mitsui Sumitomo Insurance Company Ltd from time to time.

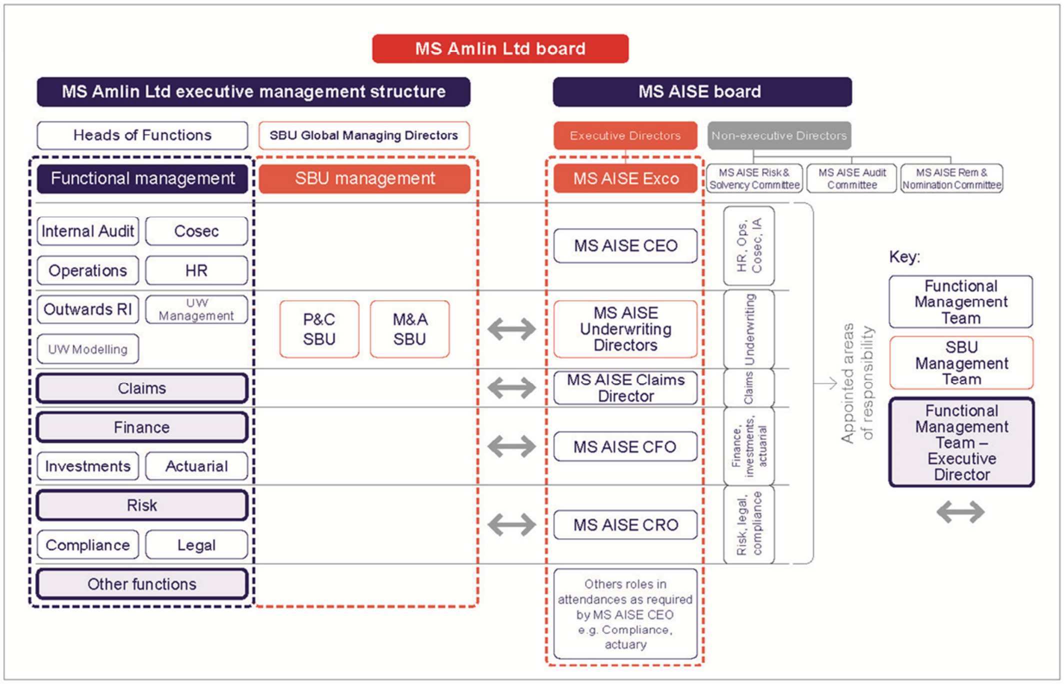
The Board sets the strategic direction of the Company and provides leadership within the risk appetite and framework of systems and controls. The Board ensures MS AISE has the right balance of skills, experience, independence, knowledge and diversity for an evolving business. The Board achieves this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

- An on-going programme of Board effectiveness evaluation;
- A Group training and development programme for all directors, including MS AISE directors;
- Continued rigorous analysis by the Remuneration Committee and Nomination Committee of the balance of skills, experience and diversity when appointing new MS 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 during the reporting period 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 MS AISE legal entity governance framework during the reporting period, as well as the linkage with the MS Amlin Limited 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 Marine ('M&A') and Property & Casualty ('P&C').

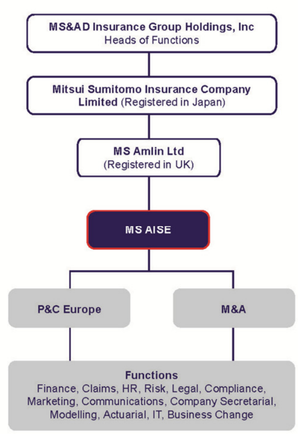


MS AISE's operating structure

The principles underpinning MS AISE's operating structure through the SBUs M&A and P&C 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 process.

MS AISE's directors and other members of senior management operate a "commissioning" model across a matrix structure with MS Amlin Limited. The below diagram sets out how MS AISE is governed for strategy and control purposes during the reporting period.



Over the course of 2019 it was decided that the legal entities of the MS Amlin Group, including MS AISE, will be directly owned by, and report directly to Mitsui Sumitomo Insurance Company Limited ("MSI"). Further the decision was taken to move away from the MS Amlin SBU structure and set the underwriting strategy at an entity level. These changes have come into effect in January 2020. Please refer to section B.1.3 Material changes over the reporting period for more information.

The support functions servicing MS 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

Main roles and responsibilities of the Board and Management Committee

The Board determines the overall business strategy and risk policy; and supervises the Company's activities. The Management Committee is responsible for the specific management of the Company's activities, the enforcement of the risk management system and maintaining the organisation and operational structure. Duties and matters reserved to the Board, the Management Committee and other bodies of the company are described in the Company's By-Laws. These By-Laws 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 Management Committee members 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 MS AISE's expense in the furtherance of their duties.

Within the MS AISE Board of Directors the following roles existed during the reporting period:

Executive / Non-Executive Director	Role
Executive	Chief Executive Officer
Executive	Chief Finance Officer
Executive	Chief Risk Officer
Independent Non-Executive	Chairman of the Board and Chairman of the Nomination Committee
Non-Executive	Group Chief Underwriting Officer (parent representative)
Independent Non-Executive	Chairman of the Audit Committee
Independent Non-Executive	Chairman of the Risk Committee
Independent Non-Executive	Chair of the (Unified) Remuneration Committee
Non-Executive	Parent representative

Segregation of responsibilities within the MS AISE Board

The By-Laws of the Company set out how key Board level responsibilities have been allocated to the roles. The Governance and Risk Management Frameworks clearly articulate the procedures for decision making. These are documented within the respective sections of the By-Laws for the Board and its Committees. 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 MS AISE Board Committees are:

Management Committee

The Management Committee of MS AISE meets at least quarterly but in practice monthly. Its membership is composed as follows:

Director / Management	Role
Executive Director / Chairman	Chief Executive Officer*
Executive Director	Chief Finance Officer
Executive Director	Chief Risk Officer
Committee member	Underwriting Director Marine
Committee member	Head of Claims
Committee member	Chief Operating Officer
Committee member	Head of Underwriting Management

*) The CEO is also a.i. acting Underwriting Director Property & Casualty

Its remit is determined by the By-Laws and includes operationalising the strategy, operationalising the risk management, administrative and accounting procedures and internal control, introducing, monitoring and assessing the organisational and operational structure, and integrity policy, and, providing financial and management reporting, and prudential reporting,

The Audit Committee

The MS AISE Audit Committee meets at least quarterly. Its membership is composed of Non-Executive Directors only. Its remit is determined by the By-Laws and includes financial reporting and Solvency II reporting matters, as well as issues pertaining to regulatory compliance, internal controls, internal audit and external audit.

The Risk Committee

The MS AISE Risk Committee meets at least quarterly. Its membership is composed of Non-Executive Directors only. Its remit is determined by the By-Laws and includes risk management issues and solvency capital requirements.

The Remuneration Committee

During 2019, the Group Remuneration Committee acted as the Remuneration Committee for the Company. The Remuneration Committee meets at least three times a year. Its membership is composed of independent Non-Executive Directors of the regulated entities within MS Amlin, of which two members are independent Non-Executive Directors of the MS AISE Board. Its remit is determined by the Terms of Reference. The Committee sets out the framework and policy for the remuneration of senior executive and other Solvency II staff.

Following the reorganisation of the MS Amlin Group structure as per 1 January 2020, the joint Group Remuneration Committee no longer acts as the Remuneration Committee of the Company. By written Board resolution, the Nomination Committee of MS AISE took over responsibility for remuneration matters for the Company as from 1 January 2020.

The Nomination Committee

The MS AISE Nomination Committee meets at least annually. Its membership is composed of Non-Executive Directors only. Its remit is determined by the By-Laws and leads the process for appointments to the MS AISE Board and senior management.

The Underwriting Oversight Committee

The Group Underwriting Oversight Committee (‘UOC’) meets at least four times a year. Its membership is composed of at least two Board members from the legal entities that are part of MS Amlin Group, including MS AISE. The Committee membership is composed of independent Non-Executive Directors. Its remit is determined by its Terms of Reference. The remit of this Committee is to oversee the performance, strategy and control framework around underwriting activity of the Company and make recommendations, as appropriate. The Committee has no underwriting, decision or management authority or responsibility over the Company. As from 1 January 2020, the Group Underwriting Oversight

Committee is being replaced by an entity Underwriting Committee, which is a Committee of the MS AISE Board.

Reporting to the MS AISE Board and its Committees

Monthly and quarterly management information reports are prepared tabled for discussion, reviewed, and challenged 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, MS AISE calculates capital using the standard formula. MS 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

All Solvency II key function holders within MS AISE are 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 MS 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	MS AISE Board Responsibility
Risk Management function	Responsibility for the performance of MS AISE's ORSA. For further information on the ORSA, please refer to section B.3.2.	Chief Risk Officer[1]	Group Chief Executive Officer	Chief Risk Officer
Internal Audit function	To assist the MS 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 Executive Officer (liaison officer for the Internal Audit function)	Non-Executive Director (Audit Committee Chairman)	Chief Executive Officer (liaison officer for the Internal Audit function)
Actuarial function	To provide capital modelling and reserving services to MS AISE. For further information on the Actuarial function, please refer to section B.6.	Lead Actuary MS AISE	Chief Risk Officer	Chief Risk Officer
Compliance function	To provide an appropriate degree of assurance to the MS AISE Board that the Company is operating in a way which is compliant with relevant rules and regulations.	Head of Compliance Europe	Chief Risk Officer	Chief Risk Officer

1. The Chief Risk Officer for MS AISE is also the Chief Risk Officer for MS Amlin Limited, hence the reporting line is to the Group Chief Executive Officer during reporting year 2019.

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 CEO reports functionally to the Audit Committee Chair in his capacity as liaison officer for the Internal Audit function, an independent Non-Executive Director. The Chief Risk Officer, the Lead Actuary and the Head of Compliance report to the MS AISE Risk Committee on a quarterly basis.

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

The three lines of defence model

The MS 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 MS 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**
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

MS 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 MS 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 MS AISE Audit Committee and Board.

Segregation of duties

Segregation of duties is a key control within MS 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. MS AISE operates within these MS Amlin Group Frameworks and structures.

Information systems

Management reporting was performed through the MS AISE Management Committee and ultimately to the MS AISE Board, giving them oversight of the MI containing underwriting, finance, risk, human resources, investments, actuarial and internal control MI. This reporting forms part of the Company's ORSA process with information contributing to both risk management and capital related decisions. MS AISE operated in 2019 within the Group Management Information ('MI') Reporting Framework, under which monthly and quarterly MI reports were delivered to MS Amlin Limited Board and senior management.

Risk Management Framework

MS 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 MS 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 MS AISE, including exposures to intra-group transactions and aggregate risk concentrations. The framework ensures that information on both qualitative and quantitative aspects of MS 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 MS AISE's key risk management activities are detailed in section B.3 of this report.

Internal Control Framework

MS AISE operated a system of internal controls for the full year ended 31 December 2019. MS AISE's Internal Control Framework is derived from the MS Amlin Group Internal Control Framework and was adopted by MS AISE after formal approval by the MS AISE Audit Committee. The framework was developed in consultation with the Internal Audit, Compliance and Risk functions. It is based on a set of core principles (control environment, risk assessment, control activities, information, communication, monitoring and testing) and references to the MS AISE three lines of defence model. Furthermore, it sets out roles and responsibilities for MS AISE staff of all levels as it relates to matters of internal control.

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

Policies and Standards Framework

MS 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 MS AISE. Key policies and standards are translated for non-English speaking staff. All MS AISE staff is 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 all staff has read them periodically;
- Escalation of breaches to relevant committees and governance forums.

B.1.2 Remuneration policy and practices

Remuneration Strategy

The aim of the MS AISE Remuneration Standard is to ensure that the way MS AISE'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 AISE Remuneration Standard was approved by the MS Amlin Limited Remuneration Committee. The standard is adopted and followed by MS 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 (the '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 Limited and its subsidiaries (including MS AISE) but prevents having to remunerate at levels which are not merited.

There is a formal and transparent procedure for developing policy on remuneration and for setting the remuneration packages of employees. The individual entity Boards delegate remuneration matters to the joint MS Amlin Remuneration Committee. Two Non-Executive Directors of MS AISE are members of this Committee. The Board of MS AISE, through its Nomination Committee, will be kept updated on the work of the Committee on an annual basis. The Committee also has the discretion to reduce all components of the calculated bonuses to zero if MS AISE were to make a loss over the reporting year.

MS AISE supports and adheres to regulatory and other appropriate remuneration guidelines unless there is a clear rationale to justify departure or alternative arrangements.

Following the reorganisation of the MS Amlin Group structure as per 1 January 2020, the joint Group Remuneration Committee no longer acts as the Remuneration Committee of the Company. By written Board resolution, the Nomination Committee of MS AISE took over responsibility for remuneration matters for the Company as from 1 January 2020.

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 MS 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 MS AISE, which is aligned to MS AISE's values; and
- Rewarding staff differentially related to performance (MS AISE does not reward for failure).

MS AISE 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 MS AISE's 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 whilst being compliant with local laws and regulations:

- 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;
- There is a prohibition from using any personal hedging strategies or remuneration and liability-related insurance related to their remuneration arrangements.

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

B.1.3 Material changes over the reporting period

Over the course of 2019, MS AISE's marine underwriting activities have been transferred to the cover holder, MS Amlin Marine NV, in the execution of the One Marine Hub ('OMH') strategy. The strategy behind OMH is that MS AISE's clients will be serviced better, by having one cover holder for both MS AISE and MS AUL to minimise hurdles.

In addition, the decision was taken to move away from the MS Amlin SBU structure.

Furthermore, on 19 November 2019, a reorganisation of its international division was announced by Mitsui Sumitomo Insurance Co. Limited ('MSI') of which MS Amlin is a significant component. This involved the removal of the regional, intermediate holding companies within MSI, including MS Amlin Limited, from 1 January 2020. Thus, a change in control occurred whereby MS AISE will directly be owned by, and report to MSI. MS Amlin Limited has been removed as direct parent. Shared business services across the former MS Amlin entities will be provided by MS Amlin Business Services ('ABS'), which is the trading name of the company MS Amlin Corporate Services Limited ('MS ACS'). ABS will act as a centre of excellence and provide specialised services to the MS Amlin entities including MS AISE.

The reporting line of the Lead Actuary changed and the function is now directly reporting to the CRO in order to reflect the independent control function of the Lead Actuary as a second line activity.

B.1.4 Material transactions

On 3 April 2019, by special resolution the Board approved an increase to the share capital of the Company from €1.3 million to €30.0 million. This has been done without the issuance of new shares and by incorporation of reconciliation reserve (retained earnings). MS AISE's parent at that time, MS Amlin Limited, also approved the increase by special resolution.

On 1 January 2020, the MS AISE shares owned by MS Amlin Limited were transferred to MSI, in light of the control change as explained in section B.1.3 of this report.

On 31 March 2020, the subordinated debt issued to MS Amlin Limited was assigned to MS Amlin Corporate Services Limited.

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

B.2 Fit and proper requirements

MS AISE seeks to ensure that the Board and Management Committee contain the appropriate balance of skills and experience to ensure that the Company can be appropriately managed and controlled. MS AISE's expectations in relation to fitness and propriety are set out in the Fit & Proper Standard. The Fit & Proper Standard was set at the Group level. As a MS Amlin Limited subsidiary, MS 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.

