

## **AmTrust Europe Limited**

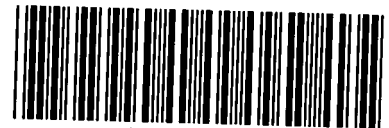
**Report and Financial Statements**

**Year Ended**

**31 December 2018**

**Company Number 01229676**

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# **AmTrust Europe Limited**

## **Report and financial statements for the year ended 31 December 2018**

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### **Directors and Advisors**

#### **Directors**

M G Caviot	(Resigned 09 December 2018)
J E Cadle	
G E Bennett	
P Dewey	
M S Johnson	
G Whitlam	(Resigned 09 December 2018)
J P Fox	
A G Mas Murcia	
R W Webster	(appointed 05 February 2018)
R I Stansbury	(appointed 20 March 2018)

#### **Secretary and Registered Office**

P A Cockburn, 10<sup>th</sup> Floor, Market Square House, St James's Street, Nottingham, NG1 6FG

#### **Company number**

01229676

#### **Independent Auditor**

KPMG LLP, 15 Canada Square, London. E14 5GL

#### **Bankers**

Lloyds Bank Plc, 113 Leadenhall Street, London. EC3A 4XX

# AmTrust Europe Limited

## Strategic report for the year ended 31 December 2018

The directors present the strategic report of AmTrust Europe Limited ('AEL' or 'the company') for the year ended 31 December 2018.

### Principal activity

The company continues to only write general insurance business as its principal activity, however, there has been a major change to the business mix due to the company seeking to exit business underwritten in the EU and due to the company undertaking major Part VII transfers from AMT Mortgage Insurance Limited and Pedigree Livestock Insurance Limited. The company's core product lines are medical malpractice, legal expenses, property, casualty, warranty, surety and accident and health. There have not been any significant changes in the company's principal activities in the year under review in respect of the underwriting of general insurance business, however, as is described in detail within the Review of the business and future developments, the business mix in terms of lines of business and geographical exposure has changed during the course of the year and will continue to do so as a result of decisions made in anticipation of Brexit.

### Review of the business and future developments

For 2018, the company had a profit of £46,000 (2017 - profit of £69,962,000). The decrease in profit in 2018 is driven by a loss on revaluation of subsidiary undertakings relating to AmTrust Italia S.r.l. (compared to a gain in the prior year relating to AMT Mortgage Insurance Limited) resulting in a £36,532,000 reduction in profit before tax compared to 2017. Dividend income has also reduced by £15,494,000. Profit from the technical account for general business has fallen by £6,597,000, which is described below in the review of business and future developments, while unrealised losses on investments increased by £5,967,000.

No dividends were paid during the year (2017 - £nil). The directors do not recommend payment of a final dividend.

The company's core strategy is to offer lines and products where it has a high degree of market knowledge and expertise. Our philosophy is to focus upon those areas where the large composite insurers do not have predominance and where the company can develop long-term relationships with its clients. The company plan into 2019 and beyond has this focus at its core with the company exiting a number of less profitable, higher risk lines of business. The directors' aim is to implement an active strategy to diversify lines of business so that no one class represents a significant driver of income and profitability. This results in a diverse range of non-correlated insurance products and helps to provide protection against volatilities in insurance risk. It is the directors' intention to continue this strategy into the foreseeable future.

The company experienced a period of transition during 2018 and as a result has realigned its portfolio into 2019 to focus on key areas of growth while exiting less profitable lines and transferring European mainland business to AmTrust's Irish based insurer, AmTrust International Underwriters Designated Activity Company ('AIU'). In addition, 2018 saw the final stage of the phased reduction of the company's related-party reinsurance programs, which had taken place over the last few years, as well as the transformation of its ultimate parent company. Overall, the company gross loss ratio remains below 100% and has made a profit from reinsurance activities. The forecast for 2019 has renewed focus on lines which will enhance the portfolio's return on equity. After expenses, losses from technical results increased by £5,376,000 as a result of the strengthening of reserves in a number of classes.

Gross written premium was higher than the prior year at £497,642,000 (2017 restated\* - £490,720,000) due to increasing market presence in a number of lines of business within the UK, while many of the planned transfers of mainland European business to AIU in readiness for Brexit have been slower than planned. The intention is to transfer all remaining European business in advance of Brexit.

\*See Note 1

# AmTrust Europe Limited

## Strategic report for the year ended 31 December 2018 (*continued*)

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### Review of the business and future developments (*continued*)

On 23 June 2016, the United Kingdom voted to leave the European Union. In arriving at a post-Brexit plan, management assumed a regulatory environment where equivalence is granted but no passporting or freedom of services was expected. On this basis over the course of 2017, 2018 and into the early stages of 2019 the company has sought to transfer all mainland European business to AIU. For certain schemes where this has not been possible, and where management are keen to maintain relationships, the company is considering alternative options. Despite uncertainties surrounding Brexit at the time of approving these financial statements, this plan remains in force. The remaining EU business within the company's business plan does not make up a significant part of the overall expected profitability. Ultimately the company intends to cease writing new business in the EU.

The directors adopt a conservative investment policy investing predominantly in easily realisable investment grade corporate securities or cash.

As a subsidiary of AmTrust Financial Services, Inc. (formerly NASDAQ Global Market: AFSI) ('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.

On 29th November, AFSI announced the completion of the merger transaction in which Evergreen Parent, L.P., an entity formed by private equity funds managed by Stone Point Capital LLC, together with Barry Zyskind, Chairman and CEO of AmTrust Financial Services, Inc., George Karfunkel and Leah Karfunkel (collectively, the 'Karfunkel-Zyskind Family'), acquired approximately 45% of the company's issued and outstanding common shares that the Karfunkel-Zyskind Family and certain of its affiliates and related parties did not already own or control (the 'go-private transaction').

The company continues to benefit from a whole account quota share arrangement with a group reinsurance entity. The other major quota share arrangement the company held with Maiden Reinsurance Ltd remained in operation through 2018 but is no longer to be applied to new business from 1 January 2019. This quota share was only applied to part of the medical malpractice line of business and therefore its termination is only relevant on the final renewals of that business in the coming year as the future policies will be underwritten by AIU.

The current year financial position reflects a continued reduction in the percentage of business ceded to reinsurers resulting in increases in net premiums written and net premiums earned. Reinsurance commissions have also reduced as a result of this agreement resulting in a corresponding increase in operating costs.

### Restatement of prior year comparative

The financial statements contain two restatements of the prior year comparatives. The first relates to a change in inception dates on certain Medical Malpractice policies, this has no net impact on earnings and therefore profits in any given year. The second restatement relates to the inclusion of additional claims relating to the legal business as a result of new data. A full assessment of both of these restatements is included on page 24.

### Performance review

The company continues to have a strong net loss ratio and the forecast for 2019 has renewed focus on lines which will enhance the overall portfolio's return on equity. However, as results for the year include the strengthening of a number of reserve levels based upon developments during the year the company made a loss on technical activities of £7,855,000, reporting a combined ratio of 103%.

## AmTrust Europe Limited

### Strategic report for the year ended 31 December 2018 (*continued*)

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#### **Performance review (*continued*)**

##### ***Medical Malpractice (included in Note 3 'segmental information' under the liability heading)***

The company entered the Italian medical malpractice market in December 2009 as the market was hardening and developed a strong on-the-ground presence in Italy via a dedicated branch infrastructure. This line of business has made up a significant portion of the company results since entering the market, however, due to Brexit, AEL is no longer responding to new medical malpractice public hospital tenders in Italy, which are instead being referred to AIU. Business written in the company is therefore limited to renewals and extensions of contracts with existing hospitals and policies for smaller associations and individual doctors. The impact of this on the company is considered to be minimal as AEL is backfilling this business with other lines.

The AmTrust group continues to hold a strong position in the market place.

##### ***Legal Expenses (included in Note 3 'segmental information' under the miscellaneous and pecuniary loss heading)***

The company has actively diversified its legal expenses line of business so that is not overly dependent upon one particular market. Accordingly, it underwrites a variety of different products across multiple distribution channels in both the UK and overseas. The company's strategic objective is to become the leading provider in its chosen markets, defined either by territory, market segment or product type. The legal business is a specific area of growth for the 2019 year and as an 'A' rated insurer the company is well positioned to take advantage of this market. The company has a broad range of experience and skills that have allowed the development of innovative solutions suited to the current customer base.

Personal and Commercial "before the event" (BTE) legal expenses insurance continued to grow in 2018, meaning that the company is now one of the leading BTE providers in the UK and Ireland. BTE products are distributed through specialist managing general agents (often acting as coverholders) and insurance brokers. These BTE products are backed with access to 24/7 legal advice helplines.

Commercial "after the event" (ATE) legal expenses insurance is another growth area with opportunities in both the UK and overseas common law jurisdictions. The company has a dedicated business development function that focuses upon marketing Commercial ATE to law firms and their clients.

Trading conditions for Personal ATE remained challenging in 2018. The expiry of a binding authority agreement reduced overall written premiums. Performance was also negatively impacted by the results of certain legacy accounts. The company's remaining Personal ATE business continues to perform well. The implementation of the Civil Liability Act 2018 in April 2020 will reduce volumes for Personal ATE in respect of injury claims. Following implementation, most injury claims will fall into the Small Claims Track where there is minimal exposure to adverse costs, negating the requirement for ATE insurance. Despite these changes, the company remains optimistic about business levels and profitability within this line of business for 2019 where the focus will be on non-injury areas such as financial mis-selling.

##### ***Property (included in Note 3 'segmental information' under the property heading)***

The result before reinsurance in 2018 is broadly consistent with the prior year.

Looking forward into 2019 the market is expected to be increasingly more competitive. A key underwriting focus going forward is exposure management and to further develop the post code rating model seeking to increase the footprint of risk selection within the UK.

##### ***Casualty (included in Note 3 'segmental information' under the liability heading)***

A hardening of the market has provided opportunities and improved rates for the company's professional indemnity line of business. The strategy is to focus upon smaller firms and to underwrite on a primary basis. Underwriting volatility is mitigated by reinsurance protection. The finalisation of the acquisition of Collegiate Management Services Limited in the latter part of 2016 was a significant platform for growth in 2017 which has been consolidated during 2018.

Into 2019, the company's intention is for further consolidation, rather than significant growth, albeit the company remains open to considering further opportunities should they arise.

# AmTrust Europe Limited

## Strategic report for the year ended 31 December 2018 *(continued)*

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### Performance review *(continued)*

#### *Specialty Risks (included in Note 3 'segmental information' under the miscellaneous and pecuniary loss heading)*

The main lines of business within this class are warranty and structural defects. The performance of the warranty line of business has remained consistent with prior years and the company intends to maintain this line going forwards through consideration of less saturated markets. International expansion in this area presents opportunities for the company with South East Asia continuing to be an exciting prospect.

For the structural defects account, the transfer of mainland Europe business to AIU has started but is intended to complete during the early part of 2019, meaning the line of business has remained a similar size to the previous year. A strengthening of reserves has been included in the current year results, reducing overall returns. The company intends to reduce its exposure to accounts such as those where claims exposures are particularly long tail.

#### *Surety (included in Note 3 'Segmental information' under the surety heading)*

The group's wholly owned managing agent in Spain, and the business generated by it, has continued to grow, particularly the reinsurance inwards business from South America. In line with the company's risk appetite both quota share and excess of loss reinsurance is utilised to protect the account. The account is overseen by a professional team including lawyers, economists and accountants. Focus within this line of business will continue to be in Latin America as European business begins to be underwritten by AIU.

#### *Accident and health (included in Note 3 'Segmental information' under the accident and health heading)*

In 2017, new private health, personal accident and dental schemes were written in the UK and mainland Europe. At the same time, attention was on delivering improved underwriting performance from existing schemes.

The company is in the process of transferring much of the mainland European business to AIU in anticipation of Brexit. This transfer has to date been slower than planned meaning this class of business has remained broadly consistent with the prior year. The business remains profitable, before reinsurance, in line with expectations.

The company is actively considering new markets into which new products can be underwritten and therefore remains confident about its engagement in the accident and health market.

#### *Mortgage (included in Note 3 'segmental information' under the miscellaneous and pecuniary loss heading)*

During 2018 the company continued to write business which was previously underwritten by AMT Mortgage Insurance Limited ('AMIL'). AMIL is proceeding with Part VII transfer of its business to AEL and other group companies, which is expected to be completed by 2020 with an intention to close the company.

### Principal risks and uncertainties

The company continues to be aware of the business risks it faces. In common with other insurers, the company's earnings can be significantly impacted by unpredictable events and circumstances, latent claims developments and inconsistent judicial developments.

The company manages these risks and uncertainties by operating and maintaining a detailed risk analysis process. This involves the application of a structured, consistent and continuous process across the company for identifying, assessing and deciding upon a suitable response to the threats and opportunities that affect the successful achievement of the company's business objectives.

The principal risks from general insurance business arise from inaccurate pricing, fluctuations in the timing, frequency and severity of claims compared to expectations; inadequate reinsurance protection; and inadequate reserving.

## AmTrust Europe Limited

### Strategic report for the year ended 31 December 2018 (*continued*)

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#### Principal risks and uncertainties (*continued*)

The company writes a large amount of premium income through binding agents who are granted authority to accept risks on the company's behalf. All delegations of underwriting authority are strictly controlled. However, there is no absolute guarantee that an agent will always comply with the terms of the authority, which could expose the company to unforeseen losses.

The company establishes reserves for unpaid claims, defence costs and related expenses to cover its ultimate liability in respect of both reported claims and incurred but not reported claims (IBNR). The company's reserving procedures utilise strict actuarial methodologies with conservative input assumptions and are subject to peer review. However, the risk of the ultimate liabilities being materially different from the amounts currently reserved cannot be entirely eliminated.

The company also faces operational risk. This is the risk of loss arising from inadequate or failed internal processes, personnel, systems or from external events.

Details about the sensitivity of the company to market risk exposures in this regard are disclosed in note 2.

The main external risk currently facing the organisation relates to Brexit. As described above, the business plan for 2019 and overall strategy of the company in respect of insurance business is to minimise business written in the EU. The company has a high level of gross assets and liabilities in Euro but the net exposure has been reduced which decreases exposure to fluctuations in currency as a result of Brexit.

Whilst there remains a risk that the company will not be permitted to pay claims in respect of EU policies concluded prior to Brexit, we believe the risk is low and is mitigated by the following:

- The company is in the process of transferring all EU business to AIU.
- The European Insurance and Occupational Pensions Authority ('EIOPA') has issued recommendations for the insurance sector in light of the UK withdrawing from the EU without a withdrawal agreement advising National Competent Authorities (NCAs) in EU member states to allow for the orderly run-off of existing cross-border business in the event of a 'no deal' Brexit, with the appropriate supervision from the EU NCA.
- Many of the jurisdictions where the company has risk, most notably Italy, have introduced legislation to give effect to the EIOPA guidance.

