Solvency and Financial Condition Report 2020

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 2020 has been prepared for MS Amlin Insurance S.E. ('MS AISE' or the 'Company').

Business

At the reporting date 31 December 2020, the Company is a wholly owned subsidiary of Mitsui Sumitomo Insurance Co. Limited ('MSI'), one of the world's largest general insurers with an overseas network of 42 countries and regions.

MS AISE is a leading independent provider of corporate insurance in Western Europe. MS AISE's business is organised around two operating segments, Marine 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 and the United Kingdom forming the most important ones. The Company is domiciled in Belgium and therefore the supervisory authority is 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 assesses the Company and by which the Management Committee and Board manage the Company.

The United Kingdom left the EU on 31 January 2020 and the 'transition' period has ended on 1 January 2021, with the United Kingdom and EU coming to a final trade agreement on 24 December 2020. As a consequence, MS AISE has applied for the Temporary Permissions Regime ('TPR') in the United Kingdom as from 1 January 2021 onwards. TPR allows insurance entities to continue carrying out business in the UK, in the same manner as before, for a temporary period with a maximum of three years. MS AISE will apply for a third-country-branch license before TPR comes to an end to enable continued operations in the UK.

On 19 November 2019, Mitsui Sumitomo Insurance Co. Limited ('MSI') announced a reorganisation of the international division of which MS Amlin was a significant component. This involved the removal of the regional, intermediate holding companies within MSI, including MS Amlin Limited. Thus as 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 are provided by MS Amlin Business Services ('ABS'), which is the trading name of the company MS Amlin Corporate Services Limited ('MS ACS'). ABS acts as a centre of excellence and provides specialised services to the MS Amlin entities, including MS AISE.

COVID-19 pandemic

As from the moment that the COVID-19 pandemic and lockdown measures imposed by the different governments affected MS AISE's European offices in March 2020, the Management Committee of MS Amlin Insurance SE implemented its crisis management plan. 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.

As of 16 March 2020, the company decided to close all its offices except in very limited circumstances and since that time virtually all staff have been working remotely from home. Gradual measures were taken in line with the business continuity policy of the company. As a consequence, the Company has been able to guarantee business continuity with respect to servicing brokers, policyholders and internal operations while meeting regulatory reporting obligations. Management is continuously following the evolution of the situation in order to take adequate measures ensuring the continuity of operations.

Following the crisis management plan, it was also decided to continuously monitor the financial, regulatory and operational impact of the COVID-19 crisis on the Company. Bi-weekly meetings have been and are continued to be organized, since the crisis management plan came into force, with members of the Management Committee and senior management. Following these meetings, bi-weekly reports are provided to the Board of Directors with updates from a solvency, operational, liquidity and profitability perspective as well as information concerning the health and wellbeing of MS AISE's employees. By doing so, the Management Committee is able to closely monitor developments and take appropriate actions if needed.

From a solvency and profitability perspective four components can be distinguished for the impact from the COVID-19 crisis on the Company's financial position as at 31 December 2020:

- COVID-19 losses provisioned in the claims reserves, consisting of the best estimate and prudency margin, equal €60.1 million under IFRS and BEGAAP accounting principles. The incurred impact on the Solvency II technical provisions during the reporting period adds up to €54.5 million.

  The established claims reserves and technical provisions primarily cover potential claims for the following product classes:

  - Solvency coverage for Belgian travel agencies in case of bankruptcy;
  - Damage coverage for business interruption; and
  - Event cancellation coverage in the Marine operating segment.

  The best estimate reserves are the outcome of analyses performed by the underwriting, claims and actuarial teams. Where possible, a complete case-by-case assessment has been made. Where the level of uncertainty does not allow for a case-by-case analysis, several probabilistic scenarios have been modelled. This has been extended with further sensitivity analyses with stress-testing of the chosen assumptions.

  It is noted that there is considerable uncertainty linked to the reserving process with respect to COVID-19. The prudent person principle has been applied in the best estimate projections but the development of the COVID-19 pandemic and lockdown measures are inherently difficult to predict.

- There is an assumption that loss of income occurred during the reporting year due to the expectation that more business would have been written in a normal situation without the COVID-19 pandemic. The amount of this lost income is difficult to quantify, nevertheless the Company was able to meet and even exceed the business plan.
- It is acknowledged that beneficial claims development occurred during the reporting year as a result of less economic activity, especially in the motor insurance classes.
- The investments performance for the reporting year has experienced limited impact from the COVID-19 crisis. The financial market showed a high-level of volatility over the past year, with a major backdrop in March 2020 and significant recovery towards 31 December 2020. As a result of this recovery as well as the Company's prudent investments strategy, the financial assets portfolio noted a solid performance. For further explanation reference is made to section A.3.

  The value of MS AISE's property funds are based on the net asset value provided by the investment custodian, CBRE Global Collective Investors UK Limited. The custodian as well as the Investments Management function have considered the potential impact of the COVID-19 crisis on the property funds valuation and there are no indications that these funds are materially misstated on the Company's balance sheet as at 31 December 2020.

In Belgium, the Netherlands, France and the United Kingdom governments announced several measures for mitigating the economic impact of the COVID-19 pandemic. One of those being extended premium payment terms for corporate insurance policyholders. In line with this measure, MS Amlin Insurance SE has provided payment extensions as at 31 December 2020 for a total amount of €2.9 million of which €0.1 million unpaid premiums were outstanding. At 25 March 2021, the amounts have risen to a total of €3.2 million granted payment extensions of which €0.5 million unpaid premiums were outstanding.

The reader is reminded that, 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 are continuing to be done based on scenario analyses mostly driven by different assumptions on the effectiveness of the public health, governmental and economic policy responses on the overall economy. None of the scenarios indicate a major threat to the sustainability of the Company. However, a stabilization of the situation will be needed to achieve sufficient confidence in reaching these conclusions.

Based on its review, the Management Committee recommended to the Board of Directors refraining from paying any dividend on the 2020 results in line with NBB recommendations. The Board of Directors approved all recommendations as of 25 March 2021 and will ask in the annual General Shareholders Meeting not to pay any dividend on the 2020 results.

The Company 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 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 only to meet the Company's regulatory reporting requirements and should not be relied upon for any other 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 2020 only and will not necessarily reflect all changes in the Company's operations since that date.

Performance

Underwriting performance

MS AISE's net written premium has increased in 2020 by €107.2 million and overall underwriting result has improved by €28.8 million compared to 2019. The improvement is driven by rate increases as well as new business. One of the largest drivers offsetting these is the COVID-19 pandemic and the economic crisis, resulting in additional claims costs. In general, the Company is able to present a solid performance over the reporting year.

	2020			2019			Variance	
Underwriting result	**Total**	**Marine**	**P&C**	**Total**	**Marine**	**P&C**	**Total**	
	€'000	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**	**%**
Gross written premium	855,297	291,109	564,188	770,463	267,454	503,009	84,835	11.0%
Net written premium	700,520	232,399	468,122	593,324	180,122	413,202	107,197	18.1%
Net earned premium	649,257	198,405	450,852	579,350	166,681	412,668	69,907	12.1%
Net claims	(381,672)	(88,591)	(293,080)	(359,988)	(96,194)	(263,794)	(21,684)	6.0%
Equalisation reserve	1,617	-	1,617	(15,904)	-	(15,904)	17,521	(110.2%)
Incurred expenses	(269,226)	(95,197)	(174,029)	(232,263)	(82,734)	(149,530)	(36,962)	15.9%
Underwriting result	**(23)**	**14,616**	**(14,639)**	**(28,806)**	**(12,247)**	**(16,559)**	**28,783**	

The marine, aviation and transport insurance business in MS AISE showed an increase in net written premium in 2020 over 2019. Result for the period is a profit of €14.6 million driven by strong renewal and retention rates.

The net written premium of P&C increased mainly due to the motor business. The motor portfolio has grown across the Netherlands and the United Kingdom, primarily driven by new business as well as high renewal and retention rates compared to previous year. Further growth materialised across other product lines with healthy retention rates and new business.

Net claims are €381.7 million which is €21.7 million more than 2019 (€360.0 million). This is in large driven by €70.4 million COVID-19 claims. As a consequence of additional premiums in respect of prior year there were also additional claims which resulted in a net movement of €8.3 million prior accident year claims worsening (2019: €4.0 million loss), partly offset by €44.0 million decrease for the current accident year.

Furthermore, there is an impact from 2020 movements on the BEGAAP equalisation reserve for catastrophes. The recalculated reserves at 31 December 2020 provide a release and thus additional profit of €1.6 million.

Investment performance

MS AISE's IFRS investment income over 2020 amounted to €15.4 million (2019: €29.4 million income). Overall, a positive investment return was achieved despite the global pandemic that led to widespread and significant economic shutdowns. Timely and unprecedented government and central bank support provided to the major global economies made this outcome possible.

According to BEGAAP accounting standards, after cancellation of the unrealised investment results, the investment income is amended to €23.5 million. Furthermore, the impairment testing performed on the financial assets, according BEGAAP principles, resulted in a release of €1.3 million on the impairment provision and increases the BEGAAP investment return at 31 December 2020.

The assets are primarily dominated by shares in an Irish domiciled UCITS investments vehicle, which is called the Toro Prism Trust (the 'Trust'). The Trust has other investors from within the MSI Group only. It is structured into 3 sub-funds, i.e. a fixed income securities fund, a liquidity fund and an equity securities fund.

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 it is a wholly owned subsidiary of MSI. MS AISE therefore operates 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 several committees, to which it delegates oversight and decision making powers in accordance with documented Terms of Reference, which are contained within the Bylaws. MS AISE must also report to its parent on aspects of its operations in line with Group reporting requirements from time to time.

No 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 if these diverge from those of the Group. 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. Overall 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 considers 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. 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 (like 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 programme 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, for which reference is made to the explanation above and section A.2 of this report.

Market and Liquidity 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 it can be reasonably demonstrated that there is an appropriate level of understanding of the underlying investment, is able to monitor its investments and can justify its investments as prudent to policyholders.

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 risks.

There are no significant changes in MS AISE's market risk profile, however a reduction is noted in cash deposits in favour of equity and bonds positions.

Credit risk

Credit risk is mainly driven by exposures to reinsurance counterparties and by exposures to brokers and cover holders. This risk is related to the potential deterioration in the financial condition of counterparties, which may have an impact on MS AISE's ability to meet its claims obligations and other obligations as they fall due. Credit risk is managed by having an on-boarding process for both reinsurers and brokers and by managing exposures as well as outstanding balances to these counterparties.

Exposure to broker credit risk increased over the year as a consequence of growth in top-line premium during 2020. Past experience showed that there is limited default risk relating to these exposures.

Operational risk

MS AISE operates a diverse business across several 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. MS AISE has a risk averse attitude to operational risk. The Company does not wish to have any operational failures which may hinder trading, result in financial loss or any regulatory sanction for inadequate compliance.

The risk profile for operational risk remained largely the same during 2020. Improvements have been realised in relation to managing information security and the IT infrastructure. Further improvements will be realised in 2021 via the IT and cyber remediation programmes.

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 2020, the Company had excess of assets over liabilities under Solvency II of €548.4 million (2019: €509.3 million) compared to net assets under BEGAAP of €385.1 million (2019: €373.8 million) and net assets under IFRS of €554.8 million (2019: €539.7 million). The adjustments made to move from BEGAAP balance sheet to IFRS and Solvency II balance sheet are set out below:

	2020 €'000	2019 €'000
BEGAAP net asset value	**385,143**	**373,802**
Allowed items – deferred taxes and IFRS16 assets & liabilities	18,575	15,504
Reversal amortisation goodwill	17,849	14,950
Financial assets at fair value	47,504	63,822
Adjustment to IFRS technical provisions	85,734	71,625
IFRS net asset value	**554,804**	**539,704**
Disallow items – goodwill, intangible assets, prepayments and deferred acquisition costs	(86,108)	(81,001)
Solvency II technical provisions adjustment	231,653	146,227
Future premiums and claims adjustments	(156,916)	(98,306)
Deferred tax on adjustment items	4,939	2,685
Excess of assets over liabilities – Solvency II	**548,372**	**509,309**

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

Own funds

	2020 €'000	2019 €'000
Excess of assets over liabilities	**548,372**	**509,309**
Subordinated liabilities	2,460	2,275
Total Available own funds	**550,832**	**511,584**
Solvency Capital Requirement ('SCR')	408,962	369,986
Ratio of Eligible own funds to SCR ('Solvency Ratio')	**134.7%**	**138.3%**

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 after tax in excess of 7% (2019: 7%). As at

31 December 2020 MS AISE's Solvency Ratio was 134.7% (2019: 138.3%). This decrease is mainly driven by the increase in SCR which exceeded to increase in own funds during the reporting period. The larger SCR is due to higher bond and equity exposures in market risk as well as higher future net earned premiums being shocked in underwriting risk.

The subordinated liabilities at the reporting date were provided by MS ACS to the Company where these were previously provided by MS Amlin Limited. On 31 March 2020, MS Amlin Limited assigned all rights and interest to the loans to MS ACS. These liabilities were transferred as part of the reorganisation effected by the MS&AD Group and further explained in section B.1.3. As a result of this transfer, the different subordinated liabilities were repackaged into one outstanding subordinated loan issued by MS ACS to MS AISE.

The below table analyses the movement in the Solvency II Ratio:

	€'000	Solvecny II Ratio
Total Available own funds over SCR at 1 January 2020	**141,598**	**138.3%**
Change in IFRS net assets	15,100	4.1%
Change in Solvency II valuation adjustments	23,963	6.5%
Change in subordinated liabilities value	185	(0.1%)
Change in SCR	(38,976)	(14.0%)
Available own funds over SCR at 31 December 2020	**141,870**	**134.7%**

The change in IFRS net assets includes the impact of the IFRS profit after tax of €16.7 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 2020, the Company has own funds of €550.8 million. Per the requirements for Solvency II, this is split into tiers as follows:

	2020 €'000	2019 €'000
Tier 1	524,917	491,152
Tier 2	2,460	2,275
Tier 3	23,455	18,157
Total Available Own Funds	**550,832**	**511,584**

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, for calculating its SCR. No simplifications have been used in the calculations. 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 2023. However, MS AISE uses the 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

In 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 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').

