AmTrust Insurance Luxembourg S.A.

Solvency and Financial Condition Report

AmTrust Insurance Luxembourg S.A.
An AmTrust Financial Company

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Summary

Overview of the Business & Context of this report

Business model

AmTrust Insurance Luxembourg S.A. (AILSA) is a Luxembourg registered insurance company, which writes only non-life business in Luxembourg and aboard. AILSA mainly exists as a fronting company that cedes 95% to 100% of the risks to AmTrust reinsurers or third-party reinsurers.

For year 2016, business activity in ALSA is rather low with only €0.5M premiums written in the Miscellaneous Financial Loss line of business, and business is 100% ceded.

AILSA is owned by AmTrust Equity Solutions, Ltd, a subsidiary of the AmTrust Financial Services Inc. group which is listed on the US NASDAQ exchange (ticker: AFSI). AFSI is a multinational property and casualty insurer specializing in coverage for small businesses.

Solvency II

As a regulated insurance company, AILSA is subject to the regulatory rules and principles adopted by Luxembourg and the European Union, which came into effect on 1 January 2016. Solvency II is a regulatory regime which is designed to set an appropriate level of capital that appropriately reflects the specific risk profile of insurance companies within the regime.

With collateralized reinsurance structure in place, the major source of risk in AILSA's business model relates to the uncertainty around value of investment and cash assets. Regulatory capital is designed to act as buffer, which is to be held within the company's assets and liabilities, and provides a safety mechanism to protect policyholders should AILSA incur losses arising from decrease in the value of assets due to adverse movements in the prices of financial instruments or in the financial condition of the issuers.

This report is a Solvency II requirement, which is designed to give AILSA's external stakeholders (including policyholders) an insight into the solvency and financial condition of the Company.

Material changes to AILSA's business model

There have been no material changes to the way that AILSA conducts business in the lines of business that it operates within.

Business performance

2016	Total €'000
Gross premiums written	462
Reinsurers' share	430
Net premiums written	**32**
Gross premiums earned	1,542
Reinsurers' share	1,536
Net premiums earned	**6**
Gross claims incurred	16,199
Reinsurers' share	16,999
Net claims incurred	**-800**
Net operating expenses	**777**
Other expense	**0**
Net technical result	**29**

Net of operating expenses, AILSA generates a small positive underwriting income in 2016.

Systems of Governance

AILSA has developed a system of corporate governance to ensure that there is a clear process of decision making combined with accountability and transparency.

The Board bears the ultimate responsibility for setting and achieving AILSA's strategy, and putting in place appropriate systems and infrastructures to manage the associated risk in its business model. In line with the principles of Solvency II and the established best practices within the Insurance market, AILSA follows the "Three Lines of Defence" model of corporate governance.

- 1st line of defence – Risk and control embedded in the business. Primary accountability within the context of day-to-day operations. The first line of defence ensures that operations are carried out correctly and that risk exposures are managed, controlled and reported in accordance with the risk appetite and risk policies set by the Board.
- 2nd line of defence – The oversight functions. The 2nd line is in charge of defining, developing, implementing and maintaining risk frameworks, policies and procedures. It defines the business guidelines and oversees the operations. It monitors and ensures that operations, policies and strategies are adequately aligned.
- 3rd line of defence – Provides independent assurance. The 3rd line challenges the design and effectiveness of risk management, compliance, control and governance processes. In order to achieve the necessary independence and objectivity. Internal Audit is an independent function that reports directly to the Board.

Risk Profile

The Company calculates its required capital from a regulatory perspective by reference to certain risk categories that it is exposed to within its business model. The main risks that AILSA is exposed to are:

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

For each risk category, AILSA has articulated how much risk it is willing and able to accept based on its strategic profile and capital position. AILSA has put in place systems and controls to manage its risk profile within its risk appetite statements.

Underwriting Risk

AILSA's risk exposure in respect of underwriting risk, which is broken down into two main components: premium risk and reserve risk. Premium risk is the risk that premiums are insufficient to cover the value of claims made; and reserve risk is the risk that on-going claims are settled at a higher value than previous expected. AILSA's underwriting risk exposure is minimum, as a significant amount of business is ceded to reinsurers.

Market Risk

Market risk is the risk of loss of income or decrease in the value of assets caused by movements in the level and prices of financial instruments. Market risk includes factors such as equity values, property values, interest rates, foreign exchange and spread risk.

The Company's material exposures to market risk are: interest rate risk, and spread risk on its bond portfolio.

Credit Risk

Credit risk is the potential loss arising principally from adverse changes in the financial condition of the counterparties.

AILSA is subject to material risk exposures with respect to its bank and reinsurance counterparty.

Other risks

AILSA is also exposed to the following other risks:

- Liquidity risk;
- Operational risk.

Valuation for solvency purposes

AILSA's assets and liabilities are valued differently when calculating its regulatory capital under Solvency II and when preparing its annual accounts for regulatory filing. The former applies the valuation rules from the Solvency II Directive, and the latter applies valuation rules under Generally Accepted Accounting Principles (GAAP) in Luxembourg.

Assets

The material difference in valuation of AILSA's assets under Luxembourg GAAP and Solvency II arise in the valuation of debt securities and other fixed income transferable securities.

Under Luxembourg GAAP, the debt securities and other fixed income transferrable securities are valued at amortized acquisition costs. On the other hand, Solvency II imposes market based valuation of assets.

Technical Provisions

The following table shows a summarised AILSA's total Technical Provisions as of Q4 2016.

Line of Business	Gross Best Estimated Liability €'000	Risk Margin €'000	Gross Technical Provisions €'000	Recoverables from Reinsurance Contacts €'000	Total Technical Provisions Net of Recoverables €'000
Miscellaneous Financial Loss	25,995	113	26,108	(25,967)	**141**
Total	**25,995**	**113**	**26,108**	**(25,967)**	**141**

The main differences in valuation of AILSA's technical provisions from Luxembourg GAAP to Solvency II standards include:

- Replacing unearned premium with premium provision, where premium provision considers the future cash flows associated with recognized obligations within the boundary of the contracts;
- Discounting the best estimate of claims, premiums and expense cash flows using discount rates specified by regulation (the relevant risk-free interest rate is provided by EIOPA);
- Adding a Risk Margin to the technical provisions based on the Cost of Capital method.

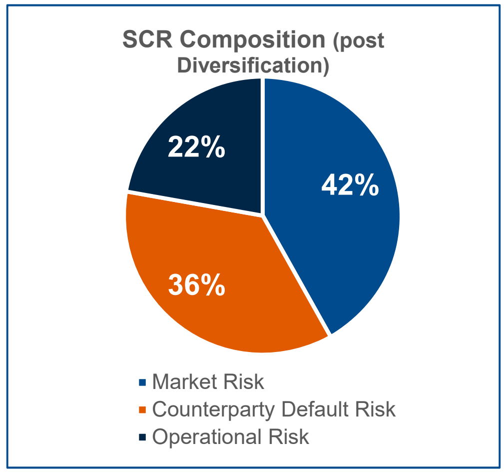
Capital Management

AILSA uses the tools published by EIOPA to calculate its SCR and MCR using the Standard Formula. The Company does not use any Undertaking Specific Parameters (USPs) allowed under Solvency II, nor does it use simplified calculations for any of the risk modules.