The company's investment portfolio is largely held in investment grade corporate and government bonds which has a similar positive result on the stability of the company at this time.

Group risk is defined as the risk of any other group company causing a substantial failure in the ability of the company to meet its regulatory and legal requirements. These risks are managed through the implementation of effective corporate governance structures, on-going monitoring of the AmTrust Group credit ratings and the financial support through the guarantee with AmTrust International Insurance Ltd (Bermuda).

Information on the management of financial risk by the company is disclosed in note 2 to the financial statements. In particular, the company's exposure to interest rate risk, credit risk, liquidity risk, spread risk and currency risk are separately disclosed in that note.

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**AmTrust Europe Limited**  
**Strategic report**  
**for the year ended 31 December 2018 (continued)**

**Key performance indicators**

Below is a table showing the ratios as at 31 December 2018 which the directors consider to be key performance indicators.

	2018	2017 (restated*)
<i>Income Statement</i>		
Gross premium		
% Increase in gross premium written	1%	24%
Earned premium, net of reinsurance		
% Increase in earned premium	20%	18%
Technical account (loss) (£'000)	(7,855)	(1,258)
Net claims ratio (a)	60%	45%
Combined ratio (b)	103%	101%
<i>Statement of Financial Position</i>		
Total assets (£'000)	1,932,394	1,855,925
Total equity (£'000)	379,889	380,721
Investments (£'000)	568,895	524,429
<i>Solvency Overview</i>		
Solvency Capital Requirement coverage ('SCR')	130%	152%
Minimum Capital Requirement coverage ('MCR')	398%	566%

\*See Note 1.

(a) The net claims ratio is the percentage of claims costs incurred in relation to the premiums earned, net of reinsurance.

(b) The combined ratio is the percentage of technical charges in relation to the premiums earned, net of reinsurance.

**Approval**

This strategic report was approved on behalf of the Board.

  
**A G Mas Murcia**  
**Director**

Date: 7 May 2019



## **AmTrust Europe Limited**

### **Report of the directors for the year ended 31 December 2018**

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The directors present their report together with the audited financial statements for the year ended 31 December 2018

#### **Directors**

The names of the directors of the company at the date of this report are listed on the contents page of these financial statements.

#### **Going concern**

The company has considerable financial resources and a balanced book of business. After review of the key performance indicators, financial forecasts and budgets, and the key risks as outlined in note 2 to the financial statements, the directors have a reasonable expectation that the company has adequate resources available to continue in operational existence for the foreseeable future. The directors continue to adopt the going concern basis of accounting in preparing the financial statements.

On 1 January 2016, the company entered into the Solvency II regime applicable to European insurance and reinsurance undertakings. The company uses the standard formula to calculate its Solvency Capital Requirement under this regime. The directors have reviewed the company's solvency position and are content that this supports the continued use of the going concern basis in preparing the financial statements.

#### **Dividends**

No dividends were paid during the year (2017 - £nil). The directors do not recommend payment of a final dividend.

#### **Political and charitable donations**

The company has made no political or charitable donations during the year (2017 - £NIL).

#### **Financial instruments**

During the year the company held financial instruments. Details about these are shown in notes 2 and 12 of the financial statements.

#### **Branches outside the UK**

The company has a branch in Italy.

#### **Disclosure of information to auditor**

The directors who held office at the date of approval of this directors' report confirm that, as far as they are aware, there is no relevant audit information, being information required by the auditor in connection with their report, of which the company's auditor is unaware and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

#### **Independent auditor**

In accordance with Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

On behalf of the Board

  
A G Mas Murcia  
Director

Date: 7 May 2019

# **AmTrust Europe Limited**

## **Directors' statement and responsibilities**

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### **Statement of directors' responsibilities in respect of the strategic report, the directors' report and the financial statements**

The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

# AmTrust Europe Limited

## Income Statement for the year ended 31 December 2018

<b>Technical account – general business</b>			
	<b>Note</b>	<b>2018</b>	<b>2017</b>
		<b>£'000</b>	<b>(restated*)</b>
			<b>£'000</b>
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	3	497,642	490,720
Outward reinsurance premiums		(152,553)	(218,796)
<b>Net premiums written</b>		<b>345,089</b>	<b>271,924</b>
<b>Change in the gross provision for unearned premiums</b>	20	<b>(44,599)</b>	<b>(40,690)</b>
<b>Change in the provision for unearned premiums, reinsurers' share</b>	20	<b>(8,954)</b>	<b>10,800</b>
<b>Change in net provision for unearned premiums</b>		<b>(53,553)</b>	<b>(29,890)</b>
<b>Earned premiums, net of reinsurance</b>		<b>291,536</b>	<b>242,034</b>
<b>Claims incurred, net of reinsurance</b>			
Claims paid			
- gross amount		299,473	249,093
- reinsurers' share		(200,182)	(182,211)
<b>Net claims paid</b>		<b>99,291</b>	<b>66,882</b>
<b>Change in the provision for outstanding claims</b>			
- gross amount	20	21,675	34,575
- reinsurers' share	20	52,846	6,374
<b>Change in net provision for claims</b>		<b>74,521</b>	<b>40,949</b>
<b>Claims incurred, net of reinsurance</b>		<b>173,812</b>	<b>107,831</b>
<b>Net operating expenses</b>	5	<b>125,579</b>	<b>135,461</b>
<b>Total technical charges</b>		<b>299,391</b>	<b>243,292</b>
<b>Balance on the technical account for general business</b>	3	<b>(7,855)</b>	<b>(1,258)</b>

\*See Note 1.

All technical income and expenditure relates to the continuing activities of the company.

## AmTrust Europe Limited

### Income Statement for the year ended 31 December 2018 (continued)

Non-Technical account – general business	Note	2018 £'000	2017 (restated*) £'000
<b>Balance on the general business technical account</b>		(7,855)	(1,258)
Interest income		6,697	5,611
Rental (expense)/income		(625)	401
Unrealised (losses)/gains on investments		(5,509)	458
Realised gain on sale of investments		1,308	181
Interest expenses and charges		(802)	(230)
Unrealised (losses)/gain on subsidiary undertakings		(20,240)	16,292
Revaluation (loss) on investment property		(1,187)	(684)
Revaluation loss on tangible assets		(433)	(229)
Dividend income from subsidiary undertakings	11	32,494	47,988
Other income		262	294
<b>Profit on ordinary activities before tax</b>		<b>4,110</b>	<b>68,824</b>
Tax on profit on ordinary activities	8	(4,064)	1,138
<b>Retained profit for the year</b>	<b>18</b>	<b>46</b>	<b>69,962</b>

The notes on pages 15 to 56 form part of these financial statements.

\*See Note 1.

## AmTrust Europe Limited

### Statement of Comprehensive Income for the year ended 31 December 2018

	2018	2017
	£'000	(restated*) £'000
Profit for the financial year	46	69,962
Currency translation differences on foreign currency net investments	(767)	4,445
Total comprehensive income	<u>(721)</u>	<u>74,407</u>

The notes on pages 15 to 56 form part of these financial statements.

\*See Note 1.

# AmTrust Europe Limited

## Statement of Financial Position at 31 December

	Note	2018 £'000	2018 £'000	2017 (restated*) £'000	2017 (restated*) £'000	2016 (restated*) £'000	2016 (restated*) £'000
<b>Assets</b>							
Investments							
Investment property	10	7,417		8,604		9,462	
Investments in subsidiary undertakings	11	119,384		143,055		122,704	
Other financial investments	12	442,094		372,770		312,320	
			568,895		524,429		444,486
Reinsurers' share of technical provisions							
Provision for unearned premiums		133,370		156,047		144,062	
Claims outstanding		603,839		649,728		636,812	
	3,20		737,209		805,775		780,874
Debtors							
Debtors arising out of direct insurance operations	13	302,086		285,047		252,665	
Other debtors	14	10,672		3,305		3,302	
Amounts owed by group undertakings	16	115,409		54,262		69,452	
			428,167		342,614		325,419
Other assets							
Tangible assets	9	4,084		5,072		5,330	
Cash at bank and in hand		62,203		54,841		38,678	
			66,287		59,913		44,008
Prepayments and accrued income							
Deferred acquisition costs	15	93,275		89,154		79,180	
Prepayments		38,561		34,040		32,218	
			131,836		123,194		111,398
Total assets			1,932,394		1,855,925		1,706,185

The notes on pages 15 to 56 form part of these financial statements

\*See Note 1

# AmTrust Europe Limited

## Statement of Financial Position at 31 December (continued)

	Note	2018 £'000	2018 £'000	2017 (restated*) £'000	2017 (restated*) £'000	2016 (restated*) £'000	2016 (restated*) £'000
<b>Liabilities</b>							
Capital and reserves							
Called up share capital	17	75,044		75,044		71,385	
Share premium account	18	11,642		11,642		301	
Share based payment reserve	18	-		111		111	
Revaluation reserve	18	-		-		20	
Retained earnings	18	293,203		293,924		219,517	
Shareholder's funds	19		379,889		380,721		291,334
Technical provisions – gross amount							
Provision for unearned premiums		384,271		338,519		294,839	
Claims outstanding		910,066		878,741		819,399	
	3,20		1,294,337		1,217,260		1,114,238
Creditors							
Creditors arising out of direct insurance operations	21	106,805		81,942		85,045	
Other creditors including taxation and social security	22	43,280		32,598		16,364	
Amounts owed to parent and group undertakings		84,766		119,537		171,459	
			234,851		234,077		272,868
Accruals and deferred income	23		23,317		23,867		27,745
Total liabilities			1,932,394		1,855,925		1,706,185

The notes on pages 15 to 56 form part of these financial statements.

\*See Note 1

The financial statements were approved by the Board of Directors and authorised for issue on May 7, 2019.

On behalf of the Board

  
A G Mas Murcia  
Director

## AmTrust Europe Limited

### Statement of Changes in Equity for the year ended 31 December

	Called-up share capital £'000	Share premium account £'000	Share based payment reserve £'000	Revaluation reserve £'000	Retained earnings £'000	Shareholder's funds £'000
Balance as at 1 January 2018 (restated*)	75,044	11,642	111	-	293,924	380,721
Profit for the year	-	-	-	-	46	46
Other comprehensive income for the year	-	-	-	-	(767)	(767)
Total comprehensive income for the year	-	-	-	-	(721)	(721)
Movement on employee share scheme	-	-	(111)	-	-	(111)
Balance as at 31 December 2018	75,044	11,642	-	-	293,203	379,889
Balance as at 1 January 2017 (restated*)	71,385	301	111	20	219,517	291,334
Profit for the year	-	-	-	-	69,962	69,962
Other comprehensive income for the year	-	-	-	-	4,445	4,445
Total comprehensive income for the year	-	-	-	-	74,407	74,407
Issue of share capital	3,659	11,341	-	-	-	15,000
Revaluation in the year	-	-	-	(20)	-	(20)
Balance as at 31 December 2017	75,044	11,642	111	-	293,924	380,721

The notes on pages 15 to 56 form part of these financial statements.

\*See Note 1



# AmTrust Europe Limited

## Notes forming part of the financial statements for the year ended 31 December 2018

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### 1 Accounting policies

#### *General information*

The company transacts general insurance business in the UK and through a branch in Italy. The company is a private company limited by shares and is incorporated in England. The address of its registered office is 10<sup>th</sup> Floor, Market Square House, St James's Street, Nottingham, NG1 6FG.

#### *Statement of compliance*

The financial statements have been prepared under the provision of the Large and Medium sized Companies and Groups (Accounts and Reports) Regulation 2008 ('SI 2008/410') relating to insurance companies.

The financial statements have been prepared in accordance with applicable United Kingdom Accounting Standards, including Financial Reporting Standards ('FRSs') 102 and 103, and the Companies Act 2006.

The company is exempt under section 401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements. The company and its subsidiary undertakings are owned by AmTrust International Limited ('AIL') which is wholly owned by AmTrust International Insurance Limited ('AIL') and in turn by the ultimate US parent company, AFSI. The company is included by full consolidation in the consolidated financial statements of AIL which are publicly available from AILs registered address (see Note 27) under an accounting convention considered equivalent to UK Accounting Standards (UK Generally Accepted Accounting Practice 'UK GAAP'). These financial statements therefore present information about the company as an individual undertaking and not about its group.

#### *Basis of preparation*

The financial statements have been prepared under the historical cost accounting rules except for assets carried at market value as referenced in the principal accounting policies as permitted by FRS 102. The principal accounting policies applied in the preparation of these financial statements are set out below. With the exception of the items highlighted under Restatement of prior year comparatives below, these policies have been consistently applied to all the years presented.

The preparation of financial statements in conformity with FRS 102 and FRS 103 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements have been disclosed as appropriate within the principal accounting policies in note 1 and in the risk disclosures in note 2. The most significant areas of uncertainty within the accounts relate to the estimations involved in calculating the technical provisions, earned premiums, pipeline premiums, lapse provisions and valuing investments in related undertakings.

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with, including notification of, and no objection to, the use of exemptions by the company's shareholders. The company has taken advantage of the exemption under FRS 102, paragraph 1.12(b), not to prepare a cash flow statement as it is consolidated in the financial statements of its intermediate parent company AIL which are available from that company's registered office (see note 27) and produced under UK GAAP. The company has previously taken advantage of the exemption under FRS 102 1.12(d) not to prepare the requirements of Section 26 – Share Based Payments, specifically paragraphs 26.18(b), 26.19 to 26.21 and 26.23 as it has been consolidated in the financial statements of its ultimate parent company AFSI which are available from that company's registered office (see note 27) and produced under US GAAP which contains equivalent disclosure to UK GAAP. All UK employees who were part of the scheme were transferred to fellow subsidiary AmTrust Management Services Limited and therefore there is no remaining material exposures to share based payments within the company.

The company has taken advantage of the exemption allowed by FRS 102, paragraph 33.1A not to disclose any transactions with entities that are 100% owned within the AIL group, the consolidated financial statements of which are publicly available.

# AmTrust Europe Limited

Notes forming part of the financial statements  
for the year ended 31 December 2018 (*continued*)

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## 1 Accounting policies (*continued*)

### *Basis of preparation (continued)*

The company has considerable financial resources and a balanced book of business. After review of the key performance indicators, financial forecasts and budgets, and the key risks as outlined in note 2 to the financial

statements, the directors have a reasonable expectation that the company has adequate resources available to continue in operational existence for the foreseeable future. The directors continue to adopt the going concern basis of accounting in preparing the financial statements.

### *Principal accounting policies*

The principal accounting policies applied in the preparation of these financial statements are set out below.

### *Basis of accounting for underwriting activities*

All classes of business written are accounted for on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance.

### *Premiums*

Under the annual basis of accounting, written premiums comprise the premiums receivable on contracts entered into in the financial period plus adjustments to premiums and premiums invoiced in the period which relate to contracts entered into in previous periods but which had not previously been reflected in written premiums. Estimates are included of pipeline premiums due but not yet notified to the company.