Over reporting year 2020, due to the reorganisation of MS&AD's international division, MS AISE's direct parent changed from MS Amlin Limited to Mitsui Sumitomo Insurance Company, Limited ('MSI'). MSI is a wholly owned subsidiary of MS&AD Insurance Group Holdings, Inc. ('MS&AD'). Both MSI and MS&AD are registered in Japan.

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

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

MS&AD is the ultimate parent of 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 2020, MS AISE is subject to supervision by the National Bank of Belgium (NBB) as well as its branch country regulators.

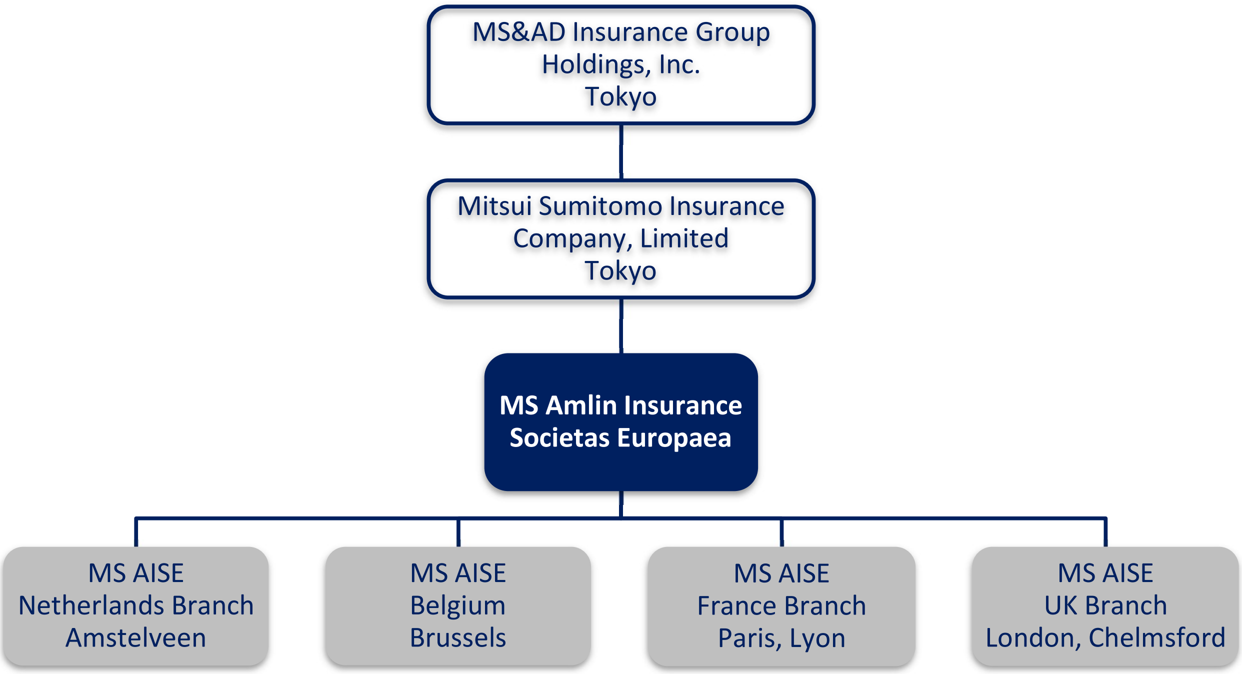
MS AISE operates in four countries, and is organised and managed through two distinct operating segments as follows:

- **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.

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

This 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 assesses the Company and by which the Management Committee and Board manage the Company.



Significant events during the period

On 19 November 2019, a reorganisation of its international division was announced by Mitsui Sumitomo Insurance Co. Limited ('MSI') of which MS Amlin was 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 onwards, the Company became a wholly owned subsidiary of MSI.

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On 31 March 2020, MS Amlin Limited assigned all rights and interest to the subordinated loans to MS ACS. These liabilities were transferred as part of the reorganisation effected by the MS&AD Group as explained above. As a result of this transfer, the different subordinated liabilities were repackaged into one outstanding subordinated loan issued by MS ACS to MS AISE.

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Following the crisis management plan, it was also decided to continuously monitor the financial, regulatory and operational impact of the COVID-19 crisis on the Company. Bi-weekly meetings have been and are continued to be organized, since the crisis management plan came into force, with members of the Management Committee and senior management. Following these meetings, bi-weekly reports are provided to the Board of Directors with updates from a solvency, operational, liquidity and profitability perspective as well as information concerning the health and wellbeing of MS AISE's employees. By doing so, the Management Committee is able to closely monitor developments and take appropriate actions if needed.

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- It is acknowledged that beneficial claims development occurred during the reporting year as a result of less economic activity, especially in the motor insurance classes.

- The investments performance for the reporting year has experienced limited impact from the COVID-19 crisis. The financial market showed a high-level of volatility over the past year, with a market value drop in March 2020 followed by a recovery through to 31 December 2020. As a result of this recovery as well as the Company's prudent investments strategy, the financial assets portfolio noted a solid performance. For further explanation reference is made to section A.3.

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The Company 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.

Significant events after the reporting period

The United Kingdom left the EU on 31 January 2020 and the 'transition' period has ended on 1 January 2021, with the United Kingdom and EU coming to a final trade agreement on 24 December 2020. As a consequence, MS AISE has applied for the Temporary Permissions Regime ('TPR') in the United Kingdom as from 1 January 2021 onwards. TPR allows insurance entities to continue carrying out business in the UK, in the same manner as before, for a temporary period with a maximum of three years. MS AISE will apply for a third-country-branch license before TPR comes to an end to enable continued operations in the UK.

Aside from the 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

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 reported 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 inwards 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

2020	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	167,040	291,109	186,810	152,787	57,552	855,297
Net written premium	151,769	232,399	154,301	136,200	25,852	700,520
Net earned premium	141,989	198,405	154,150	130,161	24,553	649,257
Net claims	(76,975)	(88,591)	(129,828)	(75,230)	(11,047)	(381,672)
Equalisation reserve	-	-	(1,510)	3,127	-	1,617
Incurred expenses	(56,639)	(95,197)	(59,288)	(44,856)	(13,245)	(269,226)
Underwriting result	**8,374**	**14,616**	**(36,476)**	**13,202**	**260**	**(23)**
Claims ratio	54.2%	44.7%	85.2%	55.4%	45.0%	58.5%
Expenses ratio	39.9%	48.0%	38.5%	34.5%	53.9%	41.5%
Combined ratio	94.1%	92.6%	123.7%	89.9%	98.9%	100.0%

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%

Overview

MS AISE written premium increased by €84.8 million. The underwriting result improved by €28.8 million to a breakeven position with corresponding combined ratio of 100.0% (2019: 105.0%).

Gross written premium of €855.3 million equates to a growth of 11.0% or €84.8 million mainly driven by new business (€106.7 million), healthy retention rate of 84.7% (2019: 84%) and positive renewal rate of 5.3% (2019: 2.8%).

Net written premium of €700.5 million increased by €107.2 million or 18.1% with associated cost for reinsurance equating to 18.1% of gross income (2019: 23.0%).

Net claims, without the impact of the equalisation reserve, of €381.7 million are €21.7 million higher than 2019 (€360.0 million), in large driven by €70.4 million COVID-19 claim costs. As a consequence of additional premiums in respect of prior year there were also additional claims which resulted in a net movement of €8.3 million prior accident year claims worsening (2019: €4.0 million loss), partly offset by current accident year improvements leading to a corresponding claims ratio of 58.5% (2019: 64.9%).

Furthermore, there is an impact from 2020 movements on the BEGAAP equalisation reserve for catastrophes. The recalculated reserves at 31 December 2020 resulted into release and thus additional profit of €1.6 million.

Incurred expenses of €269.2 million are €37.0 million higher than 2019 and translates into an expense ratio of 41.5% (2019: 40.1%). Increased acquisition costs, mainly in Marine, as result of reducing reinsurance overrider commission, and higher operational expenses partly offset by income growth led to an increase of the expense ratio by 1.4%.

Motor vehicle liability and other motor insurance

The MS AISE motor business written premium increased in 2020 from €125.8 million to €167.0 million (€41.3 million or 32.8% increase) mainly across the Netherlands and the United Kingdom, primarily driven by new business, high retention rate (88.7%) and high renewal rate (5.8%).

The underwriting result in 2020 was a €8.4 million profit compared to a €9.5 million profit in 2019. This is mainly explained by a higher expense ratio compared to 2019 (9.8% increase) offset by decrease in claims ratio of 7.7% from 61.9% in 2019 to 54.2% in 2020.

Marine, aviation and transport insurance

The marine, aviation and transport insurance business in MS AISE showed a €23.6 million or 8.8% increase in written premium in 2020 from €267.5 million to €291.1 million. Majority of the growth is realised in yacht, fixed premium protection and indemnity classes and cargo, primarily driven by positive renewal rate of 8.0% and high retention of 87.1% (2019: 83.2%).

Result for the period is an underwriting profit of €14.6 million compared to €12.2 million loss in 2019. Cost of reinsurance reduces in 2020 to 20.2% (2019: 32.7%) and increases net earned premium to €198.4 million which is €31.7 million (or 19.0%) higher than 2019. An increase in net retention is noted as a result of the revised terms and conditions of the quota share reinsurance arrangements.

Net claims of €88.6 million are €7.6 million lower than 2019 (€96.2 million) or a decrease in the claims ratio of 13.0% from 57.7% in 2019 to 44.7% in 2020, in large driven by current and prior year claims improvements offset by €19 million COVID-19 claim costs.

Fire and other damage to property insurance

The property business of MS AISE showed an increase in premium during 2020. Gross written premium grew by €5.3 million or 2.9% in 2020, mainly driven by new business in Belgium and France as well as rate increases in Netherlands (+16.2%). The overall retention rate for the reporting year adds up to 76.0% (2019: 81.8%), reflecting continued re-underwriting.

The underwriting result in 2020 improved compared to 2019 despite €34.6 million COVID-19 claim costs (from €43.2 million loss to €36.5 million loss). Net earned premium in 2020 is €154.2 million which is €8.2 million higher than 2019 mainly as result of higher gross income. Net claims are €129.8 million which is €1.1 million more than 2019 predominantly driven by COVID-19 claim costs and prior year claims worsening, partly offset by current year claims improvement as result of benign large claims.

The 2020 allocation of the BEGAAP equalisation reserve deteriorated the underwriting result by €1.5 million (2019: €3.9 million loss).

General liability insurance

In 2020, the casualty portfolio in MS AISE increased by 14.0% (or €18.7 million) with gross written premium of €152.8 million compared to €134.0 million in 2019. The retention ratio remained high at 86.2% (2019: 89.6%) coupled with renewal of long term agreements in 2020 and new business.

The underwriting result in 2020 is a profit of €13.2 million which is in line with last year (2019: €12.9 million profit). Net claims of €75.2 million are €22.2 million higher than 2019, driven by COVID-19 claim costs and prior year claims worsening offset by current year claims improvement as result of benign large claims.

Furthermore, in 2020, a release on the BEGAAP equalisation reserve was booked, amounting up to €3.1 million for general liability insurance.

Underwriting performance by material geographical area

2020	Belgium €'000	Netherlands €'000	UK €'000	France €'000	Other €'000	Total €'000
Gross written premium	172,518	390,876	142,763	137,992	11,148	855,297
Net written premium	134,454	308,169	132,237	116,309	9,351	700,520
Net earned premium	124,213	298,980	96,748	114,692	14,623	649,257
Net claims	(83,435)	(163,372)	(61,788)	(68,145)	(4,931)	(381,672)
Equalisation reserve	(705)	3,018	(427)	(39)	(230)	1,617
Incurred expenses	(41,197)	(135,192)	(43,878)	(42,794)	(6,165)	(269,226)
Underwriting result	**(1,124)**	**3,435**	**(9,345)**	**3,714**	**3,297**	**(23)**
Claims ratio	67.7%	53.6%	64.3%	59.4%	35.3%	58.5%
Expenses ratio	33.2%	45.2%	45.4%	37.3%	42.2%	41.5%
Combined ratio	100.9%	98.9%	109.7%	96.8%	77.5%	100.0%

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%

Compared to last year, the underwriting performance of the Netherlands and France have improved by respectively €11.7 million and €25.1 million whereas United Kingdom and Belgium showed lower performance respectively €13.1 million and €3.5 million.

Belgium

In 2020, the income decreased by 11.7% (or €22.9 million) with gross written premium of €172.5 million compared to €195.4 million in 2019. The underwriting result in 2020 was a €1.1 million loss compared to a €2.4 million profit in 2019. This is mainly explained by a higher claims ratio compared to 2019 (8.4% increase) in large driven by COVID-19 claims.

Netherlands

The Netherlands business of MS AISE showed a decrease in premium during 2020. Gross written premium reduced by €13.8 million or 3.4% in 2020. The underwriting result in 2020 was a €3.4 million profit compared to a €8.2 million loss in 2019. Net claims of €163.4 million are €33.1 million lower than 2019 across both Property & Casualty and Marine segments.

United Kingdom

The United Kingdom showed an €89.2 million or 166.3% increase in written premium from €53.6 million to €142.8 million, predominantly in the Marine segment. The underwriting result in 2020 was a €9.3 million loss compared to a €3.7 million profit in 2019, in large driven by COVID-19 claims.

France

In 2020, France income increased by 34.1% (or €35.1 million) with gross written premium of €138.0 million compared to €102.9 million in 2019. The underwriting result in 2020 returns to a €3.7 million profit compared to a €21.4 million loss in 2019 which suffered from exceptional large loss volatility.

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 by relevant asset class.

	2020 €'000	2019 €'000
Equities	5,700	10,317
Collective Investment Undertakings	9,487	19,021
Cash and deposits	221	87
Total	**15,408**	**29,424**

2020 provided positive investments returns which given the backdrop of a global pandemic that led to widespread and significant economic shutdowns is quite remarkable. Timely and unprecedented government and central bank support provided to the major global economies made this outcome possible. The overall full year investment return was €15.4 million.