MS 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 employment references; and
- Obtaining proof of professional and other qualifications.

All members of the Board, Management Committee, independent control functions and material risk takers are required to follow a 'fit and proper' procedure as defined in the Belgian Solvency II Law. Individuals employed to undertake roles which are subject to Fit & Proper requirements by the NBB are not allowed to take those roles up until these are approved by the relevant regulator.

On an ongoing basis the individuals mentioned above are subject to:

- 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; and
- An obligation to disclose conflicts of interest.

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

This section provides an overview of MS 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 MS AISE's risk management strategy, framework and underlying processes and reporting procedures. 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 AISE has a top down approach to risk management whereby the Board has developed a high level risk and capital management statement and mandated its adoption through the Risk Management Policy. To fulfil the needs of MS AISE's Risk Management Policy, a Risk Management Framework has been developed.

MS AISE'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 stakeholders (i.e. shareholders, policyholders, staff and other interested parties). This is achieved by actively seeking and accepting risks while managing the risks within acceptable bands.

MS AISE'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 which link closely to the return objectives set by the Board;
- 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 ongoing basis where assessments consider current risk exposures, as well as forward looking exposures. The analysis considers future plans as well as emerging trends, potential scenarios and capital management.

Linkage to capital management

MS AISE's Capital Management Policy seeks to actively manage capital in alignment to the size of the Company's aggregated risk profile, taking account of 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.

Capital is a key consideration in setting business plans and strategies.. In order to assess whether returns are sufficient to compensate for the risks taken, MS AISE allocates virtual risk assessed capital, as a consistent measurement tool, to each business unit and class.

MS 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 for calculating and reporting Solvency II capital requirements to regulators.

The Internal Model is used within MS AISE for aggregation of the 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 is responsible for the day-to-day management of the model including the calculation kernel, model parameterisation, economic simulator generator, catastrophe models and operational risk input. In 2020 the ownership of the Internal Model will transfer to the CFO.

The next table presents the use of the standard formula and Internal Model within MS AISE during 2019. MS AISE's capital management strategy is further explained in section E.1 of this report.

Process	MS AISE
Communicate SCR to regulator	standard formula
Internal capital requirement	standard formula, Internal Model
Decision making	standard formula, Internal Model
Risk assessment	standard formula, Internal Model

Risk Management Framework

MS AISE'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 MS AISE.

The framework and underlying processes (see paragraph on risk management process) are being managed by the Risk function. This is an independent second line function which reports directly into the Risk Committee. The function is managed by MS AISE's CRO which sits as an Executive Director in the Board of the Company. The CRO also oversees the MS AISE Compliance and Actuarial function. Within MS AISE there are two dedicated risk managers who oversee the total framework. These resources are supported by the Risk Management function of MS Amlin Business Services ('ABS') where specialised risk managers are located in the areas of investment risk management, reserving, reinsurance, Internal Model validation, information technology and security, and operational risk (software) tooling.

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.

The Risk Management Framework is documented in the Risk Management Policy and underlying standards per risk category. These documents are evaluated on an annual basis and re-submitted to the Risk Committee for approval.

Risk categorisation

MS AISE groups the relevant risks into six key categories as specified in the table 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 risk categories is owned by a Management Committee 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 risk / COO & CFO	Risk from inadequate or failed internal processes, people and systems, or from external events.	Systems and technology, processes, people, legal and regulatory, financial reporting	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

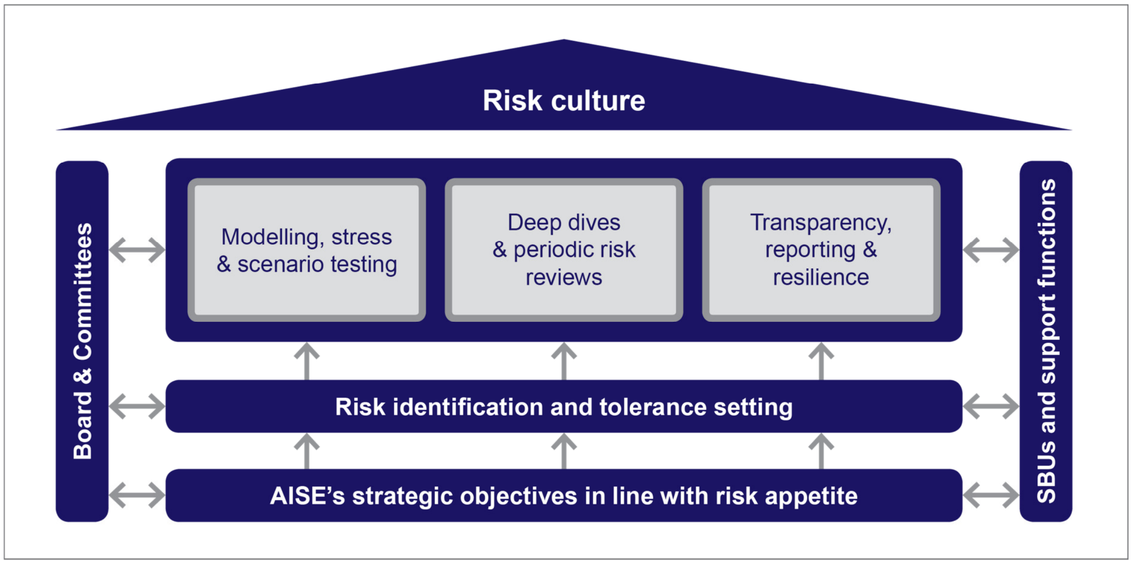
The above material risks (with the exception of strategic risks) are all included in the calculation of MS AISE's Solvency Capital Requirement as set out in Article 101(4) of Directive 2009/138/EC.

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 (see reference in last column of table above).

Risk Management Process

MS 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 MS AISE's Board and functions and SBUs (first line of defence).



This risk management process can be summarised via the below activities. These are performed in cooperation with other control functions (Compliance and Actuarial function) where needed.

- The Board is responsible for aligning MS AISE's strategy with its risk appetite. A Risk Appetite Statement per risk category is approved by the MS AISE Board.
- The Risk Appetite Statement per risk category is translated into measurable tolerances. Management is accountable for managing levels of risk within the allocated tolerances. Exposure versus tolerance is reported quarterly to the MS AISE Risk Committee and Board.
- Via the Internal Model and Standard Formula a wide range of parameters are stressed and future developments are mapped using sensitivity- and 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, assess and analyse 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, including Risk's opinion on first line effectiveness in managing risk exposure) is done by the Risk function on a monthly basis to MS AISE's Management Committee and on a quarterly basis to MS AISE's Risk 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

MS AISE's Board is responsible for making key decisions across the organisation, but delegates some of its decision making responsibilities to its committees, e.g. the Management Committee, Risk Committee and Audit Committee. The Risk function presents its opinion on risk exposure with the MS AISE Management Committee to give opportunity to conclude on mitigation actions, after which the output of the risk management system is reviewed by the Risk Committee with a summary of key items taken to the Board. Information on risk is taken to the decision making committees by the Risk function following their review. This process facilitates the integration of the risk management system in the decision making process.

An important instrument which explains how the risk management function is integrated into the organisational 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. The Company operates an annual cycle with numerous inputs and outputs to the process throughout the year, summarised into an annual ORSA report which is presented to MS AISE's Risk 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. MS 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.

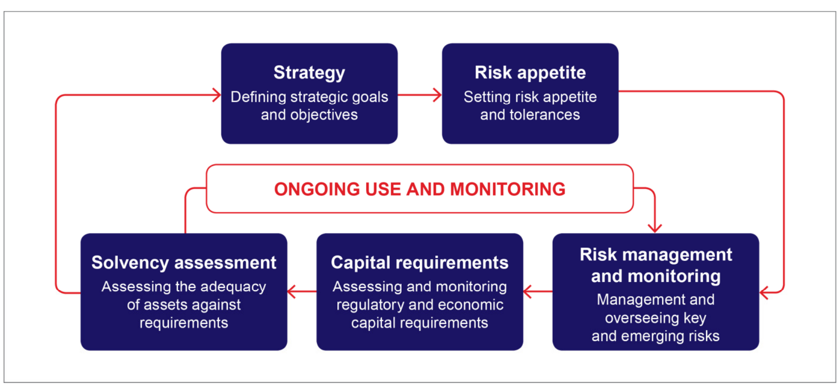
The last full iteration of the ORSA process concluded with the presentation of the annual ORSA report to the MS AISE Risk Committee and Board in the second quarter of 2019. A copy of the report was shared with the NBB.

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

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

ORSA Processes

The ORSA leverages off key business processes, the Risk Appetite Framework, Risk Management, capital modelling and finance processes. The process runs in conjunction to the business planning process, allowing it to inform the development of the business plan during 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 MS AISE's Management Committee and Board with a clear understanding of the solvency position at a particular point in time, given the risk exposures. Current year monitoring runs from the start of the financial year to 31 December with quarterly reporting in place.

As part of current year monitoring MS 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 and take into account the tolerances detailed in the Capital Management Policy. The quarterly outcomes of current year monitoring are used to support decision making and are standing agenda items for the Risk Committee and Board.

Forward looking forecasting

Forward looking forecasting seeks to identify, assess, monitor, manage and report the longer term strategic risks and forecast returns faced by the organisation and to consider how MS AISE'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 the Risk 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 and take into account the tolerances detailed in the Capital Management Policy.

The process is based on a number of sub-processes operated through the year to identify, assess and manage the possible risks MS 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 MS 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 MS AISE during the reporting period ending 31 December 2019.

Stress, scenario and sensitivity testing framework

MS 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 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 MS 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 test 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 scenarios.
Sensitivity analysis	Assessment of standardised change in a single parameter.	Business planning, ORSA Internal Model validation	Multiple times on different occasions.
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.

B.4 Internal Control System

B.4.1 Internal controls system

MS AISE operated a system of internal controls for the full year ended 31 December 2019.

MS AISE's Internal Control Framework is derived from the MS Amlin Group Internal Control Framework. 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, communication, monitoring and testing), references the MS AISE three lines of defence model (as explained in section B.1.1) and sets out roles and responsibilities for MS AISE staff of all levels as it relates to matters of internal control.

MS 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 MS AISE three lines of defence model.

For the year ended 31 December 2019, MS 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. MS 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 MS 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 (ABS as from 1 January 2020 due to the reorganisation as explained in section B.1.3) 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 MS AISE's internal control framework through their respective assurance activities and reporting. Feedback loops between these assurance providers and the Risk Assurance team have been established and were operating effectively for the year ended 31 December 2019.

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 requirements in the Financial Instruments and Exchange Act (known as 'J-SOX') and as such, there is a requirement for MS Amlin, which includes MS AISE, to attest to the Company's compliance with J-SOX. MS AISE is not required to attest to 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 the Terms of Reference with a dedicated Head of Compliance having responsibility for the Compliance function within MS AISE as a legal entity. The independent status of the Compliance function in MS AISE's framework is set out in MS AISE's By-Laws. Compliance representatives are present at MS AISE's head office and all larger branches of the Company. If a Compliance representative is not based at an office location, this will be covered by an off-site Compliance employee. The Compliance function has conducted a Maturity Assessment of the MS Amlin Compliance Management System and based on the outcomes of the assessment, further review into the skills and resources will be conducted in 2020.

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 Risk Committee and reviewed and approved annually. The Risk Committee approves the Compliance plan on an annual basis and enables the Compliance function to discharge their responsibilities set out in the Terms of Reference.

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

- Identification – identifying and advising on compliance risks;
- Prevention – design and implement controls to protect MS 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.

The Compliance function reports quarterly to the Risk Committee on integrity risks, regulatory breaches (if any) and compliance monitoring findings. The Compliance function reports to the MS AISE Management Committee on a monthly basis. The MS AISE Head of Compliance has a standing invitation to the meetings of the MS AISE Board and its committees.

Three lines of defence model

The Compliance function forms part of a coherent set of transversal control functions, which is set out in MS AISE's three lines of defence model. The model is explained in section B.1.1. The model explicitly defines the roles and responsibilities of all staff across MS AISE on the basis of their remit and authority. Segregation of duties is a key control within MS 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. In addition, all potential Conflicts of Interest are logged and monitored in the Group wide Conflict of Interest Register.

Integrity risk identification and management

As part of the key responsibilities, the Compliance function conducts an Integrity Risk Assessment annually, supported by a quarterly first line review of the Internal Control Framework. The Integrity Risk Framework is part of the overall enterprise Risk Management Framework and builds on the same processes, tools and governance structure. The framework aims to provide assurance to the MS AISE statutory governing body in managing integrity risks. The framework is built on the principle that integrity risks and controls are predominately owned within/by the first line of defence. Senior management of the first line is interviewed and involved in the Integrity Risk Assessment. These findings will feed into the Compliance plan for the following year. Both the Integrity Risk Assessment and the Compliance plan are reviewed by the Management Committee and reviewed and approved by the Risk Committee.

Compliance Monitoring

Compliance monitoring is carried out in accordance with a plan approved annually by the MS AISE Risk 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 MS 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 MS AISE.

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

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

The Compliance function is also responsible for monitoring and advising on prospective changes in regulation, to ensure that the Group is in a position to be compliant at all times. A quarterly report is made to the MS AISE Risk Committee, setting out upcoming changes, if any, and MS AISE's readiness to implement them.

Compliance Policy

The Compliance function is also responsible for the Corporate Integrity Policy and related compliance policies and standards. The Corporate Integrity policy is reviewed by the MS AISE Management Committee and approved by the MS AISE Risk Committee. The Policy is part of the 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 MS AISE, and key policies and standards are translated for non-English speaking staff. All MS AISE staff are required to attest that they have read each of the policies and standards that are relevant to their role periodically.

Corporate Values

Over the course of 2019 MS Amlin Group has implemented new Corporate Values accompanied with cultural workshops for all employees. The Corporate Values of the MS Amlin Group are implemented by the Senior Leadership team of MS AISE. The Corporate Values are:

- Client Understanding;
- Respecting each other;
- Probity;
- Kaizen;
- One MS Amlin; and
- Courage to challenge.

Compliance with Solvency II

In accordance with the Terms of Reference, the Compliance function has advised the MS AISE Board on a number of issues relating to Solvency II in 2019. These have included capital management, change of control fitness, propriety requirements for individuals, submissions required by the Belgian Solvency II law and other regulatory approvals.

B.5 Internal Audit function

The Internal Audit ('IA') function was under the supervision of the Board and/or the Audit Committee of MS Amlin Limited. As from 1 January 2020 due to the reorganisation as explained in section B.1.3), MS AISE has outsourced its Internal Audit function to MS ACS. From a regulatory perspective, the SII key function holder for Internal Audit is the CEO ('contact person'/'person relais') The MS AISE Board has delegated its responsibility for overseeing the Internal Audit activity to its Audit Committee.