Capital Requirements 31 Dec 2016	€000
SCR	**3,700**
MCR	**3,700**

The AILSA's SCR split by risk module as of December 31st 2016 is shown in the table below.

Solvency Capital Requirement	€000
Market risk	1,856
Counterparty default risk	1,593
Undiversified Basic SCR	**3,449**
Diversification credit	-718
Basic SCR	**2,731**
Operational risk	780
Adjustment for the loss absorbing effect of technical provisions	-82
Standard formula SCR	**3,700**



A. Business and Performance

A.1 Business

A.1.1 Name and legal form of undertaking

AmTrust Insurance Luxembourg S.A. (AILSA or “the Company”) was incorporated in Luxembourg on January 19, 2012 as a “Société Anonyme” under Luxembourg Law. The primary objective of the Company is to provide Non-Life insurance products, in Luxembourg or aboard. AILSA is a General Insurer, and is not permitted to underwrite any Life insurance activities. AILSA is also referred to as a Composite insurer i.e. an insurance company that offers a range of insurance products, rather than a “mono-line” or a “specialist” insurer which tend to focus on one or a limited selection of insurance products.

The Company’s registered address is as follows:

AmTrust Insurance Luxembourg S.A. (AILSA)
Building Elise, Am Bann
21 rue Léon Laval
L-3372 Leudelange
Luxembourg

A.1.2 Supervisory authority

AILSA is regulated by the Commissariat Aux Assurances (CAA). The CAA is the Luxembourg authority competent for the supervision of the insurance sector.

The CAA’s registered address is as follows:

Commissariat aux Assurances
7, Boulevard Joseph II,
L-1840 Luxembourg
GD de Luxembourg
Tel (+352) 22 69 11 - 1
caa@caa.lu

AILSA is wholly owned by AmTrust Equity Solutions Limited (AES), which is an entity based in Bermuda.

AILSA is also regulated by Luxembourg Central Bank – Banque central de Luxembourg (BCL).

The BCL’s registered address is as follows:

Banque centrale du Luxembourg
2, boulevard Royal
L-2983 Luxembourg

A.1.3 External auditor

AILSA, together with the wider AmTrust Group, is audited by KPMG. KPMG’s Luxembourg office is located at:

KPMG,
39, Avenue John F. Kennedy
L-1855 Luxembourg

A.1.4 Shareholders of qualifying holding in the undertaking

AILSA is a wholly owned subsidiary of AmTrust Equity Solutions Ltd. (AES or the Group) which is a Bermuda Limited Company. AILSA’s ultimate parent is AmTrust Financial Services Inc (AFSI), a Delaware registered US corporation.

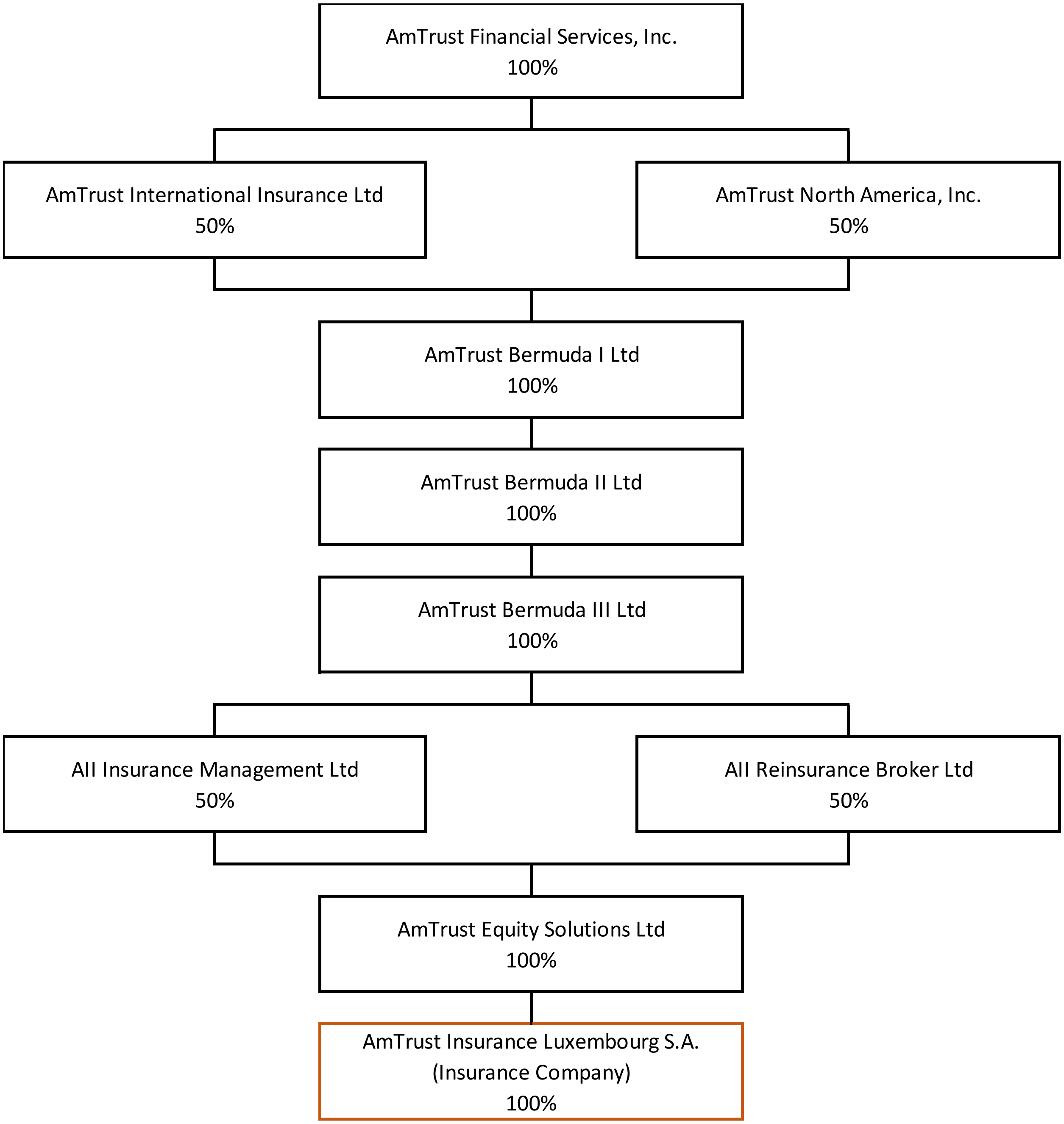
AFSI underwrites and provides property and casualty insurance products, in the United States and internationally to niche customer groups that it believes are generally underserved within the broader insurance market.