Allocations to equities and fixed income securities both produced positive returns as central banks cut interest rates and purchased fixed income securities, driving down yields and encouraging investors to take additional risk in the shape of equities.

2021 is expected to be a more volatile year from an investment perspective as vaccine rollouts allow economies to reopen and government support packages are reduced. Markets are closely monitored for the opportunities that this volatility may provide and there is cautiously optimistic view from a return perspective.

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 ('MS AIML') directly or by outsourced managers, on a segregated, pooled or commingled basis. Manager selection is based on a range of criteria which leads to the expectation that value will be added 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, which ensure that compliance with the investment frameworks is guaranteed. 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.

The BEGAAP investment return equals €23.5 million and is €8.1 million higher than the IFRS return, primarily driven by the net unrealised results, not being recognized under BEGAAP and representing a loss for IFRS over the reporting year. Furthermore, the impairment testing performed on the financial assets, according to BEGAAP principles, resulted in a release of €1.3 million on the impairment provision and increases the BEGAAP investment return at 31 December 2020. 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 3% of the Company's 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 €0.6 million annually and will be amended on 31 December 2022. The rent is yearly adjusted for inflation.
- Brussels is €0.7 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 (termination costs of €0.2m).
- Paris and Lyon are €1.3 million annually and is yearly adjusted for inflation. The contract of the Paris office ends 28 February 2025 and has an early termination option per 28 February 2022 (termination costs of €0.1m). The lease contract of the Lyon office ends 2 April 2026 and has an early termination option per 2 April 2023.

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 €0.2 million rent income over the reporting period.

MS AISE also leases various cars under operating lease agreements.

In total for reporting year 2020, MS AISE incurred €3.4 million for lease and rental expenses (2019: €3.6 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 it is a wholly owned subsidiary of MSI. As from 2020 onwards, as explained earlier, MS AISE's immediate parent changed from MS Amlin Limited to MSI. MS AISE therefore operates 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 its parent 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 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 several committees, to which it delegates oversight and decision-making powers in accordance with documented Bylaws. These are described in more detail later in this section.

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 organisational 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 Bylaws. These Bylaws 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
Independent Non-Executive	Chair of the Board and Chair of the Remuneration and Nomination Committee
Independent Non-Executive	Chair of the Audit Committee

Executive / Non-Executive Director	Role
Independent Non-Executive	Chair of the Risk Committee and Investment Governance Committee
Independent Non-Executive	Chair of the Underwriting Oversight Committee
Independent Non-Executive	Independent Non-Executive Director
Non-Executives	Shareholder representatives
Executive	Chief Executive Officer
Executive	Chief Finance Officer
Executive	Chief Risk Officer

Segregation of responsibilities within the MS AISE Board

The Bylaws 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 Bylaws 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 / Chair	Chief Executive Officer*
Executive Director	Chief Finance Officer
Executive Director	Chief Risk Officer
Committee member	Chief Underwriting Officer Marine
Committee member	Chief Underwriting Officer Property & Casualty*
Committee member	Head of Claims
Committee member	Chief Operating Officer
Committee member	Head of Underwriting Management [until July 2020]

*) The CEO was also a.i. acting as Chief Underwriting Officer Property & Casualty from January until May 2020.

Its remit is determined by the Bylaws and includes operationalising the strategy, risk management, administrative and accounting procedures, internal controls and integrity policy. The Management Committee also introduces, monitors and assesses the organisational and operational structure as well as providing financial, management 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 Bylaws and includes financial reporting and Solvency II reporting matters, as well as 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 Bylaws and includes risk management issues and solvency capital requirements as well as issues pertaining to regulatory compliance.

The Remuneration and Nomination Committee

The MS AISE Remuneration and Nomination Committee meets at least quarterly. Its membership is composed of the independent Non-Executive Directors, including a representative of the shareholder. The Committee is chaired by the Chair of the Board. Its remit is determined by the Bylaws and leads the process for appointments to the MS AISE Board, Management Committee, independent control functions and Solvency II identified staff. It advises the Board on the Company's remuneration policy and remunerations for Solvency II identified staff.

The Underwriting Oversight Committee

The Underwriting Oversight Committee ('UOC') meets at least four times a year. The Committee membership is composed of independent Non-Executive Directors. Its remit is determined by the relevant Bylaws. 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 Investment Governance Committee – as from 2020

The Investment Governance Committee ('IGC') meets at least four time a year. Its membership is composed of at least both Non-Executive and Executive members of the Board. The Chair is a Non-Executive Director. Its remit is to assist the MS AISE Board in discharging the responsibilities it has in relation to the Investment Management function ('IM'). The IGC has oversight of IM and the delegation of investment management to it by MS AISE. The IGC oversight will consider all IM's major activities taking into account its overall strategy, future plans and other internal information, as well as external environment including economic, political and industry information. The IGC will satisfy itself that materials and information it is provided with are sufficient, objective and are enough to enable the MS AISE Board to satisfy itself that investment management has been effectively delegated to IM.

Reporting to the MS AISE Board and its Committees

Monthly and quarterly management information reports are tabled for discussion, reviewed, and challenged at the Board and its Committees' meetings, including Management 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.

Roles and responsibilities of key functions

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 of the SFCR.	Chief Risk Officer	Chief Executive Officer	Chief Risk Officer

Key function	Main responsibilities	Key function holder	Reports to	MS AISE Board responsibility
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 Chair)	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.	Chief Actuary	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.	Chief Compliance Officer	Chief Risk Officer	Chief Risk Officer

The assurance functions are adequately resourced and are staffed by appropriately qualified, skilled and experienced individuals. The assurance functions are authorised and empowered to operate within their agreed terms of reference/charters. The 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 Chief Actuary and the Chief Compliance Officer 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 explicitly defines the roles and responsibilities of all staff across MS AISE based on 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.

Information systems

Management reporting is performed through the MS AISE Management Committee and ultimately to the MS AISE Board, giving them oversight of the management information containing underwriting, finance, risk, human resources, investments, actuarial and internal control. This reporting forms part of the

Company's ORSA process with information contributing to both risk management and capital related decisions.

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 measures 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 Management 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 2020. MS AISE's Internal Control Framework 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 MS AISE's 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 Policies and Standards Framework that articulates the roles, responsibilities and activities that staff must fulfil in relation to these policies and standards. 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 Company's and its parent's vision, objectives and strategy – including the Company's risk profile and risk management practices. The MS AISE Remuneration Standard was approved by the MS AISE Board.

By achieving this, 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 AISE Renumeration and Nomination 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 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 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.

Without prejudice to the foregoing, reward arrangements and practices are designed, implemented and maintained by 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 (considering 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, equitable and free from bias on grounds of gender, ethnic origin, nationality, religious beliefs, disability or any other legally protected characteristics.

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;
- The variable component of remuneration is based on a combination of MS AISE's performance, 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. It is 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 the remuneration setting include the degree of employee alignment with role specific competencies, corporate values 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 controls, 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 for 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

As indicated before, on 19 November 2019 Mitsui Sumitomo Insurance Co. Limited (‘MSI’) announced a reorganisation of its international division and a change in control was prepared. With effect as from 1 January 2020, MS Amlin Limited was removed as direct parent and the Company became a wholly owned subsidiary of MSI.

Shared business services across the former MS Amlin entities are provided by MS Amlin Business Services (‘ABS’), which is the trading name of the company MS Amlin Corporate Services Limited (‘MS ACS’). ABS acts as a centre of excellence and provides specialised services to the MS Amlin entities, including MS AISE.

A major area of focus during the year, and as a result of the reorganisation mentioned above, has been the transferral of various functional teams and their services into MS AISE which were previously outsourced to the internal service companies (such as MS ACS) in the United Kingdom. This has been labelled as project Aqua. A significant part of this project was completed by the end of 2020 with the formal transfer of a first wave of functions. The project continues into 2021, where the second wave of functions is expected to transition by the end of the second quarter.

There were no other material changes to the system of governance during the reporting period.

B.1.4 Material transactions

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 above.

On 31 March 2020, MS Amlin Limited assigned all rights and interest of the subordinated loans to MS ACS. As a result of this transfer, the different subordinated liabilities were repackaged into one outstanding subordinated loan issued by MS ACS to MS AISE.

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 adequately managed and controlled. MS AISE's expectations in relation to fitness and propriety are set out in the Fit & Proper 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, within the overall appetite of the parent, 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, including exposures and concentration, and calculation of internal capital requirements.

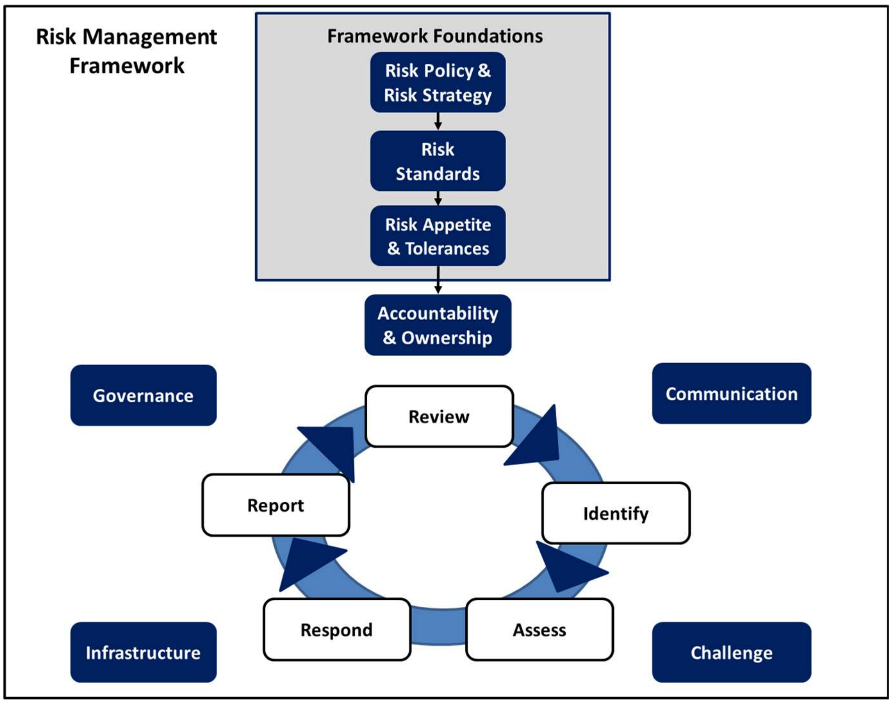
The Risk function oversees the process, governance and validation of the Internal Model and is responsible for ensuring the model is appropriately governed and utilised. The actuarial capital modelling team is responsible for the day-to-day management of the model including the calculation kernel, model parameterisation, economic simulator generator, catastrophe models and operational risk input. In 2020 the ownership of the Internal Model was transferred to the CFO.

The next table presents the use of the standard formula and Internal Model within the Company during 2020. 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, as presented below, 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 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 to 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 dedicated Enterprise Risk Management and Risk Assurance and Monitoring resources which 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, 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, Risk Management Framework Overview, three lines of defence framework 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 approaches where possible.

Each of these risk categories is further broken down in risks as maintained in the entity specific risk register and are owned by a Management Committee member with appropriate expertise and authority to manage the risk on a day-to-day basis.

Risk category / Risk owner	Definition	Scope	Paragraph in section C
Insurance risk / CEO, CUOs, CFO, Head of Claims	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, pricing, delegated authority, product and conduct, 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 / CEO, COO, CFO, Head of Claims	Risk from inadequate or failed internal processes, people and systems, or from external events.	Systems, cyber, information security and technology, business interruption, outsourcing, data, 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 (except for strategic risk) 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 in scope of each of the above categories are captured in an entity specific risk register that supports 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 risks, 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 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, including underwriting management (first line of defence).

This risk management process can be summarised via the below activities. These are performed in cooperation with the 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 is approved by the MS AISE Board.
- Risk Appetite Statements are translated into measurable tolerances and indicators if value adding. Management is accountable for managing levels of risk within the allocated limits. Exposure versus limits 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 potential impact of future developments is assessed 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 mitigating 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's effectiveness in managing risk exposure is done by the Risk function to MS AISE's Management Committee and Risk Committee on a regular basis.

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 to the MS AISE Management Committee to give opportunity for concluding 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 Management Committee, 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.

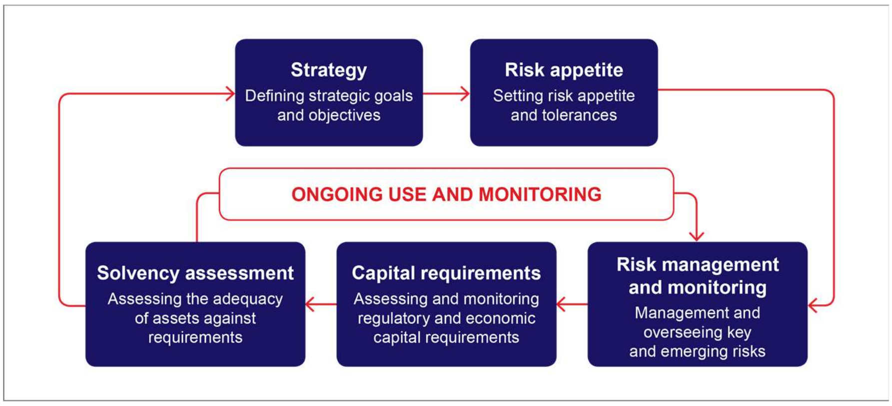
The last full iteration of the ORSA process concluded with the presentation of the annual ORSA report to the MS AISE Management Committee, Risk Committee and Board in September 2020. A copy of the report was shared with the NBB.

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 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 on a quarterly basis as well as 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 takes into consideration risk, capital and solvency implications. The development of the business plan against these considerations is monitored during the year to ensure that 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 determine solvency requirements via the Internal Model and standard formula. Capital requirements are assessed versus actual own funds and consider the capital management ranges and intervention points 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. It also considers how MS AISE's solvency needs are impacted by changes in these risks. Forward looking forecasting is conducted using a selection of stress and sensitivity tests which are challenged in the Management Committee, 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. It considers 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. It is designed to ascertain that sufficient own funds, necessary to meet the solvency requirements, are held 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.