The Head of Shared Services Internal Audit of ACS (Chief Internal Auditor ('CIA') attends the MS AISE Audit Committee ('MS 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 MS AISE Audit Committee. An annual audit plan is prepared during Q4 each year. The MS AISE Audit Committee approves the proposed plan of work impacting MS AISE, prior to the full group-wide planning being approved by the MS Amlin Limited Audit Committee. Following approval, the audit plan will be communicated to all relevant Boards and Committees across the Group, including the MS AISE Audit Committee for its approval. This audit plan covers all MS Amlin Group Functions and Strategic Business Units ('SBUs') and thus encompasses all subsidiaries (incl. MS 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 MS AISE Audit Committee. 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 MS AISE Audit Committee 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 an 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 MS 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 MS 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 AISE Audit Committee:

- Approves the IA Charter;
- Approves the risk based internal audit plan;
- Approves the Internal Audit budget;
- Approves decisions regarding the appointment and removal of CIA;
- Evaluates the performance of the Internal Audit function on a regular basis;
- Makes appropriate inquiries of management and the Internal Audit function to determine whether there is an inappropriate scope or resource limitations.

Approvals above are required annually except for the approval of the IA Charter as such approvals 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 provides an independent opinion to the MS AISE Management Board on the Solvency II technical provisions, the reinsurance policy and the underwriting policy. To ensure the independent position, the Actuarial function directly reports to the Chief Risk Officer of MS AISE, and is not involved in first line activities.

The first line actuarial activities are picked up by the following teams:

- **Reserving team:** The calculation of and reporting on the IFRS reserves and the Solvency II technical provisions are performed on a quarterly basis, including additional analysis like back testing. As from 2020 onwards, the BEGAAP reserves will also be calculated on a quarterly basis. The team is based at offices in Amstelveen and Brussels, and reports directly to the Chief Financial Officer of MS AISE. For P&C the reserving classes are treated and discussed per country, for marine the focus is on reserving classes. All results and reports are discussed with the key stakeholders, such as the Management Committee of the legal entity, claim handlers, underwriters and finance departments.

  The Actuarial function reviews the activities of the reserving team, and shares his view directly with the team and in the reserving meetings. Any conclusions will be summarised in the relevant Actuarial function report.

- **Central reserving team:** The Group central reserving team provides oversight and peer review of the reserving process. This team is based in London, and reports to the Group Chief Actuary (ABS Chief Actuary as from 1 January 2020).

  The Actuarial function uses the findings of the central team to form an opinion on the output of the reserving team.

- **Capital modelling team:** The capital modelling team calculates the Solvency II standard formula SCR, handles the maintenance of the model and interprets the results. Next to that, the team uses the Internal Model to provide insight in specifics items like the margin setting, the business planning and determination of strategic targets for the loss ratios. This Internal Model has been approved by the regulators for use by MS AUL and MS AAG, but not yet for MS AISE. The capital modelling team is also based in London, and also reports to the Group Chief Actuary (ABS Chief Actuary as from 1 January 2020).

  The Actuarial function verifies the standard formula capital calculations, and provides insight in the potential developments, risks and opportunities thereof.

- **Technical pricing team:** The actuarial pricing team is responsible for designing and maintaining the technical pricing models which are used by the underwriters to set the policy premiums. They report directly to MS AISE's Underwriting function, situated at MS Amlin Limited (ABS as from 1 January 2020).

  The Actuarial function reviews the sufficiency of the pricing and the use of the models by the underwriters.

The second line activities entail the following, next to the responsibilities described above:

- Plan and coordinate the calculation of the IFRS and BEGAAP reserves and the Solvency II technical provisions. This is done in close cooperation with the Finance reporting team, which is responsible for the delivery of all regulatory reports.

- Review the calculations, methodologies and assumptions of the IFRS and BEGAAP reserves (including the equalisation reserve) and technical provisions, for gross and reinsurance. The risks and uncertainties of those results are determined, and an opinion on the quality of the data is formed. Special attention is also given to the overall efficiency of the process, since this could limit the available time for quality control and the implementation of improvements. The Actuarial function will make sure this review is shared before the numbers are finalised, so any conclusion can be incorporated in the submitted regulatory reports. The conclusions will also be shared in the Actuarial function report on the technical provisions, including suggested actions for further improvement of the process.

- Providing advice on the various options and the potential impact thereof in the reinsurance program, especially when the program is being negotiated for the next year. The base for these discussions will be the Actuarial function report on reinsurance.

- Determine the sufficiency of the premium setting, among others taking into account effects like market trends and anti-selection in the portfolio. This is primarily done by reviewing the business plan, including the underwriting actions contained therein (prospective), and the reserving results (retrospective). New products are evaluated to make sure these will contribute to long term profitability, whether any specific issues are present in the risk selection, and whether the impact on capital is within limits. Options and guarantees in the (re)insurance are not written by MS AISE, and therefore not a concern. Any conclusions will shared directly with the relevant stakeholders, and included in the Actuarial function report on underwriting.

- Any other activities, including contributing to the ORSA report.

The second line Actuarial function has a charter / terms of reference, which includes the following:

- The place of the Actuarial function within the organisation, including the authority, the reporting lines and an organogram;

- How the independence of the Actuarial function is guaranteed, by direct access to the Board, a remuneration independent of the direct responsibilities, appropriate resources and information, and limiting the options to remove the function from its responsibilities;

- The scope / activities of the function, including a detailed description of the responsibilities on the reserving, the Solvency II technical provisions, the reinsurance and technical pricing / underwriting;

- The responsibilities of the Management Committee;

- The reporting obligations (regulatory or otherwise).

The Actuarial function consists of one function holder, who is knowledgeable on the relevant actuarial techniques and the wider organisation. There is close cooperation with the other control functions, e.g. on the assessment of the capital analyses and the impact of organisational changes on the governance.

The charter / terms of reference will be evaluated once per year, or when the circumstances dictate more often. The Actuarial function proposes changes hereto (if any), which have to be approved by the Risk Committee. The charter / terms of reference has been updated in February 2020, to reflect the changes in the first / second line reserving team and the legal entity structure.

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 (together the ‘policy’) are applicable to MS 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.

MS 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 MS 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.

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 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;

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 MS AISE’s internal controls;
- Assure the quality, confidentiality and control of services provided to the clients;
- Enable the appropriate regulator to monitor MS 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 MS AISE;
- Enter into appropriate written contracts for all outsourcing, and in accordance with MS Amlin’s Legal Policy and Standard which also applies to MS AISE;
- Record material outsourcing on a register maintained by the Procurement 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 Procurement 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 MS AISE and its policy holders remain protected.

Implementation, monitoring and management of the outsourcing

MS 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 MS AISE's material outsourcing arrangements and the supported entities for each agreement which is provided to Procurement 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 service provider.

Expected or unexpected termination and other service interruptions

As part of the MS Amlin Group, MS 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. MS 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, MS AISE has processes in place to:

- Review the financial health, business continuity plans and exit plans of MS 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; and
- Report any issues identified or encountered appropriately to the entity Boards.

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. Such General Binding Agreements are renewed annually.

Investments activities

The Company has an agreement in place with an MS Amlin group company – MS Amlin Corporate Services Limited ('MS ACS') – for the provision of services, including investment services that include cash management activities. Pursuant to its Investment Governance Framework, the Company has invested the majority of its investment assets (€1,051.7 million of €1,287.1 million) with the Toro Prism Trust (the 'Trust'). The Trust has other investors from within the MS&AD Group only. The Trust has been authorised by the Central Bank of Ireland as an undertaking for collective investment in transferable securities pursuant to the European Communities - Undertakings for Collective Investment in Transferable Securities - Regulations 2011. The Trust is managed by a third-party fund management company, Carne Global Fund Managers (Ireland) Limited ('Carne').

Carne has appointed a fellow MS Amlin subsidiary, MS Amlin Investment Management Limited ('MSAIML') as the Headline Portfolio Manager of the Trust. MSAIML has been authorised and is regulated by the Financial Conduct Authority and as an investment firm subject to the "Markets in Financial Instruments Directive 2014/65/EU" (MiFID). MSAIML delegates the day-to-day portfolio management of the pools of assets within the Trust's sub-funds to external third-party investment managers.

In addition to these investment activities, the Company has engaged Veritas Asset Management LLP and CBRE Global Collective Investors UK Limited to manage €106.1 million and €104.5 million of its assets respectively.

Centralised support functions

MS ACS provides services from its personnel to MS AISE and other Group companies with appropriate skills and qualifications, e.g. legal, actuarial, internal audit, 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 MS AISE under the direction and supervision of the MS 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 MS 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. During 2019 the service-level agreements ('SLAs') between MS ACS and AISE have been updated as part of the Splice program and the quality of the services delivered was monitored both at Group level as well as at MS AISE level through the MS AISE Operations Committees and performance information provided to the MS AISE Board and management. The SLAs are accompanied by a Master Services agreement (Intra-group), that provides the overall contractual framework for the outsourcing relationship.

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

As from 1 January 2020, a new service agreement is in place between MS AISE and the shared service centre MS ACS. This is underpinned by the service catalogues that have been reviewed and agreed between MS AISE and MS ACS. These catalogues include KPIs and reporting requirements. The cost allocation for 2020 from MS ACS to MS AISE is agreed as part of the business planning process. The delivery of services is monitored by the MS AISE Operations Committee.

The contract for the provision of personnel between MS ACS and MS AISE is due to be updated and refreshed with a clearer focus on service levels as it has been recognised that this is an area which needs attention.

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

MS 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 certain products in all business lines	Belgium, The Netherlands, France, United Kingdom
Global Real Estate Investment Manager	United Kingdom
End-to-end claims outsource for motor and fire insurance	Belgium, United Kingdom
IT infrastructure provider for hosting managed network, workplace and service desk services	United Kingdom
Loan market association transaction services	United Kingdom
Cat modelling analytical services	United Kingdom
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 headline investment portfolio manager	United Kingdom
MS Amlin Group company providing personnel and infrastructure services	United Kingdom
MS Amlin Group company providing internal audit services	United Kingdom
MS Amlin Group company providing underwriting management services including cat modelling, outwards reinsurance and technical pricing.	United Kingdom
MS Amlin Group company providing claims services (for UK branch)	United Kingdom
MS Amlin Group company providing risk and compliance services including compliance monitoring and credit risk management	United Kingdom
MS Amlin Group company providing actuarial services including capital modelling and DFA	United Kingdom

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

Furthermore, the table above represents the internal outsourcing during the reporting year 2019. As from 2020 onwards, due to the reorganisation explained in section B.1.3, MS Amlin Group company should be read as MS ACS.

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

Section C presents MS AISE's risk profile in accordance with MS AISE's Risk Management Framework which identifies the following risk categories: insurance, market, credit, liquidity, operational, and strategic. For each risk category there is an individual section which explains:

- Risk definition and appetite statements;
- Material risk concentrations;
- Risk exposure (including off-balance sheet positions);
- Measures used to assess these risks;
- Outcomes of stress, scenario and sensitivity testing; 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 MS AISE specific data unless otherwise stated. Besides the risk categories in MS AISE's Risk Management Framework, no other risk categories have been identified. Strategic risk is explained in the other risk section.

Risk appetite statements

Risk appetite statements in the document follow a standard categorisation as set out below:

- Risk Seeking (Grow) - These are risks where the Company will seek to increase exposure in the pursuit of fulfilling strategic objectives, knowing there are rewards associated with taking on the risk;
- Risk Seeking (Maintain) - These are risks the Company will continue to seek as part of the business strategy, maintaining a level of risk relatively consistent with current exposures;
- Risk Neutral - These are risks the Company will accept with caution, as by-products of pursuing risk, knowing there may be some negative impact necessary in the pursuit of strategic objectives. There is no desire for unnecessary additional exposure and strong control is expected to manage exposure within acceptable limits;
- Risk Averse – These are risks the Company has no desire to accept on the basis they should be wholly manageable and have less material contribution to the fulfilment of strategic objectives.

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, MS AISE measures the Company's 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 MS AISE's Risk 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.

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

MS 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 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 losses, 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.

MS AISE has a positive, risk seeking appetite towards underwriting risk and actively seeks to balance the Company's underwriting exposures by writing a diverse risk portfolio which is made up of a number of business classes. There is an inherent risk of insurance losses associated with these exposures. The appetite for underwriting risk is governed by the amount of business that meets the pricing requirements but also by the risk bearing capacity determined by the capital base and outwards 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.

MS AISE has adopted a risk neutral approach to reserving risk, which is a consequence of underwriting a business portfolio where claims may develop after the policy period has elapsed. MS 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. MS AISE does not discount reserves to take account of the investment return generated by premium or reserves held for future claims payments. Furthermore, the Company takes consideration of likely cash flow requirements when investing carried reserves to reduce asset liability miss matching.

C.1.2 Underwriting risk

Concentration and exposure

MS AISE has a portfolio of property, casualty and marine insurance that has exposure to non-elemental perils such as industrial accidents as well as weather and earthquake exposures. 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 for medical practice.

The following table presents MS AISE's five largest underwriting class exposures as per year-end 2018 and 2019 based on the stochastic Internal Model. Exposures are modelled using volatility around expected claims included in business planning.

2019 rank	Class	2018 rank	Class
1	NL Property – Fire	1	BE Property – Fire
2	FR Property – Excess & Surplus	2	FR Property – Excess & Surplus
3	BE Property – Fire	3	NL Property – Fire
4	FR Property – Specialty	4	FR Property – Specialty
5	Marine - Cargo	5	Marine – Ocean Hull

The underwriting risk is dominated by the property classes as these tend to have bigger exposures with regard 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. Marine – Cargo is included in the top five for 2019 because the book has shown significant growth during the reporting year in terms of written premium.

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 2019 and 2020. Data is presented including reinsurance recoveries (net losses). Exposures as per 1 January are used to reflect positions against the reinsurance programme for the coming year.

Event	Jan 2020 €'000	Event	Jan 2019 €'000
EU Windstorm – France, Belgium, Netherlands	21,519	EU Windstorm – UK Europe	41,260
EU Windstorm – Paris Munich	19,864	EU Windstorm – France, Belgium, Netherlands	34,919
EU Windstorm – Bordeaux Munich	18,860	EU Cyber Silent Scenario	29,537
EU Windstorm – UK Europe	17,184	EU Windstorm – Paris Munich	26,230
EU Cyber Silent Scenario	14,901	EU Windstorm – Bordeaux Munich	24,707

The table above shows an approximate standalone impact from each event on profitability. All net modelled losses are within tolerance. Exposure decreased for 2020 as MS AISE has bought additional catastrophe reinsurance protection.

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

MS 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 2019 in relation to underwriting risk.

#	Sensitivity test	Impact on available capital €'000	Impact on SCR €'000	Impact on Solvency Ratio %
Base	SCR – ratio per 31 December 2019	511,584	369,986	138.3%
1	20% less gross premiums received than plan	(11,715)	(19,582)	4.4%
2	10% deterioration in net loss ratio from plan	(46,058)	618	(12.7%)
3	20% less gross premiums received than plan, and 10% increase in net loss ratio from plan	(52,012)	(18,956)	(7.4%)
4	20% less gross premiums received than plan, and 20% increase in net loss ratio from plan	(92,308)	(15,477)	(20.0%)

The results of the RDS and stress tests are compared with MS AISE's risk appetite and target capital outlined in MS AISE's Capital Management Strategy. Based on these analyses close monitoring is required but immediate measures are not required as the probability of these events occurring is considered relatively low. A capital management plan is in place to monitor MS AISE's capital position compared to predefined trigger levels including required management responses.