Written premiums are stated gross of commissions payable to intermediaries and exclusive of taxes and duties levied on premiums, except where the intermediary is responsible for setting the amount charged to the ultimate insured without reference to the company. Certain classes of business are "net rated" and in this situation written premiums are stated net of commissions payable to intermediaries. The amount of any tax and levies due but not yet paid is included in "Other creditors including taxation and social security" in the Statement of Financial Position.

Outward reinsurance premiums are accounted for as written in the same accounting period as the premiums for the related direct or inwards reinsurance business.

### *Claims*

Claims incurred consist of the estimated cost of all losses occurring during the period, whether reported or not, including related direct and indirect claims handling costs and adjustments to claims outstanding from previous years.

### *Technical provisions*

The technical provisions carried forward at the end of the period comprise:

#### *i) Unearned premium reserve*

Except where an alternative basis better matches recognition to the specific profile of the underlying risk, the following standard approach is adopted.

Unearned premiums are calculated on the 365<sup>th</sup> method or based upon claims development experience with separate provision being made for deferred acquisition costs. In respect of business where the period of risk exceeds 12 months, unearned premiums are calculated on a time apportionment basis over the period of the risk.

## AmTrust Europe Limited

### Notes forming part of the financial statements for the year ended 31 December 2018 (continued)

#### 1 Accounting policies (continued)

Outward quota share reinsurance premiums follow the same basis. Outward excess of loss reinsurance premiums on policies purchased on a "risks attaching during" basis are earned over the same accounting period as the written premiums attaching to the contract for the related direct or inwards reinsurance business. Outward excess of loss reinsurance premiums on policies purchased on a "loss occurring during" basis are earned over the period of coverage of these reinsurance contracts.

#### Technical provisions (continued)

##### ii) Claims outstanding

- (a) Provision is made for the estimated cost of claims notified to the company but not settled at the end of the period on an individual case basis. Case estimates are generally set by skilled claims technicians applying their experience and knowledge to the evidence available, and are updated to reflect any changes in circumstances as they become known. Salvage and other similar recoveries are brought to account as and when received.
- (b) In addition to amounts provided under a) above, provision is made for the estimated cost of claims incurred before the end of the period but either not reported to the company (incurred but not reported 'IBNR') or not enough reported to the company (incurred but not enough reported 'IBNER'). The estimation of the cost of these claims is based upon various techniques using a blend of past claims development experience (or benchmarks) and initial loss ratio expectations which are used to estimate the ultimate cost of the claims. The estimation techniques used take into account the level of business and the nature of the policies underwritten by the company.
- (c) Provision is made for the estimated cost of managing claims incurred before the end of the period. This is based on the administrative cost of managing each claim, the number of claims outstanding and the amount of claims outstanding at the end of the financial period.
- (d) Reinsurance is recognised as being recoverable against outstanding claims on the basis of the reinsurance contract terms concerned.
- (e) An additional management margin is held as a provision against the uncertainty in the estimation process. This is calculated as a proportion of the case reserves and IBNR and IBNER with the proportion judgmentally being selected based on the uncertainty within each class of business.

The provision for claims outstanding is based on information available at the Statement of Financial Position date. Delays are experienced in the notification and settlement of claims, and accordingly the ultimate cost of such claims cannot be known with certainty at the Statement of Financial Position date. Subsequent information and events may result in the ultimate liability being less than, or greater than, the amount provided. The company underwrites some classes of business in which the emergence and development of claims is slower than average, and the estimation of the provision required for these classes is accordingly more uncertain. Any differences between provisions and subsequent settlements are dealt with in the technical account – general business in the period in which the claim is settled or a revised estimate of the cost of the settlement made. Further details of the use of judgements and estimates in the valuation of Technical Provisions is described on page 23.

##### iii) Unexpired risks provision

- (a) Provisions are made for any deficiencies arising when incurred premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses after taking into account future return on the investments supporting the unearned premiums provision and unexpired risks provision. The expected claims are calculated based on information available at the Statement of Financial Position date.
- (b) Unexpired risk surpluses and deficits are offset where business classes are managed together and a provision is made if an aggregate deficit arises.

# AmTrust Europe Limited

Notes forming part of the financial statements  
for the year ended 31 December 2018 *(continued)*

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## 1 Accounting policies *(continued)*

### *Acquisition costs*

Acquisition costs are comprised of commission payable to third parties, including related parties.

Deferred acquisition costs represent the proportion of acquisition costs incurred which corresponds to the unearned premiums provision.

An equivalent approach is adopted to reinsurance commission receivable.

### *Reinsurance*

Contracts entered into by the company with reinsurers, under which the company is compensated for losses on one or more contracts issued by the company and that meet the classification requirements for insurance contracts, are classified as reinsurance contracts.

Insurance contracts entered into by the company under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts, provided there is significant transfer of insurance risk.

The amounts that will be recoverable from reinsurers are estimated based upon the gross provisions, having due regard to collectability. Reinsurance recoveries in respect of estimated claims incurred but not reported are assumed to be consistent with the historical pattern of such recoveries, adjusted to reflect changes in the nature and extent of the company's reinsurance programme over time. The recoverability of reinsurance recoveries is assessed having regard to market data on the financial strength of each of the reinsurance companies. The reinsurers' share of claims incurred, in the Income Statement, reflects the amounts received or receivable from reinsurers in respect of those claims incurred during the period. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised in the Income Statement as 'Outward reinsurance premiums' over the relevant risk period.

Assets created by reinsurance transactions are measured on a basis consistent with the related reinsured liability, subject to any allowance for impairment.

### *Investments*

Investments are recognised on the basis of transaction trade dates.

#### *Investments in subsidiary undertakings and participating interests*

Investments in subsidiary undertakings are stated at fair value based upon the directors' valuation with any changes in fair value recognised in the Income Statement.

Investments in associates and participating interests are stated at cost less impairment with any changes recognised in the Income Statement.

Further details of the use of judgements and estimates in the valuation of investments of subsidiary undertakings and participating interests are given on page 23.

# AmTrust Europe Limited

Notes forming part of the financial statements  
for the year ended 31 December 2018 (*continued*)

## 1 Accounting policies (*continued*)

### *Investment property*

The company owns land and buildings which are part owner occupied and part held as investment property. The company has elected to carry the investment property at fair value. Full valuation of the investment property is carried out on an annual basis by independent professionally qualified valuers. The aggregate surplus or deficit on revaluation of the investment property is taken to the non-technical account.

### *Tangible Assets*

#### *i) Land and buildings*

The company has elected to carry the owner occupied element of land and buildings at fair value less depreciation as is permitted under FRS 102. Full valuations are made by independent, professionally qualified valuers on a regular basis.

The aggregate surplus or deficit on revaluation of properties held at fair value is taken to revaluation reserve to the extent that this does not move to a deficit position. Any further movement beyond that point is taken to the non-technical account.

#### *ii) Other tangible assets*

Other tangible fixed assets are measured at cost less accumulated depreciation and any accumulated impairment losses.

### *Depreciation*

Depreciation is calculated to write off the cost of tangible fixed assets, less their estimated residual value, on a straight-line basis over their estimated useful lives, which are as follows:

Computer equipment and software	- 25% - 33½% per annum
Motor vehicles	- 25% per annum
Fixtures, fittings and office equipment	- 25% per annum
Freehold property	- Over 40 years

### *Taxation*

Tax on ordinary activities comprises current and deferred tax.

#### *Current tax*

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

#### *Deferred taxation*

Deferred taxation is provided in full on timing differences which result in an obligation at the Statement of Financial Position date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and substantially enacted tax law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those included in financial statements. Deferred taxation assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred taxation assets and liabilities are not discounted.

# AmTrust Europe Limited

Notes forming part of the financial statements  
for the year ended 31 December 2018 (continued)

## 1 Accounting policies (continued)

### *Financial instruments*

#### *Financial assets*

In applying FRS 102, the company has chosen to apply the recognition and measurement provisions of IAS 39 Financial Instruments.

The company elects to account for its investments in corporate and government bonds at fair value through profit and loss. Management determines the classification of its investments at initial recognition. All other financial assets are carried at amortised cost.

#### *i) Fair value through profit and loss*

The company elects to carry its investments at fair value through profit and loss at inception if doing so results in more relevant information. These assets are managed and their performance evaluated on a fair value basis, and information about their fair values is provided internally to key management personnel on a regular basis. The fair values of these financial instruments are based on quoted Bid prices as at the Statement of Financial Position date.

#### *ii) Loans and receivables*

The other financial assets within the Statement of Financial Position are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

When these assets are recognised initially they are valued at the transaction price. Loans and receivables are subsequently measured at amortised cost using the effective interest method. Receivables arising from insurance contracts are included in this category and are reviewed for impairment as part of the impairment review of loans and receivables. This basis of valuation is viewed by the directors as being appropriately prudent having regard to the likely realisable value.

#### *iii) Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in fair value, and are used by the company in the management of its short term commitments. They are carried at amortised cost in the Statement of Financial Position.

#### *iv) Impairment of financial assets*

For financial assets not carried at fair value through profit and loss, the company assesses at each Statement of Financial Position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the assets and that event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of financial assets is impaired includes observable data that comes to the attention of the company about the following events:

- a) significant financial difficulty of the issuer or obligor;
- b) a breach of contract, such as a default or delinquency in interest or principal payments;
- c) the company, for economic or legal reasons relating to the counterparty's financial difficulty, granting to the counterparty a concession that the company would not otherwise consider;
- d) it has become probable that the counterparty will enter bankruptcy or other financial reorganisation; and
- e) observable data indicating that there has been a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, even though the decrease cannot yet be identified with the individual financial assets in the company, such as adverse national or local economic conditions or adverse changes in industry conditions.

## AmTrust Europe Limited

### Notes forming part of the financial statements for the year ended 31 December 2018 (continued)

#### 1 Accounting policies (continued)

The company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred on loans and receivables carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the Income Statement for the period. As a practical expedient, the company may measure impairment on the basis of an instrument's fair value using an observable market price.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the company's grading process that considers asset type, industry, geographical location, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the issuer's ability to pay all amounts due under the contractual terms of the debt instrument being evaluated.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed through the Income Statement for the period.

#### *Financial liabilities*

Financial liabilities are recognised when contractual commitments arise.

Creditors are financial liabilities and are recognised initially at fair value, net of directly attributable transaction costs. Creditors are subsequently stated at amortised cost, using the effective interest method.

#### *Investment return*

Interest income is recognised on an accruals basis. Realised gains and losses on investments carried at fair value through the profit and loss are calculated as the difference between net sales proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the fair value at the Statement of Financial Position date and their purchase price or their fair value at the last Statement of Financial Position date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

#### *Leasing and hire purchase commitments*

Assets obtained under hire purchase contracts and leases which result in the transfer to the company of substantially all the risks and rewards of ownership (finance leases) are capitalised as tangible fixed assets at the estimated present value of underlying lease payments and are depreciated in accordance with the above policy. Obligations under such agreements are included in creditors net of finance charges allocated to future periods. The finance element of the rental payments is charged to the Income Statement over the period of the lease or hire purchase contract so as to produce a constant periodic rate of charge on the outstanding balance of the net obligation in each period.

Rentals payable under operating leases are charged on a straight-line basis over the term of the lease.

# AmTrust Europe Limited

Notes forming part of the financial statements  
for the year ended 31 December 2018 (*continued*)

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## 1 Accounting policies (*continued*)

### *Defined contribution pension plans*

The company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. Once the contributions have been paid the company has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown in accruals in the Statement of Financial Position. The assets of the plan are held separately from the company in independently administered funds.

### *Share based payments*

The fair value of these equity-settled share-based payments is measured at the date of the grant and is recognised as an expense on a straight-line basis over the vesting period, with a corresponding increase in the share based payment reserve (representing a capital contribution by the parent) based on the company's estimate of the number of instruments that will satisfy non-market vesting conditions. Upon exercise, AmTrust Financial Services, Inc., does not make a recharge to the company in respect of share awards granted to the company's employees.

The company has previously applied the requirements of FRS 102 Section 26 Share-based Payment. FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with, including notification of, and no objection to, the use of exemptions by the company's shareholders. The company has previously taken advantage of the exemption under Financial Reporting Standard 102, paragraph 1.12(d), not to prepare various share based payment disclosures as it is consolidated in the financial statements of its ultimate parent company AFSI which are available from that company's registered office (see note 27) and produced under US GAAP, which contains equivalent disclosure to UK GAAP. All UK employees who were part of the scheme were transferred to fellow subsidiary AmTrust Management Services Limited and therefore there is no remaining material exposures to share based payments within the company.

### *Share capital*

The called up share capital is the amount paid up on the shares issued, up to their nominal value.

### *Share premium account*

The share premium account is the amount paid up on the shares issued in excess of their nominal value.

### *Foreign currency translation*

The company's financial statements are presented in pound sterling, rounded to thousands, which is the company's functional currency. The company operates a branch in Italy which has a Euro functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the Statement of Financial Position date.

Non-monetary assets and liabilities denominated in foreign currencies are translated at the respective historic rates applicable to each such asset or liability.

In accordance with FRS 103, unearned premium reserve and deferred acquisition costs are treated as monetary assets for this purpose.

All differences are taken to the Income Statement.



**Notes forming part of the financial statements  
for the year ended 31 December 2018 (continued)**

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**1 Accounting policies (continued)**

*Foreign currency translation (continued)*

The results and financial position of the Italian branch are translated into the presentation currency as follows:

- a) assets and liabilities are translated at the closing rate at the Statement of Financial Position date;
- b) Income and expenses are translated at the average rate of exchange during the year; and
- c) all resulting exchange differences are recognised in other comprehensive income.

*Use of judgements and estimates*

In preparing these financial statements, the directors of the company have made judgements, estimates and assumptions that affect the application of the company's accounting policies and the reported in the Statement of Financial Position and the Income Statement.

Discretionary judgement and estimates are of significance for the following items in particular: fair values and impairments of financial instruments, fair value of subsidiaries, earned premiums, lapse provisions and technical provisions.

Earned premiums are calculated on the 365ths method or based upon claims development experience with separate provision being made for deferred acquisition costs. In respect of business where the period of risk exceeds 12 months, earned premiums are calculated on a time apportionment basis over the period of the risk. This latter approach is inherently more judgmental and therefore requires consideration of claims curves relating to the associated business.

Estimates are included for pipeline premiums due but not yet notified to the company. These estimates are provided by underwriters and monitored on a frequent and ongoing basis.

The lapse provision includes estimates for lapse rates and loss ratios based upon all available historical information. These are reviewed regularly by management.

In insurance and reinsurance, the use of estimates for measuring technical provisions is of substantial significance, given that measurement is based on models and the development of future cash flows from insurance contracts cannot be conclusively predicted. Judgement and estimates based on management's knowledge of the business can be an important factor.