Stress, scenario and sensitivity testing framework

MS AISE has an established stress, scenario and sensitivity testing framework to assess its risk profile. Testing is based 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. The stress and scenario analyses combine multiple risks and risk categories.

For the design of the 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.

The analyses can be grouped in five categories as presented in the 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 at a single point in time.	Business planning, ORSA	100% annually with a quarterly update of the most material scenarios.
Sensitivity analysis	Assessment of standardised and severe change in single or multiple parameter(s) at a single point in time.	Business planning, ORSA Internal Model validation	Multiple times on different occasions.
Stress testing	Assessment of standardised and severe change in single or multiple parameter(s) during one year.	Business planning, ORSA, Internal Model validation	Multiple times on different occasions.
Scenario analysis	Assessment of standardised and severe change in single or multiple parameter(s) during multiple years.	Business planning, ORSA, Internal Model validation	Multiple times on different occasions.
Reverse stress testing	Single or multiple parameters to stress risk of discontinuity of business activities.	ORSA, 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 2020.

MS AISE's Internal Control Framework is derived from the former MS Amlin Group Internal Control Framework. The framework was developed in consultation with the Internal Audit, Compliance, Actuarial and Risk functions and is based on a set of core principles (control environment, risk assessment, control activities, information, communication, monitoring and testing), references to MS AISE's 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 2020, 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 combination of a local MS AISE team and a MS ABS team. It 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 2020.

J-SOX

MS&AD, the ultimate parent company, is required to comply with the requirements in the Financial Instruments and Exchange Act (known as 'J-SOX'). As MS AISE is part of the MS&AD group, it is in scope for J-SOX attestation as well.

J-SOX requires MS AISE's management to evaluate and report annually on the effectiveness of Internal Controls over Financial Reporting ('ICOFR') and to report the evaluation results in an Internal Controls report (known as management's internal J-SOX attestation) to MSI by May 2021. Management has appointed the Internal Audit function to perform an evaluation of the ICOFR and will rely on their work for the attestation.

B.4.2 Compliance function

The Compliance function operates on the basis of a Charter with a dedicated Chief Compliance Officer 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 Bylaws. 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 annually reviews the Compliance Management System.

The Charter sets out the Compliance function's responsibilities, reporting lines and rights to perform its duties unimpeded by management. The Charter is approved by the Risk Committee and reviewed 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 Charter.

The Charter is supported by the Compliance strategy and describes the role of the Compliance function as being to provide assurance to the Management Committee and Board of compliance with regulatory requirements, associated laws and relevant policies. These policies are adjusted to local regulations in the countries where MS AISE operates if necessary. The Compliance function has six key responsibilities to support its objective:

- Establish – identifying stakeholders, integrity risks, determining the scope and establishing the Compliance Management System and Compliance Policy;
- Develop – identifying compliance obligations and evaluating integrity risks;
- Implement – planning to address integrity risks, achieve objectives and design and implement controls to protect MS AISE from identified risks, including awareness and training;
- Evaluate – evaluate, monitor and report on the effectiveness of these controls;
- Improve – managing compliance issues if and when they occur as well as continuous improvement;
- Maintain – advise the business 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 Chief Compliance Officer 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 Company's 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. The findings 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 in the Integrity Risk 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.

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 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 periodically that they have read each of the policies and standards that are relevant to their role.

Corporate Values

MS AISE has adopted and implemented Corporate Values which are as follows:

- Client understanding – put ourselves in our clients' shoes;
- Respecting each other – create the space for people to have a voice;
- Probity – doing the right thing by behaving morally and ethically;
- Kaizen – continuously looking for areas to improve;
- One MS Amlin – collaboration for the collective interest; and
- Courage to challenge – free to question the status quo.

Compliance with Solvency II

In accordance with the Charter, the Compliance function has advised the MS AISE Board on a number of issues relating to Solvency II in 2020. These included capital management, fitness, propriety requirements for individuals, outsourcing and submissions required by the Belgian Solvency II Law and other regulatory approvals.

B.5 Internal Audit function

As from 1 January 2020, 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 MS AISE CEO ('contact person'/'person relais'). The MS AISE Board has delegated its responsibility for overseeing the Internal Audit activity to the MS AISE Audit Committee ('MS AISE AC').

The Chief Internal Auditor ('CIA') of MS ACS is responsible for overseeing and managing the MS ACS Internal Audit function, a shared services provider to MS AISE. The CIA attends the MS AISE AC and reports inter-alia, on planned audit work, recent audits completed and any other matters as directed by the MS AISE Board and/or the MS AISE AC. An annual audit plan is prepared each year during the fourth quarter, which is approved by the MS AISE AC. The audit plan includes MS AISE's marine activities being managed via the cover holder MS AM. Audits might focus on MS AISE as a legal entity, on a specific location, or on MS ACS shared services where these impact MS AISE.

The Internal Audit plan is developed using a risk-based methodology, including input from senior management and the MS AISE Board and/or the MS AISE AC. Internal Audit reviews and adjusts the plan, as necessary, in response to changes in the organisation's business, strategies, risks, operations, programmes, systems, and controls. The CIA communicates the impact of resource limitations and significant interim changes to the MS AISE Board and/or the MS AISE AC and other stakeholders as deemed applicable.

Internal Audit 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 AISE's strategic and operational objectives. Internal Audit also examines the quality of performance in carrying out assigned responsibilities. This is 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 AISE's operations or reputation;
- Display of and adherence to MS AISE's values and culture;
- Safe custody of assets; and
- Effective and efficient use of resources.

There is specific emphasis on:

- The design and operational effectiveness of governance structures and control processes, including strategic and operational decision making information presented to the MS AISE 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;
    - 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, outsourcing decisions and acquisitions/divestments.

The key responsibilities of Internal Audit are to:

- Develop and maintain a risk-based audit plan that takes account of emerging risks, significant corporate events, strategic changes, regulatory themes and areas of control concerns;
- 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 the Company by ensuring there is appropriate audit coverage across all areas;
- 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 AISE 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, Internal Audit will ordinarily provide an opinion on the strength of the control framework in operation within the subject area covered by an audit. Internal Audit 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 Internal Audit's ability to deliver on its primary objectives.

The MS AISE Audit Committee:

- Approves the Internal Audit Charter;
- Approves the risk-based Internal Audit plan;
- Approves the Internal Audit budget;
- Approves decisions regarding the appointment and removal of the CIA in consultation with MSI Internal Audit ('MSI IA');
- 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 Internal Audit Charter as such approvals are only required when it is revised. Internal Audit has the right to attend and observe all or part of the MS AISE Board meetings, MS AISE Management Committee meetings and any other key management decision making fora. The CIA operates at a sufficiently senior level within the organisation to provide 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 MS AISE Chief Risk Officer 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. 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 holder 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:** There is also a central reserving team, employed by sister entity MS ACS, which provides oversight and peer review of the reserving process. This team is based in London and reports to the MS ABS Chief Actuary.

  The Actuarial function holder uses the findings of the central team when forming 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 internal model and interprets the results. 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 sister entities MS AUL and MS Amlin AG, but not yet for MS AISE. The capital modelling team is also based in London and reports to the MS AISE CFO.

  The Actuarial function holder 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. The team is located at MS AISE.

  The Actuarial function holder 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:

- Review the planning and coordination of 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 programme, especially when the programme is being negotiated for the next year. This review includes the credit rating of the reinsurers. The base for these discussions will be the Actuarial function report on reinsurance.
- Determine the sufficiency of the premium setting, considering 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 be shared directly with the relevant stakeholders and included in the Actuarial function report on underwriting.
- Validate the capital models, being the regulatory standard formula or the Internal Model, and provide advice to management which improvements should be made. This includes reviewing the completeness and consistency of the model, the statistical soundness, the data quality of the inputs, the available documentation and the quality of the expert judgments.
- 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 the function holder, who is knowledgeable on the relevant actuarial techniques and the wider organisation. The function holder will be assisted by two team members, who will focus on underwriting, reinsurance/credit risk and validation. At the moment a search is underway to fill in these vacancies. 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 must 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

The MS AISE Outsourcing Policy and Outsourcing Standard documents (together the ‘Policy’) outline 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, MS AISE. The test as to what is ‘critical or important’ is if any defect or failure in the outsourcing performance would materially impair the Company’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 ongoing basis;
- Conduct the minimum standards of due diligence for material outsourcing as defined in the Policy 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 Chief Compliance Officer 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 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 policyholders remain protected.

Implementation, monitoring and management of the outsourcing

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

- The reporting on an agreed basis and in an agreed manner sufficient to meet the Company's responsibilities;
- A register kept of all MS AISE's material outsourcing arrangements and the supported entities for each agreement which is provided to the Procurement function 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

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 has adequate contingency plans to deal with emergency situations or business disruptions. MS AISE must comply with its 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. 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 Board.

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 MSI sister entity – 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 (€1,136.2 million of €1,370.6 million) with the Toro Prism Trust (the 'Trust'). The Trust has other investors from within the MSI 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 MSI sister entity, MS Amlin Investment Management Limited ('MS AIML') as the Headline Portfolio Manager of the Trust. MS AIML 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'). MS AIML 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 €126.5 million and €94.1 million of its assets respectively.

Centralised support functions

MS ACS provides services from its personnel to MS AISE and other MSI 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 Committee 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 2020 the service-level agreements ('SLAs') between MS ACS and MS AISE have been updated as part of the reorganisation explained in section B.1.3 and the quality of the services delivered was monitored both at MS ACS level as well as at MS AISE level through the MS AISE Operations Committee and performance information provided to the MS AISE Board and Management Committee. The SLAs are accompanied by a Master Services Agreement (intra-group), that provides the overall contractual framework for the outsourcing relationship.

As from 1 January 2020, a new service agreement has been 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.

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, activities and the jurisdiction 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
Catastrophe modelling analytical services	United Kingdom
Internal outsourcing	
MS Amlin Marine service provider acting as delegated underwriting authority for Marine products	The Netherlands
MS ACS as headline investment portfolio manager	United Kingdom
MS ACS providing personnel and infrastructure services	United Kingdom
MS ACS providing internal audit services	United Kingdom
MS ACS providing underwriting management services including catastrophe modelling, outwards reinsurance and technical pricing.	United Kingdom
MS ACS providing claims services (for UK branch)	United Kingdom
MS ACS providing certain risk and compliance services such as compliance monitoring, data protection office and credit risk management	United Kingdom
MS ACS providing actuarial services including capital modelling and DFA	United Kingdom

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

B.8 Any other information

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

Section C - Risk Profile

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 no 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 considering the reduction 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 presented exposures and concentrations in this section are 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 do follow a standardised pattern. For each category at least the following measures 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 several 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 and fits the Company's overall strategy for profitable growth 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 reserves (technical provisions under Solvency II) 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 are carried above the actuarial best estimate of future outcomes by adding a risk management margin under IFRS and BEGAAP principles. 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, motor 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; and
- 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 2019 and 2020 based on the stochastic Internal Model. Exposures are modelled using volatility around expected claims included in business planning.

2020 rank	Class	2019 rank	Class
1	Marine – Cargo	1	NL Property – Fire
2	FR Property – Non-Binder	2	FR Property – Excess & Surplus
3	BE Property – Fire	3	BE Property – Fire
4	Marine – Yacht	4	FR Property – Specialty
5	NL Property – Fire	5	Marine – Cargo

Similar to prior years, underwriting risk is dominated by property classes which tend to have bigger exposures with regard to line size. These 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. The new FR Non-Binder class in the ranking table is a combination of FR Property – E&S and FR Property – Specialty elements. It therefore takes the place of FR Property – Excess and Surplus in the ranking table for 2019, whilst Specialty premium is removed from the model and so does not appear at all. Furthermore, Marine Cargo and Yacht have seen significant growth due to calibration of the parameters which resulted in larger claims volatility. In combination with the revised terms and conditions of the quota share reinsurance arrangements, this has led to a higher ranking for both Marine classes.

Scenario, stress and sensitivity testing

Specific sensitivity analyses performed for underwriting risk are, on the one hand, Realistic Disaster Scenarios and, on the other hand, 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 2020 and 2021. Data is presented including reinsurance recoveries and reinstatement premiums (net losses). Exposures as per 1 January are used to reflect positions against the reinsurance programme for the coming year.

Event	Jan 2021 €'000	Event	Jan 2020 €'000
EU Cyber Blackout	27,785	EU Windstorm – France, Belgium, Netherlands	21,519
EU Windstorm – France, Belgium, Netherlands	25,936	EU Windstorm – Paris Munich	19,864
EU Windstorm – UK Europe	20,981	EU Windstorm – Bordeaux Munich	18,860
EU Windstorm – Bordeaux Munich	23,386	EU Windstorm – UK Europe	17,184
EU Windstorm – Paris Munich	18,443	EU Cyber Silent Scenario	14,901

The table above shows an approximate standalone impact from each event on profitability. All net modelled losses are within tolerance. Furthermore, the increase in modelled cyber exposure is due to a combination of an increase in exposure at the French casualty classes, better data capture as well as changes in the reinsurance programmes.

It should be noted that the RDS does not consider 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 planning assumptions, shaping tolerances and to assess capital adequacy. The following selection of tests has been made from the tests completed in 2020 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 2020	550,832	408,962	134.7%
1	20% less gross premiums received than plan	(14,276)	(18,593)	2.8%
2	10% deterioration in net loss ratio from plan	(53,063)	5,639	(14.6%)
3	20% less gross premiums received than plan, and 10% increase in net loss ratio from plan	(61,082)	(12,890)	(11.0%)
4	20% less gross premiums received than plan, and 20% increase in net loss ratio from plan	(107,887)	(7,132)	(24.5%)

The results of the RDS and stress tests are compared with MS AISE's risk appetite and operating capital range as outlined in MS AISE's Capital Management Policy. Based on these analyses the current capital position is considered adequate. On a continuous basis MS AISE's capital position is monitored and 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, as owned by the first line, 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 programme (using stochastic modelling). Furthermore, there are underwriting authority limits and guidelines for individual underwriters in place;
- *Reinsurance* – A key 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. 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. This framework will be reviewed during 2021.