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 MS AISE's Risk Committee on a quarterly basis:

- *Strategy and business planning* – As part of business planning, strategy is elaborated into plans for the coming year. In these annual plans resources are directed to those businesses which create the most desirable expected loss costs and ultimate loss ratios during the underwriting year. The goal is to realise profitable growth;
- *Policies, procedures and standards* – The Underwriting Policy and Philosophy and Insurance Risk Standard assure consistency across underwriting and related control activities;
- *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;
- *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;
- *Underwriting control framework* – This framework consists of 16 standards with 20 key underwriting controls which are being performed locally and attested to quarterly.

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, MS AISE's portfolio of casualty classes dominates the reserving risk profile.

MS AISE operates an actuarial led reserving process to estimate the reserves on a best estimate basis. Reserving risk exposures and concentrations 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 MS AISE's five largest reserving exposures as per year-end 2018 and 2019.

2019 rank	Class	2018 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 – PI	4	NL Fleet – Liability Binder
5	Marine – Ocean Hull	5	Marine – Builders risk

Primary classes driving exposure is casualty due to the longer term in which claims are settled compared to the property business. Marine ocean hull has moved up the list following the less favourable performance of the class in 2019.

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 2019 in relation to reserving risk:

#	Sensitivity test	Impact on available capital €'000	Impact on SCR €'000	Impact on Solvency Ratio %
Base	SCR – ratio per 31 December 2019	511,584	369,986	138.3%
1	10% reserve deterioration of total carried best estimate reserves	(41,250)	14,616	(16.0%)
2	10% reserve improvement of total carried best estimate reserves	42,037	(14,315)	17.4%

The results of the scenario analyses are compared with MS AISE's risk appetite and target capital outlined in MS 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 MS AISE's capital position compared to predefined trigger levels including required management responses.

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 of reserving risk are reported to MS AISE's Risk Committee and Audit Committee on a quarterly basis:

- *Process and governance* – MS 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 MS AISE Audit Committee on behalf of the MS AISE Board;

- *Policies and procedures* – Consistent claims processes and accurate case reserve setting aims to ensure that an 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;
- *Reinsurance* – The reinsurance programme responds to large loss developments from prior years.

C.2 Market risk

Market risk is defined as risk arising from fluctuations in values of, or income from, portfolio assets, interest rates, currency exchange rates and market prices. MS 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.

In addition to the description of market risk, this section explains how MS AISE adheres to the prudent person principle.

C.2.1 Risk definition and appetite

Market risk is divided into three subcategories; investment market volatility, foreign exchange, and investment counterparty risk.

Investment market volatility

This is the risk of loss resulting from fluctuations or volatility of portfolio assets and in the value of financial securities, either directly or indirectly. MS AISE has a cautious risk seeking (maintain) attitude to investment market volatility risk. The Company has multi-asset risk exposures and manages the risk according to an annual Value-at-Risk ('VaR') tolerance[1]. The potential drawdown characteristics of equity exposures are further limited through the implementation of the equity hedge program ('EHP') which is a systematic stop-loss program. Investments are limited by the liquidity requirements of meeting claims as these become payable.

Foreign exchange

Foreign exchange risk is the impact on the value of balance sheet items or earnings arising from movements in the exchange rate of the Euro against other currencies. MS AISE has a risk neutral appetite to currency risk. The Company is exposed to currency risk by virtue of holding balance sheet assets, investment funds, premiums and liabilities in foreign currencies.

Investment counterparty risk

There is a risk of loss to MS AISE if the investment counterparties are unable to or are unwilling to meet their financial obligations or if they cease to operate as a business. MS AISE has a risk seeking (maintain) appetite for investment counterparty credit risk as part of market risk. The Company manages the counterparty exposures by monitoring the concentration of assets against grade/quality exposure limits, which are designed to maintain a level of diversification in the asset portfolio.

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 activities 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), are able to monitor their investments (counterparty monitoring) and can justify their investments as prudent to policyholders.

MS Amlin Investment Management is responsible for the day-to-day management of MS 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

[1] Investment management uses VaR below expected return as standard VaR measure.

and instruments whose risks can be identified, measured, monitored, managed, controlled and reported. MS AISE's investment strategy is to optimise long-term risk adjusted returns keeping in mind the interests of policyholders.

MS 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. 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 having too much exposure in a single asset class, currency, political domicile or counterparty. Concentration risk is managed by ensuring MS 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.

MS AISE's asset allocation as at 31 December 2019 and 2018 is presented below per asset class based on a Solvency II basis. Following the implementation of the change in investment structure in 2017, allocations are now largely held through the Company's investment in the Toro Prism Trust. This is an open-ended investment unit trust authorised by the Central Bank of Ireland as a UCITS (Undertakings for Collective Investment in Transferable Securities) regulated by the European Union.

	2019		2018	
	€'000	%	€'000	%
Collective investment undertakings (excl. property)*	1,088,965	79%	1,035,542	79%
Property*	104,503	8%	120,175	9%
Equities*	107,173	8%	112,858	9%
Bonds*	-	0%	-	0%
Derivatives*	2,280	0%	5,109	0%
Cash and deposits	74,728	5%	34,070	3%
Total assets invested	1,377,649	100%	1,307,754	100%

* These items are presented together under the line Investments (incl. participations) in the Solvency II assets table under section D.1 of this report.

Exposure is assessed using the stochastic 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 2019. The sensitivities solely include the impact on available capital impact. There is likely to be an impact on SCR as well (upwards if credit ratings fall or downwards if exposures reduce) but this is not modelled due to the level of expert judgement needed to conclude on the numbers.

#	Sensitivity test	Impact on available capital €'000	Impact on SCR €'000	Impact on Solvency Ratio %
Base	SCR – ratio per 31 December 2019	511,584	369,986	138.3%
1	No investment income from plan	(7,480)	-	(2.0%)
2	9/11/2001; a repeat of the terrorist attacks on the World Trade Center and the Pentagon in the US that leads to a sharp drop in equities.	(9,750)	-	(2.6%)
3	Repeat of Financial Crisis: severe market decline and general instability resulting in an investment loss of €33m.	(24,750)	-	(6.7%)

Sensitivity test one is modelled as part of annual business planning, whereas the impact of sensitivity test two and three are modelled on a quarterly basis by Investment Management. In these sensitivity tests equity markets, interest rates, foreign exchanges, etc. are regressed onto the portfolio to conclude on the impact on the Company's results.

The results of the analyses are compared with MS AISE's risk appetite and target capital outlined in MS AISE's Capital Management Strategy. Based on these analyses close monitoring is required but immediate measures are not required as probability of the financial crisis and strong inflation scenario occurring is considered relatively low. A capital management plan is in place to monitor MS AISE's capital position compared to predefined trigger levels including required management responses.

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 MS AISE's Risk Committee on a quarterly basis.

- *Strategic asset allocation* – Investment opportunities are evaluated taking into consideration risk and reward, liquidity, and effects on capital in relation to solvency requirements;
- *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 Foreign exchange risk

Concentration and exposure

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

The next table presents the 31 December 2019 and 2018 exposures in USD and GBP (presented in EUR amounts). The total balance sheet is based on Solvency II valuation methods and in MS AISE's functional currency being EUR. Total liabilities against the balance sheet are presented including technical provisions. The USD exposures mainly relate to marine international business and investment exposures. There is a mismatch in USD due to Investment Management moving away from US government exposures as a result of change in investment strategy. The increase in GBP exposure is due to an increase in the GBP technical provisions as well as intercompany payables dominated in GBP.

Value by currency ('000)	2019			2018		
	Total (EUR)	USD	GBP	Total (EUR)	USD	GBP
Total assets	1,599,877	30,939	67,113	1,509,125	81,359	33,758
Total liabilities	1,090,568	48,967	70,939	1,007,645	73,842	33,590

In addition to exposure on the balance sheet, MS AISE holds the Lilac (money market fund) and Blue (bond fund) 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 foreign exchange risk there are no stand-alone sensitivity analyses performed. These form part of the wider market risk stress tests in which Investment Management stresses multiple factors using a range of scenarios (repeat financial crisis, strong inflation, etc.).

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 foreign exchange risk. Monitoring results are reported to MS AISE's Risk 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* – To help manage currency risk on the balance sheet a proportion of the assets are matched to the Company's liabilities.

C.2.5 Investment counterparty risk

Concentration and exposure

Risk concentration can occur due to an accumulation of MS AISE owned assets with a limited number of counterparties. 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. MS AISE is exposed to counterparty risk primarily through the investment in the Toro Prism Trust. It is to be noted that MS AISE has very limited exposure to collateralized loan obligations ('CLOs').

Stress Testing

There are no stand-alone stress and sensitivity tests. These form part of the wider market risk stress tests in which Investment Management stresses multiple factors using a range of scenarios (repeat financial crisis, strong inflation, etc.).

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 MS AISE's Risk 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* – MS AISE uses ratings from multiple credit rating agencies in conjunction with market credit default swap prices – the latter providing a more up-to-date market view of credit risk;
- *Credit rating limits* – Investment counterparty exposure is managed through limits over exposure based upon credit ratings;
- *Creditworthiness monitoring* – Is conducted by Investment Management for all institutions MS AISE transacts with, both current and potential. A summary is sent to the investment management and compliance functions;
- *Investment Counterparty Management* – The custodians of MS AISE's investment assets are contractually bound to hold all assets specifically on behalf of MS AISE and not in their own right.

C.3 Credit risk

MS AISE defines credit risk as the risk of loss, or adverse change in the financial situation of obligors, resulting from fluctuations in the creditworthiness of debt securities issuers, counterparties and any debtors to which MS 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 MS AISE's ability to meet 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. The first two categories are managed by dedicated Finance teams. Investment counterparties (e.g. treasury intermediaries) have a high proximity to market risk. Therefore exposure to investment counterparties is described within the market risk section.

Reinsurance credit risk

Reinsurance credit risk is the risk of loss if a reinsurance company fails to meet obligations or fails to meet them in a timely fashion. MS AISE has a risk neutral attitude to reinsurance credit risk. The Company recognises the need to accept some reinsurance counterparty credit risk as a result of using risk capacity and providing protection for large losses and severe catastrophe events.

Broker credit risk

MS 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. MS AISE has a risk neutral attitude to intermediary credit risk. MS 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

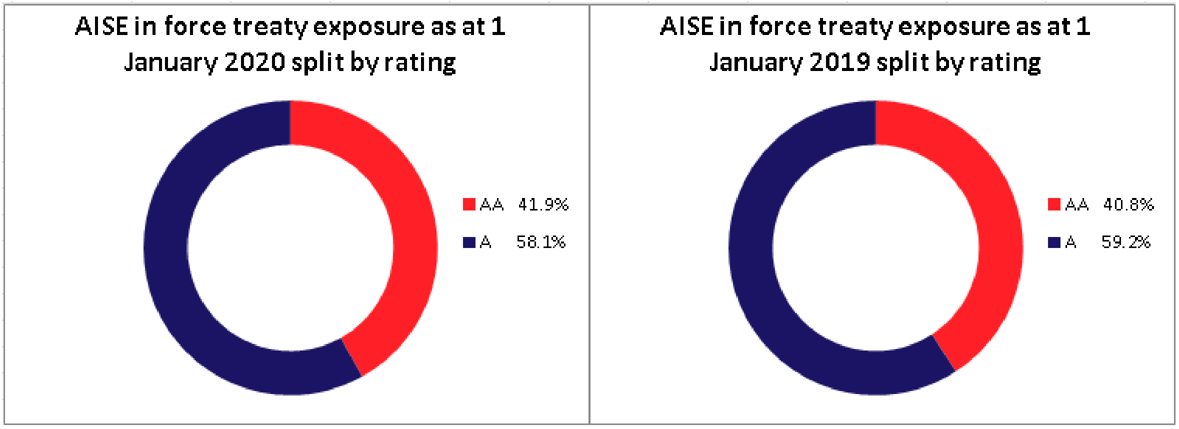
Reinsurance credit risk includes both reinsurers' share of outstanding claims, as well as amounts expected to be recovered on unpaid outstanding claims (including incurred but not reported claims) in respect of earned risks. Reinsurance recoverables by external credit rating due at 31 December 2019 and 2018 are shown in the table below (based on Solvency II valuation principles).

	2019		2018	
Reinsurance recoverables	**€'000**	**%**	**€'000**	**%**
AA	76,838	62.2%	92,594	73.5%
A	27,747	22.5%	14,120	11.2%
BBB	-	0.0%	488	0.4%
Other	19,005	15.4%	18,717	14.9%
Total	**123,589**	**100.0%**	**125,919**	**100.0%**

There are deterministic tolerances applicable at Group level for each reinsurer reflecting 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 MS AISE with effect from 1 January 2019 and

2020, broken down by financial strength rating. Exposures as per 1 January are used to reflect positions against the reinsurance programme for the coming year.



Collateralised reinsurance

This has not been applicable to MS AISE to date and is not expected to be a feature over the business planning period.

Use of external credit ratings

Reinsurer review sheets are produced by the ABS Risk team to assist the Reinsurance Security Committee. Review sheets include latest full year financials, comparison with MS AISE recommended standards, rating agency financial strength ratings, outlook and rationale, recent developments, and background information. If a reinsurer operates in a current reinsurance market aggregate exposure will also be provided together with the current MS AISE rating and the analyst's recommended rating.

The internal MS AISE credit rating ultimately assigned to each reinsurer by the Reinsurance Security Committee will take into account financial performance and trends, not solely performance against benchmark requirements or ratings assigned by external credit ratings.

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 clashes 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 2019. The assumptions used within the RDS process include a provision for reinsurance credit risk based on each reinsurer's MS AISE internal credit rating.

The results of the sensitivity analyses are compared with MS AISE's risk appetite and target capital outlined in MS 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 MS AISE's Risk Committee on a quarterly basis.

- *Accreditation* – The Reinsurance Security Committee is responsible for reinsurer accreditation and (approval of new reinsurers and review of existing reinsurers);

- *Fronting* – Fronting local policies for members of the INI, Globex or other networks is also subject to Reinsurance Security Committee approval and credit risk monitoring;
- *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 AISE 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 Group protocol for cross entity (including MS AISE) cost sharing and loss usage in place for the allocation of reinsurance credit cost and losses;
- *Claims management* – MS AISE‘s claims end-to-end 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 2019 and 2018 of insurance receivables by external credit quality. The table includes credit risk exposures to brokers, cover holders, and policyholders.

	2019		2018	
Insurance and reinsurance receivables	**€'000**	**%**	**€'000**	**%**
AA	4,902	2.0%	5,326	3.2%
A	44,646	18.4%	6,384	3.8%
Other	193,721	79.6%	155,565	93.0%
Total	**243,269**	**100.0%**	**167,275**	**100.0%**

Exposure increased over the year as a consequence of growth in top-line premium during 2019. 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. For binders, specifically, credit risk is being managed by finance monitoring of open positions and payment behaviour. In case of irregularities, the Binding Authority Management team is informed who contacts the specific binder to discuss the situation. Furthermore, there are annual monitoring controls in place which measure the binder’s liquidity position and current account balances.