As a subsidiary of AmTrust Financial Services Inc. (NASDAQ Global Market: AFSI) the Company benefits from financial, operational and management support. AFSI is a multinational property and casualty insurer specialising in small to medium sized businesses. With extensive underwriting experience and a prestigious “A” (Excellent) Financial Size “XIV” rating from A.M. Best, AFSI has earned a reputation as an innovative, technology driven provider of insurance products. Commitment to excellence is a common thread connecting each of the AmTrust companies.

AFSI’s business model focuses on achieving targeted returns and profit growth with the careful management of risk. The Global Group pursues these goals through geographic and product diversification, as well as an in-depth understanding of its insured exposure. The product mix includes, primarily: workers' compensation; extended warranty; and other commercial property/casualty insurance products, including title insurance and crop insurance. Workers' compensation and property/casualty insurance policyholders in the United States are generally small and middle market businesses. Extended warranty customers are manufacturers, distributors and retailers of commercial and consumer products. AmTrust has also built a strong and growing distribution of extended warranty and specialty risk products, including liability and other property/casualty products, in Europe.

A.1.5 Position within the legal structure of the group

The following simplified group structure chart shows where AILSA sits within the wider AFSI group.



A.1.6 Material lines of business and material geographical areas where it carries out business

The principal activity of the Company is the underwriting of general insurance business in Luxembourg and other European countries. The Company's main line of business is miscellaneous financial loss.

A.1.7 Material events

There are no material events impacted the Company during the year:

A.2 Underwriting Performance

A.2.1 Material lines of business

2016	Miscellaneous financial loss €'000	Total €'000
Gross premiums written	462	462
Reinsurers' share	430	430
Net premiums written	**32**	**32**
Gross premiums earned	1,542	1,542
Reinsurers' share	1,536	1,536
Net premiums earned	**6**	**6**
Gross claims incurred	16,199	16,199
Reinsurers' share	16,999	16,999
Net claims incurred	**-800**	**-800**
Net operating expenses	**777**	**777**
Other expense		**0**
Net technical result		**29**

A.2.1.1 Miscellaneous financial loss

Performance in 2016 has been expected on a net of reinsurance basis.

A.2.2 Material geographic areas

AILSA has operations in Luxembourg only.

2016	Luxembourg €'000	Total €'000
Gross premiums written	462	462
Reinsurers' share	430	430
Net premiums written	**32**	**32**
Gross premiums earned	1,542	1,542
Reinsurers' share	1,536	1,536
Net premiums earned	**6**	**6**
Gross claims incurred	16,199	16,199
Reinsurers' share	16,999	16,999
Net claims incurred	**-800**	**-800**
Net operating expenses	**777**	**777**
Other expense		**0**
Net technical result		**29**

A.3 Investment Performance

The Company invests in Corporate and Government bonds.

Investment income and expenses during the year are shown in the table below.

2016	Corporate and Government Bonds €'000
Income from other investments	**126**
Investment management expenses	**(20)**
	106

A.4 Performance of other activities

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

A.5 Any other information

None noted.

B. System of Governance

B.1 General information on the system of governance

B.1.1 The Board and System of Governance

The Company follows the "Three Lines of Defence" model of corporate governance.

- 1st line of defence – Risk and control embedded in the business. Primary accountability within the context of day-to-day operations. The first line of defence ensures that operations are carried out correctly and that risk exposures are managed, controlled and reported in accordance with the risk appetite and risk policies set by the Board.
- 2nd line of defence – The oversight functions. The 2nd line is in charge of defining, developing, implementing and maintaining risk frameworks, policies and procedures. It defines the business guidelines and oversees the operations. It monitors and ensures that operations, policies and strategies are adequately aligned.
- 3rd line of defence – Provides independent assurance. The 3rd line challenges the design and effectiveness of risk management, compliance, control and governance processes. In order to achieve the necessary independence and objectivity. Internal Audit is an independent function that reports directly to the Board.

The AILSA Board is collectively responsible for the long-term success of the Company and for compliance with all laws and regulations. Its role is to provide entrepreneurial leadership of the Company within a framework of prudent and effective controls which enables risk to be assessed and managed. The principal focus of the AILSA Board is on the overall policies, strategic plans, performance, annual budget, investment budgets, larger capital expenditure proposals and the Company's overall system of internal controls, governance and compliance. The Board develops and promotes its collective vision of the Company's purpose, its culture, its values and the behaviour it wishes to promote in conducting its business.

The Board of Directors consists of five members, which includes four representatives from the Senior Management team of the AmTrust Group and one external Director.

B.1.1.1 Committees

B.1.1.1.1 Compensation Committee

The key purpose of the Committee is to conduct an annual review of the Chief Executive Officer's performance as set forth in its charter and make reports to the Board. The Committee reports on executive compensation; and proposes compensation arrangements for Senior Management and the Chief Executive Officer for Board approval.

The Committee consists of all members from the Board.

B.1.1.1.2 Corporate Governance Committee

The key purpose of the Committee is to review and provide recommendations on management succession planning.

The key responsibilities of the Committee are to recommend succession planning relating to the Chief Executive Officer and other members of Senior Management.

The Committee consists of all members from the Board.

B.1.1.1.3 Transaction Approval & Underwriting Approval Committees

The key purpose of the Committees is to approve or deny a transaction referred by individual underwriters. Business written by AILSA follows the AmTrust Unique Risks Underwriting review process with the use of the Transaction Approval Committee as well as the Underwriting Approval Committee. The latter committee approves the transactions however it doesn't have the authority to bind the Company and the risk must be approved by the Board of Directors of AILSA. A full underwriting file must be properly reviewed by the AILSA Boards, approving the transaction and properly documented such approval.

Transactions that are required to be reported to the Underwriting Approval committee prior to binding, including but not limited to:

- New transactions
- Any transaction that does not meet the underwriting guideline restrictions
- Any transaction that is not specifically exempted by the underwriting processes detailed in the underwriting guideline
- Any program with significant property catastrophe exposure

The Transaction Approval Committee is made up of the three representatives from Senior Management. The Underwriting Approval Committee consists of four members from Senior Management.

B.1.1.1.4 Claim Review Committee

The key purpose of the Committee is to ensure appropriate claim review processes are in place at the Company and that the level of reserves booked by the Company are reasonable. The key responsibilities of the Committee are to present, discuss and review of the appropriateness of assumptions of claim assessment and reserve positions.

The Committee consists of four members from Senior Management.

B.1.1.1.5 Investment Committee

The key responsibilities and duties of the Committee is to monitor investment risk and associated credit and liquidity risk.

The Committee consists of four members from Senior Management.

B.1.1.1.6 The Risk & Compliance Committee

The key purpose of the Committee is to oversee all aspects of AILSA's risk management and to support the Board in the implementation of a robust risk management framework, including identifying, monitoring and managing risks to assist the Board in the delivery of the strategic objectives and business plans. The key responsibilities and duties of the Committee are to advise the Board on the risk strategy, including risk appetite and tolerance levels, for ensuring that the risk management framework is appropriate and adequately resourced.