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 take for some claims to mature. As a result of its 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 2019 and 2020.

2020 rank	Class	2019 rank	Class
1	NL Liability – General Third Party Liability	1	NL Liability – General Third Party Liability
2	BE Liability – Non-Medical	2	BE Liability – Medical
3	BE Liability – Medical	3	BE Liability – Non-Medical
4	NL Liability – PI	4	NL Liability – PI
5	Marine – Ocean Hull	5	Marine – Ocean Hull

Primary classes driving exposure is casualty due to the longer term in which claims are settled compared to the property business. Compared to last year the ranking has remained fairly stable. During the calibration process BE Liability – Medical experienced a reduction in volatility, reflecting a better alignment in the risk profiles of BE Liability – Medical and Non-Medical, while the volatility of the non-medical class remained fairly stable over the period, which is driving their switch in risk ranking from 2019 to 2020.

Stress and sensitivity testing

For reserving risk stress and sensitivity analysis are performed. The following selection of tests has been made from the tests completed in 2020 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 2020	550,832	408,962	134.7%
1	10% reserve deterioration of total carried best estimate reserves	(58,636)	12,769	(18.0%)
2	10% reserve improvement of total carried best estimate reserves	58,636	(12,473)	19.0%

The results of the scenario analyses are compared with MS AISE's risk appetite and operating capital range as outlined in MS AISE's Capital Management Policy. Based on these analyses current capital position is considered adequate. On a continuous basis MS AISE's capital position is monitored and 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 business class, 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 for 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, investment 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, namely investment market volatility, foreign exchange and investment counterparty risk.

Investment market volatility risk

This is the risk of loss resulting from fluctuations or volatility of investment 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 programme ('EHP') which is a systematic stop-loss programme. Investments are limited by the liquidity requirements of meeting claims as these become payable.

Foreign exchange risk

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 due to a change in the value of assets resulting from investment counterparties default, credit rating downgrade or a change in spread over the risk free rate accounted for the counterparties. 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 investment strategy. Undertakings should only conduct investment management activities as long as it can be reasonably demonstrated that there is 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 AIML is responsible for the day-to-day management of MS AISE's investments and operates within the Investment Governance Framework and the Investment Policy, Standards and Investment Guidelines. MS AIML only invests in assets and instruments whose risks can be identified, measured,

[1] MS AIML uses VaR below expected return as standard VaR measure.

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 risk

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. It is managed to tolerances that prohibit excessive market and credit risk concentrations.

MS AISE's asset allocation as at 31 December 2019 and 2020 is presented below per asset class based on a Solvency II basis. Allocations are 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.

	2020		2019	
	€'000	%	€'000	%
Collective investment undertakings (excl. property)*	1,136,210	80%	1,088,965	79%
Property*	104,751	7%	104,503	8%
Equities*	126,525	9%	107,173	8%
Derivatives*	13,765	1%	2,280	0%
Cash and deposits	36,807	3%	74,728	5%
Total assets invested	1,418,058	100%	1,377,649	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 7.0% 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 2020. The sensitivities solely include the impact on available capital. 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 2020	550,832	408,962	134.7%
1	50% less investment income than plan	(6,160)	-	(1.5%)
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.	(12,320)	-	(3.0%)
3	Repeat of Financial Crisis: severe market decline and general instability resulting in an investment loss of €61m.	(47,740)	-	(11.7%)

Sensitivity test one is modelled as part of annual business planning, whereas the impact of sensitivity tests two and three are modelled on a quarterly basis by MS AIML. 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 operating capital range as outlined in MS AISE's Capital Management Policy. Based on these analyses current capital position is considered adequate. On a continuous basis MS AISE's capital position is monitored and 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* – Investment strategy is aligned to risk appetite, tolerances and indicators. For every asset class there is a maximum exposure and monitoring programme;
- *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 specialized asset classes. Each sub-advisor has discretion to manage the funds on a day-to-day basis within the Investment Guidelines or Mandates. These are designed to ensure that 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 2020 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 increase in USD assets is due to more ceded technical provisions (known as 'reinsurance recoverables') being allocated to USD as well as more reinsurance receivables following several large claims which were covered by reinsurance treaties. The increase in GBP assets and liabilities is driven by more gross and ceded technical provisions being allocated to GBP. Financial assets being held in GBP also increased significantly compared to prior year due to an increase in GBP denominated securities in the Toro Trust.

Value by currency ('000)	2020			2019		
	Total (EUR)	USD	GBP	Total (EUR)	USD	GBP
Total assets	1,671,692	74,541	99,231	1,599,877	30,939	67,113
Total liabilities	1,123,320	52,701	108,281	1,090,568	48,967	70,939

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 no stand-alone sensitivity analyses are being performed. These form part of the wider market risk stress tests in which MS AIML stresses multiple factors using a range of scenarios (like 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.

Stress testing

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

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 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 being 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 MS AIML 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, resulting from deterioration in the financial condition of insurance and reinsurance counterparties (reinsurers and retrocessionaires, insured and reinsured clients, cover holders, brokers). 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.

C.3.1 Risk definition and appetite

Credit risk is divided into three subcategories, i.e. 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 resulting from deterioration in the financial condition of reinsurers and retrocessionaires. 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. The Company aims to limit credit risk in relation to reinsurer balances and potential recoveries by establishing limits for the extent to which such assets could become uncollectible in the event of insolvency or impairment.

Broker credit risk

MS AISE defines broker credit risk as the risk of loss resulting from deterioration in the financial condition of insured and reinsured clients, cover holders and brokers. 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. The Company aims to limit credit risk in relation to debtor balances by establishing limits for the extent to which such assets could become uncollectible in the event of insolvency or impairment.

C.3.2 Reinsurance credit risk

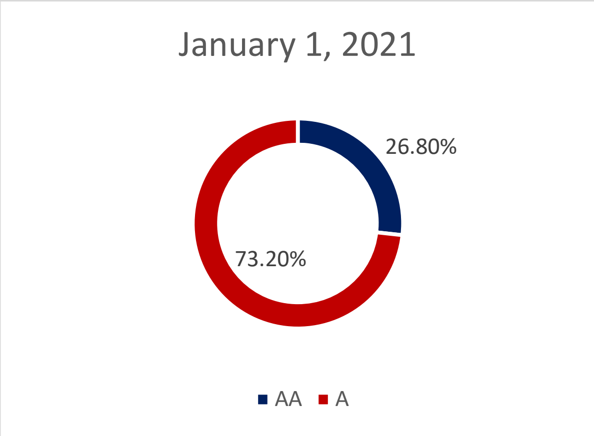
Concentration and exposure

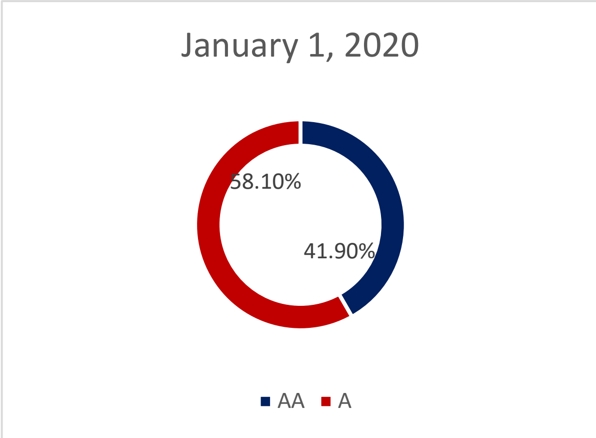
Reinsurance credit risk includes both reinsurers' share of outstanding claims, as well as amounts expected to be recovered on unpaid outstanding claims (including incurred but not reported claims) in respect of earned risks. Reinsurance recoverables by external credit rating according to Standards & Poor's, based on Solvency II valuation principles, due at 31 December 2019 and 2020 are shown in the table below.

	2020		2019	
Reinsurance recoverables	€'000	%	€'000	%
AA	93,410	63.0%	76,838	62.2%
A	9,571	6.5%	27,747	22.5%
BBB	703	0.5%	-	0.0%
Other	44,553	30.1%	19,005	15.4%
Total	**148,237**	**100.0%**	**123,589**	**100.0%**

There are deterministic tolerances applicable 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 2020 and 2021, 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 consider financial performance and trends, not solely performance against benchmark requirements or ratings assigned by external credit rating agencies.

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. RDSs 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 2020. 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 operating capital range as outlined in MS AISE's Capital Management Policy. 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, 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 Reinsurance Security Standard and associated process document;
- *Tolerance, limit setting and performance monitoring* – Within the framework of the Reinsurance Security Committee, the Company seeks to manage and monitor exposures to reinsurance companies by a number of risk tolerances and indicators across the risk category, bearing in mind dependencies on Group purchases of outwards reinsurance;
- *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 a protocol for cross entity (including MS AISE) cost sharing and loss usage considering 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 2020 of insurance receivables by external credit rating according to Standards & Poor's. The table includes credit risk exposures to brokers, cover holders, and policyholders.

	2020		2019	
Insurance and reinsurance receivables	**€'000**	**%**	**€'000**	**%**
AA	12,788	3.9%	4,902	2.0%
A	172,825	53.0%	44,646	18.4%
Other	140,702	43.1%	193,721	79.6%
Total	**326,316**	**100.0%**	**243,269**	**100.0%**

Exposure increased over the year as a consequence of growth in top-line premium during 2020 and, to a far lesser extent, due to payment extensions granted as a result of economic measures taken in the light of the COVID-19 pandemic. 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 several 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 no sensitivity analyses are performed. After managing the Company’s 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* – The Broker Credit Risk Committee is 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 and indicators 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 profits 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 MS AIML. 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 2020 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'), which are calculated by applying Basel II regulatory haircuts, against Solvency Capital Requirements. The results indicate that MS AISE is well funded and positioned to handle multiple loss events before liquidity could become 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 €164.6 million as at 31 December 2020 (2019: €137.5 million) on future expected premiums of €578.4 million (2019: €584.8 million).

Management is aware of the risk of falling short of either the expected profits 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 several offices and jurisdictions and is expected to comply with legal, regulatory and best-practice standards. The risk of execution arises from 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, namely 1) people risk, 2) systems, technology, cyber and information security risk, 3) expense risk, 4) legal and regulatory risk, 5) business interruption, safety and security risk, 6) outsourcing risk, 7) data governance risk, 8) financial reporting risk, 9) capital management risk and 10) project risk. Besides these subcategories operational risks within other risk categories are also taken into account.

MS AISE has a risk averse appetite for operational risk across all categories, except for expense risk and capital management risk where it has a risk neutral appetite, refer to the explanation below. MS AISE does not wish to have any operational failures which may hinder trading, 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, 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, safety and security interruption risk

The Company recognises that business operations are at risk from threats such as natural and manmade disasters, terrorism, pandemics or cyber-attacks. A range of measures to control, transfer and mitigate risk are taken including maintaining robust business continuity arrangements. Business Continuity management arrangements are focused on protecting what are deemed to be business critical activities, by the process owner, from suffering severe interruption. Severe interruption is gauged by the business process owner through the completion of the Business Continuity lifecycle activities and by reference to impact on revenue, customer service, reputation and regulatory compliance as well as any inter-dependencies on other business processes. These are risks the Company has no desire to accept as these should be adequately manageable and have no material contribution to the fulfilment of strategic objectives.

Outsourcing risk

MS AISE has no appetite for having losses arising from actions of third party service providers or intra-group outsourcing arrangements where 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 declarations, or not meeting regulatory deadlines. Misstatements or late reporting could result in reputational damage as well as regulatory sanctions and/or fines which the Company is not willing to accept.

Capital management risk

From a capital management perspective a risk neutral risk appetite is to be adopted. This is driven by the adoption of a risk averse appetite for key risks associated with capital management, such as liquidity, legal and regulatory risk. This is counterbalanced by the need to maintain risk seeking appetites in other key areas such as underwriting risk and strategic risk. Thus, there is a requirement to hold sufficient capital in order to support risk taking, within appropriate limits.

Project risk

There is a risk of failure for delivering the agreed projects portfolio in line with the standards set out in the Change Delivery Framework, for example on time, within budget, within scope and agreeing with intended benefits. This may result in the Company not meeting its strategic objectives due to misdirected investments, incurring unnecessary costs, non-compliance with regulatory requirements or preventing the business from exploiting market opportunities. These risks should be adequately manageable and materialisation of these risks has no contribution to the fulfilment of strategic objectives.

Top 5 operational risk drivers

Risks are identified via periodic engagements with relevant functions and underwriting departments to conclude on current risks and issues, project risks, emerging risks and mitigation adequacy considering all operational risks as described above. Deep dive assessments and other assurance activities also seek to evaluate risks from a thematic perspective. This assessment takes into account financial losses, legal and regulatory implications, reputational damages and business disruption.

The top five modelled operational risk drivers, as presented below, are ranked based on the calculated required capital for operational risk using the Internal Model. It is to be noted that this may neglect specific qualitative risks observed in the operational risk landscape.

2020 rank	Class	2019 rank	Class
1	Expenses exceed plan	1	Expenses exceed plan
2	Change in law affects AISE's business	2	Change in law affects 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

Operational resilience and information security

In addition to evaluating risk drivers via the Internal Model, there is a periodic engagement process with the relevant stakeholders 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 concluded that MS AISE’s systems and process landscape requires further modernisation and digitalisation in order to make processes more efficient. There are funded IT and cyber remediation programmes in place to realise improvements in 2021.

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 occurs. Operational stress tests cover among others office outages, crisis management simulations, breach of competition law and cyber-attacks. Where possible historic internal or external events are utilised to build these 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 2020 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 considers 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 2020	550,832	408,962	134.7%
1	Expenses exceed plan	(9,300)	-	(2.3%)
2	Change in law affects MS AISE's business	(10,500)	-	(2.6%)
3	Underwriter writes unauthorised business	(4,425)	-	(1.1%)
4	Breach of regulatory requirements - sanctions	(11,100)	-	(2.7%)
5	Intermediary default	(3,413)	-	(0.8%)

The results of the sensitivity analyses are compared with MS AISE’s risk appetite and operating capital range as outlined in MS AISE’s Capital Management Policy. Based on these analyses the current capital is considered adequate. On a continuous basis MS AISE’s capital position is monitored and 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 JSOX and Internal Control Framework explain 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 the risk appetite, tolerances and indicators. Tolerances and indicators monitor the scale of operational losses versus modelled operational risk measures calculated in 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/operating segments;
- *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 stakeholders and via thematic deep dive assessments. For identified risks remediation actions are identified and monitored, such as the IT strategy aimed at simplifying and modernising the IT landscape and Cyber Security strategy targeted at improving cyber resilience;
- *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* – MS ACS purchases insurance protection for MS AISE 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 from several factors explained below.