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 MS AISE's Risk Committee on a quarterly basis.

- *On-boarding* – Local broker committees are responsible for broker accreditation and on-boarding (approval of new brokers and binders);
- *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 AISE 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* – MS 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. MS AISE has a risk averse 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 that it has the obligation to pay claims promptly and that this could result in heavy cash flow demands in the event of catastrophe claims. MS 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 MS AISE's available liquid funds. It should be noted that MS AISE is ultimately backed by the financial security of the MS&AD 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. MS AISE therefore aims to ensure the investment portfolios are sufficiently liquid to allow 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 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 the Company's 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 in financial assets which cannot be monetised quickly.

MS AISE periodically monitors the liquidity ratio as part of the risk appetite monitoring process. The ratio as at year-end 2019 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 MS AISE can pay 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 a forced seller of any of MS 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 (money market fund) and Blue (bond fund) share classes held in the Toro Prism Trust are inherently liquid and can usually be liquidated within two days. The Company also monitors the level of High Quality Liquid Assets ('HQLA') against Solvency Capital Requirements (after applying Basel III regulatory haircuts). The results indicate that MS 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 liquidity ratio monitoring:

- 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 MS AISE can meet its liabilities in a stressed liquidity environment.

C.4.5 Impact of expected profit in future premiums ('EPIFP')

Any profits expected from premiums that have not yet been invoiced but are expected in future periods are utilised in business planning and amounted to €137.5 million as at 31 December 2019 (2018: €67.0 million) on future expected premiums of €584.8 million (2018: €337.7 million). The increase in profits expected from future premiums is a result of presenting the numbers on a gross basis where these were presented on a net basis in the 2018 report.

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. MS AISE's capital position is strong and liquid enough to absorb shocks of this magnitude. 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

MS 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 reputational risk.

C.5.1 Risk definition and appetite

Operational risk is divided into eight subcategories: 1) people risk, 2) systems, technology, cyber and information security risk, 3) expense risk, 4) legal and regulatory risk, 5) business interruption risk, 6) outsourcing risk, 7) data governance risk, and 8) financial reporting risk. Besides these categories operational risks within other risk categories are also taken into account.

MS AISE has a risk averse appetite for operational risk for all categories with the exception of expense risk where it has a risk neutral appetite (see explanation below). MS 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 Company has no appetite to compromise the ability to service existing policyholders to their expected level of service as well as the underwriting of new business that relies on the experience and expertise of senior underwriters, claims managers and support staff. Continuity of senior management is considered as integral to the development and execution of strategy and on-going sustainability of relationships with key stakeholders mentioned earlier.

Systems, technology, cyber and information security risk

The Company does not wish to have any systems, technology or cyber and information security failures which may materially hinder trading or result in financial loss, or regulatory sanction. The Board recognises that there is a requirement for some risk acceptance relating to minor system, technology, cyber and information security issues.

Expense risk

The Company adopts a risk neutral approach to deviations from the operating costs as annually determined through underwriting expenses and other operating expenses in the Business Plan. It is recognised that it in order to meet strategic objectives and/or due to exceptional circumstances it can be necessary to increase expenses.

Legal and regulatory risk

The Company has a risk averse appetite for failures to operate within applicable legal and regulatory requirements. There is also a risk averse appetite for illegal activities or internal risks arising from deliberate actions for example, fraud or inappropriate conduct.

Business interruption risk

Management considers that any activity where severe damage to the Company's business operations or reputation could be caused by an interruption of five days or less is deemed to be a business critical activity, and, all activities where severe damage to the Company's business operations or reputation could be caused by an interruption of one month or less is deemed to be an important business activity. Such interruptions are deemed unacceptable and Business Continuity Management arrangements focus on addressing such exposures.

Outsourcing risk

MS AISE has no appetite for having losses arising from actions of third party service providers, or intra-group outsourcing arrangements over which there is no ability to influence the service provider's actions.

Data governance risk

The Company creates, acquires and makes use of a wide variety of data to support business decisions, services to clients and reporting to regulators. It recognises that much of this data is critical to the Company's operations and that there is significant risk to profitability and reputation where it is found to be of poor quality. There is no appetite for data risk where quality criteria, defined for critical data elements, are not met.

Financial reporting risk

The Company produces multiple external financial reports and has a risk averse appetite for misstatements in external financial reporting (including tax liabilities) or not meeting regulatory deadlines. Misstatements or late reporting could result in reputational damage, or regulatory sanctions and/or fines which the Company is not willing to accept.

Top 5 operational risk drivers

Risks are identified via periodic engagements 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 assurance activities also seek to evaluate risks from a thematic perspective. MS AISE uses a stochastic model to assess which operational risks to prioritise in the Risk Management System. This assessment takes into account financial losses, legal and regulatory implications, reputational damages, and business disruption.

The top five modelled operational risk drivers (presented below) remain diverse in nature for both 2019 and 2018. Over the past year there has been more emphasis on changes in law, intermediary defaults and regulatory sanctions. The risk drivers are ranked based on required operational capital using the Internal Model.

2019 rank	Class	2018 rank	Class
1	Expenses exceed plan	1	Expenses exceed plan
2	Change in law affects MS AISE's business	2	Change in law affects MS AISE's business
3	Underwriter writes unauthorised business	3	VAT on cross-border charges
4	Breach of regulatory requirements - sanctions	4	Intermediary default
5	Intermediary default	5	Breach of regulatory requirements - sanctions

As part of the annual parameterisation process the scenarios which serve as input for the calculation of the operational risk capital charge have been updated. This evaluation assures internal and external developments are accurately reflected in the Company's Risk Management system and Internal Model. These evaluations resulted in a slightly changed top 5 with the driver on underwriter writes unauthorised business now included, and the VAT on cross-border charges being excluded.

Operational resilience and information security

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 resulted in attention for other operational risks related to the implementation of GDPR requirements, improving the IT infrastructure and people risk. These analyses conclude MS AISE's systems and process landscape requires modernisation and consolidation in order to make processes more efficient. There is a funded IT and cyber remediation program in place to realise improvements in 2020.

Process for preparing contingency plans

A Business Continuity Management policy is in place. Each department is required to develop and maintain a Business Impact Analysis and Risk Assessment, the tools used for the identification and assessment of the departmental criticality and the impact of its loss.

Where the Business Impact Analysis indicated that critical business activities take place, the department shall be required to develop and maintain a Business Continuity plan which contains the documentation used to manage the continuation of critical business area processes at the time of an incident. The department will also have to test and exercise the plan.

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, breach of competition law and cyber-attacks, where possible historic internal or external events are utilised to build simulations. Results showed the existing resilience and preparedness of MS AISE for such events.

The following selection of tests has been made from the tests completed in 2019 in relation to operational risk. The tests are based on the 1 on 10 gross impact of the above noted operational risk drivers. The impact on available capital does not correspond with the top five risk drivers as the latter also takes into account the full set of data points for modelling operational risk (e.g. mitigation adequacy and net exposures).

#	Sensitivity test	Impact on available capital €'000	Impact on SCR €'000	Impact on Solvency Ratio %
Base	SCR – ratio per 31 December 2019	511,584	369,986	138.3%
1	Expenses exceed plan	(9,300)	-	(2.5%)
2	Change in law affects MS AISE's business	(10,500)	-	(2.8%)
3	Underwriter writes unauthorised business	(4,425)	-	(1.2%)
4	Breach of regulatory requirements - sanctions	(11,100)	-	(3.0%)
5	Intermediary default	(3,413)	-	(0.9%)

The results of the sensitivity analyses are compared with MS AISE’s risk appetite and target capital outlined in MS 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 MS AISE’s capital position compared to predefined trigger levels including required management responses.

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 MS AISE’s Risk Committee on a quarterly basis.

- *Policies, procedures and standards* – The Operational Risk Standard ensures all significant operational risks are identified, assessed, evaluated, managed, monitored and reported in a consistent manner across the organisation. The Internal Control Framework explains the standards required for the ownership, operation and performance of internal controls. Besides these standards there are policies in place for managing business continuity, data quality, information security, outsourcing, and procurement;
- *Tolerance setting* – Strategy is aligned to a risk appetite and tolerances. Tolerances monitor the scale of operational losses versus modelled operational risk measures calculated for the annual

SCR, 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;
- *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. MS 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

MS AISE identifies strategic risks as input for the other risks section. Besides the risk categories in MS AISE's Risk Management Framework no other risk categories have been identified.

Strategic risk

MS 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.

MS AISE has a risk seeking (maintain) attitude to strategic risk as it actively pursues ways of developing the business model. MS 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

MS AISE sees strategic risk concentration derived from:

Developments in relation to strategic objectives

The development of strategic objectives is carried out by MS AISE senior executives and through the decisions of the MS AISE Board. The strategy is fundamental to the development of MS 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.

Political and economic factors

MS AISE is exposed to political uncertainty and resulting instability that could affect the delivery of MS 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 2020. MS AISE made the decision to re-domicile from the UK to Belgium in 2017, which has been effective as from 1 January 2019. Other drivers for political and economic risk are political and economic protectionist movements, and Chinese Cyber Attacks and Industrial Espionage.

Strategic Group risk

MS AISE is a subsidiary of the MS&AD Group and there is a risk that losses in other group companies may impact the ability of MS 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 MS AISE accepts these risks are pertinent to the sector and local jurisdiction, it is necessary to understand the risk and manage the 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 MS 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 three 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 MS 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 MS AISE's risk appetite and target capital outlined in MS 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 MS AISE's Risk Committee on a quarterly basis.

- *Group Strategy Alignment* – MS AISE's strategic objectives and decisions take account of the expectations also include consideration of the strategies requirements of the MS&AD Group, including capital needs, and regulatory requirements and risks;
- *Culture* - MS 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 considering 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 BEGAAP and IFRS per material asset class

	Note	Reported under BEGAAP €'000	IFRS adjustment €'000	Reported under IFRS €'000	SII reclass €'000	SII valuation adjustment €'000	SII balance sheet 2019 €'000	SII balance sheet 2018 €'000
Cash and cash equivalents	1	64,959	-	64,959	9,872	-	74,728	34,070
Investments (incl. participations)	2	1,240,959	57,170	1,298,129	4,792	-	1,302,921	1,273,684
Reinsurers' recoverables	3	271,796	27,699	299,494	-	(175,905)	123,589	125,919
Insurance, reinsurance and intermediaries receivables	4	288,895	(45,627)	243,268	-	(218,462)	24,807	20,248
Receivables (trade, not insurance)	5	46,591	10,123	56,714	(14,779)	(826)	41,109	44,957
Deferred acquisition costs	6	-	51,539	51,539	-	(51,539)	-	-
Deferred tax asset	7	-	16,473	16,473	-	3,086	19,559	8,940
Property, plant & equipment held for own use	8	897	12,261	13,164	-	-	13,164	1,307
Goodwill and intangible assets	9	25,502	14,950	40,445	-	(40,445)	-	-
Total Assets		**1,939,599**	**144,588**	**2,084,187**	**(115)**	**(484,091)**	**1,599,877**	**1,509,125**
Total Liabilities		**1,565,797**	**(21,314)**	**1,544,483**	**(115)**	**(453,799)**	**1,090,568**	**1,007,645**
Excess of Assets over Liabilities		**373,802**	**165,902**	**539,704**	**-**	**(30,292)**	**509,309**	**501,480**

The above table shows the reclassification of assets from BEGAAP to IFRS and from IFRS to Solvency II presentation. For the SII adjustments, a distinction is made between IFRS to SII reclassifications as well as SII valuation adjustments, as at 31 December 2019. The 2018 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 has been done to allow a clearer understanding of the valuation differences.

BEGAAP to IFRS adjustments

The BEGAAP to IFRS adjustments per asset class are highlighted below, while the IFRS to SII adjustments are discussed in the remainder of this section.

1. Cash and cash equivalents

There is no difference on the presentation of cash and cash equivalents between IFRS and BEGAAP. Therefore, no adjustments are presented in the table above.

2. Investments (incl. participations)

Investments are recognised at fair value under IFRS, while for BEGAAP purposes financial assets are valued at historical cost value less impairment and allowance for bad debt. Therefore, the fair value adjustments are added to the balance sheet. Any currency exchange differences recognised on the fair value adjustments are to be included on the balance sheet as well.

3. Reinsurance recoverables

On the BEGAAP balance sheet reinsurance recoverables represent the reinsurers' share of outstanding claims as well as the reinsurers' share of unearned premium. The reinsurers' share of provision for unearned premiums, according to BEGAAP, is calculated on the reinsurance premiums less commission expenses for acquisition. Under IFRS, however, this is not the case and the reinsurance commission expenses for acquisition are not subtracted from the reinsurance premiums.

Therefore, the netting with reinsurer's share of acquisition expenses has to be reversed and the expenses are added to the provision for unearned premiums when adjusting from BEGAAP to IFRS.

4. Insurance, reinsurance and intermediaries receivables

There is no difference on the valuation of insurance, reinsurance and intermediaries receivables between IFRS and BEGAAP. The BEGAAP-IFRS restatement, presented above, relates to the reclassification of certain recourse items from technical provisions on the liabilities side of the balance sheet to assets.

5. Receivables (trade, not insurance)

Receivables (trade, not insurance) include prepayments, sundry debtors and other receivables. Under IFRS, these also include the expected receivables from the financial derivatives portfolio. As mentioned above, investments are recognised at fair value under IFRS, while for BEGAAP purposes financial assets are valued at historical cost. Therefore, the derivatives' fair value adjustment is restated from BEGAAP to IFRS.

6. Deferred acquisition costs

Acquisition costs comprise commission expenses for acquisition incurred on insurance contracts written during the financial year.

Under BEGAAP, as mentioned above, these commission expenses are netted with the provision for unearned premiums. Therefore, deferred acquisition costs are presented at zero on the BEGAAP balance sheet.

7. Deferred tax assets

According to BEGAAP principles, deferred tax is not recognised except for government investment grants and disposal of fixed assets. As MS AISE does not have any qualifying deferred tax items, the positions are valued at zero on 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. For MS AISE, it consists of the following:

- Fixtures and fittings;
- Computer equipment;
- Lease properties.

For IFRS, per 1 January 2019 the new standard on leases, IFRS 16, became effective. This new standard lead to a change in valuation and handling of the lease contracts on the balance sheet. The lease property recognised on the IFRS balance sheet is in accordance with IFRS 16. However, under BEGAAP this standard is not being recognised, which explains the restatement from BEGAAP to IFRS of €12.2 million for lease assets.

9. Goodwill and intangible assets

According to BEGAAP, goodwill is to be amortised over its useful life where under IFRS amortisation is not allowed. Therefore, the amortisations on goodwill have to be reversed from BEGAAP to IFRS standards.