The Committee consists of three members, which are the Chief Executive Officer (CEO) and two Directors of the Board.

B.1.1.1.7 Audit Committee

The key purpose of the Committee is to provide independent assurance on the design and effectiveness of the overall system of internal control, including risk management and compliance.

The key responsibilities of the Committee are to monitor the financial reporting process; to inform the Board of the outcome of the statutory audit; to make a recommendation for the appointment of the audit firm; and to review the appropriateness of the Company's Internal Audit Function, internal data, systems, controls, and risk management as related to financial reporting.

The Committee consists of three members, which are the Chief Executive Officer (CEO), the Chief Operating Officer (COO) and the Chief Risk Officer (CRO).

B.1.2 Changes in the System of Governance

There are no major changes in the system of governance, except for the following:

- Revised Committee membership in light of the senior management changes.

B.1.3 Remuneration Policy

AILSA's remuneration policy is designed to:

- help to attract, retain and motivate competent, experienced and skilled personnel;
- be competitive within the general insurance market;
- encourage and support a high performance culture;
- be consistent, fair and transparent;
- achieve a balance between short and long-term reward/fixed and variable pay to promote a long term focus;
- promote sound and effective risk management to prevent risk taking that exceeds the risk appetite / tolerance limits;
- ensure that incentives are aligned, particularly in relation to decision-making and risk-taking behaviour, with the Company's overall business and risk management strategies and objectives;
- avoid rewarding failure;
- consider the overall assessment of an individual's performance, not just the performance of the Company or a particular business unit; and
- particularly in the case of Executives, be aligned to the Shareholders' interests.

In consultation with the Compensation Committee and the Board, AILSA tries to do the following in respect of its remuneration practices:

- ensure consistent, equitable and transparent remuneration policies and practices;
- set base salary at the median level in the market;
- where appropriate reward upper quartile performance with upper quartile pay;
- with regard to variable pay:
  - introduce/maintain appropriate short and long term incentive schemes appropriate to the business strategy and risk management principles and objectives; and
  - align variable pay to the Company's Return on Equity ("ROE") goal;
  - where, appropriate the Line of Business ROE target(s); and
  - individual performance (including the adherence to its Corporate Conduct principles).
- ensure separate/specific arrangements for the various categories of staff; i.e.
  - those personnel whose professional activities have a material impact on the risk profile of the business (Board Members, key function holders, Underwriters);
  - those who may have a conflict of interest (e.g. Risk Management, Compliance, Actuarial, Claims, UW Support);
  - those who are unable to materially/directly affect the profitability of the organisation but who are crucial to its effective operation (e.g. Finance, IT, HR, etc.).
- defer the payment of a portion of the variable remuneration - in particular for Executive and Senior Professional/income generating personnel - in whatever vehicle(s) it deems appropriate (Long Term Incentive Plans, Restricted Stock Units, etc.) in line with its corporate strategy;
- provide a competitive package of benefits.

In general, performance related bonuses are purely discretionary. This gives the Company a high degree of flexibility in rewarding the employee based on sustained performance.

Underwriters' bonuses are calculated using predominantly GAAP drivers (i.e. Accident Year accounting), whereas underwriters write business against an underwriting year. This has the effect that any deteriorations in back year reserves is captured as a movement in the current reporting year.

As part of the agreements with all staff receiving RSUs, there are good and bad leaver provisions in the contracts.

With respect to claw backs, some employees do have specific claw back provisions in their contracts (including the CEO of the Company). These allow the Company to recover unvested RSUs that have been paid if underwriting performance subsequently deteriorates.

B.1.3.1 Supplementary pension scheme for Board members

Board members who are also employees of the Company, that is all except Independent Non-Executives, are entitled to join a workplace pension scheme. The Company does not provide any supplementary pension to its Independent Non-Executives.

The Company provides a workplace pension scheme where all eligible members are automatically enrolled into the scheme and non-eligible or entitled workers can opt in to join the scheme. The pension scheme is a Group Flexible Retirement Plan which is designed to give members flexible ways to save for retirement. Both the employer and employee pay in a contribution which at the least meet the minimum legislative amount. The scheme has a default fund set up so members funds will automatically be invested in the default fund unless they actively choose their own investment funds.

B.1.3.2 Material transactions with shareholders, persons with significant influence and Board members

AILSA has had no material transactions with shareholders, persons with significant influence nor members of Board during the reporting period.

B.2 Fit and Proper Requirements

AILSA has a Fit and Proper Policy in place that outlines the various checks at recruitment and throughout employment. In particular, when deciding whether a person is fit and proper, AILSA needs to be satisfied that the individual:

- Has the personal characteristics (including being of good repute and integrity);
- Possesses the level of competence, knowledge and experience;
- Has the qualifications to undertake the role; and
- Has undergone or is undergoing all training required to enable such person to perform his or her key function effectively and in accordance with any relevant regulatory requirements, including those under the regulatory system, and to enable sound and prudent management of AILSA.

When deciding whether the Board is fit and proper, the Company seeks to ensure that the Directors collectively possess appropriate qualifications, experience and knowledge about at least:

- Insurance and financial markets;
- Business strategy and business model;
- Systems of governance;
- Financial and actuarial analysis; and
- Regulatory framework and requirements.

Fitness and propriety is checked at recruitment stage through appropriate due diligence and challenge of an individual's CV. Appropriate financial and criminal checks are carried out prior to recruitment of an individual and probation periods are set commensurate with the role. Ongoing assessment of fitness and propriety of all employees is assessed through the annual appraisal process. Performance of the Board is also assessed annually through the Board performance review process.

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

B.3.1 Risk Management Strategy

The overriding goal of AILSA's risk management strategy is to control and to achieve as much as possible a reduction in the Company's risk exposure as a means of minimizing the impact of undesired and/or unexpected events, this to increase the likelihood of achieving AILSA's strategic and business objectives.

Consequently, the risk management objectives are to:

- set out the level of risk acceptable (Risk appetite and Risk Tolerance);
- identify all kinds of risks which represent a threat to the achievement of its strategic objectives;
- identify, define and regularly measure key risk indicators enabling an efficient monitoring of risks;
- define and take appropriate actions to reduce risk exposure;
- ensure the risk management framework implementation in day-to-day business processes;
- regularly review controls and mitigation actions to ensure that they remain relevant and effective.

The key risk categories have set up specific control and monitoring mechanisms are:

- Underwriting/Reserving
- Liquidity and concentration
- Asset and liabilities Management
- Operational
- Investment
- Counterparty

In order to achieve these objectives, the risk management system has been clearly documented and specified through risk management policies to each key risk category.

These policies detailing all key components of the Risk Management System ensure that it:

- contains clearly assigned overall risk management responsibilities;
- is defined to be consistent with the strategic objectives of the Company;
- operate across all the activities of the Company;
- is a continuous approach which is referred to in all major decision-taking processes of the Company

In addition, an outsourcing policy, containing the same policies above, defines the key rules and criteria to be respected by a service provider.