The company's processes are geared to determining amounts as accurately as possible, taking into account all relevant known information, specifically linked to the line of business underwritten. Available factual information and management's knowledge of the items concerned are the bases for determining accurate estimates at the reporting date. Estimates may have to be adjusted in the course of time to take into account new knowledge.

Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Judgements and estimates in relation to financial instruments are outlined in note 2.

*Valuation of investments in subsidiary undertakings and participating interests*

Investments are initially recognised at fair value on the date at which the company obtains control of the subsidiary. Fair value is inherently volatile and therefore a high level of judgment is used in arriving at the valuations within the financial statements. Management use a combination of the underlying net assets in the subsidiary undertakings and where relevant, recent purchase prices, to arrive at appropriate fair values. The company monitors the underlying risk appetites of all subsidiaries to ensure volatility is kept to a minimum. The directors continue to assess the performance of subsidiary undertakings to ensure fair values are based on the most recent financial information.

The company's processes are geared to determining amounts as accurately as possible, taking into account all relevant known information, specifically linked to the line of business underwritten. Available factual information and management's knowledge of the items concerned are the bases for determining accurate estimates at the reporting date. Estimates may have to be adjusted in the course of time to take into account new knowledge.

## AmTrust Europe Limited

Notes forming part of the financial statements  
for the year ended 31 December 2018 (*continued*)

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### 1 Accounting policies (*continued*)

#### *Restatement of prior year comparative*

In respect of Medical Malpractice business, the company has historically assumed an annual contract expiry date of 31 December of each year and in turn the new annual contract effective date was also 31 December of the same year. Upon a recent legal review of the contract, management determined that the annual contract expiry date is 31 December of each year, but the actual date on which AEL is first on risk for the new annual contract is 1 January of the following year.

This legal clarification required a change in the assumption of the inception date changes when the premium is recognised as written within the accounts and therefore requires a restatement of prior year accounts to reflect these premiums, previously incepting at the end of each period, to instead incept at the start of the following.

All related reinsurance balances have been restated to reflect the appropriate quota share agreement operating over this line of business in each financial year.

All relevant broker and reinsurance balances have been updated to reflect the commission and quota share agreements covering this line of business, including relevant IPT payables.

There are no material impacts on earnings (or other related net income statement items) as all premiums were previously recorded as unearned.

Furthermore, in relation to a specific product within the legal line of business, claims that had previously been included net within commission costs should have been included within the claims costs for the same business. These claims were settled by the coverholder acting on behalf of the company using amounts retained from premiums collected. The company has also reassessed its overall obligations under the relevant insurance contracts written through this coverholder, and has recognised additional losses in 2016. The 2017 Statement of financial position has been restated to reflect this. While management believe there are potential recoveries due against these claims costs, in accordance with FRS 102, it has been deemed prudent and appropriate not to recognise these recoveries until they are virtually certain.

## AmTrust Europe Limited

### Notes forming part of the financial statements for the year ended 31 December 2018 (continued)

#### 1 Accounting policies (continued)

The following amounts have been adjusted within the 2016 and 2017 Statement of Financial Positions and 2017 Income Statement.

	2017 As previously reported £'000	Adjustment £'000	Adjustment £'000	2017 (restated*) £'000
<b>Earned premiums, net of reinsurance</b>				
Gross premiums written	455,823	34,897	-	490,720
Outward reinsurance premiums	(193,575)	(25,221)	-	(218,796)
<b>Net premiums written</b>	<b>262,248</b>	<b>9,676</b>	<b>-</b>	<b>271,924</b>
<b>Change in the gross provision for unearned premiums</b>	<b>(5,793)</b>	<b>(34,897)</b>	<b>-</b>	<b>(40,690)</b>
Change in the provision for unearned premiums, reinsurers' share	(14,421)	25,221	-	10,800
<b>Change in net provision for unearned premiums</b>	<b>(20,214)</b>	<b>(9,676)</b>	<b>-</b>	<b>(29,890)</b>
<b>Earned premiums, net of reinsurance</b>	<b>242,034</b>	<b>-</b>	<b>-</b>	<b>242,034</b>
<b>Claims Incurred, net of reinsurance</b>				
Claims paid				
- gross amount	248,839	-	254	249,093
- reinsurers' share	(182,078)	-	(133)	(182,211)
<b>Net claims paid</b>	<b>66,761</b>	<b>-</b>	<b>121</b>	<b>66,882</b>
<b>Change in the provision for outstanding claims</b>				
- gross amount	34,575	-	-	34,575
- reinsurers' share	6,374	-	-	6,374
<b>Change in net provision for claims</b>	<b>40,949</b>	<b>-</b>	<b>-</b>	<b>40,949</b>
<b>Claims Incurred, net of reinsurance</b>	<b>107,710</b>	<b>-</b>	<b>121</b>	<b>107,831</b>
Net operating expenses	135,582	-	(121)	135,461
<b>Total technical charges</b>	<b>243,292</b>	<b>-</b>	<b>-</b>	<b>243,292</b>
<b>Balance on the technical account for general business</b>	<b>(1,258)</b>	<b>-</b>	<b>-</b>	<b>(1,258)</b>

# AmTrust Europe Limited

Notes forming part of the financial statements  
for the year ended 31 December 2018 (continued)

## 1 Accounting policies (continued)

### Restatement of prior year comparative (continued)

	2017 As previously reported £'000	Adjustment £'000	Adjustment £'000	2017 (restated*) £'000
<b>Assets</b>				
Investments				
Investment property	8,604	-	-	8,604
Investments in subsidiary undertakings	143,055	-	-	143,055
Other financial investments	372,770	-	-	372,770
	<u>524,429</u>	<u>-</u>	<u>-</u>	<u>524,429</u>
Reinsurers' share of technical provisions				
Provision for unearned premiums	174,654	(18,606)	-	156,047
Claims outstanding	649,728	-	-	649,728
	<u>824,832</u>	<u>(18,606)</u>	<u>-</u>	<u>805,775</u>
Debtors				
Debtors arising out of direct insurance operations	356,409	(71,362)	-	285,047
Other debtors	3,305	-	-	3,305
Amounts owed by group undertakings	54,262	-	-	54,262
	<u>413,976</u>	<u>(71,362)</u>	<u>-</u>	<u>342,614</u>
Other assets				
Tangible assets	5,072	-	-	5,072
Cash at bank and in hand	54,841	-	-	54,841
	<u>59,913</u>	<u>-</u>	<u>-</u>	<u>59,913</u>
Prepayments and accrued income				
Deferred acquisition costs	101,491	(12,337)	-	89,154
Prepayments	34,041	-	-	34,040
	<u>135,532</u>	<u>(12,337)</u>	<u>-</u>	<u>123,194</u>
Total assets	<u>1,958,232</u>	<u>(102,307)</u>	<u>-</u>	<u>1,855,925</u>

## AmTrust Europe Limited

Notes forming part of the financial statements  
for the year ended 31 December 2018 (continued)

### 1 Accounting policies (continued)

#### Restatement of prior year comparative (continued)

	2017 As previously reported £'000	Adjustment £'000	Adjustment £'000	2017 (restated*) £'000
<b>Liabilities</b>				
Capital and reserves				
Called up share capital	75,044	-	-	75,044
Share premium account	11,642	-	-	11,642
Share based payment reserve	111	-	-	111
Revaluation reserve	-	-	-	-
Retained earnings	295,640	-	(1,716)	293,924
	<u>382,437</u>	<u>-</u>	<u>(1,716)</u>	<u>380,721</u>
Shareholder's funds				
Technical provisions – gross amount				
Provision for unearned premiums	397,374	(58,855)	-	338,519
Claims outstanding	878,741	-	-	878,741
	<u>1,276,115</u>	<u>(58,855)</u>	<u>-</u>	<u>1,217,260</u>
Creditors				
Creditors arising out of direct insurance operations	104,499	(29,706)	7,149	81,942
Other creditors including taxation and social security	45,534	(12,507)	(429)	32,598
Amounts owed to parent and group undertakings	124,541	-	(5,004)	119,537
	<u>274,574</u>	<u>(42,213)</u>	<u>1,716</u>	<u>234,077</u>
Accruals and deferred income	25,106	(1,239)	-	23,867
	<u>299,680</u>	<u>(43,452)</u>	<u>-</u>	<u>256,228</u>
<b>Total liabilities</b>	<b>1,958,232</b>	<b>(102,307)</b>	<b>-</b>	<b>1,855,925</b>

# AmTrust Europe Limited

Notes forming part of the financial statements  
for the year ended 31 December 2018 (continued)

## 1 Accounting policies (continued)

### Restatement of prior year comparative (continued)

	2016 As previously reported £'000	Adjustment £'000	Adjustment £'000	2016 (restated*) £'000
<b>Assets</b>				
Investments				
Investment property	9,462	-	-	9,462
Investments in subsidiary undertakings	122,704	-	-	122,704
Other financial investments	312,320	-	-	312,320
	<u>444,486</u>	<u>-</u>	<u>-</u>	<u>444,486</u>
Reinsurers' share of technical provisions				
Provision for unearned premiums	187,890	(43,828)	-	144,062
Claims outstanding	636,812	-	-	636,812
	<u>824,702</u>	<u>(43,828)</u>	<u>-</u>	<u>780,874</u>
Debtors				
Debtors arising out of direct insurance operations	366,340	(113,675)	-	252,665
Other debtors	3,302	-	-	3,302
Amounts owed by group undertakings	69,452	-	-	69,452
	<u>439,094</u>	<u>(113,675)</u>	<u>-</u>	<u>325,419</u>
Other assets				
Tangible assets	5,330	-	-	5,330
Cash at bank and in hand	38,678	-	-	38,678
	<u>44,008</u>	<u>-</u>	<u>-</u>	<u>44,008</u>
Prepayments and accrued income				
Deferred acquisition costs	103,876	(24,697)	-	79,180
Prepayments	32,218	-	-	32,218
	<u>136,094</u>	<u>(24,697)</u>	<u>-</u>	<u>111,398</u>
<b>Total assets</b>	<u>1,888,384</u>	<u>(182,199)</u>	<u>-</u>	<u>1,706,185</u>

## AmTrust Europe Limited

### Notes forming part of the financial statements for the year ended 31 December 2018 *(continued)*

#### 1 Accounting policies *(continued)*

##### *Restatement of prior year comparative (continued)*

	2016 As previously reported £'000	Adjustment £'000	Adjustment £'000	2016 (restated*) £'000
<b>Liabilities</b>				
<i>Capital and reserves</i>				
Called up share capital	71,385	-	-	71,385
Share premium account	301	-	-	301
Share based payment reserve	111	-	-	111
Revaluation reserve	20	-	-	20
Retained earnings	221,233	-	(1,716)	219,517
	<u>293,050</u>	<u>-</u>	<u>(1,716)</u>	<u>291,334</u>
<i>Shareholder's funds</i>				
	293,050	-	(1,716)	291,334
<i>Technical provisions – gross amount</i>				
Provision for unearned premiums	388,591	(93,752)	-	294,839
Claims outstanding	819,399	-	-	819,399
	<u>1,207,990</u>	<u>(93,752)</u>	<u>-</u>	<u>1,114,238</u>
<i>Creditors</i>				
Creditors arising out of direct insurance operations	143,382	(65,486)	7,149	85,045
Other creditors including taxation and social security	36,715	(19,922)	(428)	16,364
Amounts owed to parent and group undertakings	176,463	-	(5,004)	171,459
	<u>356,560</u>	<u>(85,408)</u>	<u>1,717</u>	<u>272,868</u>
<i>Accruals and deferred income</i>				
	30,784	(3,039)	-	27,745
	<u>1,888,384</u>	<u>(182,199)</u>	<u>-</u>	<u>1,706,185</u>
<b>Total liabilities</b>				
	<u>1,888,384</u>	<u>(182,199)</u>	<u>-</u>	<u>1,706,185</u>

## **AmTrust Europe Limited**

**Notes forming part of the financial statements  
for the year ended 31 December 2018 (continued)**

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### **2 Management of risk**

#### *Management of insurance risk*

The predominant risk to which the company is exposed is Insurance risk which is assumed through the underwriting process. Insurance risk can be sub-categorised into underwriting and reserving risk.

#### **Underwriting risk**

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

The company underwrites a range of insurance risks within a number of different classes of business. Within each class the features of the insurance risk to which the company is exposed differ in terms of frequency and severity. The company monitors the performance of each class of business and that information is used to drive pricing strategies for new and renewal business.

Management monitors risk primarily on a class basis as this is believed to be the key driver for concentration of risk. However, the performance of individual schemes and programmes within each class is also monitored. Corrective action is taken if a particular scheme or programme is not performing as expected.

The company ensures that the underwritten risks are well diversified in terms of type and amount of risk and geography. Furthermore, underwriting limits and guidelines are in place to enforce appropriate risk selection criteria.

The Actuarial Pricing team review new business to determine that rates are adequate. Within underwriting teams, a peer review also takes place. The company uses a suite of Key Risk Indicators ('KRIs') to monitor its exposure to underwriting risks that are evaluated each quarter. Furthermore, underwriting performance is monitored against risk appetites in terms of volume of written premium, underwriting profit and concentration via the KRI reporting process. These include: volume of premium underwritten, by class of business; priced loss ratios in comparison with plan; ultimate loss ratios in comparison with plan; concentration of premium and profit contribution by class; and deterioration in prior year reserves.

The company also uses reinsurance to mitigate underwriting risk. This takes the form of a group quota-share agreement with AmTrust International Insurance Ltd (Bermuda) on all business written by the company as well as quota share and excess of loss contracts on individual classes of business with external providers.

The company's insurance underwriting strategy is to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks wherever possible to reduce the variability of the expected outcome. The company seeks to diversify in terms of type and amount of risk and geographical location in order to minimise exposure incurred by aggregating risk.

#### **Reserving risk**

Reserve risk is the risk that estimates in respect of insurance claims are ultimately insufficient to fully settle those claims and associated expenses.

The company also has specialised claims teams in place to manage claims and monitor risks on an on-going basis to ensure decisions are based on accurate up to date information.



## AmTrust Europe Limited

### Notes forming part of the financial statements for the year ended 31 December 2018 *(continued)*

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#### 2 Management of risk *(continued)*

##### Reserving risk *(continued)*

###### *i) Sources of uncertainty in the estimation of future claim payments*

The company has employed techniques and assumptions that management believe are appropriate for estimating the Insurance liabilities. However, the results of these techniques are subject to inherent model and parameter uncertainty and it should be recognised that future claim emergence is likely to deviate, perhaps materially, from actuarial estimates. The estimates are subject to uncertainty from various sources, including but not limited to, changes in claim reporting patterns, claim settlement patterns, judicial decisions, legislation, and general economic conditions. This uncertainty stems from several factors including lack of historical data, uncertainty over events yet to occur, uncertainty with regard to claim costs, coverage interpretations and the judicial, statutory and regulatory provisions under which the claims may be ultimately resolved. Therefore, it is certain that actual future losses will not develop exactly as projected and may vary from management's projections. Further, the projections make no provisions for extraordinary future emergence of new types of claims not sufficiently represented in the historical data or that are not yet quantifiable, except where claims of these types are included in the reported claims and are implicitly analysed.