Solvency II reclassification of IFRS balances

For Solvency II reporting purposes, investment related receivables and payables are reclassified to be included in the Investments (incl. participations) line. Also different treatment of 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:

	Reported under IFRS	SII re-class	IFRS represented
	€'000	€'000	€'000
Cash and cash equivalents	64,959	9,769	74,728
Investments (incl. participations)	1,298,129	4,792	1,302,921
Receivables (trade, not insurance)	56,714	(14,779)	41,935
Payables (trade, not insurance)	(78,644)	(315)	(78,959)
Derivative liabilities	(3,471)	115	(3,356)
Subordinated liabilities	(2,590)	315	(2,275)
Total	**1,335,098**	**-**	**1,334,995**

Two major reclassifications on receivables (trade, not insurance) can be identified. On the one hand, there is a receivable of € 9.8 million from the Toro Prism Trust (the 'Trust'). This receivable will not be received in cash but will be invested into additional shares of the Trust. Therefore, it is considered within the deposits part of the Trust. The deposits are held as a buffer within the Trust to enable instant purchases of additional shares. All deposits, including the €9.8 million reclassification, have been included as cash equivalents on the Solvency II balance sheet.

On the other hand, €4.8 million receivable is related to the sale of a property fund near year-end 2019. Due to the cut off period applied in the Solvency II investments reporting, this has not been fully processed and occurs as a reclassification item for Solvency II purposes.

A minor reclassification item of €0.3 million is also highlighted on the payables (trade, not insurance) and subordinated liabilities due to presentation of accrued interest for the subordinated liabilities. According to the SII Directive, accrued interest is included in Payables because subordinated liabilities are also classified as Tier 2 Own Funds. For more details on the subordinated liabilities, reference is made to section D.3 Other liabilities.

Solvency II valuation adjustments

In order to arrive at the Solvency II balance sheet, the following valuation adjustments to the IFRS balances 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. Therefore no valuation differences exist for investments. There were no significant changes to the valuation techniques during the year.

MS 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.

MS AISE's investment assets designated at fair value through profit or loss amounted to €1,302.0 million (2018: €1,272.7 million). The remaining assets of €1.0 million (2018: €1.0 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. Hence, the IFRS value is considered a suitable approximation of the Solvency II fair value requirement.

Note that MS AISE's investment in the Trust is structured into 3 sub-funds, i.e. Blue, Emerald and Lilac fund. The Company has assessed for each of these whether MS AISE should recognise its investment as a participation in line with the requirements of the Solvency II Directive. The Company has a share of 4.6%, 6.2% and 70.3% respectively in the funds under management, and so the Lilac fund must be considered as a participation. The net investment value must be presented within the 'Holdings in related undertaking, including participations' line in the S.02.01 QRT. The other Trust funds are included within the 'Collective Investments Undertakings' line. The investment in the Trust is described further in the Collective investment undertakings section below.

Fair Value Hierarchy

For Solvency II reporting purposes, MS 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 where the inputs are observed.

Alternative valuation methods – Inputs to a valuation model for the assets or liabilities 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 assets or liabilities at the measurement date (or market information for the inputs to any valuation model). As such, unobservable inputs reflect the assumptions that market participants would use in pricing the assets.

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

Investments classification under Solvency II	Quoted market prices	Adjusted quoted market prices	Alternative valuation methods	Total
	€'000	€'000	€'000	€'000
Holdings in related undertakings, including participations	394,225	-	-	394,225
Collective investment undertakings	694,739	-	104,503	799,242
Equities	106,149	-	1,024	107,173
Derivative assets	79	2,202	-	2,280
Total investments	**1,195,192**	**2,202**	**105,527**	**1,302,921**

Furthermore MS AISE has derivative financial instruments amounting to €3.4 million included in other liabilities. Of this amount €1.8 million categorised within Quoted market prices and €1.6 million as Adjusted quoted market prices under Solvency II and disclosed in section D.3 of this report.

Collective investment undertakings

Collective investment undertakings and participations include MS AISE's investment in the Trust of €1,088.0 million, a managed fund co-invested into with other MS&AD companies.

This fund represents an Irish domiciled UCITS-vehicle, which is structured into 3 sub-funds, a fixed income securities fund (Blue), a liquidity fund (Lilac), an equity securities fund (Emerald) and a number of currency based share classes.

The investment shares in the funds are valued using quoted market prices for the same assets.

The collective investment undertakings balance also includes investments in property fund portfolios of €104.5 million. MS 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, MS 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.

For IFRS 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 2019 this resulted in an increase of both derivative assets and liabilities in the Solvency II balance sheet compared to the IFRS presentation. 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

On 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.2.5 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 cost using the effective interest rate method.

Receivables not overdue more than 90 days are considered within the calculation of the technical provisions as future premiums, resulting in an adjustment of €218.5 million to receivables. The receivables overdue more than 90 days are presented as an asset on the Solvency II balance sheet.

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)

The IFRS receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method. Under Solvency II, receivables are measured at fair value. Furthermore, the investment related receivables are re-classified to be part of the Investments (incl. participations) line under Solvency II.

For Solvency II reporting purposes prepayments are considered to have fair market value of nil resulting in an adjustment of €0.8 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

Under Solvency II, deferred acquisition costs are included in the best estimate of future cash outflows for 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, MS AISE recognises deferred taxes on the basis of the difference between values of the assets, liabilities and technical provisions assessed 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 MS AISE is capable and allowed to utilise it within the applicable tax legislation. MS AISE does not discount its deferred tax assets and liabilities. MS 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 increased for the amount of €3.1 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 French losses. These losses incurred can be offset against future profits for the period.

MS AISE has unused tax losses in the Belgian branch for a total of €56.8 million (2018: €5.2 million). On these unused tax losses, no deferred tax asset is recognised for an amount of €26.2 million (2018: €32.1 million).

8. Property, plant and equipment held for own use

Per 1 January 2019 the new standard on leases, IFRS 16, became effective. This new standard lead to a change in valuation and handling of the lease contracts on the balance sheet. The lease property recognised on the Solvency II balance sheet is in accordance with IFRS 16.

Equipment is included under IFRS 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 and intangible assets

Goodwill is valued at nil within the Solvency II balance sheet in accordance with article 12 of Delegated Regulation (EU) 2015/35.

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 MS 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

MS AISE entered into several non-cancellable lease arrangements for office space and cars. In accordance with IFRS16, these are recognised on the Solvency II balance sheet as property. Please refer to section A.4 for details on the Company's leases.

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 MS AISE Solvency II technical provisions.

Below is a summary bridge of the components of the technical provisions from IFRS to Solvency II. The 2018 Solvency II values have been included for comparative purposes.

	As reported under IFRS €'000	SII valuation adjustment €'000	SII balance sheet 2019 €'000	SII balance sheet 2018 €'000
Technical provisions	1,305,104	(322,133)	982,972	934,541
Reinsurance recoverables	(299,494)	175,905	(123,589)	(125,919)
Deferred acquisition costs	(39,626)	39,626	-	-
Net technical provisions	**965,984**	**(106,601)**	**859,383**	**808,622**

The increase in Solvency II net technical provision is a result of a small increase in reinsurance recoverables (€ 2.3 million) and a larger increase in the gross technical provisions (€48.5 million).

The technical provisions increased mostly due to higher earned claims (€25.0 million), following large claims in the French property business classes and increased business activity for the Dutch fleet classes. Furthermore, the risk margin also increased by €14.1 million. This is counteracted by a decrease in the unincepted claims (total of -€21.5 million) mainly driven by a decrease in quota share coverage for the profitable MS AUL transferred business classes. This causes more profit to be retained at MS AISE level.

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.

	Motor vehicle liability insurance €'000	Other motor insurance €'000	Marine, aviation and transport insurance €'000	Fire and other damage to property insurance €'000	General liability insurance €'000	Other SII Lines of Business €'000	Total non-life obligation 2019 €'000	Total non-life obligation 2018 €'000
Total best estimate - gross	138,170	17,053	142,844	193,303	364,791	59,258	915,419	879,573
Less: Total best estimate - reinsurance	7,313	232	(14,886)	(32,618)	(63,851)	(19,779)	(123,589)	(125,919)
Total best estimate - net	**145,483**	**17,285**	**127,958**	**160,685**	**300,940**	**39,479**	**791,829**	**753,654**
Add: Risk margin	10,960	3,361	14,318	13,089	22,102	3,724	67,553	54,968
Technical provisions - total	**156,442**	**20,646**	**142,276**	**173,774**	**323,042**	**43,203**	**859,383**	**808,622**

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, BEGAAP and Solvency II technical provisions

The actuarial best estimate reserves calculated as part of the IFRS and BEGAAP 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 claims are selected using a 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 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 certain 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

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

In the Solvency II process the unearned incepted claims form part of the premium provision. These are calculated by applying an initial expected prior loss ratio (‘IELR’) and net-to-gross ratio (‘N/G ratio’) to the unearned premium reserve from the IFRS balance sheet. The assumptions, including the IELR and N/G ratios, are consistent with the quarterly reserving process.

The initial expected prior loss ratios are in line with the business plan, unless the most recent data available to actuaries differs materially. During the year these loss ratios will be updated as 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 binder 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 MS 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. MS AISE takes into account that the insurance contracts have a cancellation clause of two or three months and that MS 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 and binder adjustments 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.

Binder adjustment

Solvency II requires gross contracts to be recognised on a legal obligation basis. Under IFRS principles, applied by the company, 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 is taken. Simplifying assumptions are made since full look-through data is not available, the main assumption being that in most cases insurance contracts are assumed to incept evenly throughout the duration of the binder. MS AISE also takes into account the previously mentioned two to three months 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.

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. Since Q3 2019 a volatility adjustment is applied in the technical provisions calculation. This has a limited impact on the discount credit of the technical provisions.

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 businesses and original currencies.

Risk margin

The risk margin is calculated using the standard formula SCR for MS 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 in order to run off legally obligated business. Therefore, 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 the third party would be able to switch to a risk-free investment portfolio.

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 businesses. The risk margin is allocated to Solvency II line of business in proportion to the future claims as at reporting 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 is not always as large compared to 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 accounting years. Additionally, if there are development changes 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.

Unincepted legally obligated contracts: A large proportion of policies that MS AISE writes incept 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 larger 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.

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 an immaterial part of the total technical provisions, so there can be no large impact on the overall technical provisions arising from this uncertainty.

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 its expected run-off. 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 including volatility adjustments. 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. Yields are still low by historical standards, meaning that the overall discount credit is quite 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 2019 are shown in the chart below both at the total level and for the lines of business that are most material for MS 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 businesses represents an approximation since not all business is allocated at source to a line of business. As a result, in some cases, judgement has been used.

	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Other SII Lines of Business	Total non-life obligation 2019
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
IFRS net technical provisions	**175,848**	**23,207**	**159,925**	**195,329**	**363,113**	**48,562**	**965,984**
Adjustments to IFRS technical provisions	(33,702)	(4,448)	(30,650)	(37,435)	(69,592)	(9,307)	(185,133)
Best estimate net earned future claims	**142,146**	**18,759**	**129,275**	**157,894**	**293,522**	**39,255**	**780,850**
Other future claims on incepted contracts	26,366	3,480	23,978	29,287	54,443	7,281	144,835
Future premiums including unincepted	(76,293)	(11,983)	(73,735)	(85,660)	(157,010)	(21,766)	(426,447)
Unincepted claims	41,570	5,486	37,806	46,175	85,839	11,480	228,355
SII expenses	11,635	1,535	10,581	12,924	24,025	3,213	63,912
Discounted credits	(54)	(7)	(49)	(60)	(112)	(15)	(298)
Risk Margin	10,960	3,361	14,318	13,089	22,102	3,724	67,553
Other	113	15	103	126	234	31	621
SII net technical provisions	**156,442**	**20,646**	**142,276**	**173,773**	**323,042**	**43,203**	**859,383**

Adjustments to IFRS reserves: This includes removal of the net management margin held over and above the best estimate (-€32.0 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.

Future premium including unincepted contracts: This is a combination of the earned future premiums (€21 million), the unearned future premiums (€96 million) and the unincepted premiums (€309 million). The largest component, unincepted premium, is to be accounted for as contracts which are legally bound, but have not yet incepted and are normally at largest near year-end.

Unincepted claims: The unincepted claims are calculated by multiplying the unincepted premiums with a gross loss ratio, in line with the business plan.

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

D.2.6 Matching adjustment or transitional measures

The Solvency II technical provisions calculations do not apply the matching 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, binder adjustments). In calculating the reinsurance recoveries and the reinsurance premiums, the characteristics of the MS 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. MS AISE does not have outwards reinsurance contracts with special purpose vehicles.

D.2.8 Material changes in methodology and assumptions

Since Q3 2019 the volatility adjustment is applied in calculating the technical provisions. This is a measure allowed for under the Solvency II regulation and has been calculated in line with the articles 49 and 50 of Delegated Regulation (EU) 2015/35. The NBB was informed about the application of the volatility adjustment. The measure has a limited impact on the discount credit of the technical provisions.

D.3 Other liabilities

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

	Note	Reported under BEGAAP €'000	IFRS adjustment €'000	Reported under IFRS €'000	SII reclass €'000	SII valuation adjustment €'000	SII balance sheet 2019 €'000	SII balance sheet 2018 €'000
Technical provisions		1,359,354	(54,249)	1,305,104	-	(322,133)	982,972	934,541
Insurance, intermediaries and reinsurance payables	1	130,804	12,314	143,118	-	(132,068)	11,050	9,219
Payables (trade, not insurance)	2	61,923	16,721	78,644	315	-	78,959	41,874
Derivative liabilities	3	-	3,471	3,471	(115)	-	3,356	5,573
Financial liabilities other than debts owed to credit institutions		-	-	-	-	-	-	238
Retirement benefit obligations	4	11,127	(572)	10,555	-	-	10,555	8,631
Deferred tax liabilities	5	-	1,001	1,001	-	401	1,402	5,171
Subordinated liabilities	6	2,590	-	2,590	(315)	-	2,275	2,398
Total Liabilities		**1,565,797**	**(21,314)**	**1,544,483**	**(115)**	**(453,799)**	**1,090,568**	**1,007,645**
Total Assets		**1,939,599**	**144,588**	**2,084,187**	**(115)**	**(484,091)**	**1,599,877**	**1,509,125**
Excess of Assets over Liabilities		**373,802**	**165,902**	**539,704**	-	**(30,292)**	**509,309**	**501,480**

The above table shows the reclassification of assets from BEGAAP to IFRS and from IFRS to Solvency II presentation. For the SII adjustments, a distinction is made between IFRS to SII reclassifications as well as SII valuation adjustments, as at 31 December 2019. The 2018 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.

BEGAAP to IFRS adjustments

The BEGAAP to IFRS adjustments per asset class are highlighted below, while the IFRS to SII adjustments are discussed in the remainder of this section.

1. Insurance, intermediaries and reinsurance Payables

As mentioned in section D.1 Assets, according to BEGAAP, the reinsurers' share of provision for unearned premiums, is calculated on the reinsurance premiums less commission expenses for acquisition. Under IFRS, however, this is not the case and the commission expenses for acquisition are not subtracted from the reinsurance premiums.

Therefore, the netting with reinsurers' share of acquisition expenses has to be reversed and the expenses are restated as payables when adjusting from BEGAAP to IFRS.

2. Payables (trade, not insurance)

Under BEGAAP, 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 the derivative contracts, revolving credit facility and other sundry payables.

For IFRS, per 1 January 2019 the new standard on leases, IFRS 16, became effective. This new standard lead to a change in valuation and handling of the lease contracts on the balance sheet. As from 2019, lease liabilities are now recognised as part of the payables on the IFRS balance sheet, in accordance with IFRS 16. However, under BEGAAP this standard is not being recognised, which mainly explains the restatement from BEGAAP to IFRS.