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.

Drivers for political and economic risk are political and economic protectionist movements, 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 that 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 consider 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 consider 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 operating capital range as outlined in MS AISE’s Capital Management Policy. Based on these analyses the current capital position is considered adequate.

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 also include consider the strategy requirements of the MS&AD Group, including capital needs, 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 and 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 while risk acceptance is undertaken within a controlled manner considering capital constraints and the cost of capital;
- *Capital management* - Aggregate risk exposure is continuously monitored against available capital, and action 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 2020 €'000	SII balance sheet 2019 €'000
Cash and cash equivalents	1	26,993	479	27,472	9,335	-	36,807	74,728
Investments (incl. participations)	2	1,302,955	56,904	1,359,859	10,777	-	1,370,636	1,302,921
Reinsurers' recoverables	3	328,436	20,661	349,097	-	(200,860)	148,237	123,589
Insurance, reinsurance and intermediaries receivables	4	368,968	(42,652)	326,316	-	(284,259)	42,056	24,807
Receivables (trade, not insurance)	5	50,988	(2,867)	48,120	(7,010)	(1,224)	39,886	41,109
Deferred acquisition costs	6	-	58,199	58,199	-	(58,199)	-	-
Deferred tax asset	7	-	18,593	18,592	-	4,863	23,455	19,559
Property, plant & equipment held for own use	8	712	9,902	10,615	-	-	10,615	13,164
Goodwill and intangible assets	9	17,942	17,849	35,791	-	(35,791)	-	-
Total Assets		**2,096,995**	**137,068**	**2,234,062**	**13,102**	**(575,472)**	**1,671,692**	**1,599,877**
Total Liabilities		**1,711,852**	**(32,594)**	**1,679,258**	**13,102**	**(569,040)**	**1,123,320**	**1,090,568**
Excess of Assets over Liabilities		**385,143**	**169,661**	**554,804**	**-**	**(6,432)**	**548,372**	**509,309**

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 2020. The 2019 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 valuation difference on the cash and cash equivalents between IFRS and BEGAAP. However, there is slight presentation difference related to the transit account for processing and matching of executed payments. The transit account is presented as insurance and reinsurance receivables under BEGAAP while it has been included as part of the cash position for IFRS.

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 the provision for outstanding claims and unearned premiums. The reinsurers' share of the 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 BEGAAP, these also include the expected receivables from the financial derivatives portfolio while under IFRS these receivables are included in its entirety as part of the derivatives valuation in the investments portfolio.

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; and
- Lease properties.

The IFRS 16 standard determines the valuation and handling of lease contracts. The lease property recognised on the IFRS balance sheet is in accordance with this standard. Under BEGAAP, however, IFRS 16 is not being recognised, which explains the restatement from BEGAAP to IFRS of €9.9 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 there are several reclassifications with the IFRS balance sheet. These reclassifications are presentational in nature, thus do not impact the excess of assets over liabilities balance. These have been summarised in the below table and major reclassifications are further explained after.

	Reported under IFRS €'000	SII re-class €'000	IFRS represented €'000
Cash and cash equivalents	27,472	9,335	36,807
Investments (incl. participations)	1,359,859	10,777	1,370,636
Receivables (trade, not insurance)	48,120	(7,010)	41,110
Payables (trade, not insurance)	(57,113)	(20)	(57,133)
Debts owed to credit institutions	-	(2,176)	(2,176)
Derivative liabilities	(8,816)	(10,926)	(19,742)
Subordinated liabilities	(2,480)	20	(2,460)
Total	**1,367,043**	**(0)**	**1,367,043**

Two major reclassifications on cash and cash equivalents can be identified. On the one hand, there is a receivable of €7.2 million from the Toro Prism Trust (the 'Trust') which is classified as trade receivables on the IFRS balance sheet. 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 €7.2 million reclassification, have been included as cash equivalents on the Solvency II balance sheet. On the other hand, €2.1 million reclass is related to a negative cash balance which is classified as debts owed to credit institutions under Solvency II.

There is also a reclass between the line items investments and derivative liabilities related to the presentation of the derivatives on the Solvency II balance sheet. Cash balances and initial margins are not netted with the derivatives market value under Solvency II.

A minor reclassification item of €0.2 million is highlighted on the payables (trade, not insurance) and subordinated liabilities due to presentation of accrued interest for the subordinated debt. According to the SII Directive, accrued interest is not to be included in subordinated liabilities as these are 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:

- Derecognition 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 standards;
- Recalculation of net deferred tax assets 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 €1,370.6 million (2019: €1,302.0 million). There are no remaining assets classified as available-for-sale investments as these have been sold in 2020 (2019: €1.0 million). 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. the 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 5.2%, 6.2% and 53.6% 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 undertakings, 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 €'000	Adjusted quoted market prices €'000	Alternative valuation methods €'000	Total €'000
Holdings in related undertakings, including participations	431,106	-	-	431,106
Collective investment undertakings	705,103	-	94,136	799,239
Equities	126,525	-	-	126,525
Derivative assets	265	13,500	-	13,765
Total investments	**1,263,000**	**13,500**	**94,136**	**1,370,636**

Furthermore, MS AISE has derivative financial instruments amounting to €19.7 million included in other liabilities. Of this amount €2.9 million categorised within quoted market prices and €16.8 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 €1,136.2 million, a managed fund co-invested into with other MSI 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) and an equity securities fund (Emerald).

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 €94.1 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.

Equities

As stated above, MS AISE has only listed equities per 31 December 2020 as the unlisted equities were sold during the reporting year. The listed equities are classified as quoted market prices under Solvency II.

Derivatives

Listed derivative contracts are valued using quoted prices 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 while under Solvency II derivatives are presented on a gross basis. At 31 December 2020 this resulted in an increase of both derivative assets and liabilities on the Solvency II balance sheet compared to the IFRS presentation. The value of derivative liabilities has been included in other liabilities as shown in the table per 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 the provision for outstanding claims as well as the unearned premiums.

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 and 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 €284.3 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 €1.2 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 on the balance sheet.

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

7. Deferred tax assets

For 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 principles 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. For Solvency II, the Company considers the requirements of the Circular 2020_03, issued by the NBB on 26 February 2020, which may result in temporary 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 by €4.9 million to reflect the tax impact of valuation differences of assets, liabilities and technical provisions under IFRS and Solvency II.

Next to the impact of the above valuation differences, MS AISE has material deferred tax assets outstanding for the Belgian and French branches which are predominantly related to fiscal losses. These losses can be offset against future profits for an indefinite period. The unused Belgian tax losses have not been fully accounted for as deferred tax assets and the recognised deferred tax asset has been limited to the amount which MS AISE expects to be able to realise over the next five years.

8. Property, plant and equipment held for own use

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 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 2019 Solvency II values have been included for comparative purposes.

	As reported under IFRS* €'000	SII valuation adjustment €'000	SII balance sheet 2020 €'000	SII balance sheet 2019 €'000
Technical provisions	1,394,547	(374,314)	1,020,233	982,972
Reinsurance recoverables	(339,991)	191,754	(148,237)	(123,589)
Net technical provisions	**1,054,556**	**(182,560)**	**871,996**	**859,383**

* Deferred acquisition costs have to be considered for reconciliation of the IFRS figures with the tables in section D.1 Assets and D.3 Other liabilities.

The increase in Solvency II net technical provisions is a result an increase in the gross technical provisions (€37.3 million) and reinsurance recoverables (€24.6 million).

The increase in the technical provisions can be explained by the increase in the earned losses (€59 million) which is driven by the COVID-19 claims (€49 million), partly offset by better than expected claims development and the decrease of the risk margin by €4.3 million.

Earned claims covered by quota share reinsurance arrangements have increased compared to prior year. This has caused an increase in the reinsurance recoverables as well.

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 2020 €'000	Total 2019 €'000
Total best estimate - gross	137,685	19,783	154,000	236,015	357,983	51,501	956,966	915,419
Less: Total best estimate - reinsurance	(866)	1,247	(22,739)	(39,250)	(45,916)	(40,714)	(148,237)	(123,589)
Total best estimate - net	**136,819**	**21,030**	**131,261**	**196,765**	**312,066**	**10,787**	**808,729**	**791,829**
Add: Risk margin	10,483	3,660	12,670	13,814	20,807	1,833	63,267	67,553
Technical provisions - total	**147,301**	**24,690**	**143,931**	**210,580**	**332,874**	**12,620**	**871,996**	**859,383**

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 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 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 considering 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 judgment as many, often conflicting, factors are considered when determining the ultimate income and losses.

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

In the reserving process, on the one hand, accident year projections are run for the P&C line of business at the Belgian, Dutch and French branches. On the other hand, underwriting year projections are run for Marine across all branches and P&C of the UK branch. The ultimates are split between the earned-to-date and the expected earnings through the rest of the year, based on the earning patterns of each reserving class.

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 if the performance of the class or new information leads to a materially different view.

Gross future premiums

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

The starting point for this amount is the IFRS not-yet-overdue 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. 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 and applying those to future cash flows. Expense percentage assumptions are calibrated using the current forecast for the annual expense budget of MS AISE, scaled to allow for only the portion relating to servicing existing business.

Unincepted legally obligated contracts

IFRS only considers 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 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 criteria, 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 explained in other paragraphs of this section.

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 considers the previously mentioned two to three months cancellation clause when determining the legal obligation under the binding authority contract.

Reinsurance recoveries 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 these 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 with the volatility adjustment applied in the technical provisions calculation. The volatility adjustment 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 business and original currencies.

Risk margin

The risk margin is calculated using the standard formula SCR 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 SCR is not included in this calculation 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, considering 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 coverage, 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 and therefore the risk margin is allocated to Solvency II line of business in proportion to the future claims at the reporting date.

D.2.4 Level of uncertainty associated with the Solvency II technical provisions

Most 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.

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 explained in the remainder of this section.

Property catastrophe losses: Catastrophe losses by 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.

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 expected loss ratios. 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 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 involved.

Unincepted legally obligated contracts: A large proportion of policies that MS AISE writes incept at 1 January each year. This means that for the year-end calculation 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, 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.

As from 31 December 2020 onwards only the tacit renewal business is taking into account instead of the whole business.

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 and the tacit renewal, used to calculate the unincepted claims, lead to a larger level of uncertainty in the overall technical provisions.

Future reinsurance premiums: The proportion of reinsurance contracts that are losses-occurring, the earnings patterns and the nature of the reinsurance contracts (quota share or excess of loss) are important parameters in the calculation. The key assumption here is that management will continue to buy the same/similar reinsurance programme 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 individual reinsurers. However, the reinsurance bad debt is 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 the assumed cash flows used to run-off the SCR.

Discount credit: The yield curves used for discounting are prescribed by EIOPA including volatility adjustment. 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 limited. 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 2020 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 preceding sections. Additional items are explained underneath the table. IFRS data split by Solvency II line of business 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 2020
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
IFRS net technical provisions	**153,152**	**24,231**	**172,277**	**258,234**	**391,533**	**55,129**	**1,054,556**
Adjustments to IFRS technical provisions	(39,157)	(6,195)	(44,047)	(66,025)	(100,106)	(14,095)	(269,626)
Best estimate net earned future claims	**113,994**	**18,036**	**128,230**	**192,210**	**291,427**	**41,033**	**784,930**
Other future claims on incepted contracts	29,015	4,591	32,639	48,924	74,178	10,444	199,791
Future premiums including unincepted contracts	(43,243)	(7,459)	(71,286)	(106,842)	(148,262)	(54,028)	(431,119)
Unincepted claims	26,533	4,198	29,846	44,738	67,831	9,551	182,697
SII expenses	8,940	1,414	10,056	15,073	22,854	3,218	61,555
Discount credit	1,553	246	1,747	2,619	3,971	559	10,697
Risk margin	10,483	3,660	12,670	13,814	20,807	1,833	63,267
Other	26	4	29	44	66	9	178
SII net technical provisions	**147,301**	**24,690**	**143,931**	**210,580**	**332,874**	**12,620**	**871,996**

Adjustments to IFRS reserves: The largest adjustment relates to the provision for unearned premiums and claims, net of deferred acquisition costs, not recognized under Solvency II (-€203.5 million). The residual balance relates to the removal of the net management margin held over and above the best estimate (-€66.1 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 (€63.4 million), the unearned future premiums (€120.0 million) and the unincepted premiums (€247.7 million). The largest component, unincepted premiums, 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 an initial expected loss ratio.

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 and 308 d of Delegated Regulation (EU) 2009/138.

D.2.7 Reinsurance recoverables

The calculation of reinsurance recoverables is explained in more detail in prior sections (best estimate full year projections, unincepted legally obligated contracts, binder adjustment). In calculating the reinsurance recoveries and the reinsurance premiums, the characteristics of the MS AISE reinsurance programmes are considered.

The outward reinsurance contracts are written on a variety of bases, including risks attaching, losses occurring, 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

There were no material changes in methodology and assumptions during the reporting year.

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 2020 €'000	SII balance sheet 2019 €'000
Technical provisions		1,508,187	(55,441)	1,452,746	-	(432,513)	1,020,233	982,972
Insurance, intermediaries and reinsurance payables	1	137,589	9,315	146,903	-	(136,450)	10,453	11,050
Payables (trade, not insurance)	2	51,827	5,286	57,113	20	-	57,133	78,959
Derivative liabilities	3	-	8,816	8,816	10,926	-	19,742	3,356
Debts owed to credit institutions		-	-	-	2,176	-	2,176	-
Retirement benefit obligations	4	11,770	(646)	11,123	-	-	11,123	10,555
Deferred tax liabilities	5	-	77	77	-	(77)	-	1,402
Subordinated liabilities	6	2,480	-	2,480	(20)	-	2,460	2,275
Total Liabilities		**1,711,852**	**(32,594)**	**1,679,258**	**13,102**	**(569,040)**	**1,123,320**	**1,090,568**
Total Assets		**2,096,995**	**137,068**	**2,234,062**	**13,102**	**(575,472)**	**1,671,692**	**1,599,877**
Excess of Assets over Liabilities		**385,143**	**169,661**	**554,804**	**-**	**(6,432)**	**548,372**	**509,309**

The above table shows the reclassification of liabilities 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 2020. The 2019 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 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 consists principally of collateral repayable on the derivative contracts, revolving credit facility and other sundry payables.