Policies are approved by the Board of Directors and must be reviewed at least once a year or at any time when an external or internal event occurs with a significant impact on the Risk Management System.

To respect the prudent person principle, AILSA has set up an investment policy.

The approved investment guidelines set out limits in terms of asset allocation. Assets related to liabilities will be held in high quality (generally BBB or better) fixed income securities. These securities will be actively managed amongst sectors (corporate bonds, government bonds, etc.) and will be constructed to ensure an appropriate matching of interest rate sensitivity relative to the liabilities. Management will work closely with AmTrust's asset management group.

B.3.1.1 Risk Appetite

The risk appetite sets out the target amount of risk that AILSA is prepared to accept in order to achieve its strategic objectives and sets out the tolerances for all risk categories in order to ensure a cautious management of the operations while staying aligned with the owners' expectations.

The objectives assigned to the risk appetite framework are as follows:

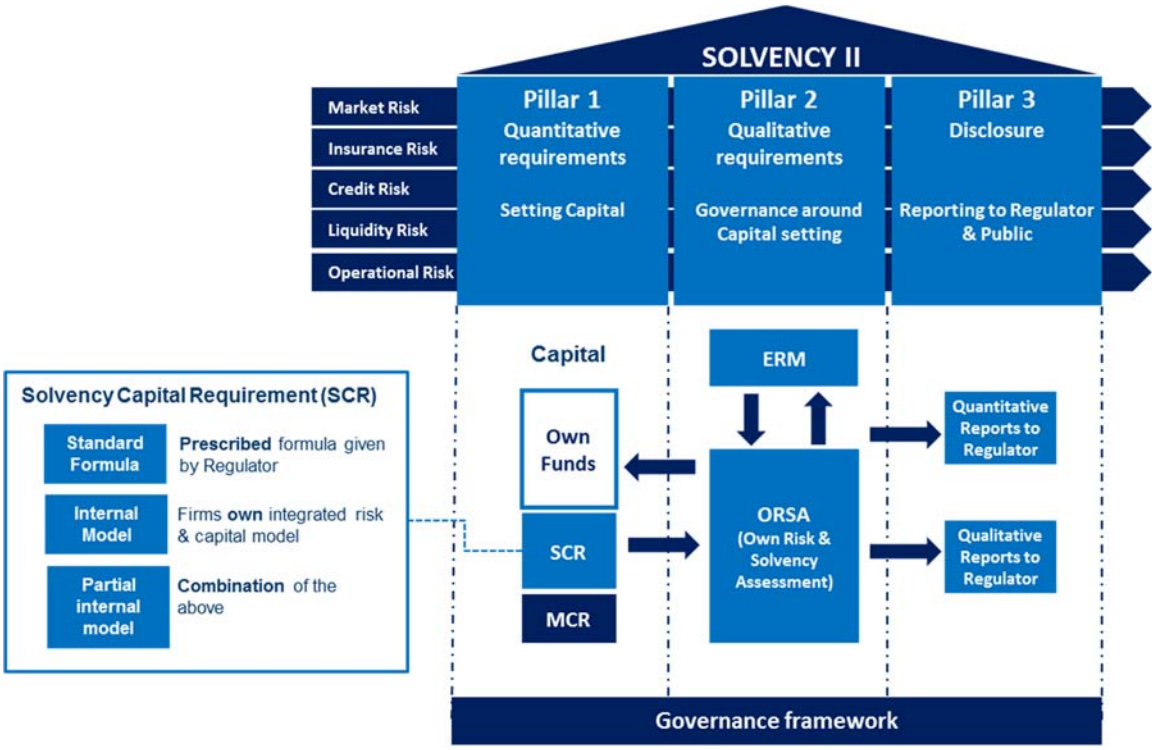
- Both qualitative and quantitative aspects must be taken into account;
- Risk appetite is a pivotal link between strategic objectives of the organization and its risk management framework;
- Risk appetite helps to structure the core of the risk management framework;
- Risk appetite is pragmatically expressed in such a way that it can be then easily cascaded in day-to-day business decisions and processes.

B.3.1.2 Approach

In order to achieve the aforementioned objectives, the following methodology has been chosen and may be summarized through five consecutive steps detailed hereunder.

	Component	Contents
Step 1	**Risk appetite**	Clear and pragmatic indication of the maximum global level of risk AmTrust Luxembourg entities is willing to accept in the pursuit of its strategic objectives. It is expressed by a ratio, a maximum loss amount or any other relevant element.
Step 2	**Appetite per risk category**	Clear and pragmatic expression of the risk appetite AmTrust Luxembourg entities is willing to accept for each risk category. The individual set of appetites is in line with the risk appetite as defined in Step 1.
Step 3	**Metrics**	List of metrics that will be used to monitor each risk appetite as defined under Step 2.
Step 4	**Limits**	The defined and precise limits, checkpoints and/or early warning indicators applied on each metric enabling to run the day-to-day business operations by staying under the defined appetite(s) for each risk category.
Step 5	**Tolerance per limit**	Definition of the maximum acceptable variation of each limit for each metric.

B.3.2 Own Risk and Solvency Assessment (ORSA)



The above diagram shows how the various aspects of risk management, capital management, and regulatory reporting under Solvency II fits together for AILSA.

The Own Risk and Solvency Assessment (ORSA) forms a key part of Enterprise Risk Management at AILSA and is performed at least annually. It is the process through which the Board and Management team assess the risks faced by AILSA, both now and in the future, and AILSA's own assessment of the level of own funds that it believes are necessary to meet the strategic goals of the Company. Therefore, ORSA is termed to be an Economic assessment of capital.

Economic Capital differs from Regulatory Capital. The latter is the Regulator's assessment of AILSA's capital required to continue and meet the Regulator's objectives, which includes maintaining safety and soundness in the wider financial system. AILSA's solvency risk appetite is that capital should always remain above a margin of these limits and has set this to be 110% of the SCR (the Regulatory Capital requirement under Solvency II).

In broad terms, the ORSA process seeks to have a clear understanding of the Company's historic and prospective strategy and what risks this creates for the Company's Economic balance sheet both now and in the future. Economic Capital should then be held at a level that allows AILSA to achieve this strategy and manage these risks.

AILSA has used a deterministic model to calculate its economic capital, which heavily relied on the Standard Formula. In line with the proportionality principles, AILSA has demonstrated that the Standard Formula is not an inappropriate measure of its risk profile for calculating Regulatory Capital.

AILSA uses the tools published by EIOPA to calculate its Solvency II Standard Formula solvency capital requirement (SCR) as well as populating the Solvency II quantitative reporting templates (QRTs).

AILSA will complete its ORSA process annually, on a 'business as usual' basis, or if there is a material change in its risk profile.