The uncertainty in the estimates for the company is increased due to:

- Some risks being written on a claims occurrence basis possibly resulting in significant delays in claims being reported;
- The small size of some classes;
- Significant changes in the mix of business within some classes;
- Lack of development history and hence reliance on benchmarks for some classes;
- Increased reserve uncertainty on long-tailed classes which may be subject to limited development history. Losses reported by companies underwriting similar long-tailed classes have been particularly volatile increasing the uncertainty in the actuarial best estimates of claims for these classes;
- Uncertainty over the losses on remaining unearned exposures, particularly for the classes earning over extended periods; and
- Uncertainty over the number and magnitude of potential large losses on long tailed business.

## AmTrust Europe Limited

Notes forming part of the financial statements  
for the year ended 31 December 2018 (continued)

### 2 Management of risk (continued)

#### ii) Process used to decide on assumptions

The company uses assumptions based on a mixture of internal historical data and market benchmarks to estimate its claims liabilities. The company uses several statistical methods to incorporate the various assumptions made in order to estimate the ultimate cost of claims. The choice of selected results for each underwriting year of each class of business depends on an assessment of the technique that has been most appropriate to observed historical developments. In certain instances, this has meant that different techniques or combinations of techniques have been selected for individual years or groups of years within the same class of business.

In addition to the market and risk specific data which the actuarial function uses, information is also gathered from discussions with other business functions (Underwriting, Claims, Reinsurance and Finance). Judgement is also applied before finalising the selected assumptions.

#### iii) Change of assumptions

The company continually assesses the methods and assumptions used in developing its claims liabilities to ensure it is using the most appropriate approach for each class of business underwritten. During 2018 no significant changes to methodology were made but actuarial assumptions were updated in the light of the emerging experience.

#### iv) Sensitivity analysis

The following table presents the sensitivity of the value of Insurance liabilities disclosed in the accounts to potential movements in the assumptions applied within the technical provisions. Given the nature of the business underwritten by the company, the approach to calculating the technical provisions for each class can vary and as a result the sensitivity performed is to apply a beneficial and adverse risk margin to the total Insurance liability. Management deem a range of +/-2.5% and +/-5.0% to be reasonable in showing sensitivities in Insurance liabilities based on the ultimate cost of settling gross claims.

#### General Insurance business sensitivities as at 31 December 2018

	Risk margin			
	+2.5%	-2.5%	+5.0%	-5.0%
	£'000	£'000	£'000	£'000
Claims outstanding - gross of reinsurance	22,752	(22,752)	45,503	(45,503)
Claims outstanding - net of reinsurance	7,656	(7,656)	15,311	(15,311)
Impact on shareholder's funds	6,125	(6,125)	12,249	(12,249)
Impact on profit (movement in year)	3,075	3,075	6,151	(6,151)

#### General Insurance business sensitivities as at 31 December 2017 (restated\*)

	+2.5%	-2.5%	+5.0%	-5.0%
	£'000	£'000	£'000	£'000
Gr Claims outstanding - gross of reinsurance	21,969	(21,969)	43,937	(43,937)
Claims outstanding - net of reinsurance	5,725	(5,725)	11,451	(11,451)
Impact on shareholder's funds	4,580	(4,580)	9,161	(9,161)
Impact on profit (movement in year)	2,074	(2,074)	4,147	(4,147)

\*See note 1

## AmTrust Europe Limited

### Notes forming part of the financial statements for the year ended 31 December 2018 (continued)

#### 2 Management of risk (continued)

##### v) Claims development tables

The tables below present the development of claims payments and the estimated cost of claims for underwriting years 2010 to 2018. The tables below reflect the effect of each underwriting year's business being earned over its first 2-3 years of development. These tables have been restated\* for changes made to prior years.

Gross estimated earned ultimate claims including IBNR										
	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Estimate of ultimate claims costs:										
At end of reporting year	50,234	61,256	78,200	91,926	94,255	97,700	107,668	107,375	116,396	
One year later	134,691	196,544	209,203	210,990	215,856	286,190	258,872	260,903		
Two years later	160,403	217,486	219,117	231,504	246,460	314,536	288,630			
Three years later	168,729	215,959	241,397	275,515	255,981	320,481				
Four years later	163,990	228,165	261,184	276,057	253,687					
Five years later	165,488	252,997	270,436							
Six years later	187,997	265,254	273,507							
Seven years later	194,868	277,775								
Eight years later	199,742									
Current estimate of cumulative claims	199,742	277,775	273,507	282,403	253,687	320,481	288,630	260,903	116,396	2,273,524
Cumulative payments to date	177,333	195,248	199,195	182,634	165,947	168,195	120,491	87,050	71,984	1,368,077
Liability recognised in the Statement of Financial Position	22,409	82,527	74,312	99,769	87,740	152,286	168,139	173,853	44,412	905,447
Provision in respect of prior years										4,819
										910,066
Net estimated earned ultimate claims including IBNR										
	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Estimate of ultimate claims costs:										
At end of reporting year	9,138	13,349	16,417	21,179	23,556	25,409	31,838	47,027	74,041	
One year later	26,634	40,573	44,523	49,690	53,692	71,176	82,831	126,237		
Two years later	30,471	45,041	48,317	55,101	61,157	76,946	84,075			
Three years later	32,134	46,327	53,194	65,630	63,668	77,812				
Four years later	32,180	49,738	57,659	65,249	63,743					
Five years later	32,210	54,780	59,848	66,723						
Six years later	37,066	57,652	56,988							
Seven years later	37,846	59,683								
Eight years later	33,461									
Current estimate of cumulative claims	33,461	59,683	56,988	66,723	63,743	77,812	84,075	126,237	74,041	642,763
Cumulative payments to date	29,797	39,684	39,451	39,960	37,872	36,019	23,215	37,571	60,354	343,923
Liability recognised in the Statement of Financial Position	3,664	19,999	17,537	26,763	25,871	41,793	60,860	88,666	13,687	298,840
Provision in respect of prior years										7,388
										306,228

\*See Note 1.

# AmTrust Europe Limited

Notes forming part of the financial statements  
for the year ended 31 December 2018 (continued)

## 2 Management of risk (continued)

### Management of financial risk

The company is exposed to a range of financial risks, in particular, the key financial risk is that the carrying value of financial assets is not sufficient to fund the obligations arising from insurance policies as they fall due. The most important components of financial risk are market risk (including interest rate risk and currency risk), credit risk and liquidity risk.

These risks arise from open positions in interest rate and currency, all of which are exposed to general and specific market movements. The risk that the company faces due to the nature of its investment and liabilities is interest rate risk. Currency risk relates to differences in exchange rates compared to functional currency.

The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance. It manages these positions within an asset liability management ('ALM') framework that has been developed to minimise the risk of significant deterioration of the investment portfolio while earning profitable returns from those investments. The company produces regular reports at a portfolio level that are circulated to key management personnel. The company does not use hedge accounting.

The company has not changed the processes used to manage its risks from previous periods. The notes below explain how financial risks are managed using the company's ALM framework, as restated for the impact of both prior year restatements.

	2018 £'000	2017 (restated*) £'000	2016 (restated*) £'000
Financial assets carried at fair value through the Income Statement	442,094	372,770	312,320
Financial assets measured at amortised cost	428,167	342,614	325,419
Assets from reinsurance contracts	737,209	805,775	780,874
Cash at bank and in hand	62,203	54,841	38,678
Other assets	262,721	279,925	248,894
<b>Total assets</b>	<b>1,932,394</b>	<b>1,855,925</b>	<b>1,706,185</b>
Liabilities from insurance contracts	1,294,337	1,217,260	1,114,238
Financial liabilities measured at amortised cost	234,851	234,077	272,868
Other liabilities	23,317	23,867	27,745
<b>Total liabilities</b>	<b>1,552,505</b>	<b>1,475,204</b>	<b>1,414,851</b>

\*See note 1

## AmTrust Europe Limited

Notes forming part of the financial statements  
for the year ended 31 December 2018 *(continued)*

### 2 Management of risk *(continued)*

#### *i) Market risk*

##### **Interest rate risk**

Interest rate risk arises primarily from investments in fixed interest securities. In addition to the extent that claims inflation is correlated to interest rates, liabilities to policyholders are exposed to interest rate risk.

The company monitors interest rate risk as part of its regulatory reporting process, by monitoring the duration of assets and liabilities.

Any gap between the mean duration of the assets and the estimated mean duration of the liabilities is minimised by buying and selling fixed interest securities of different durations.

An analysis of the company's sensitivity to interest rate changes on the result and net assets of the company is presented in the table below:

	2018	2017 (restated*)
	£'000	£'000
<b>Interest rate risk</b>		
Impact of 100 basis point increase on the result and net assets	(21,924)	(20,044)
Impact of 100 basis point decrease on the result and net assets	19,769	21,391

##### **Currency risk**

The company manages its foreign exchange risk against its functional currency. Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The company is exposed to currency risk in respect of liabilities under policies of insurance denominated in currencies other than Sterling. The most significant currency to which the company is exposed to is the Euro.

The company seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency. The company has an Italian branch operation, whose net assets are exposed to foreign currency translation risk.

Management deem a range of +/-10.0% to be reasonable in showing sensitivities in currency risk. If sterling had weakened by 10% against the Euro with all other variables held constant, the net assets and profit before tax would have been £4,561,000 lower (2017 - £180,000). If it had strengthened by 10% the net assets and profit before tax would have been £5,574,000 higher (2017 - £198,000).

#### *ii) Credit risk*

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the company is exposed to credit risk are:

- a) reinsurers' share of insurance liabilities;
- b) amounts due from reinsurers in respect of claims already paid;
- c) amounts due from insurance debtors;
- d) amounts due from insurance intermediaries;
- e) amounts due from corporate bond issuers.
- f) deposits at credit institutions; and
- g) amounts due from group undertakings

The company manages the levels of credit risk it accepts by reviewing exposures regularly and reporting to management on significant counterparties. Credit limits are also in place for certain counterparties as is deemed appropriate within the business.

## AmTrust Europe Limited

Notes forming part of the financial statements  
for the year ended 31 December 2018 *(continued)*

### 2 Management of risk *(continued)*

#### *Credit risk (continued)*

Exposures to individual policyholders and groups of policyholders are considered through the ongoing credit control activity and monitoring of aged debt.

Reinsurance is used to manage insurance risk. This does not, however, discharge the company's liability as primary insurer. If a reinsurer fails to pay a claim, the company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered continually during the course of business. The company's largest counterparty is an internal group reinsurer. The company's credit risk exposure to this counterparty is mitigated through the funding of a collateral account based on the economic net value of the liabilities.

The company also mitigates credit counterparty risk by investing in high quality government and corporate bonds.

The assets bearing credit risk are summarised below, together with an analysis by credit rating:

	2018	2017 (restated*)	2016 (restated*)
	£'000	£'000	£'000
Financial assets carried at fair value through the Income Statement	442,094	372,770	312,320
Financial assets measured at amortised cost - debtors	428,167	342,614	325,419
Assets from reinsurance contracts	737,209	805,775	780,874
Cash at bank and in hand	62,203	54,841	38,678
	<hr/>	<hr/>	<hr/>
Total financial assets	1,669,673	1,576,000	1,457,291
	<hr/>	<hr/>	<hr/>

Note 28 describes the collateral which are held as security over certain reinsurance assets to which the company is exposed to credit risk. Other than this collateral there are no other differences between the carrying amounts and the maximum exposure.

The company reports on debts that are more than 3 months overdue. The amount at 31 December 2018 was £4,327,000 (2017 - £6,693,000).

A provision is carried for the potential impairment of financial assets relating to policyholder receivables.

\*See Note 1.

## AmTrust Europe Limited

Notes forming part of the financial statements  
for the year ended 31 December 2018 *(continued)*

### 2 Management of risk *(continued)*

#### *Credit risk (continued)*

The analysis of financial assets by reference to counterparty credit rating is as follows:

	AAA	AA	A	BBB	BB	B	Unrated	Carrying amount
2018	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Financial investments	46,177	173,135	221,757	1,025	-	-	-	442,094
Debtors arising out of direct insurance operations	-	840	9,158	40,228	-	-	377,941	428,167
Debtors arising out of reinsurance operations	-	-	424,858	158,266	-	-	154,085	737,209
Cash at bank and in hand	16,588	-	31,766	9,569	155	4,125	-	62,203
<b>Total assets</b>	<b>62,766</b>	<b>173,975</b>	<b>687,539</b>	<b>209,088</b>	<b>155</b>	<b>4,125</b>	<b>532,026</b>	<b>1,669,673</b>
	AAA	AA	A	BBB	BB	B	Unrated	Carrying amount
2017 (restated*)	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Financial investments	15,104	72,277	282,479	-	-	-	2,910	372,770
Debtors arising out of direct insurance operations	-	-	5,610	17,918	-	-	319,086	342,614
Debtors arising out of reinsurance operations	-	-	434,909	202,449	-	-	168,417	805,775
Cash at bank and in hand	48,669	-	225	4,539	154	1,254	-	54,841
<b>Total assets</b>	<b>63,773</b>	<b>72,277</b>	<b>723,223</b>	<b>224,906</b>	<b>154</b>	<b>1,254</b>	<b>490,413</b>	<b>1,576,000</b>

\*See Note 1.

## AmTrust Europe Limited

**Notes forming part of the financial statements  
for the year ended 31 December 2018 (continued)**

### 2 Management of risk (continued)

#### *Credit risk (continued)*

The credit risk profile of the investment portfolio has improved in comparison to 2017, due to the disposal of investments with a rating lower than A-. Assets rated Below BBB are comprised of Cash and assets not rated are comprised of Debtor balances for which a rating would not generally be provided. Management expects no significant losses from non-performance by its counterparties. The company made provision for the potential impairment of financial assets of £3,460,000 (2017 - £3,500,000).

#### *iii) Liquidity risk*

The company is exposed to daily calls on its available cash resources, mainly from claims arising from insurance contracts.

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The primary liquidity risk of the company is the obligation to pay claims to policy holders as they fall due. The projected settlement of these liabilities is modelled, on a regular basis, using actuarial techniques. The table below analyses the maturity of the company's financial liabilities and outstanding claims. All liabilities are presented on a contractual cash flow basis except for the insurance liabilities, which are presented with their expected cash flows. A significant proportion of the company's investments are in highly liquid assets which could be converted into cash at short notice and at minimal expense.