The IFRS 16 standard determines the valuation and handling of lease contracts. The lease liabilities recognised on the IFRS balance sheet are in accordance with this standard. Therefore, lease liabilities are recognised as part of the payables on the IFRS balance sheet, in accordance with IFRS 16. 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 obligations on the BEGAAP balance sheet. However, for IFRS, this is reversed as it does not meet the IAS 19 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 a subordinated loan from MS ACS for a total amount of £2.2 million. Interest is accrued at the base rate set by the Bank of England with an addition of 1%. First accrual is done on the effective date of the agreement and then on the first business day of each calendar quarter in order 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.

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 €45.4 million (insurance and intermediaries payables) and €81.9 million (reinsurance payables) (2019: €37.0 million and €83.1 million respectively) have been made for settled but not paid claims and reinsurance premiums payable but not-yet-due at the balance sheet date. These amounts have been transferred to technical provisions and form part of the valuation of technical provisions. Please refer to section D.2 for further details on technical provisions and the valuation thereof.

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 material 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 difference in the pension liability valuation between IFRS and Solvency II.

5. Deferred tax liabilities

Please refer to Section D.1 for valuation methods surrounding deferred tax positions. There is a minor IFRS deferred tax liability related to the Dutch branch, which is fully reversed under Solvency II following the tax impact of valuation differences of assets, liabilities and technical provisions under IFRS and Solvency II.

Current tax liabilities are included in payables (trade, not insurance) and are valued at fair value under 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. There is one reclass noted for which reference is made to the explanation on Solvency II reclassification of IFRS balances under section D.1.

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.

As stated above, the value of MS AISE's property fund portfolio is based on the net asset value provided by the investment custodian, CBRE Global Collective Investors UK Limited. The custodian as well as the Investments Management function have considered the potential impact of the COVID-19 crisis on the property funds valuation and there are no indications that these funds are materially misstated on the Company's balance sheet as at 31 December 2020.

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 able 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 businesses 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 in order to meet regulatory requirements and contribute to the Company's target to deliver a cross-cycle return on equity after tax in excess of 7% (2019: 7%).

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 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 three to 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

	2020 €'000	2019 €'000
BEGAAP net asset value	**385,143**	**373,802**
Allowed items – deferred taxes and IFRS16 assets & liabilities	18,575	15,504
Reversal amortisation goodwill	17,849	14,950
Financial assets at fair value	47,504	63,822
Adjustment to IFRS technical provisions	85,734	71,625
IFRS net asset value	**554,804**	**539,704**
Disallow items – goodwill, intangible assets, prepayments and deferred acquisition costs	(86,108)	(81,001)
Solvency II technical provisions adjustment	231,653	146,227
Future premiums and claims adjustments	(156,916)	(98,306)
Deferred tax on adjustment items	4,939	2,685
Excess of assets over liabilities – Solvency II	**548,372**	**509,309**

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

Available own funds

As at 31 December 2020, MS AISE had available own funds of €550.8 million (2019: €511.6 million). MS AISE does not have any non-available or non-transferrable own funds. MS AISE's available own funds are made up of:

	2020 €'000	2019 €'000
Excess of assets over liabilities	548,372	509,309
Subordinated liabilities	2,460	2,275
Total basic and available own funds	**550,832**	**511,584**

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

	2020				2019			
	Total €'000	Tier 1 €'000	Tier 2 €'000	Tier 3 €'000	Total €'000	Tier 1 €'000	Tier 2 €'000	Tier 3 €'000
Ordinary share capital	30,000	30,000	-	-	30,000	30,000	-	-
Reconciliation reserve	494,917	494,917	-	-	461,152	461,152	-	-
Subordinated liabilities	2,460	-	2,460	-	2,275	-	2,275	-
An amount equal to the value of net deferred tax assets	23,455	-	-	23,455	18,157	-	-	18,157
Total own funds	**550,832**	**524,917**	**2,460**	**23,455**	**511,584**	**491,152**	**2,275**	**18,157**

The table above shows the composition and quality of own funds as at 31 December 2020 and 31 December 2019.

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 are 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 basic own fund items which 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. As a result, MS AISE's subordinated liabilities are classified as Tier 2.

On 31 March 2020, the subordinated debt provided 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 the United Kingdom, due to an incurred IFRS loss in 2020. Please refer to section D.1 for details of deferred tax assets valuation.

Analysis of significant changes to available own funds during the period

Movements in the reconciliation reserve

The main constituent of available own funds is the reconciliation reserve which comprises the excess of assets over liabilities as valued in the Solvency II balance sheet. The movements in the reconciliation reserve during 2020 are presented in the table below:

	€'000
Reconciliation reserve at 31 December 2019	**461,152**
Movements in Solvency II balance sheet	
Increase in financial assets (excluding cash & cash equivalents)	67,715
Decrease in other assets	(24,445)
Increase in technical provisions	(12,613)
Increase in other liabilities	3,107
	33,765
Reconciliation reserve at 31 December 2020	**494,917**

The movements in the Solvency II balance sheet includes 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 by two factors. On the one hand, a positive investment return was realised in 2020 as highlighted in section A.3 of this report. On the other hand, more financial assets were bought over the reporting period by detracting cash. The purchased financial assets were mainly consisting of additional shares in the Toro Prism Trust.

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

Other available own funds

The Company's ordinary share capital remained unchanged during the reporting period. In addition, there were no material valuation changes on the other available own funds items.

Own funds to cover Solvency Capital Requirement and Minimum Capital Requirement

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

	2020				2019			
	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	550,832	524,917	2,460	23,455	511,584	491,152	2,275	18,157
Eligible own funds covering MCR	527,377	524,917	2,460	-	493,427	491,152	2,275	-
SCR	408,962				369,986			
MCR	155,947				143,924			
Solvency Ratio	134.7%				138.3%			
MCR ratio	338.2%				342.8%			

MS AISE's policy is to actively manage capital in order to meet regulatory requirements and contribute to the Company's target to deliver a cross-cycle return on equity after tax in excess of 7% (2019: 7%). As at 31 December 2020 MS AISE's Solvency Ratio was 134.7% (2019: 138.3%). This decrease is mainly driven by the increase in SCR which exceeded to increase in own funds during the reporting period. For further explanation on the SCR movements reference is made to section E.2 of this report.

There is no restriction to Tier 1 capital. Furthermore, Tier 3 capital, representing the net deferred tax assets on the Solvency II balance sheet, provides a SCR coverage of 5.7% which is well within the 15% limit imposed by Article 82 of Delegated Regulation (EU) 2015/35.

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 as prescribed in the Solvency II Directive. The calculation is explained in section E.2 of this report.

Analysis of significant changes to Solvency II Ratio during the period

	€'000	Solvecny II Ratio
Total Available own funds over SCR at 1 January 2020	**141,598**	**138.3%**
Change in IFRS net assets	15,100	4.1%
Change in Solvency II valuation adjustments	23,963	6.5%
Change in subordinated liabilities value	185	(0.1%)
Change in SCR	(38,976)	(14.0%)
Available own funds over SCR at 31 December 2020	**141,870**	**134.7%**

The change in IFRS net assets includes the impact of the Company's IFRS profit after tax of €16.7 million.

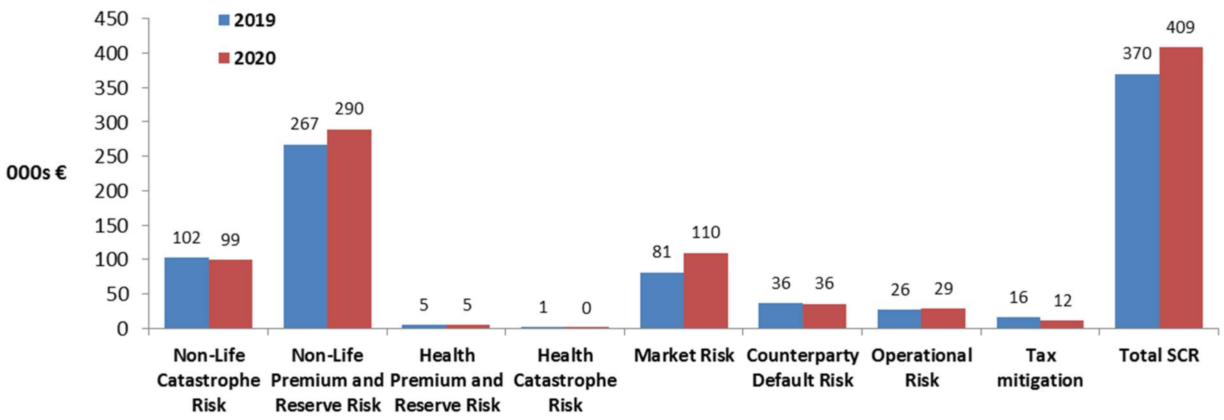
The changes in Solvency II valuation adjustments reflect those movements in sections D.1 to D.3 of this report. The change in SCR and MCR is explained in section E.2 of this report.

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 2020 was €409.0 million, an increase of €39.0 million since 31 December 2019 (€370.0 million).

The following chart shows how the different 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** (€289.7 million compared to €267.2 million in 2019), of which the majority (approximately 55%) is due to reserve risk.
2. **Market risk** (€109.5 million compared to €81.3 million in 2019). This is comprised of several sub-risks, the largest of which is spread risk (€64.9 million). The size of each sub-risk is heavily dependent on the chosen investment strategy.
3. **Non-life catastrophe risk** (€99.3 million compared to €102.5 million in 2019). This is mitigated by reinsurance programmes which lower the capital charge significantly.
4. **Operational risk** (€28.7 million compared to €26.4 million in 2019). Information on the operational risks faced by MS AISE can be found in section C.5 of this report.
5. **Counterparty default risk** (€35.6 million compared to €36.2 million in 2019). 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.
6. **Diversification credit** (€87.1 million compared to €72.5 million in 2019). This covers the benefit of diversification between the different SCR risk components and is dependent on the size and contribution of each subcomponent to the total SCR.

7. **Loss absorbing capacity of deferred taxes ('LAC DT')** (€11.5 million). The LAC DT lowers the overall Solvency Capital Requirement and consists of two parts. On the one hand, tax losses carry-back potential which are future losses that can immediately be compensated by corporate income taxes paid on profits made in the current reporting year. Tax carry back facilities exist at the Dutch branch. On the other hand, deferred tax liabilities as recognized on the Solvency II balance sheet. No future tax loss compensation or deferred tax assets position are taken into consideration by MS AISE as part of the SCR calculation.

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 been applied and is used in the standard formula SCR calculation.

E.2.2 SCR movement

Larger movements over the reporting year are explained below.

1. Market risk

Market risk has increased by €28.2 million over the year. This is largely due to equity and spread risk, with offsetting movements within interest rate risk.

- Standalone interest rate risk has decreased by €10.7 million over the reporting year to zero. The interest rate risk calculation involves applying two shock scenarios to the yield curve and subsequently taking the capital charge as the scenario which generates the most significant loss. At 31 December 2020 the EUR yield curve was negative across much of the curve. As a consequence, neither shock scenario was sufficient to produce a loss.
- Equity risk has increased by €14.2 million following changes to the equity exposure throughout the year.
- Spread risk increased by €16.5 million, the majority of the increase is driven by a reallocation towards bond exposures from securities whilst the overall exposure has remained steady. The bond exposures have a higher duration which attracts a higher capital charge. Securities are also, on average, slightly more poorly rated than in 2019 and therefore also attract a higher capital charge.

2. Non-life underwriting risk

Non-life underwriting risk has increased by €19.7 million over the year. The majority of this stems from non-life premium and reserve risk, with a smaller offsetting movement from catastrophe risk.

Non-life premium and reserve risk has increased by €22.5 million. Approximately €10m relates to changes to the reinsurance structure for 2021, which is integrated into the forwarding looking component of the SCR calculation. Approximately €5m relates to a change that has been made to the definition of future premiums. The remaining movement is due to a general increase in net earned premiums over the year.

3. Counterparty default risk

Counterparty default risk has reduced by €0.6m over the year. This is the result of two offsetting movements. There has been a €6.6m decrease in type 1 counterparty default risk due to a reduction in cash and derivative exposures. This movement is offset by a €5.8m increase in Type 2 counterparty default risk due to an increase in exposures within that category (e.g. trade receivables).

4. Diversification benefit

Diversification credit has increased by €14.6 million because MS AISE's risk profile has become slightly less concentrated within non-life underwriting risk following the increase in market risk. The proportion of the total risk attributed to non-life has decreased from 72% to 69% and the proportion of total risk attributed to market risk has increased from 19% to 23%. As a consequence, the overall level of diversification between the risk types has increased.

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 Delegated Regulation (EU) 2009/138.

The total MCR as at 31 December 2020 is €155.9 million, which is 38.1% of the SCR (2019: €143.9 million and 38.9%).