B.4 Internal control system

B.4.1 Internal Control system

The Internal Control system embedded in AILSA's operations is a mix of actions and processes undertaken by all stakeholders within the company to provide reasonable assurance that the strategic objectives will be achieved.

The objectives of the Company's Internal Control system are therefore to ensure:

- an ordered execution of ethical, economical, efficient and effective operations;
- accountability obligations are fulfilled;
- availability and reliability of financial and non-financial information;
- compliance with applicable laws, regulations and administrative provisions;
- resources are protected against losses, misuse and damages.

In order to achieve the aforementioned objectives, the Internal Control framework of AILSA is structured around five complementary components.

Component	Contents
1) Control environment	A strong "risk and control" culture is embedded within the company's operations through the continuous oversight of the Board of Directors and the communication to all internal stakeholders of all governance and risk principles through the present manual.
2) Risk assessment	Procedures and policies are detailed and formalized in order to disclose the way of identifying, managing, controlling, mitigating and reporting issues relating to each risk category.
3) Reporting channels	Clear and structured reporting processes are in place enabling the Board of Directors to have access to relevant, complete, reliable, correct and timely communication related to internal as well as external events.
4) Monitoring process	The appropriate escalation of significant issues to the Board of Directors, the ongoing involvement of all internal stakeholders as well as the Internal Audit process enables to company to continuously monitor and adapt when necessary its internal control system.
5) Control activities	AmTrust Luxembourg Insurance developed a comprehensive set of preventive, detective or corrective control actions embedded in its daily operations, as formalized hereafter.

B.4.2 Compliance function

The Compliance function is responsible for advising the Executive and the Board on compliance with existing and emerging legal, regulatory and administrative provisions.

The Compliance Function has ultimate recourse to the AILSA Board and has the right to escalate to the Board, directly or through its Committees, any instances of non-compliance with this policy.

Compliance takes responsibility for identifying and assessing the wide ranging internal and external obligations the Company has. The Compliance function helps to ensure that AILSA clearly understands its regulatory risks and the prevailing requirements.

The compliance function undertakes checks to ensure that compliance obligations are being met after implementation through a systematic, disciplined and risk based approach to evaluating the effectiveness of compliance controls.

B.5 Internal audit function

The internal audit team is located in New York, London, and Cleveland. The AmTrust Internal Audit Function is headed up by the Chief Audit Executive, who reports administratively to the Chief Financial Officer and functionally to the board and the audit committee.

AILSA as part of the AmTrust Group may be audited by the AmTrust Internal Audit. All AmTrust subsidiaries are not audited every year, priority is given to material subsidiaries.

The mission of the internal audit department is to provide independent, objective assurance and consulting services designed to add value and improve the organization’s operations. The scope of work of the internal audit department is to determine whether the organization’s network of risk management, control, governance process, as designed and represented by management, is adequate.

The Scope of internal auditing encompasses the following activities among others:

- Review the adequacy and effectiveness of management’s processes for risk management, internal control, and governance. Quality and continuous improvement are fostered in the organization’s control process.
- Review the adequacy and effectiveness of management’s system for strategic and annual plans and objective setting, and ensure the annual internal audit plan is designed to assist in attaining these objectives.
- Review established systems, policies, and procedures to determine if they are adequate to ensure the organization is in compliance with laws and regulations. Significant legislative or regulatory issues impacting the organization are recognized and addressed properly.

Internal audit reports are sent directly to the Audit Committee and include into its reporting conclusions on follow-up, and post-implementation validation, on audit findings and recommendations.

B.6 Actuarial function

The primary purpose of the Actuarial Function is to provide support in many areas including reserving, pricing and Solvency II.

Responsibilities of the Actuarial Function under Solvency II include:

- Coordinate the calculation of technical provisions;
- Ensure the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions;
- Assess the sufficiency and quality of the data used in the calculation of technical provisions;
- Compare best estimate against experience;
- Inform the administrative, management or supervisory body of the reliability and adequacy of the calculation of technical provisions;
- Oversee the calculation of technical provisions in the cases set out in Article 82;
- Express an opinion on the overall underwriting policy;
- Express an opinion on the adequacy of reinsurance arrangements;

- Contribute to the effective implementation of the risk management system with respect to risk modelling and the ORSA.

The Actuarial Function is a Key Function, headed by a qualified AmTrust actuary who is a credentialed member of the Casualty Actuarial Society.

B.7 Outsourcing

The purpose of the Outsourcing policy is to establish the requirements for identifying, justifying, and implementing outsourcing arrangements for any function or activity within AILSA, this in order to ensure that the outsourcing activities are carried out appropriately.

AILSA remains fully responsible for discharging all of its obligations when it outsources functions or activities.

It is a requirement that outsourcing of critical or important operational functions or activities shall not be undertaken in such a way as to lead to any of the following:

- Materially impairing the quality of the system of governance of the Company;
- Unduly increasing the operational risk;
- Impairing the ability of the supervisory authorities to monitor the compliance of the Company with obligations;
- Undermining continuous and satisfactory services to the Company.

The Board of Directors is responsible for arranging and validating outsourcing agreements. No service, function and/or activity may be outsourced without the prior formal and written confirmation of the Board of Directors.

The Company doesn’t externally outsource any of the four key functions.

B.8 Any other information

None noted.

C. Risk Profile

C.1 Underwriting risk profile

Underwriting risk refers to fluctuations in the timing, frequency and severity of insured events, relative to the expectations of the firm at the time of underwriting.

C.1.1 Material risk exposures

The Company is exposed to premium risk, that is, the risk that premiums are insufficient to cover the value of claims made; and reserve risk, the risk that on-going claims are settled at a higher value than previously expected. However, as a significant amount of business is ceded to reinsurers, the net underwriting risks retained are only at a minimum level.

C.1.2 Material risk concentrations

AILSA’s underwriting risk exposure is concentrated in the Miscellaneous Financial Loss class of business.

C.1.3 Material risk mitigation

AILSA mainly uses reinsurance to mitigate underwriting risk. This takes the form of a 100% quota-share agreement with inter-group and third-party reinsurers.

C.1.4 Risk sensitivities

Scenarios were devised during the ORSA process to measure the impact of poor pricing and reserve deteriorations. On a net of reinsurance basis, the deterioration in loss ratios has no material impact to the value of Own Funds.

C.1.5 Other material information

None noted.

C.2 Market risk

Market risk is the risk of loss of income or decrease in the value of assets caused by movements in the level and prices of financial instruments. Market risk includes factors such as equity values, property values, interest rates, foreign exchange and spread risk.

C.2.1 Material risk exposures

The Company’s material exposures to market risk are: interest rate risk and spread on its bond portfolio.

The bond portfolio consists of corporate and government bonds. It is exposed to interest rate risk, as well as to credit spread and concentration risk. Fluctuations in rates of inflation influence interest rates, which in turn impact the market value of the investment portfolio and yields on new investments. Thus, rising interest rates would have an adverse impact of the bond portfolio and would drive the value of the bonds down. Whereas, widening credit spreads would also negatively impact the value of the bond portfolio.