#### **Maturity analysis of financial assets as at 31 December 2018**

	No stated maturity £'000	Less than one year £'000	Between one year and five years £'000	Greater than five years £'000	Total £'000
Financial assets measured at amortised cost	100,492	327,675	-	-	428,167
Claims outstanding – reinsurer's share	-	147,973	335,593	120,273	603,839
Financial assets and claims outstanding – reinsurer's share	<u>100,492</u>	<u>475,648</u>	<u>335,593</u>	<u>120,273</u>	<u>1,032,006</u>

#### **Maturity analysis of financial liabilities as at 31 December 2018**

	No stated maturity £'000	Less than one year £'000	Between one year and five years £'000	Greater than five years £'000	Total £'000
Financial liabilities measured at amortised cost	129,458	105,393	-	-	234,851
Claims outstanding	-	243,858	501,633	164,576	910,067
Financial liabilities and claims outstanding	<u>129,458</u>	<u>349,251</u>	<u>501,633</u>	<u>164,576</u>	<u>1,144,918</u>



## AmTrust Europe Limited

Notes forming part of the financial statements  
for the year ended 31 December 2018 (*continued*)

### 2 Management of risk (*continued*)

#### *Liquidity risk (continued)*

##### Maturity analysis of financial assets as at 31 December 2017 (restated\*)

	No stated maturity £'000	Less than one year £'000	Between one year and five years £'000	Greater than five years £'000	Total £'000
Financial assets measured at amortised cost	104,732	237,882	-	-	342,614
Claims outstanding – reinsurer's share	-	133,012	333,775	182,941	649,728
Financial assets and claims outstanding – reinsurer's share	<u>104,732</u>	<u>370,894</u>	<u>333,775</u>	<u>182,941</u>	<u>992,342</u>

##### Maturity analysis of financial liabilities as at 31 December 2017 (restated\*)

	No stated maturity £'000	Less than one year £'000	Between one year and five years £'000	Greater than five years £'000	Total £'000
Financial liabilities measured at amortised cost	113,711	120,966	-	-	234,077
Claims outstanding	-	194,798	450,000	233,943	878,741
Financial liabilities and claims outstanding	<u>113,711</u>	<u>315,764</u>	<u>450,000</u>	<u>233,943</u>	<u>1,112,818</u>

#### *l) Capital management*

The company is a wholly owned subsidiary of the AmTrust Financial Services, Inc. group and its capital is financed exclusively through equity and retained reserves. As a result, the company considers shareholder's funds £379,889,000 (2017 restated\* - £380,721,000), as shown on the Statement of Financial Position, to be the capital which it manages. This approach has not changed since the prior year.

The company is a regulated undertaking and subject to supervision by the Prudential Regulation Authority ('PRA') under the Financial Services and Markets Act 2000 and in accordance with the Solvency II regulations.

The company actively manages capital to ensure that it can continually meet its regulatory capital requirements while also maintaining sufficient capital to retain financial strength and allow new profitable growth. Management monitor the performance of all aspects of the business to ensure profitability is managed against risks and that the financial and capital position of the company is not compromised.

## AmTrust Europe Limited

Notes forming part of the financial statements  
for the year ended 31 December 2018 (continued)

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### 2 Management of risk (continued)

#### ii) Capital management

The Solvency II regime became effective from 1 January 2016 and established a new set of EU-wide capital requirements, risk management and disclosure standards. The company is required to meet a Solvency Capital Requirement ("SCR") which is calibrated to seek to ensure a 99.5% confidence of the ability to meet obligations over a 12-month time horizon. The company calculates its SCR in accordance with the standard formula prescribed in the Solvency II regulations as the assumptions underlying the standard formula are considered to be not materially inappropriate for the company's risk profile.

#### iii) Fair value estimation

The company carries its investment portfolio in corporate and government bonds, as well as its own use and investment property, at fair value.

In line with the amended FRS 102, included in the level 1 category are financial assets that are measured by reference to published quotes in an active market where the quoted prices are readily available from an exchange and those prices represent actual and regularly occurring market transactions on an arm's length basis. Corporate and government bonds amounting to £180,378,000 (2017 – £130,863,000) have been assigned a level 1 valuation method.

Included in the level 2 category are financial assets measured using valuation techniques based on assumptions that are supported by prices from observable market transactions. The company seeks to determine the fair value of financial assets primarily with reference to their closing bid market prices at the Statement of Financial Position date. Corporate and government bonds amounting to £261,716,000 (2017 – £241,907,000) have been assigned a level 2 valuation method.

Together with the AmTrust Group's investment managers, management continues to monitor the potential for any adverse development associated with this investment exposure through the analysis of relevant factors such as credit ratings and default rates in relation to the securities held. The company did not experience any defaults on debt securities during the year. Valuation of these securities will continue to be impacted by external market factors. The company will make adjustments to the investment portfolio as appropriate as part of its overall portfolio strategy.

The level 3 category includes financial assets measured using a valuation technique based on assumptions that are neither supported by prices from observable current market transactions in the same instrument or are based on available market data but are based on assumptions that market participants would use in pricing the asset.

The investment property amounting to £7,417,000 (2017 - £8,604,000) has been valued using current market conditions by a third party independent valuer which also has been assigned a level 3 valuation method. The valuer performed the market valuation based on a traditional income capitalisation basis having regard to the various income streams. Consideration has been given to certain unobservable inputs including, but not limited to, void periods of between 6 and 12 months, rent-free periods of up to 6 months, holding costs, re-letting fees and service charges as well as necessary capital expenditure. The fair value is sensitive to movements in these assumptions.

Investments in subsidiary undertakings amounting to £119,384,000 (2017 - £143,055,000) has also been assigned a level 3 valuation method. Management use a combination of the underlying net assets in the subsidiary undertakings and, where relevant, recent purchase prices, to arrive at appropriate fair values. The unobservable inputs associated with these valuations are the values placed upon the assets and liabilities within the underlying subsidiary accounts. The values used are considered appropriate noting that no value has been placed upon future profitability of the subsidiaries and therefore these underlying assets and liabilities are sensitive to any such forward looking value.

## AmTrust Europe Limited

Notes forming part of the financial statements  
for the year ended 31 December 2018 *(continued)*

### 3 Segmental information

2018	Accident and health £'000	Property £'000	Miscellaneous and pecuniary loss £'000	Surety £'000	Liability £'000	Total £'000
Gross premiums written	48,106	27,333	239,177	27,248	155,778	497,642
Gross premiums earned	48,369	26,592	193,959	25,138	158,985	453,043
Gross claims incurred	(25,207)	(11,416)	(163,595)	(6,154)	(114,776)	(321,148)
Gross operating expenses	(25,362)	(11,516)	(44,564)	(11,281)	(50,365)	(143,088)
Gross technical results	(2,200)	3,560	(14,200)	7,703	(6,156)	(11,193)
Reinsurance premiums earned	(10,526)	(7,890)	(79,631)	(13,584)	(49,876)	(161,507)
Reinsurance claims incurred	10,316	3,122	79,398	3,863	50,637	147,336
Reinsurance operating expenses	761	638	8,594	4,467	3,049	17,509
Reinsurance technical results	551	(4,130)	8,361	(5,254)	3,810	3,338
Net technical results	(1,649)	(470)	(5,839)	2,449	(2,346)	(7,855)
Gross technical provisions	25,335	37,809	456,782	34,051	740,360	1,294,337
Reinsurers' share of technical provisions	(6,272)	(12,563)	(206,394)	(18,481)	(493,499)	(737,209)
Net technical provisions	19,063	25,246	250,388	15,570	246,861	557,128

Gross premiums written include a certain amount of reinsurance inwards business. As this is below 10% of gross premiums written there is no requirement to disclose this separately.

## AmTrust Europe Limited

Notes forming part of the financial statements  
for the year ended 31 December 2018 *(continued)*

### 3 Segmental Information *(continued)*

2017 (as restated*)	Accident and health £'000	Property £'000	Miscellaneous and pecuniary loss £'000	Surety £'000	Liability £'000	Total £'000
Gross premiums written	51,229	35,493	190,291	20,689	193,018	490,720
Gross premiums earned	46,380	33,294	154,853	17,969	197,534	450,030
Gross claims incurred	(16,685)	(16,219)	(124,353)	(5,741)	(120,670)	(283,668)
Gross operating expenses	(29,197)	(14,573)	(38,726)	(9,023)	(65,513)	(157,032)
Gross technical results	498	2,502	(8,226)	3,205	11,351	9,330
Reinsurance premiums earned	(12,337)	(13,736)	(79,903)	(9,674)	(92,346)	(207,996)
Reinsurance claims incurred	9,832	9,583	78,080	3,361	74,981	175,837
Reinsurance operating expenses	966	1,042	8,817	2,919	7,827	21,571
Reinsurance technical results	(1,539)	(3,111)	6,994	(3,394)	(9,538)	(10,588)
Net technical results	(1,041)	(609)	(1,232)	(189)	1,813	(1,258)
Gross technical provisions	21,690	34,766	387,917	23,207	749,680	1,217,260
Reinsurers' share of technical provisions	(8,265)	(17,273)	(205,784)	(12,345)	(562,108)	(805,775)
Net technical provisions	13,425	17,493	182,133	10,862	187,572	411,485

Gross premiums written include a certain amount of reinsurance inwards business. As this is below 10% of gross premiums written there is no requirement to disclose this separately.

#### Analysis by geographical area

The split of premium by underwriting location is shown below.

	2018 £'000	2017 (restated*) £'000
United Kingdom	385,762	338,246
Italy	111,880	152,474
	<b>497,642</b>	<b>490,720</b>

\*See Note 1.

## AmTrust Europe Limited

Notes forming part of the financial statements  
for the year ended 31 December 2018 *(continued)*

### 4 Prior years' claims provisions

Material (under)/over provisions for claims at the beginning of the year as compared with net payments and provisions at the end of the year in respect of prior years' claims are as follows:

	2018 £'000	2017 £'000
Accident and health	(218)	(707)
Property	(199)	(1,022)
Miscellaneous and pecuniary loss	(2,948)	7,259
Surety	567	(91)
Liability	(3,425)	(5,115)
	<u>(6,223)</u>	<u>324</u>

### 5 Net operating expenses

	2018 £'000	2017 (restated*) £'000
Acquisition costs	111,958	125,781
Change in deferred acquisition costs	(3,950)	(9,084)
	<u>108,008</u>	<u>116,697</u>
Administrative expenses – see note below	31,737	34,457
Profit shares	3,343	5,878
	<u>143,088</u>	<u>157,032</u>
Reinsurance commissions	(16,634)	(17,387)
Change in deferred reinsurance commissions	(875)	(4,184)
	<u>125,579</u>	<u>135,461</u>
Administrative expenses include:		
Auditor's remuneration:		
- audit fee	470	585
- audit related assurance services	261	295
Operating lease rentals:		
- Plant and machinery	324	108
- Land and buildings	1,236	802
Depreciation of owned fixed assets	494	623
Loss on disposal of fixed assets	-	1
Foreign exchange (gains)/losses	(212)	3,061

\*See Note 1.

## AmTrust Europe Limited

Notes forming part of the financial statements  
for the year ended 31 December 2018 (continued)

### 6 Staff costs

	2018 £'000	2017 £'000
Staff costs, including directors' remuneration, consist of:		
Wages and salaries	7,232	10,918
Social security costs	1,871	1,724
Other pension costs	113	474
	<u>9,216</u>	<u>13,116</u>
The average number of employees, including directors, during the year was:	Number	Number
Underwriting and claim activities	78	153
Management services	42	93
Sales activities	-	7
Administration	-	1
	<u>120</u>	<u>254</u>

During 2018, in addition to individuals employed by the Italian Branch, the company received services from individuals employed by a fellow subsidiary within the group, AmTrust Management Services Limited. Copies of the financial statements of AmTrust Management Services Limited, may be obtained from its registered office: Exchequer Court, 33 St Mary Axe, London, England, EC3A 8AA.

### 7 Directors' remuneration

	2018 £'000	2017 £'000
Emoluments	985	1,353
Company contributions paid to defined contribution pension schemes	42	29
	<u>1,027</u>	<u>1,382</u>
The emoluments of the directors disclosed above include the following amounts paid to the highest paid director:		
Emoluments	<u>356</u>	<u>315</u>
	Number	Number
During the year the number of directors to whom retirement benefits are accruing under the company's money purchase pension scheme was:	<u>4</u>	<u>4</u>

## AmTrust Europe Limited

### Notes forming part of the financial statements for the year ended 31 December 2018 *(continued)*

#### 7 Directors' remuneration *(continued)*

At 31 December 2018, no directors (2017 – none) had options over any shares of the company, and no shares were received but are receivable under long-term incentive schemes.

Several of the directors received additional remuneration from the ultimate parent company AmTrust Financial Services, Inc. This related to services performed at a group level and no recharge was made to this company.

The directors are employed and paid by a fellow subsidiary within the AmTrust group, AmTrust Management Services Limited. The disclosure within the note above includes the costs for those directors that have been recharged from AmTrust Management Services Limited.

#### 8 Taxation on profit from ordinary activities

	2018 £'000	2017 £'000
<i>Current tax</i>		
UK corporation tax charge/(credit) for the year	-	(949)
Foreign corporation tax charge for the year	481	3,438
UK adjustment in respect of prior years	1,827	(2,565)
Foreign adjustment in respect of prior years	2,629	(787)
	<hr/>	<hr/>
Total current tax	4,937	(863)
<i>Deferred tax</i>		
Origination and reversal of timing differences	(1,117)	(275)
Impact of rate change	70	-
Adjustment in respect of prior years	174	-
	<hr/>	<hr/>
	4,064	(1,138)
	<hr/>	<hr/>

The tax assessed for the year differs from the standard rate of corporation tax in the UK. The differences are explained below:

	2018 £'000	2017 £'000
Profit on ordinary activities before tax	4,110	68,824
	<hr/>	<hr/>
Profit on ordinary activities at the standard rate of corporation tax in the UK of 19% (2017 – 19.25%)	781	13,249
Effects of:		
Expenses not deductible for tax purposes	288	53
Non-taxable dividends	(6,174)	(9,238)
Impairment loss and revaluation gains not deductible for tax	3,969	(3,051)
Overseas taxes at a higher rate	480	1,201
Impact of rate change	89	-
Tax under/(over) provided in previous years	4,630	(3,352)
	<hr/>	<hr/>
Total tax charge/(credit) for the year	4,064	(1,138)
	<hr/>	<hr/>

# AmTrust Europe Limited

Notes forming part of the financial statements  
for the year ended 31 December 2018 (continued)

## 8 Taxation on profit from ordinary activities (continued)

UK corporation tax rates are 20% from 1 April 2015 (enacted 17 July 2013), 19% from 1 April 2017 (enacted 18 November 2015) and 17% from 1 April 2020 (enacted 15 September 2016). These rates will reduce the company's future current tax charge accordingly. The deferred tax liability at 31 December 2018 has been calculated based on these rates.