The increase of €12.0 million over the period is driven by an increase in net written premiums and technical provisions across a range of classes, mostly relating to liability and property 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.1, 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.01.02.e
- S.02.01.e
- S.05.01.e
- S.05.02.e
- S.17.01.e
- S.19.01.e.AY
- S.19.01.e.UY
- S.22.01.e
- S.23.01.e
- S.25.01.e
- S.28.01.e

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 2020
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.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	23,455
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	10,615
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	1,370,636
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	431,106
R0100	*Equities*	126,525
R0110	*Equities - listed*	126,525
R0120	*Equities - unlisted*	0
R0130	*Bonds*	0
R0140	*Government Bonds*	0
R0150	*Corporate Bonds*	0
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	799,239
R0190	*Derivatives*	13,765
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:	148,237
R0280	*Non-life and health similar to non-life*	148,237
R0290	*Non-life excluding health*	135,113
R0300	*Health similar to non-life*	13,124
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	17,378
R0370	Reinsurance receivables	24,679
R0380	Receivables (trade, not insurance)	39,886
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	36,807
R0420	Any other assets, not elsewhere shown	
R0500	**Total assets**	1,671,692

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	1,020,233
R0520	*Technical provisions - non-life (excluding health)*	1,000,343
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	937,999
R0550	*Risk margin*	62,345
R0560	*Technical provisions - health (similar to non-life)*	19,890
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	18,968
R0590	*Risk margin*	922
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	11,123
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	0
R0790	Derivatives	19,742
R0800	Debts owed to credit institutions	2,176
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	10,453
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	57,133
R0850	Subordinated liabilities	2,460
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	2,460
R0880	Any other liabilities, not elsewhere shown	
R0900	**Total liabilities**	1,123,320
R1000	**Excess of assets over liabilities**	548,372

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				
		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	Total
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	Gross - Direct Business	10,501	0	2,295	66,236	100,803	265,575	183,848	150,402	0	638	49	44,070					824,417
R0120	Gross - Proportional reinsurance accepted	0	0	0	0	0	25,534	2,962	2,385	0	0	0	0					30,881
R0130	Gross - Non-proportional reinsurance accepted																	0
R0140	Reinsurers' share	-75	0	2,339	1,687	13,583	58,710	32,509	16,587	0	-95	0	29,532					154,777
R0200	Net	10,577	0	-44	64,549	87,220	232,399	154,301	136,200	0	733	49	14,538					700,520
	Premiums earned																	
R0210	Gross - Direct Business	10,967	0	8,603	67,331	89,345	241,412	182,439	143,606	0	805	47	42,106					786,660
R0220	Gross - Proportional reinsurance accepted	0	0	0	0	0	20,706	2,874	2,308	0	0	0	0					25,889
R0230	Gross - Non-proportional reinsurance accepted																	0
R0240	Reinsurers' share	-106	0	8,546	1,282	13,405	63,714	31,164	15,753	0	56	0	29,480					163,292
R0300	Net	11,073	0	57	66,049	75,940	198,405	154,150	130,161	0	749	47	12,626					649,257
	Claims incurred																	
R0310	Gross - Direct Business	3,433	0	8,161	48,468	34,441	134,863	159,809	87,702	0	814	1	45,292					522,985
R0320	Gross - Proportional reinsurance accepted	0	0	0	0	0	732	667	1,808	0	0	0	0					3,207
R0330	Gross - Non-proportional reinsurance accepted																	0
R0340	Reinsurers' share	90	0	8,458	1,309	4,625	47,003	29,139	17,407	0	19	0	38,087					146,137
R0400	Net	3,344	0	-297	47,159	29,816	88,591	131,338	72,102	0	795	1	7,205					380,054
	Changes in other technical provisions																	
R0410	Gross - Direct Business	0	0	0	0	0	0	0	0	0	0	0	0					0
R0420	Gross - Proportional reinsurance accepted	0	0	0	0	0	0	0	0	0	0	0	0					0
R0430	Gross - Non-proportional reinsurance accepted																	0
R0440	Reinsurers' share	0	0	0	0	0	0	0	0	0	0	0	0					0
R0500	Net	0	0	0	0	0	0	0	0	0	0	0	0					0
R0550	**Expenses incurred**	4,419	0	1,100	21,987	34,652	95,197	59,288	44,856	0	443	17	7,266					269,226
R1200	**Other expenses**																	
R1300	**Total expenses**																	269,226

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	167,365	378,569	131,566	136,390			813,889
R0120	Gross - Proportional reinsurance accepted	5,153	12,307	11,198	1,603			30,260
R0130	Gross - Non-proportional reinsurance accepted	0	0	0	0			0
R0140	Reinsurers' share	38,064	82,707	10,526	21,683			152,980
R0200	Net	134,454	308,169	132,237	116,309			691,169
	Premiums earned							
R0210	Gross - Direct Business	156,980	369,060	107,961	134,468			768,469
R0220	Gross - Proportional reinsurance accepted	4,624	8,785	8,839	1,555			23,803
R0230	Gross - Non-proportional reinsurance accepted	0	0	0	0			0
R0240	Reinsurers' share	37,391	78,865	20,051	21,332			157,638
R0300	Net	124,213	298,980	96,748	114,692			634,634
	Claims incurred							
R0310	Gross - Direct Business	142,427	204,881	86,627	78,680			512,615
R0320	Gross - Proportional reinsurance accepted	1,793	624	277	146			2,840
R0330	Gross - Non-proportional reinsurance accepted	0	0	0	0			0
R0340	Reinsurers' share	60,079	45,151	24,689	10,642			140,562
R0400	Net	84,140	160,354	62,215	68,184			374,893
	Changes in other technical provisions							
R0410	Gross - Direct Business	0	0	0	0			0
R0420	Gross - Proportional reinsurance accepted	0	0	0	0			0
R0430	Gross - Non-proportional reinsurance accepted	0	0	0	0			0
R0440	Reinsurers' share	0	0	0	0			0
R0500	Net	0	0	0	0			0
R0550	**Expenses incurred**	41,197	135,192	43,878	42,794			263,061
R1200	**Other expenses**							
R1300	**Total expenses**							263,061

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
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	-5,171	585	153	-1,455	-6,722	-33,232	7,939	-9,005	0	-77	0	-8,548					-55,533
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	-1,137	-116	115	-1,101	-116	-22,048	-14,793	-4,545	0	-43	0	-7,952					-51,735
R0150	**Net Best Estimate of Premium Provisions**	-4,034	701	38	-354	-6,606	-11,184	22,732	-4,460	0	-34	0	-597					-3,799
	Claims provisions																	
R0160	Gross	5,782	5,228	12,391	139,140	26,505	187,232	228,076	366,988	0	1,341	0	39,817					1,012,500
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	162	0	14,101	1,966	-1,132	44,787	54,043	50,461	0	315	0	35,270					199,972
R0250	**Net Best Estimate of Claims Provisions**	5,621	5,228	-1,710	137,173	27,637	142,445	174,034	316,527	0	1,026	0	4,547					812,528
R0260	**Total best estimate - gross**	611	5,813	12,544	137,685	19,783	154,000	236,015	357,983	0	1,264	0	31,269					956,966
R0270	**Total best estimate - net**	1,586	5,929	-1,672	136,819	21,030	131,261	196,765	312,066	0	992	0	3,951					808,729
R0280	**Risk margin**	463	459	0	10,483	3,660	12,670	13,814	20,807	0	80	0	831					63,267
	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**	1,074	6,272	12,544	148,167	23,443	166,670	249,829	378,790	0	1,345	0	32,100					1,020,233
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**	-976	-116	14,215	866	-1,247	22,739	39,250	45,916	0	272	0	27,318					148,237
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**	2,050	6,388	-1,672	147,301	24,690	143,931	210,580	332,874	0	1,073	0	4,782					871,996

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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											27,110	27,110	27,110
R0160	2011	42,056	57,787	26,313	15,724	6,807	5,385	4,572	4,366	2,607	2,839		2,839	168,457
R0170	2012	34,260	71,669	24,552	11,497	7,400	5,148	3,662	3,922	2,885			2,885	164,994
R0180	2013	57,836	69,003	19,698	10,597	7,860	4,659	3,547	7,084				7,084	180,284
R0190	2014	58,086	77,740	27,689	12,392	7,931	5,428	4,905					4,905	194,171
R0200	2015	58,942	85,679	32,225	15,607	9,516	7,901						7,901	209,871
R0210	2016	68,027	92,147	34,738	19,711	14,096							14,096	228,719
R0220	2017	80,214	103,308	33,223	19,709								19,709	236,455
R0230	2018	95,241	123,387	35,809									35,809	254,437
R0240	2019	79,190	110,272										110,272	189,462
R0250	2020	62,864											62,864	62,864
R0260												**Total**	295,474	1,916,823

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											93,781	94,864
R0160	2011	0	0	0	0	0	33,210	26,786	20,832	16,982	16,268		16,485
R0170	2012	0	0	0	0	26,078	20,633	15,926	13,328	11,068			11,200
R0180	2013	0	0	0	32,807	30,765	26,249	21,454	12,974				13,166
R0190	2014	0	0	49,065	38,689	31,703	24,340	19,723					19,987
R0200	2015	0	98,372	72,842	58,810	47,441	37,005						37,481
R0210	2016	156,561	136,434	102,109	77,915	63,855							64,681
R0220	2017	229,635	119,311	88,199	69,060								69,991
R0230	2018	212,850	112,297	83,646									84,640
R0240	2019	241,326	191,200										192,717
R0250	2020	218,421											220,370
R0260												**Total**	825,581

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Non-Life insurance claims

Total Non-life business

Z0020 **Accident year / underwriting year** Underwriting 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											4,894	4,894	4,894
R0160	2011	75,828	96,679	39,992	36,894	6,550	9,697	1,417	710	239	715		715	268,722
R0170	2012	40,081	72,683	36,660	5,792	7,835	19,227	1,150	931	990			990	185,348
R0180	2013	38,562	63,182	39,479	10,965	3,406	2,784	2,441	809				809	161,627
R0190	2014	29,110	54,132	36,105	5,098	3,162	4,269	544					544	132,419
R0200	2015	35,430	41,208	20,419	8,833	5,367	2,751						2,751	114,008
R0210	2016	28,166	31,088	9,471	7,185	1,700							1,700	77,609
R0220	2017	24,005	36,616	11,089	6,050								6,050	77,761
R0230	2018	28,176	35,902	14,204									14,204	78,282
R0240	2019	25,235	61,886										61,886	87,121
R0250	2020	28,423											28,423	28,423
R0260												**Total**	122,966	1,216,214

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											19,248	19,279
R0160	2011	0	0	0	0	0	6,706	3,689	3,090	1,789	2,983		2,983
R0170	2012	0	0	0	0	34,638	8,174	8,244	7,704	1,453			1,454
R0180	2013	0	0	0	11,598	7,536	5,512	2,681	2,302				2,305
R0190	2014	0	0	18,715	11,656	8,883	4,935	5,386					5,393
R0200	2015	0	35,632	19,130	14,521	7,864	3,937						3,946
R0210	2016	72,702	22,425	13,432	4,550	9,029							9,065
R0220	2017	121,198	45,055	12,306	8,391								8,425
R0230	2018	67,269	19,696	16,839									16,904
R0240	2019	107,696	58,723										58,805
R0250	2020	62,937											63,599
R0260												**Total**	192,156

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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	1,020,233	0	0	2,372	0
R0020	Basic own funds	550,832	0	0	-2,372	0
R0050	Eligible own funds to meet Solvency Capital Requirement	550,832	0	0	-2,372	0
R0090	Solvency Capital Requirement	408,962	0	0	355	0
R0100	Eligible own funds to meet Minimum Capital Requirement	527,377	0	0	-2,372	0
R0110	Minimum Capital Requirement	155,947	0	0	184	0

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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	494,917	494,917			
R0140	Subordinated liabilities	2,460		0	2,460	0
R0160	An amount equal to the value of net deferred tax assets	23,455				23,455
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**	550,832	524,917	0	2,460	23,455
	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	550,832	524,917	0	2,460	23,455
R0510	Total available own funds to meet the MCR	527,377	524,917	0	2,460	
R0540	Total eligible own funds to meet the SCR	550,832	524,917	0	2,460	23,455
R0550	Total eligible own funds to meet the MCR	527,377	524,917	0	2,460	
R0580	**SCR**	408,962				
R0600	**MCR**	155,947				
R0620	**Ratio of Eligible own funds to SCR**	134.69%				
R0640	**Ratio of Eligible own funds to MCR**	338.18%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	548,372
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	53,455
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	494,917
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	164,577
R0790	**Total Expected profits included in future premiums (EPIFP)**	164,577

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Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	109,531		
R0020	Counterparty default risk	35,607		
R0030	Life underwriting risk	0		
R0040	Health underwriting risk	4,881		
R0050	Non-life underwriting risk	328,889		
R0060	Diversification	-87,138		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	391,770		

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	28,709
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	-11,517
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**	408,962
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	408,962
	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	Yes

	Calculation of loss absorbing capacity of deferred taxes	LAC DT
		C0130
R0640	LAC DT	-11,517
R0650	LAC DT justified by reversion of deferred tax liabilities	0
R0660	LAC DT justified by reference to probable future taxable economic profit	0
R0670	LAC DT justified by carry back, current year	-11,517
R0680	LAC DT justified by carry back, future years	0
R0690	Maximum LAC DT	0

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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	155,947

		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	1,586	10,577
R0030	Income protection insurance and proportional reinsurance	5,929	0
R0040	Workers' compensation insurance and proportional reinsurance	0	0
R0050	Motor vehicle liability insurance and proportional reinsurance	136,819	64,549
R0060	Other motor insurance and proportional reinsurance	21,030	87,220
R0070	Marine, aviation and transport insurance and proportional reinsurance	131,261	232,399
R0080	Fire and other damage to property insurance and proportional reinsurance	196,765	154,301
R0090	General liability insurance and proportional reinsurance	312,066	136,200
R0100	Credit and suretyship insurance and proportional reinsurance	0	0
R0110	Legal expenses insurance and proportional reinsurance	992	733
R0120	Assistance and proportional reinsurance	0	49
R0130	Miscellaneous financial loss insurance and proportional reinsurance	3,951	14,538
R0140	Non-proportional health reinsurance	0	0
R0150	Non-proportional casualty reinsurance	0	0
R0160	Non-proportional marine, aviation and transport reinsurance	0	0
R0170	Non-proportional property reinsurance	0	0

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

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

	Overall MCR calculation	C0070
R0300	Linear MCR	155,947
R0310	SCR	408,962
R0320	MCR cap	184,033
R0330	MCR floor	102,240
R0340	Combined MCR	155,947
R0350	Absolute floor of the MCR	2,500
R0400	**Minimum Capital Requirement**	155,947

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