3. Derivative liabilities

As mentioned in section D.1 Assets, investments (incl. derivative liabilities) are recognised at fair value under IFRS, while for BEGAAP purposes financial assets are valued at historical cost value less impairment and allowance for bad debt. Therefore, the fair value adjustments are added to the balance sheet. Any currency exchange differences recognised on the fair value adjustments are to be included on the balance sheet as well.

As the book value of the derivative liabilities is valued at zero, BEGAAP balance is nil.

4. Retirement benefit obligations

Under BEGAAP, 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 difference in the valuation of defined benefit pension liability between IFRS and BEGAAP. The disclosed restatement of €0.6 million is not related to defined benefit pension plans. It covers the pension provision which has to be accrued for at the French branch according to local regulation. For completeness purposes, it has been restated out of payables (trade, not insurance) and presented as retirement benefit obligation on the BEGAAP balance sheet. However, for IFRS, this is reversed as it does not meet the IAS19 recognition criteria.

5. Deferred tax liabilities

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

6. Subordinated liabilities

The company has received three subordinated interest loans from MS Amlin Lt 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.

There is no difference on the presentation of subordinated liabilities between IFRS and BEGAAP.

7. Contingent liabilities

MS AISE does not have any material contingent liabilities to disclose.

Solvency II valuation and classification adjustments

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. Insurance, intermediaries and reinsurance Payables

The IFRS insurance, intermediaries 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 €37.0 million (insurance and intermediaries payables) and €83.1 million (reinsurance payables) (2018: €25.7 million and €30.7 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.

2. Payables (trade, not insurance)

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.

3. Derivative liabilities

Please refer to Section D.1 for valuation methods and details surrounding MS AISE's investments portfolio.

4. Retirement benefit obligations

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

5. 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 with causes an increase of €4.4 million as a result of the tax impact of differences in valuation of assets, liabilities and technical provisions under IFRS and Solvency II.

No material changes in the valuation of the deferred tax liability position have taken place over the reporting period.

6. Subordinated liabilities

The IFRS value is considered a suitable approximation of the Solvency II fair value requirement.

7. Contingent liabilities

MS AISE does not have any material contingent liabilities to disclose under Solvency II.

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.

MS 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 MS AISE's defined benefit pension plan obligation is determined by using an alternative valuation method (as described in section D.3 of this report).

During the reporting period, MS AISE had no other material assets or liabilities valued by using alternative valuation methods in accordance with Article 10(5) of the Delegated Regulation (EU) 2015/35.

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

MS AISE's approach to capital management aims to ensure that MS 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.

MS 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.

MS AISE's policy is to actively manage capital so as to meet regulatory requirements and contribute to the Company's target to deliver a cross-cycle return on equity in excess of 7% (2018: 12%). This return on equity target has changed over the reporting year as part of the periodic review process in order to ensure that it remains appropriate.

MS AISE believes that significant value can be added over the insurance cycle, through a combination of organic growth and carefully selected acquisitions. MS 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 MS 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. MS 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. MS 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

	2019	2018
	€'000	€'000
BEGAAP net asset value	**373,802**	**408,952**
Allowed items – deferred taxes and IFRS16 assets & liabilities	15,504	4,632
Reversal amortisation goodwill	14,950	12,100
Financial assets at fair value	63,822	30,155
Adjustment to IFRS technical provisions	71,625	69,245
IFRS net asset value	**539,704**	**525,084**
Disallow items – goodwill, intangible assets, prepayments and deferred acquisition costs	(81,001)	(76,588)
Solvency II technical provisions adjustment	146,227	150,349
Future premiums and claims adjustments	(98,306)	(96,444)
Deferred tax on adjustment items	2,685	(855)
Excess of assets over liabilities – Solvency II	**509,309**	**501,546**

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 2019, MS AISE had available own funds of €511.6 million (2018: €503.9 million). MS AISE does not have any non-available or non-transferrable own funds. MS AISE's available own funds are made up of:

	2019	2018
	€'000	€'000
Excess of assets over liabilities	509,309	501,546
Subordinated liabilities	2,275	2,398
Total basic and available own funds	**511,584**	**503,944**

MS 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 in line with Article 73 of the Delegated Regulation (EU) 2015/35.

MS AISE does not have any ancillary own funds.

Own funds structure

	2019				2018			
	Total	Tier 1	Tier 2	Tier 3	Total	Tier 1	Tier 2	Tier 3
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Ordinary share capital	30,000	30,000	-	-	1,321	1,321	-	-
Reconciliation reserve	461,152	461,152	-	-	496,390	496,390	-	-
Subordinated liabilities	2,275	-	2,275	-	2,398	-	2,398	-
An amount equal to the value of net deferred tax assets	18,157	-	-	18,157	3,835	-	-	3,835
Total own funds	**511,584**	**491,152**	**2,275**	**18,157**	**503,944**	**497,711**	**2,398**	**3,835**

The table above shows the composition and quality of own funds as at 31 December 2019 and 31 December 2018.

On 3 April 2019, by special resolution the Board approved an increase to the share capital of the Company from €1.3 million to €30.0 million. This has been done without the issuance of new shares and by incorporation of reconciliation reserve (retained earnings). MS AISE's parent at that time, MS Amlin Limited, also approved the increase by special resolution. Thus the subscribed share capital of MS AISE is represented by 1,164,000 shares at a nominal value of € 25.77 each.

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, MS 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 MS AISE's subordinated liabilities are classified as Tier 2.

On 31 March 2020, the subordinate debt held by MS Amlin Limited was assigned to MS Amlin Corporate Services Limited ('MS ACS'). As part of this assignment, a new subordinated debt agreement was drafted and executed in line with Article 73 of the Delegated Regulation (EU) 2015/35. Thus the subordinated debt qualifies as Tier 2 capital, replacing the previous transitional provisions.

Tier 3 own funds represent net deferred tax assets only. The net deferred tax assets position increased compared to prior year mainly driven by the increase in recognised deferred tax assets for carried forward losses in France, due to an incurred IFRS loss. 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

As mentioned above a capital increase from €1.3 million to €30.0 million was realised in 2019 by the incorporation of retained earnings. No other significant changes occurred to the available own funds over the reporting period.

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 2019 are presented in the table below:

	€'000
Reconciliation reserve at 31 December 2018	**496,390**
Movements in Solvency II balance sheet	
Increase in financial assets (excluding cash & cash equivalents)	29,236
Increase in other assets	53,226
Increase in technical provisions	(50,761)
Increase in other liabilities	(38,261)
Increased share capital transferred from retained earnings	(28,679)
	(35,238)
Reconciliation reserve at 31 December 2019	**461,152**

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.

The increase in financial assets is primarily driven good performance of the stock markets in 2019. High investment returns were incurred on the equities and property funds.

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:

	2019				2018			
	Total	Tier 1	Tier 2	Tier 3	Total	Tier 1	Tier 2	Tier 3
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Eligible own funds covering SCR	511,584	491,152	2,275	18,157	503,944	497,711	2,398	3,835
Eligible own funds covering MCR	493,427	491,152	2,275	-	500,109	497,711	2,398	-
SCR	369,986				368,135			
MCR	143,924				132,931			
Solvency Ratio	138.3%				136.9%			
MCR ratio	342.8%				376.2%			

MS AISE's policy is to actively manage capital so as to meet regulatory requirements and contribute to the Company's target to deliver a cross-cycle return on equity in excess of 7% (2018: 12%). This return on equity target has changed over the reporting year as part of the periodic review process in order to ensure that it remains appropriate. As at 31 December 2019 MS AISE's Solvency Ratio was 138.3% (2018: 136.9%). This increase is mainly driven by the high investment returns on the financial assets during the reporting year.

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 2019	**135,809**	**136.9%**
Change in IFRS net assets	14,620	3.9%
Change in Solvency II valuation adjustments	(6,857)	(1.9%)
Change in subordinated liabilities value	(123)	(0.1%)
Change in SCR	(1,851)	(0.5%)
Available own funds over SCR at 31 December 2019	**141,598**	**138.3%**

The change in IFRS net assets includes the impact of the IFRS profit after tax of €16.0 million for the Company.

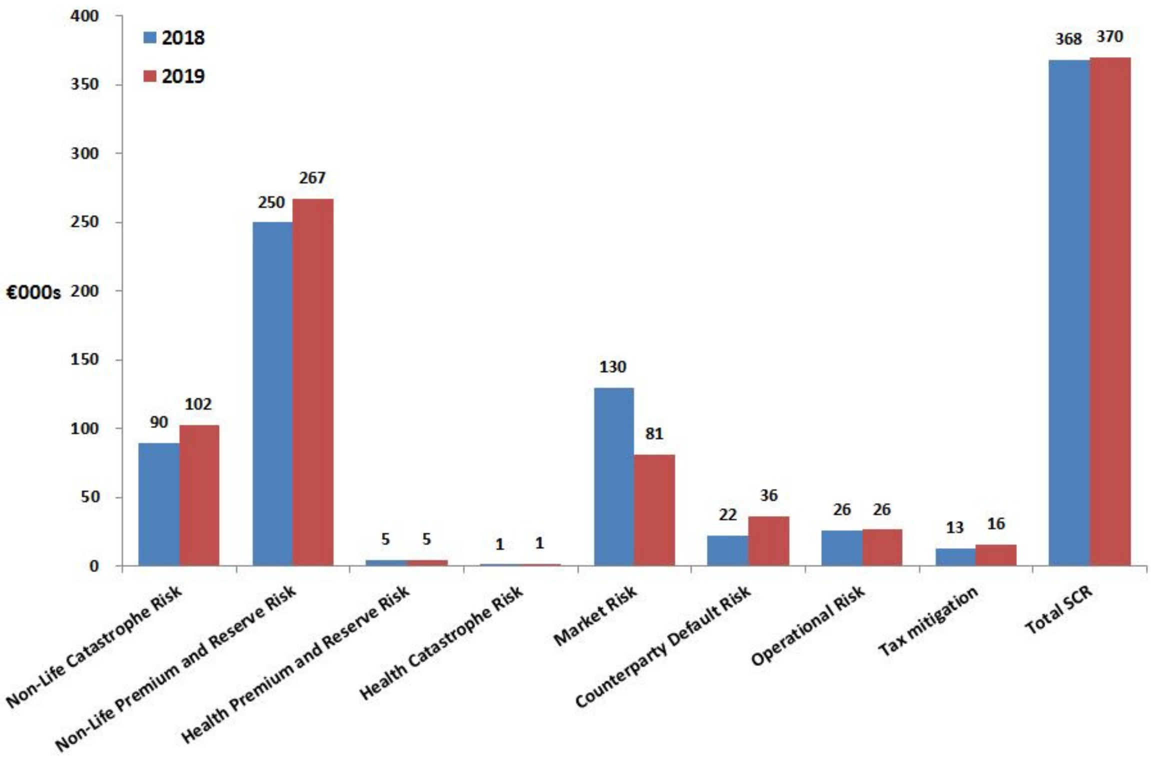
The change in Solvency II valuation adjustments reflects those movements in sections D.1 to D.3 of this report. The change in SCR (as well as the MCR) is explained in section E.2 of this report.

E.2 Minimum Capital Requirement and Solvency Capital Requirement

E.2.1 Solvency Capital Requirement (SCR)

MS AISE uses the standard formula for the calculation of its SCR. The total SCR as at 31 December 2019 was €370.0 million, an increase of €1.9 million since 31 December 2018 (€368.1 million).

The following chart shows how the components of the SCR have moved over the period:



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

The main components driving the total SCR for MS AISE are:

1. **Non-life premium and reserve risk** (€267.2 million), of which the majority of the risk (approximately 65%) is due to reserve risk.
2. **Market risk** (€81.3 million). This is comprised of several sub-risks, the largest of which is spread risk (€48.4 million). The size of each sub-risk is heavily dependent on the chosen investment strategy.
3. **Non-life catastrophe risk** (€102.5 million). This is mitigated by reinsurance programmes which lower the capital charge significantly.
4. **Operational risk** (€26.4 million). Information on the operational risks faced by MS AISE can be found in section C.5 of this report.

5. **Counterparty default risk** (€36.2 million). This covers the risk to MS AISE of third parties defaulting on their obligations. Relevant third parties include reinsurers, counterparties providing derivative products and banks.

For the calculation, 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 volatility adjusted EIOPA yield curve, on the contrary, has applied and is used in the standard formula SCR calculation.

E.2.2 SCR movement

Individual movements over the year of €11.4 million more are explained below:

1. Market risk

Market risk has decreased by €48.7 million over the year. This is largely due to currency risk, with smaller offsetting movements within interest rate risk and spread risk.

- Standalone currency risk has decreased by €62.0 million. This stems from the introduction of a new currency hedging program which has reduced the extent to which the currencies of the assets vary over time. The asset and liability currencies are therefore better matched compared to prior year.
- Equity risk has decreased by €9.6 million following changes to the investment portfolio made throughout the year.
- Spread risk increased by € 9.9 million. Around €6 million of this movement can be attributed to the reclassification of securities following a change to the Solvency II delegated regulations effective from 1 January 2019. The rest is due to changes in the underlying investment portfolio.

2. Non-life underwriting risk

Non-life underwriting risk has increased by €23.3 million over the year. The majority of this stems from premium and reserve risk, though a material component also comes from catastrophe risk.

- Non-life premium and reserve risk has increased by €17.2 million following an increase in net exposures over the year, particularly within the marine division.
- Non-life catastrophe risk has increased by €12.8 million over the year, the key driver of which is a change to the Solvency II delegated regulations, effective from 8 July 2019. The change mandates that where EEA catastrophe exposures cannot be allocated to a particular risk zone within a country due to data limitations, they must be allocated to the zone which attracts the highest risk charge. Data is available to successfully allocate the bulk of MS AISE's exposures to risk zones and work is ongoing to better allocate the remainder.

3. Counterparty default risk

Counterparty default risk has increased by €14.0 million. Approximately €5 million of this can be attributed to the reclassification of a group of exposures to trade receivables. The remainder of the movement is caused by a general increase in exposures.

4. Diversification benefit

Diversification credit has reduced by €15.9 million because MS AISE's risk profile has become more concentrated within non-life underwriting risk following the reduction in market risk and increase in non-life underwriting risk. This reduces the overall level of diversification between the risk types.

E.2.3 Minimum Capital Requirement (MCR)

The MCR calculation is a linear formula calculated using the net written premiums in the previous 12 months and the net best estimate technical provisions (excluding risk margin). This is subject to a minimum of 25% and maximum of 45% of the SCR. The MCR is subject to an absolute minimum depending on the nature of the undertaking (as defined in Article 129 (1) (d) of the Directive 2009/138/EC).

The total MCR as at 31 December 2019 is €143.9 million, which is 38.9% of the SCR (2018: €132.9 million and 36.1%).

The increase of €7.4 million over the period is driven by a small increase in net written premiums and technical provisions across a range of classes, mostly relating to liability business.

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

MS AISE does not use the duration-based equity risk sub-module in the calculation of the SCR.