	2018 £'000	
<i>Deferred taxation</i>		
Deferred tax liability at 1 January 2018	(616)	
Credit to the Income Statement	873	
Deferred tax asset at 31 December 2018	257	
<i>Analysis of deferred taxation</i>	2018 £'000	2017 £'000
Capital allowances in excess of depreciation	29	38
Losses	718	-
Timing differences	(490)	(654)
	257	(616)

## 9 Tangible assets

	Owner occupied property £'000	Fixtures, fittings and Computer equipment £'000	Office equipment £'000	Total £'000
<i>Cost</i>				
At 1 January 2018	4,837	1,499	667	7,003
Reclassification	251	(307)	56	-
Additions	-	18	11	29
Disposals	-	(133)	-	(133)
Revaluation	(432)	-	-	(432)
At 31 December 2018	4,656	1,077	734	6,467
<i>Depreciation</i>				
At 1 January 2018	513	1,039	379	1,931
Provided in year	233	139	122	494
Reclassification	(10)	(175)	185	-
Disposals	-	(42)	-	(42)
At 31 December 2018	736	961	686	2,383
<i>Net book value</i>				
At 31 December 2018	3,920	116	48	4,084
At 31 December 2017	4,324	460	288	5,072



## AmTrust Europe Limited

### Notes forming part of the financial statements for the year ended 31 December 2018 *(continued)*

#### 9 Tangible assets *(continued)*

Included in land and buildings is a UK property which is partly held as an investment property (see note 10) and partly held as a tangible asset. Under both classifications the property is held at fair value less accumulated depreciation. The amount held within land and buildings is £2,703,000 (2017 - £3,136,000).

A valuation of the UK property as at December 2018 has been performed by an independent professionally qualified valuer. The results of this valuation have been reviewed by management and considered to be reasonable. The adjustment to fair value in relation to the owner occupied element has been taken to the non-technical account.

As at the year end, there was a mortgage secured on the UK property of £7,578,000 (2017 - £7,740,000).

#### 10 Investment property

	At valuation		Historical cost	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Investment property	7,417	8,604	9,402	9,402

The investment property amounting to £7,417,000 (2017 - £8,604,000) has been valued using current market conditions by a third party independent valuer which also has been assigned a level 3 valuation method. The valuer performed the market valuation based on a traditional income capitalisation basis having regard to the various income streams. Consideration has been given to certain unobservable inputs including, but not limited to, void periods of between 6 and 12 months, rent-free periods of up to 6 months, holding costs, re-letting fees and service charges as well as necessary capital expenditure. The fair value is sensitive to movements in these assumptions.

#### 11 Investments in subsidiary undertakings and participating interests

The company has six subsidiary undertakings.

	Participating interests	Subsidiary undertakings	Total
	£'000	£'000	£'000
Shares in subsidiary undertakings:			
At 1 January 2018	5,015	138,040	143,055
Additions	869	-	869
Revaluation during the year	781	(20,680)	(19,899)
Disposal	(4,641)	-	(4,641)
	<hr/>	<hr/>	<hr/>
At 31 December 2018	2,024	117,360	119,384
	<hr/>	<hr/>	<hr/>
			£'000
The movement in the revaluation during the year comprises:			
Revaluation of carrying value			(20,372)
Foreign exchange differences			473
			<hr/>
			(19,899)
			<hr/>

## AmTrust Europe Limited

Notes forming part of the financial statements  
for the year ended 31 December 2018 (continued)

### 11 Investments in subsidiary undertakings and participating interests (continued)

Investments in subsidiary undertakings amounting to £119,384,000 (2017 - £143,055,000) has also been assigned a level 3 valuation method. Management use a combination of the underlying net assets in the subsidiary undertakings and, where relevant, recent purchase prices, to arrive at appropriate fair values. The unobservable inputs associated with these valuations are the values placed upon the assets and liabilities within the underlying subsidiary accounts. The values used are considered appropriate noting that no value has been placed upon future profitability of the subsidiaries and therefore these underlying assets and liabilities are sensitive to any such forward looking value.

Participating interests shown in the table above are AEL's Interest in Hanover Equity Fund Investment.

The following were the principal subsidiary undertakings at the end of the year.

Name of company	Country of incorporation	Principal activity	Percentage of ordinary share capital owned
Pedigree Livestock Insurance Limited	England (a)	Insurance company (In run off)	100%
Right2Claim Limited	England (a)	Claims administration (In run off)	100%
AmTrust Europe Legal Limited	England (a)	Insurance intermediary (In run off)	100%
AmTrust Italia S.r.l	Italy (d)	Insurance intermediary	100%
AMT Mortgage Insurance Limited	England (b)	Insurance company	100%
Collegiate Management Services Ltd	England (c)	Insurance intermediary	100%

During the year the company received a £30,828,000 dividend from AmTrust Italia and a £1,666,000 dividend from Collegiate.

(a) Registered address is Market Square House, Saint James's Street, Nottingham, NG1 6FG

(b) Registered address is Exchequer Court, 33 St Mary Axe, London, England, EC3A 8AA

(c) Registered address is 2nd Floor 18 Mansell Street, London, E1 8FE

(d) Registered address is Via Clerici, 14, Milano, 20121

### 12 Other financial investments

	At valuation		Historical cost	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Corporate and government bonds	442,094	372,770	437,854	359,885

Reference to financial risk management policies can be found in the directors' report and note 2. All corporate and government bonds are carried at fair value through profit and loss.

A disaggregation of the statement of financial position line item by class of financial instrument in line with the ALM framework is also included in note 2.

## AmTrust Europe Limited

Notes forming part of the financial statements  
for the year ended 31 December 2018 *(continued)*

### 13 Debtors arising out of direct insurance operations

	2018	2017	2016
	£'000	(restated*) £'000	(restated*) £'000
Debtors due within one year:			
Amounts owed by intermediaries	244,565	263,830	227,038
Amounts owed by reinsurers	57,521	21,217	25,627
	<u>302,086</u>	<u>285,047</u>	<u>252,665</u>

\* See note 1

### 14 Other debtors

	2018	2017
	£'000	(restated*) £'000
Other debtors	1,556	2,537
Corporation tax	9,115	768
	<u>10,672</u>	<u>3,305</u>

### 15 Deferred acquisition costs

	2018	2017
	£'000	£'000 (restated*)
At 1 January – restated*	89,155	79,180
Change in asset in period	3,855	7,631
Foreign exchange movement	265	2,343
	<u>93,275</u>	<u>89,154</u>
At 31 December 2018	<u>93,275</u>	<u>89,154</u>

\*See Note 1.

## AmTrust Europe Limited

Notes forming part of the financial statements  
for the year ended 31 December 2018 *(continued)*

### 16 Amounts owed by group undertakings

	2018 £'000	2017 £'000
Due from holding company	21,192	20,461
Due from fellow subsidiaries	94,217	33,801
	<u>115,409</u>	<u>54,262</u>

### 17 Share capital

	2018 Number	Allotted, called up and fully paid 2017 Number	2018 £'000	2017 £'000
Ordinary shares of £1 each	75,043,600	75,043,600	75,044	75,044
	<u>75,043,600</u>	<u>75,043,600</u>	<u>75,044</u>	<u>75,044</u>

### 18 Reserves

	Share based payment reserve £'000	Share premium account £'000	Retained earnings (restated*) £'000
At 1 January 2018 – restated*	111	11,642	293,924
Retained profit for the year	-	-	46
Share based payments	(111)	-	-
Foreign exchange movement	-	-	(767)
	<u>-</u>	<u>11,642</u>	<u>293,203</u>
At 31 December 2018	-	11,642	293,203

\*See Note 1.

## AmTrust Europe Limited

Notes forming part of the financial statements  
for the year ended 31 December 2018 *(continued)*

### 18 Reserves *(continued)*

	Revaluation reserve	Share based payment reserve £'000	Share premium account £'000	Retained earnings (restated*) £'000
At 1 January 2017 – restated*	20	111	301	219,517
Retained profit for the year	-	-	-	69,962
Issue of share capital	-	-	11,341	-
Foreign exchange movement	-	-	-	4,445
Revaluation movement	(20)	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2017 – restated*	-	111	11,642	293,924
	<hr/>	<hr/>	<hr/>	<hr/>

### 19 Reconciliation of movements in shareholder's funds

	2018 £'000	2017 (restated*) £'000	2016 (restated*) £'000
Profit for the financial year	46	69,962	50,770
Currency translation differences on foreign currency net investments	(767)	4,445	1,432
	<hr/>	<hr/>	<hr/>
	(721)	74,407	52,202
Issue of share capital	-	15,000	15,000
Movement on employee share scheme	(111)	-	(21)
Revaluation movement	-	(20)	20
Opening shareholder's funds	380,721	291,334	224,133
	<hr/>	<hr/>	<hr/>
Closing shareholder's funds	379,889	380,721	291,334
	<hr/>	<hr/>	<hr/>

\*See Note 1.

## AmTrust Europe Limited

Notes forming part of the financial statements  
for the year ended 31 December 2018 *(continued)*

### 20 Technical provisions

	Unearned Premiums (restated*) £'000	Claims Outstanding £'000	Total £'000
<i>Gross</i>			
At 1 January 2018 – as restated*	338,519	878,741	1,217,260
Movement in provisions	44,599	21,675	66,274
Foreign exchange movement	1,153	9,650	10,803
	<hr/>	<hr/>	<hr/>
At 31 December 2018	384,271	910,066	1,294,337
	<hr/>	<hr/>	<hr/>
<i>Reinsurance amount</i>			
At 1 January 2018 – as restated*	156,047	649,728	805,775
Movement in provisions	(8,954)	(52,846)	(61,800)
Foreign exchange movement	(13,723)	6,957	(6,766)
	<hr/>	<hr/>	<hr/>
At 31 December 2018	133,370	603,839	737,209
	<hr/>	<hr/>	<hr/>
<i>Net technical provisions</i>			
At 31 December 2018	250,901	306,227	557,128
	<hr/>	<hr/>	<hr/>
At 31 December 2017 – as restated*	182,472	229,013	411,485
	<hr/>	<hr/>	<hr/>

\*See Note 1.

## AmTrust Europe Limited

Notes forming part of the financial statements  
for the year ended 31 December 2018 *(continued)*

### 20 Technical provisions continued

	Unearned Premiums (restated*) £'000	Claims outstanding £'000	Total £'000
<i>Gross</i>			
At 1 January 2017 – as restated*	294,839	819,399	1,114,238
Movement in provisions	40,690	34,575	75,265
Foreign exchange movement	2,990	24,767	27,757
	<hr/>	<hr/>	<hr/>
At 31 December 2017 – as restated*	338,519	878,741	1,217,260
	<hr/>	<hr/>	<hr/>
<i>Reinsurance amount</i>			
At 1 January 2017 – as restated*	144,062	636,812	780,874
Movement in provisions	10,800	(6,374)	4,426
Foreign exchange movement	1,185	19,290	20,475
	<hr/>	<hr/>	<hr/>
At 31 December 2017 – as restated*	156,047	649,728	805,775
	<hr/>	<hr/>	<hr/>
<i>Net technical provisions</i>			
At 31 December 2017 – as restated*	182,472	229,013	411,485
	<hr/>	<hr/>	<hr/>
At 31 December 2016 – as restated*	150,777	182,587	333,364
	<hr/>	<hr/>	<hr/>

### 21 Creditors arising out of direct insurance operations

	2018 £'000	2017 (restated*) £'000	2016 (restated*) £'000
Amounts arising out of direct insurance operations	53,456	59,690	53,995
Amounts due to reinsurers	53,349	22,252	31,050
	<hr/>	<hr/>	<hr/>
	106,805	81,942	85,045
	<hr/>	<hr/>	<hr/>

\*See Note 1.

## AmTrust Europe Limited

Notes forming part of the financial statements  
for the year ended 31 December 2018 *(continued)*

### 22 Other creditors including taxation and social security

	2018	2017	2016
	£'000	(restated*) £'000	(restated*) £'000
Amounts falling due within one year			
Corporation tax	-	-	14,494
Other creditors	43,280	32,598	1,870
	<u>43,280</u>	<u>32,598</u>	<u>16,364</u>

\* See note 1.

### 23 Accruals and deferred income

	2018	2017	2016
	£'000	(restated*) £'000	(restated*) £'000
Deferred profit commissions	3,189	2,966	2,788
Deferred reinsurance commissions	20,128	20,901	24,957
	<u>23,317</u>	<u>23,867</u>	<u>27,745</u>

The reconciliation of opening and closing deferred reinsurance commissions is as follows:

	Total £'000	Total £'000
At 1 January 2018 – restated*	20,901	24,778
Movement in provisions	(875)	(4,184)
Foreign exchange movements	102	307
	<u>20,128</u>	<u>20,901</u>
At 31 December 2018	20,128	20,901

\*See Note 1.



## AmTrust Europe Limited

Notes forming part of the financial statements  
for the year ended 31 December 2018 *(continued)*

### 24 Commitments under operating leases

As at 31 December 2018, the company had commitments as lessee under non-cancellable operating leases as set out below:

	2018 Land and buildings £'000	2018 Other £'000	2017 Land and buildings £'000	2017 Other £'000
Operating leases which expire:				
No later than one year	675	653	670	550
Later than one year, but not later than five years	1,913	246	2,567	723
Later than five years	-	-	-	-
Total	<u>2,588</u>	<u>899</u>	<u>3,237</u>	<u>1,273</u>

### 25 Share based payments

The company's ultimate parent company, AmTrust Financial Services, Inc., has historically operated an equity-settled, share-based compensation plan. The plan permitted AmTrust Financial Services, Inc. to grant to officers and employees incentive compensation directly linked to the price of the parent company's shares, authorising up to an aggregate number of shares for awards of options to purchase shares of the parent company's common shares, restricted shares, restricted stock units (RSUs), performance share units ("PSUs") or appreciation rights.

All staff participating in the annual bonus scheme were eligible for share based payments on bonuses greater than £30,000. 50% of any such bonus was invested in restricted stock units. The restricted stock units vested over a period of one to four years.

Pursuant to the Go Private transaction, each RSU and PSU, unless rolled over into AFSI as described below, was cancelled and converted to the right to receive an amount in cash per share equal to the consideration paid under the go-private being US\$14.75 on the original vesting dates related to such RSU or PSU, and subject to satisfaction of the vesting conditions applicable to the RSU. Certain RSUs and PSUs were rolled over into AFSI. Each rollover RSU and PSU will continue to vest in accordance with its original terms (over a period of one to four years and, for PSUs, subject to certain performance conditions) and at the effective time of the Go Private transaction was converted into the right to receive a number of shares of non-voting common stock of AFSI, net of withholding, equal to the number of shares of AFSI common stock underlying the rollover RSU or PSU. Each holder of a rollover RSU or PSU was entitled to exchange each share of non-voting common stock of AFSI for one Class A limited partnership unit of Evergreen Parent. If not so exchanged within 30 days, AFSI will have the right to repurchase each non-voting common stock of the company for \$14.75 in cash.