C.2.2 Material risk concentrations

None of the bonds in AILSA has an exposure exceeding 10%.

C.2.3 Material risk mitigation

AILSA operates a conservative investment strategy, investing primarily in fixed income, investment grade corporate and sovereign debt. The Company has no appetite for investments in equities and complex investments such as derivatives. By investing in relatively simple assets, the Company fulfils the Prudent person principle because it is able to properly understand its investment risks.

The ultimate parent AFSI manages the investment portfolios on behalf of the Luxembourg entities.

C.2.4 Risk sensitivities

The Company carries out stress and scenario testing as part of the ORSA process. One of the adverse scenarios produced by the ORSA analysis looks at how fluctuations in interest rates and market value of investments impacts the value of Own Funds. The stress test scenario confirmed no material capital impact.

C.2.5 Other material information

None noted.

C.3 Credit risk

Credit risk is the potential loss arising principally from adverse changes in the financial condition of the issuers of our fixed maturity securities and the financial condition of our third party counterparties.

C.3.1 Material risk exposures

AILSA is subject to material risk exposures with respect to its reinsurers, banks and bond issuers.

C.3.2 Material risk concentrations

The Company is exposed to credit risk in relation to one reinsurance counterparty: Segregated Account for Agent Alliance Reinsurance Company, Ltd. Named AMC Mining Iberia (AAR). This reinsurer is an A rated AmTrust captive based in Bermuda.

AILSA is exposed to general economic, business and industry conditions. Adverse general economic conditions may cause, among other things, significant reductions in available capital and liquidity from banks and other credit providers. The Company's largest bank exposure is to ING.

The AILSA largest corporate bond exposure is to Austria Serie 2 144, making up of 8% of the investment portfolio. Other large bond exposures are to Israel and Mexico, representing 7% and 6% of the investment portfolio.

C.3.3 Material risk mitigation

In general, in order to reduce our exposure to reinsurance credit risk, the financial condition of reinsurers is evaluated and reinsurance is placed with a diverse group of companies that are believed to be financially sound. The credit quality of reinsurers is monitored when placing new and renewal reinsurance, as well as on an ongoing, current basis. AILSA uses objective criteria to select and retain its reinsurers, including requiring a financial strength rating of "A-" or better from A.M. Best Company.

Credit risk related to the issuers of our fixed maturity securities is addressed by investing primarily in fixed maturity securities that are rated "BBB-" or higher by Standard & Poor's. Exposure is limited by the employment of diversification policies that limit the credit exposure to any single issuer or business sector.

The Company manages the levels of credit risk it accepts by reviewing exposures regularly and reporting to management of significant counterparties.

Exposures to banks are limited to those whose credit ratings are A or higher, except where required for business reasons, typically in jurisdictions where there are no A rated banks available. In this case exposures are kept to a minimum.

C.3.4 Risk sensitivities

No separate stress test is carried out for credit risk exposure. Due to the simple structure of the Company, the stress scenario addressing both underwriting and market risks is considered to be sufficient for stress testing purposes.

C.3.5 Other material information

None noted.

C.4 Liquidity risk

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

The liquidity ratio is monitored to identify and measure liquidity risk exposures. The finance team carries out regular cash-flow forecasting and analysis to monitor the Company's liquidity needs.

C.4.1 Material risk exposures

There are no material risk exposures to liquidity risk, as the majority of assets are invested in highly liquid corporate bonds.

However, the major threat to liquidity could occur during a catastrophe when a large number or claims are received at once or there may be a prospect of a major significantly large claim. The Company considers this scenario to be remote.

C.4.2 Material risk concentrations

AILSA's liquidity risk exposure is concentrated in financial assets (bonds).

C.4.3 Material risk mitigation

The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effect on AILSA's financial performance. It manages these positions within an asset liability management (ALM) framework that has been developed to minimize the risk of significant deterioration of the investment portfolio while earning profitable returns from those investments.

The Company invests mainly in corporate and government bonds, which are normally readily convertible into cash, so it holds relatively small amounts of cash. It accepts the risk that during times of stress, there may be market value losses realised by liquidating bonds.

AILSA maintains sufficient cash and highly rated marketable securities, to fund claim payments and operations.

C.4.4 Expected profit in future premiums

None considered as future premiums are expected to be 100% ceded to reinsurers.

C.4.5 Risk sensitivities

Given the liquidity is not a material risk for the Company, no specific risk sensitivity is provided.

C.4.6 Other material information

None noted.

C.5 Operational risk

Operational risk is the risk that the Company will not be able to operate in a fashion whereby the strategic objectives of the Company can be met due to inadequate or failed internal processes, people and systems, or from external events. It arises out of actions undertaken within the Company, brokers or outsourced agencies and individuals.

AILSA has risk management processes in place to assess and monitor operational risk exposures.

C.5.1 Material risk exposures

The Company is exposed to Key Employee, IT, Data, Fraud, Regulatory/Legal, Capital and Reputation risks.

As a result of limitations inherent in all control systems, it may not be possible to adequately prevent fraud or errors from occurring. Judgments in decision making can be faulty and breakdowns may occur through simple human error. In addition, any ineffectiveness in internal controls could have a material adverse effect on our business.

C.5.2 Material risk concentrations

Due to the nature and scale of the business, AILSA's material risk concentration is in loss of Key Personnel.

AILSA is highly reliant on a small number of key employees. The loss of one key employee may have material impact to the Company operations.

C.5.3 Material risk mitigation

AILSA does not seek to take on operational risk in order to generate a return. However, it recognises that some degree of operational risk is an unavoidable consequence of remaining in business. It therefore seeks to mitigate this risk through its corporate governance and internal control mechanisms, deal sheets, peer review, due diligence and business continuity and Sarbanes-Oxley controls.

C.5.4 Risk sensitivities

Based on the Standard Formula, Operational risk is not indicated as a material risk to the Company. Thus no specific risk sensitivity is provided.

C.5.5 Other material information

None noted.

C.6 Other material risks

None noted.

C.7 Any other information

None noted.

D. Valuation for solvency purposes

D.1 Assets

As a general principle, AILSA's assets and liabilities are valued differently when calculating its regulatory capital (SCR) under Solvency II and when preparing its annual accounts for filing at the Luxembourg Register of Commerce. The former applies the valuation rules from the Solvency II Directive, and the latter applies valuation rules under Generally Accepted Accounting Principles (GAAP) in Luxembourg.

This section highlights the way AILSA values its material assets and liabilities using the Solvency II valuation principles and, where relevant, explains any material differences to the Luxembourg GAAP valuation approach followed in its last reported financial statements.

D.1.1 Financial Investments

AILSA has an investment portfolio made up of corporate and government bonds. This bond portfolio is valued at amortized acquisition costs under the Luxembourg GAAP. On the other hand, Solvency II imposes market based valuation of assets. Therefore, adjustments are needed to be made to the Luxembourg GAAP position.