E.4 Differences between the standard formula and any Internal Model used

MS AISE uses only the standard formula in the calculation of the SCR. 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, MS AISE holds sufficient capital in excess of the MCR and SCR. This helps to ensure MS 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.b
- S.05.01.b
- S.05.02.b
- S.17.01.b
- S.19.01.b
- S.23.01.b
- S.25.01.b
- S.28.01.b

MS Amlin Insurance SE
Koning Albert II-laan 37
B-1030 Brussel

Tel: +32 (0)2 894 70 00

msamlin.com

MS Amlin Insurance Societas Europeae

Solvency and Financial Condition Report

Disclosures

31 December

2019

(Monetary amounts in EUR thousands)

General information

Undertaking name	MS Amlin Insurance Societas Europeae
Undertaking identification code	5493005Q3501B3PX1S31
Type of code of undertaking	LEI
Type of undertaking	Non-life undertakings
Country of authorisation	BE
Language of reporting	en
Reporting reference date	31 December 2019
Currency used for reporting	EUR
Accounting standards	Local GAAP
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	Use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02 - Balance sheet
S.05.01.02 - Premiums, claims and expenses by line of business
S.05.02.01 - Premiums, claims and expenses by country
S.17.01.02 - Non-Life Technical Provisions
S.19.01.21 - Non-Life insurance claims
S.22.01.21 - Impact of long term guarantees measures and transitionals
S.23.01.01 - Own Funds
S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula
S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	
R0040	Deferred tax assets	19,559
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	13,164
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	1,302,921
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	394,225
R0100	*Equities*	107,173
R0110	*Equities - listed*	106,149
R0120	*Equities - unlisted*	1,024
R0130	*Bonds*	0
R0140	*Government Bonds*	0
R0150	*Corporate Bonds*	0
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	799,242
R0190	*Derivatives*	2,280
R0200	*Deposits other than cash equivalents*	0
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	123,589
R0280	*Non-life and health similar to non-life*	123,589
R0290	*Non-life excluding health*	118,165
R0300	*Health similar to non-life*	5,424
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	
R0330	*Life excluding health and index-linked and unit-linked*	
R0340	*Life index-linked and unit-linked*	
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	13,308
R0370	Reinsurance receivables	11,498
R0380	Receivables (trade, not insurance)	41,109
R0390	Own shares (held directly)	
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	74,728
R0420	Any other assets, not elsewhere shown	
R0500	**Total assets**	1,599,877

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	982,972
R0520	*Technical provisions - non-life (excluding health)*	960,403
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	894,285
R0550	*Risk margin*	66,118
R0560	*Technical provisions - health (similar to non-life)*	22,569
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	21,134
R0590	*Risk margin*	1,435
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*	
R0630	*Best Estimate*	
R0640	*Risk margin*	
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	0
R0660	*TP calculated as a whole*	
R0670	*Best Estimate*	
R0680	*Risk margin*	
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	
R0710	*Best Estimate*	
R0720	*Risk margin*	
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	10,555
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	1,402
R0790	Derivatives	3,356
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	11,050
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	78,959
R0850	Subordinated liabilities	2,275
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	2,275
R0880	Any other liabilities, not elsewhere shown	
R0900	**Total liabilities**	1,090,568
R1000	**Excess of assets over liabilities**	509,309

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	6,744	22	14,945	75,849	49,929	248,779	178,530	131,148		2,620		37,382					745,949
R0120	Gross - Proportional reinsurance accepted						5,923											5,923
R0130	Gross - Non-proportional reinsurance accepted														2,885	12,752	2,954	18,591
R0140	Reinsurers' share	130	0	13,417	3,041	102	85,024	34,994	9,310		558		27,140		385	2,308	732	177,139
R0200	Net	6,614	22	1,528	72,808	49,828	169,678	143,536	121,839	0	2,062	0	10,242		2,500	10,444	2,222	593,324
	Premiums earned																	
R0210	Gross - Direct Business	6,576	-276	8,393	70,549	50,593	209,874	177,290	132,345		2,992		37,111					695,447
R0220	Gross - Proportional reinsurance accepted						5,725											5,725
R0230	Gross - Non-proportional reinsurance accepted														3,139	10,833	3,028	17,000
R0240	Reinsurers' share	131	0	6,962	2,433	-416	58,678	33,698	8,653		282		26,173		512	1,073	645	138,822
R0300	Net	6,446	-276	1,431	68,116	51,010	156,921	143,592	123,692	0	2,710	0	10,938		2,626	9,760	2,383	579,350
	Claims incurred																	
R0310	Gross - Direct Business	2,485	70	5,924	52,965	20,664	120,433	175,753	66,492		393		17,854					463,033
R0320	Gross - Proportional reinsurance accepted						2,094											2,094
R0330	Gross - Non-proportional reinsurance accepted														69	4,096	358	4,523
R0340	Reinsurers' share	-4		5,597	-118	-1	30,506	43,413	1,499	0	4	0	12,856		-26	-77	109	93,758
R0400	Net	2,489	70	328	53,082	20,666	92,022	132,341	64,993	0	388	0	4,997		95	4,173	249	375,892
	Changes in other technical provisions																	
R0410	Gross - Direct Business																	0
R0420	Gross - Proportional reinsurance accepted																	0
R0430	Gross - Non-proportional reinsurance accepted																	0
R0440	Reinsurers' share																	0
R0500	Net	0	0	0	0	0	0	0	0	0	0	0	0		0	0	0	0
R0550	**Expenses incurred**	3,524	11	1,318	18,503	17,325	77,871	55,927	47,531	0	599	0	3,288		803	4,863	700	232,263
R1200	**Other expenses**																	
R1300	**Total expenses**																	232,263

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	GB	FR			
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	Gross - Direct Business	190,025	400,606	47,734	101,681			740,046
R0120	Gross - Proportional reinsurance accepted			3,273				3,273
R0130	Gross - Non-proportional reinsurance accepted	5,353	4,047	2,598	1,248			13,246
R0140	Reinsurers' share	82,898	52,325	16,724	25,144			177,091
R0200	Net	112,479	352,328	36,882	77,785			579,474
	Premiums earned							
R0210	Gross - Direct Business	177,620	371,994	29,378	105,474			684,466
R0220	Gross - Proportional reinsurance accepted			2,806				2,806
R0230	Gross - Non-proportional reinsurance accepted	5,938	3,733	1,593	1,207			12,470
R0240	Reinsurers' share	65,013	38,865	8,693	25,629			138,199
R0300	Net	118,545	336,863	25,084	81,052			561,544
	Claims incurred							
R0310	Gross - Direct Business	102,366	216,146	15,684	111,686			445,882
R0320	Gross - Proportional reinsurance accepted			292				292
R0330	Gross - Non-proportional reinsurance accepted	253	2,839	38	24			3,153
R0340	Reinsurers' share	32,316	12,937	7,412	41,340			94,005
R0400	Net	70,302	206,048	8,603	70,369			355,323
	Changes in other technical provisions							
R0410	Gross - Direct Business							0
R0420	Gross - Proportional reinsurance accepted							0
R0430	Gross - Non-proportional reinsurance accepted							0
R0440	Reinsurers' share							0
R0500	Net	0	0	0	0			0
R0550	**Expenses incurred**	45,845	139,046	12,740	32,068			229,699
R1200	**Other expenses**							
R1300	**Total expenses**							229,699

S.17.01.02

Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total Non-Life obligation
		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	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	-3,081	95	4,335	-4,329	-7,529	-47,538	3,256	-15,778	0	-117	0	-6,225		-195	-1,073	-590	-78,769
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	-578	-140	3,129	-3,301	-580	-25,034	-12,608	-3,078	0	-40	0	-5,753		-57	-243	-786	-49,068
R0150	**Net Best Estimate of Premium Provisions**	-2,503	235	1,205	-1,029	-6,950	-22,504	15,864	-12,701	0	-78	0	-472		-138	-830	197	-29,701
	Claims provisions																	
R0160	Gross	9,744	5,861	4,180	142,499	24,582	190,382	190,047	380,569	0	2,083	5	26,522		3,868	6,676	7,169	994,188
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	35	0	2,978	-4,012	347	39,920	45,226	66,929	0	332	0	18,911		1,227	504	259	172,657
R0250	**Net Best Estimate of Claims Provisions**	9,709	5,861	1,202	146,511	24,235	150,462	144,821	313,640	0	1,751	4	7,611		2,641	6,172	6,910	821,531
R0260	**Total best estimate - gross**	6,664	5,956	8,514	138,170	17,053	142,844	193,303	364,791	0	1,966	5	20,298		3,673	5,603	6,580	915,419
R0270	**Total best estimate - net**	7,206	6,097	2,407	145,483	17,285	127,958	160,685	300,940	0	1,673	4	7,140		2,503	5,342	7,107	791,829
R0280	**Risk margin**	826	609	0	10,960	3,361	14,318	13,089	22,102	0	129	0	623		193	727	617	67,553
	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**	7,490	6,564	8,514	149,130	20,413	157,162	206,392	386,893	0	2,095	5	20,921		3,866	6,330	7,197	982,972
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**	-542	-141	6,107	-7,313	-232	14,886	32,618	63,851	0	293	0	13,158		1,170	261	-527	123,589
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**	8,032	6,705	2,407	156,442	20,646	142,276	173,774	323,042	0	1,802	5	7,763		2,696	6,069	7,724	859,383

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											18,503	18,503	18,503
R0160	2010	114,963	187,310	83,830	51,156	58,782	10,239	9,725	5,828	5,482	5,824		5,824	533,140
R0170	2011	117,923	154,618	66,435	52,699	13,369	15,085	5,991	5,081	2,855			2,855	434,056
R0180	2012	74,370	144,505	61,285	17,316	15,284	24,402	4,824	4,585				4,585	346,572
R0190	2013	96,472	132,383	59,260	21,599	11,321	7,466	4,555					4,555	333,057
R0200	2014	87,230	132,000	64,082	17,515	11,139	9,274						9,274	321,239
R0210	2015	94,436	127,011	52,909	24,532	11,766							11,766	310,655
R0220	2016	96,195	123,398	44,501	23,734								23,734	287,828
R0230	2017	104,240	140,077	43,859									43,859	288,176
R0240	2018	123,540	156,830										156,830	280,370
R0250	2019	103,672											103,672	103,672
R0260												Total	385,458	3,257,268

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											119,052	119,448
R0160	2010	0	0	0	0	0	0	40,659	43,941	39,932	35,081		34,919
R0170	2011	0	0	0	0	0	39,916	30,476	23,922	18,771			18,790
R0180	2012	0	0	0	0	60,719	28,807	24,170	21,031				21,052
R0190	2013	0	0	0	44,438	38,316	31,762	24,136					24,127
R0200	2014	0	0	67,793	50,357	40,597	29,283						29,284
R0210	2015	0	134,181	92,361	73,669	55,535							55,360
R0220	2016	229,264	159,075	116,041	82,673								82,434
R0230	2017	350,845	164,392	100,513									100,383
R0240	2018	280,369	132,248										132,186
R0250	2019	349,532											348,749
R0260												Total	966,730

S.22.01.21

Impact of long term guarantees measures and transitionals

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
R0010	Technical provisions	982,972	0	0	2,039	0
R0020	Basic own funds	511,584	0	0	-2,039	0
R0050	Eligible own funds to meet Solvency Capital Requirement	511,584	0	0	-2,039	0
R0090	Solvency Capital Requirement	369,986	0	0	200	0
R0100	Eligible own funds to meet Minimum Capital Requirement	493,427	0	0	-2,039	0
R0110	Minimum Capital Requirement	143,924	0	0	202	0

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)	30,000	30,000		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	461,152	461,152			
R0140	Subordinated liabilities	2,275		0	2,275	0
R0160	An amount equal to the value of net deferred tax assets	18,157				18,157
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**	511,584	491,152	0	2,275	18,157
	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	511,584	491,152	0	2,275	18,157
R0510	Total available own funds to meet the MCR	493,427	491,152	0	2,275	
R0540	Total eligible own funds to meet the SCR	511,584	491,152	0	2,275	18,157
R0550	Total eligible own funds to meet the MCR	493,427	491,152	0	2,275	
R0580	**SCR**	369,986				
R0600	**MCR**	143,924				
R0620	**Ratio of Eligible own funds to SCR**	138.27%				
R0640	**Ratio of Eligible own funds to MCR**	342.84%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	509,309
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	48,157
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	461,152
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	137,514
R0790	**Total Expected profits included in future premiums (EPIFP)**	137,514

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Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	81,261		
R0020	Counterparty default risk	36,191		
R0030	Life underwriting risk	0		
R0040	Health underwriting risk	5,134		
R0050	Non-life underwriting risk	309,217		
R0060	Diversification	-72,525		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	359,279		

USP Key

For life underwriting risk:
1 - Increase in the amount of annuity benefits
9 - None

For health underwriting risk:
1 - Increase in the amount of annuity benefits
2 - Standard deviation for NSLT health premium risk
3 - Standard deviation for NSLT health gross premium risk
4 - Adjustment factor for non-proportional reinsurance
5 - Standard deviation for NSLT health reserve risk
9 - None

For non-life underwriting risk:
4 - Adjustment factor for non-proportional reinsurance
6 - Standard deviation for non-life premium risk
7 - Standard deviation for non-life gross premium risk
8 - Standard deviation for non-life reserve risk
9 - None

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	26,443
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	-15,736
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**	369,986
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	369,986
	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

	Approach to tax rate	C0109
R0590	Approach based on average tax rate	0

	Calculation of loss absorbing capacity of deferred taxes	LAC DT
		C0130
R0640	LAC DT	-15,736
R0650	LAC DT justified by reversion of deferred tax liabilities	-5,442
R0660	LAC DT justified by reference to probable future taxable economic profit	0
R0670	LAC DT justified by carry back, current year	-10,294
R0680	LAC DT justified by carry back, future years	0
R0690	Maximum LAC DT	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	143,924

		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	7,206	6,614
R0030	Income protection insurance and proportional reinsurance	6,097	22
R0040	Workers' compensation insurance and proportional reinsurance	2,407	1,528
R0050	Motor vehicle liability insurance and proportional reinsurance	145,483	72,808
R0060	Other motor insurance and proportional reinsurance	17,285	49,828
R0070	Marine, aviation and transport insurance and proportional reinsurance	127,958	169,678
R0080	Fire and other damage to property insurance and proportional reinsurance	160,685	143,536
R0090	General liability insurance and proportional reinsurance	300,940	121,839
R0100	Credit and suretyship insurance and proportional reinsurance	0	0
R0110	Legal expenses insurance and proportional reinsurance	1,673	2,062
R0120	Assistance and proportional reinsurance	4	0
R0130	Miscellaneous financial loss insurance and proportional reinsurance	7,140	10,242
R0140	Non-proportional health reinsurance	0	0
R0150	Non-proportional casualty reinsurance	2,503	2,500
R0160	Non-proportional marine, aviation and transport reinsurance	5,342	10,444
R0170	Non-proportional property reinsurance	7,107	2,222

	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	143,924
R0310	SCR	369,986
R0320	MCR cap	166,494
R0330	MCR floor	92,497
R0340	Combined MCR	143,924
R0350	Absolute floor of the MCR	2,500
R0400	**Minimum Capital Requirement**	143,924