During 2018 all outstanding share based payments were transferred to AmTrust Management Services Limited as the employing entity of all relevant employees.

### 26 Related party transactions

The company has a quota share reinsurance arrangement with Maiden Reinsurance Ltd.

The controlling shareholders of AmTrust Financial Services, Inc. also own capital stock in Maiden Holdings Ltd which is the parent company of Maiden Reinsurance Ltd. This is not a controlling shareholding.

## AmTrust Europe Limited

Notes forming part of the financial statements  
for the year ended 31 December 2018 *(continued)*

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### 26 Related party transactions *(continued)*

During 2018 £11,941,899 (2017 - £18,301,432) of reinsurance premium was ceded to Maiden Reinsurance Ltd, less £39,889,975 (2017 - £40,074,323) of reinsurance claims. The company received an override of £597,095 (2017 - £866,257). At 31 December 2018 Maiden Reinsurance Ltd owed £9,179,740 to the company (2017 - £1,680,925 owed to Maiden by the company).

During the year the company purchased no marketing services (2017 - £29) from Surely Limited, a company related by common influence. At 31 December 2018 no balances were owed to Surely Limited (2017 - £Nil).

Gadget Repair Solutions Limited is also a company related by common influence. During the year the company paid £Nil (2017 - £74,837) of operating expenses on behalf of Gadget Repair Solutions. At 31 December 2018 the balance owed to the company was £Nil (2017 - £1,439,823).

### 27 Parent undertakings

The immediate parent undertaking is AmTrust International Limited, a company registered in England. AmTrust International Limited is the largest group for which consolidated financial statements are produced which include AmTrust Europe Limited. Copies of its group financial statements are available from 10th Floor Market Square House, Saint James's Street, Nottingham, Nottinghamshire, NG1 6FG.

AmTrust International Limited is wholly owned by AmTrust International Insurance Limited, a company registered in Bermuda. Copies of its group financial statements are available from Washington Mall 7 Reid street Suite 400 Hamilton, HM 11, Bermuda.

The company's ultimate parent undertaking and controlling party is AmTrust Financial Services, Inc., which is incorporated in the USA. AmTrust Financial Services, Inc. has its head office at 42<sup>nd</sup> Floor, 59 Maiden Lane, New York, USA.

### 28 Collateralisation of reinsurer credit risk

The company is exposed to credit risk in relation to material accounts carried in the company's Statement of Financial Position both due and accrued as due from Maiden Reinsurance Ltd and AmTrust International Insurance Limited, a fellow subsidiary, in respect of these reinsurers' share of technical provisions. As at 31 December 2018, collateral in the form of cash funds and investments held in the company's name has been provided by the reinsurers concerned in the amount of £197,465,539 (2017 - £218,891,358) and £449,074,170 (2017 - £454,338,897) respectively. These collateral amounts are intended to mitigate the total exposures to the reinsurers concerned. Management closely monitor the coverage provided and where the timing of transactions results in any shortfall this is rectified immediately

### 29 Post Statement of Financial Position events

The quota share arrangement held with Maiden Reinsurance Ltd remained in operation through 2018 but is no longer applied to new business from 1 January 2019. This quota share was only applied to part of the medical malpractice line of business and therefore its termination is only relevant on the final renewals of that business in the coming year as the future policies are underwritten by AIU.



# Independent auditor's report

to the member of AmTrust Europe Limited

## 1. Our opinion is unmodified

We have audited the financial statements of AmTrust Europe Limited ("the Company") for the year ended 31 December 2018 which comprise the Income Statement, Statement of Comprehensive Income, Statement of Financial position, Statement of Changes in Equity, and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* and FRS 103 *Insurance Contracts*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the directors on 7 June 2016 prior to the company becoming a public interest entity. The period of total uninterrupted engagement is for the three financial years ended 31 December 2018. We have fulfilled our ethical responsibilities under, and we remain independent

### Basis for opinion (cont.)

of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

### Overview

**Materiality:** £3.3m (2017: £3.4 m)  
financial statements as a whole 0.66% of gross written premiums (2017: 0.69% of gross written premiums)

### Key audit matters vs 2017

<b>Event driven</b>	<b>New:</b> The impact of uncertainties due to the UK exiting the European Union on our audit	▲
<b>Recurring risks</b>	Valuation of incurred but not reported (IBNR) Reserves	◀▶
	Accuracy and Valuation of earnings on premiums from all lines of business with non-standard earning patterns	◀▶

## 2. Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
<b>The impact of uncertainties due to the UK exiting the European Union on our audit</b>	<b>Unprecedented levels of uncertainty</b> All audits assess and challenge the reasonableness of estimates, in particular as described in Valuation of incurred but not reported (IBNR) Reserves and Accuracy and Valuation of earnings on premiums from all lines of business with non-standard earning patterns below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Company's future prospects and performance.  In addition, we are required to consider the other information presented in the financial statements including the principal risks disclosure and to consider the Directors' statement that the financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.  Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: <ul style="list-style-type: none"><li>• <b>Our Brexit knowledge:</b> We considered the Directors' assessment of Brexit-related sources of risk for the Company's business and financial resources compared with our own understanding of the risks. We considered the Directors' plans to take action to mitigate the risks.</li><li>• <b>Assessing transparency:</b> As well as assessing individual disclosures as part of our procedures on key audit matters Valuation of incurred but not reported (IBNR) Reserves and Accuracy and Valuation of earnings on premiums from all lines of business with non-standard earning patterns, we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks.</li></ul>
Refer to page 5 (Strategic Report)		<b>Our results</b> We found the resulting disclosures, including disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

## 2. Key audit matters: including our assessment of risks of material misstatement (cont.)

	The risk	Our response
<p><b>Valuation of incurred but not reported (IBNR) Reserves</b></p> <p>(Technical Provisions- Gross Claims Outstanding £617.0m; 2017: £659.9m)</p> <p>Gross claims IBNR £264.3 million; 2017: £231.2 million)</p> <p>Refer to page 15 (note 1 accounting policy) and page 52 (note 20 - Technical provisions).</p>	<p><b>Subjective valuation:</b></p> <p>Gross outstanding claims represent the largest liability for the Company.</p> <p>Valuation of these liabilities is highly judgemental, and requires a number of assumptions to be made that have high estimation uncertainty and can have material impacts on the valuation. Key assumptions generally include current year loss ratios, large loss movements and allowance for recent experience.</p> <p>Certain areas of the insurance reserves balance contain greater uncertainty, particularly those relating to the Medical Malpractice and the Commercial and Personal After the Event ("ATE") classes of business. In addition to the long tail nature of the business, the Medical Malpractice class has a market history of poor practices and improper claims resulting in high loss ratios in the wider market which make this a particularly subjective class of business to reserve for. As for the Commercial and Personal ATE business, this class uses a different method of reserving from other classes due to the non-standard nature of the business within this class.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that gross IBNR reserves of £264.3 million has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 2) disclose the sensitivity estimated by the Company.</p>	<p>Our controls procedures included:</p> <ul style="list-style-type: none"> <li>— <b>Control design and operation:</b> testing, with the support of our IT specialists, the design, implementation and where appropriate operating effectiveness of key controls over the claims handling and reserving processes. This also included key reconciliations and controls over actuarial data inputs into the reserving process, peer review of actuarial/reserving output (controls design only) and review of booked reserves against ultimate loss ratios ("ULR") as approved by the Reserving Committee.</li> </ul> <p>With the involvement of our actuarial specialists, our substantive approach focused on:</p> <ul style="list-style-type: none"> <li>— <b>Independent re-performance:</b> We performed independent re-projections of significant classes of business, particularly Medical Malpractice and Structural Defects as well as Professional Indemnity, and other major classes of business and compared these with management estimates to assess their reasonableness. Our re-projections cover 80% of gross claims outstanding (IBNR and case reserves). For ATE (both Commercial and Personal) we performed various tests including detailed model reviews. For those classes of business where the perceived risk of misstatement was lower, we carried out other procedures such as data and actuarial diagnostics.</li> <li>— <b>Challenging methodology and assumptions:</b> We assessed and challenged management's methodology and assumptions, such as current year loss ratios, large loss movements and allowance for recent experience, in the valuation of gross outstanding claims including claims IBNR by performing procedures such as benchmarking and sensitivity analyses.</li> </ul> <p>We assessed reserving strength, in particular the level of margin held to manage uncertainties for appropriateness and consistency with prior years with reference to our independently determined reasonable range and our professional judgement.</p> <p>The audit team also performed the following procedures:</p> <ul style="list-style-type: none"> <li>— <b>Test of details:</b> Our substantive procedures involved vouching a sample of claims paid transactions during the year ended 31 December 2018 and claims outstanding as at 31 December 2018 back to supporting documentation as these form the attributes to the claim data inputs used by our actuaries in their claims IBNR work above. We also substantively tested that the data used by our actuaries was accurate and complete.</li> <li>— <b>Assessing transparency:</b> We assessed the appropriateness of the accounting policy and disclosures relating to technical provisions – gross claims outstanding including gross claims incurred but not reported.</li> </ul>

### Our Results

We found the valuation of incurred but not reported (IBNR) Reserves to be acceptable. (2017 result: acceptable)

## 2. Key audit matters: including our assessment of risks of material misstatement (cont.)

The risk	Our response
<p><b>Accuracy and Valuation of earnings on premiums from all lines of business with non-standard earning patterns</b></p> <p>(Earned premiums, net of reinsurance £291.5m; 2017: 242.0m; Gross earned premium (non-standard earning pattern): £82.6 million; 2017: £64.8 million; Gross UPR (non-standard earning pattern): £221.7 million; 2017: £212.7 million)</p> <p>Refer to page 15 (accounting policy).</p>	<p><b>Subjective valuation:</b></p> <p>In the context of earned premium this risk can arise through the application of earnings patterns in order to determine the extent of the written premium that should be deferred to future periods. Accuracy of written premiums is one of the key inputs in the calculation of earning patterns. Due to the application of estimates in relation to cancelled, settled or lapsed policies on After-the-Event ("ATE") business we considered Accuracy of ATE premiums to be part of the key audit matter.</p> <p>The selection of these earning patterns is judgemental as it represents management's assessment of the likely pattern of loss emergence. The diversity of business classes and nature of exposures underwritten by the Company make this particularly subjective. In particular, this includes classes such as After-the-Event ("ATE") and Structural Defects, where the premiums are not earned linearly over the policy period.</p> <p>We define "non-standard earning pattern" as earning patterns other than those earning linearly over policy periods.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that earned premiums of £82.6 million and unearned premium reserve for non-standard lines of business of £221.7 million has a moderate degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.</p>
	<p>Our control procedures included:</p> <ul style="list-style-type: none"> <li>— <b>Control design and operation:</b> testing, with the support of our IT specialists, the design and implementation of key controls within the underwriting processes including controls around the accuracy of data input into the policy systems, peer review and approval of assumptions that impact premium earnings (including setting of lapse provision rates used in the ATE calculations and selection of earning patterns) (controls design only).</li> </ul> <p>With the involvement of our actuarial specialists, our substantive approach focused on:</p> <ul style="list-style-type: none"> <li>— <b>Evaluation of earnings patterns:</b> We assessed the reasonableness of the selected earnings profile of a sample of lines of business with non-standard earning patterns. Our procedures included assessing whether the selected earning patterns are reasonable given the pattern of incidence of risk. We also assessed the appropriateness of the application of assumptions over the estimate of cancelled, settled or lapsed policies in relation to ATE policies.</li> </ul> <p>The audit team also performed the following procedures:</p> <ul style="list-style-type: none"> <li>— <b>Recalculation of unearned premium reserves balance:</b> We recalculated 100% of the unearned premium reserves using a combination of data and analytical procedure and manual recalculations to assess the accuracy of the unearned premiums reserves.</li> <li>— <b>Written Premium Testing:</b> Our substantive procedures in verifying attributes relevant to the earning of premiums and unearned premiums re-calculation noted above involved vouching a sample of written premiums to bank statements and policy documentation.</li> <li>— <b>Assessing transparency:</b> We assessed the appropriateness of the accounting policy and disclosures relating to accuracy and valuation of premiums from all lines of business with non-standard earning patterns.</li> </ul> <p><b>Our results</b></p> <p>We found the accuracy and valuation of earned premiums from all lines of business with non-standard earning patterns to be acceptable. (2017 result: acceptable)</p>

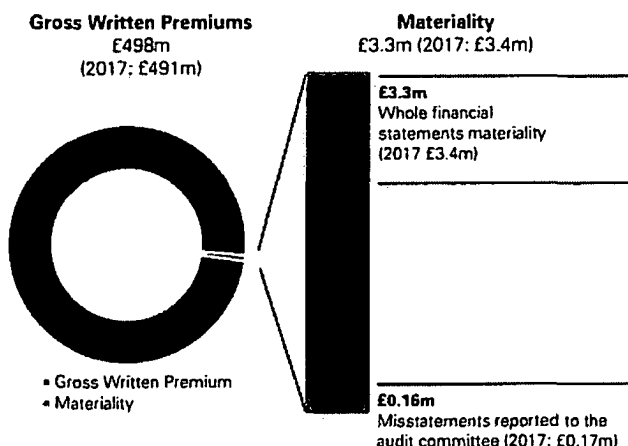
### 3. Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £3.3 million (2017: £3.4 million), determined with reference to a benchmark of total Gross Written Premiums (2017: benchmark of Gross Written Premiums) of which it represents 0.66% (2017: 0.69%).

We consider gross written premium to be the most appropriate benchmark as it provides a more stable measure year on year than profit before tax and is a key focus and metric of the Company, the directors, the shareholders and other users of the Company's financial statements. Note that the prior year restatement of Gross Written Premium did not cause us to re-assess materiality on the basis that this is a one-off adjusting entry.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.16 million (2017: £0.17 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above and was performed primarily at the Company's head office in Nottingham, United Kingdom.



### 4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

Based on this work, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

### 5. We have nothing to report on the strategic report and the directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in those reports;
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

### 6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

## 7. Respective responsibilities

### *Directors' responsibilities*

As explained more fully in their statement set out on page 8, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### *Auditor's responsibilities*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

### *Irregularities – ability to detect*

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the company's licence to operate.

### *Irregularities – ability to detect (cont.)*

We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law, regulatory capital and liquidity and certain aspects of company legislation recognising the financial and regulated nature of the company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

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

This report is made solely to the Company's member, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's member those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's member, as a body, for our audit work, for this report, or for the opinions we have formed.



**Ben Priestley (Senior Statutory Auditor)**  
for and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants  
15 Canada Square  
London  
E14 5GL  
7 May 2019