D.1.2 Deferred Acquisition Costs

Deferred acquisition costs are recognized as assets under the Luxembourg GAAP, but not under the Solvency II rules.

D.1.3 Other

At present no further material adjustments are made to the Luxembourg GAAP balance sheet to move to Solvency II.

D.2 Technical Provisions

On a Solvency II basis the total Technical Provisions (TPs), including the Risk Margin, were €0.141m compared to €0.026m on a statutory basis. The TPs are the best estimate of future cash flows discounted for the time value of money.

The following table shows a summarised AILSA's total Technical Provisions as of Q4 2016.

Line of Business	Gross Best Estimated Liability	Risk Margin	Gross Technical Provisions	Recoverables from Reinsurance Contacts	Total Technical Provisions Net of Recoverables
	€'000	€'000	€'000	€'000	€'000
Miscellaneous Financial Loss	25,995	113	26,108	(25,967)	**141**
Total	**25,995**	**113**	**26,108**	**(25,967)**	**141**

D.2.1 Methodology

Under Solvency II, the technical provisions are made up of claim provisions, premium provisions, and risk margin. The claim and premium provisions are valued separately, and calculated in accordance with the general provisions for the determination of technical provisions as set out in Articles 75 to 78 of the Solvency II Directive.

The best estimate is calculated gross, without deduction of the amounts recoverable from reinsurance contracts. The calculation of amounts recoverable from reinsurance contracts takes into account the expected losses due to default of the counterparty. The adjustment is based on an assessment of the probability of default of the counterparty and the expected loss given default, where the probability of default is determined based on the credit rating of the counterparty.

The best estimate of future cash flows is discounted at EIOPA prescribed rates.

The risk margin is calculated as per the prescribed Solvency II cost-of-capital approach.

D.2.2 Uncertainties

Expectations about possible variations in the amount and/or timing of the cash flows represent the uncertainty inherent in the cash flows. As a result, it is possible that actual experience may be different than the best estimates, and such difference may be material. The majority of the liability that is related to unreported claims (IBNR) underscores the high level of uncertainty in the best estimation of technical provisions. There is also inherent uncertainty in the calculation of premium provisions. The future experience related to unexpired risk may be materially deviated from the expected.

D.2.3 Differences between Solvency II valuation and Financial statements

To convert the GAAP reserves into Solvency II Technical Provisions the following main adjustments have been made:

- Replacing unearned premium with premium provision, where premium provision considers the future cash flows associated with recognized obligations within the boundary of the contracts;
- Discounting the best estimate of claims, premiums and expense cash flows using discount rates specified by regulation (the relevant risk-free interest rate is provided by EIOPA);
- Adding a Risk Margin to the technical provisions based on the Cost of Capital method.

D.2.4 Significant changes in assumptions

None noted.

D.3 Other liabilities

No adjustments are made to the Luxembourg GAAP balance sheet to move to Solvency II.

D.4 Alternative methods for valuation

AILSA does not use any alternative methods for valuation.

D.5 Any other information

None noted.

E. Capital Management

E.1 Own funds

AILSA manages its Own Funds with the objective of always being able to satisfy both the MCR and the SCR plus a buffer. AILSA strives to maintain a SCR above 110%.

AILSA prepares solvency projections for the following three years as part of its business planning process, which form part of the ORSA. In addition, short term solvency projections are calculated whenever a significant transaction is considered by the Company.

AILSA's capital resources are made up of Tier 1 unrestricted capital. There were no significant changes in the structure of Own Funds during the year; no share capital has been issued and no dividends have been paid.

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

€'000	Dec 2015	Dec 2016
Ordinary share capital	5,438	5,438
Share premium	0	0
Reconciliation reserve	5	214
Own funds	**5,443**	**5,652**

The AILSA's eligible amount of Own Funds eligible to cover the SCR as of December 31st 2016 is listed in the table below.

Solvency Overview (in €000s), as of December, 31 2016					
	Tier	Own Funds	Eligible %	Eligible Own Funds	Solvency Ratio
SCR 3,700	1	5,652	100%	5,652	
	2	0	0	0	
	3	0	0	0	
	Total	**5,652**	**100%**	**5,652**	**153%**

AILSA's eligible amount of Own Funds to cover the MCR as of December 31st 2016 is listed in the table below.

Solvency Overview (in €000s)					
	Tier	Own Funds	Eligible %	Eligible Own Funds	Solvency Ratio
MCR 3,700	1	5,652	100%	5,652	
	2	0	0	0	
	3	0	0	0	
	Total	**5,652**	**100%**	**5,652**	**153%**

There are certain differences between the value of Own Funds under Solvency II and the value of Equity (€5.462m) shown in the Company's Financial Statements. These arise due to the difference in valuation of assets and liabilities described in Section D of this report. A reconciliation is shown in the table below.

	€000
Equity per Financial Statements	5,461
Difference in SII TPs net of reinsurance	-115
Difference in Value of Investment	412
Removal of Deferred acquisition costs	-24
Deferred Tax on SII profits	-82
Solvency II Own Funds	5,652

None of the Company's Own Funds are subject to transitional arrangements. AILSA has no Ancillary Own Funds. There are no ring-fenced funds and no deductions are made from Own Funds, nor is there any restriction affecting the availability and transferability of Own Funds within the Company.

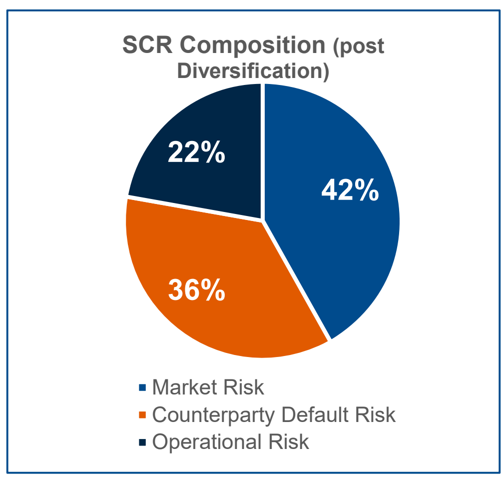
E.2 Solvency capital requirement and minimum capital requirement

AILSA uses the tools published by EIOPA to calculate its SCR and MCR using the Standard Formula. The Company does not use any Undertaking Specific Parameters (USPs) nor does it use simplified calculations for any of the risk modules.

Capital Requirements 31 Dec 2016	€000
SCR	**3,700**
MCR	**3,700**

The AILSA's SCR split by risk module as of December 31st 2016 is shown in the table below.

Solvency Capital Requirement	€000
Market risk	1,856
Counterparty default risk	1,593
Undiversified Basic SCR	**3,449**
Diversification credit	-718
Basic SCR	**2,731**
Operational risk	780
Adjustment for the loss absorbing effect of technical provisions	-82
Standard formula SCR	**3,700**



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

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

E.4 Difference between the standard formula and the internal model used

AILSA does not have an Internal Model to calculate its SCR.

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

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

E.6 Any other information

None noted.