



# Solvency & Financial Condition Report

2016

**AIG Europe Limited**

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# EXECUTIVE SUMMARY

## AIG in Europe

2016 has been a year of intensified focus: our geographic focus, our focus on profitable business lines and also our focus on our clients.

We have continued to build strong momentum towards our vision to be our clients' most valued insurer by concentrating on the business lines and geographies where we can deliver the most value. We have improved our business mix, reduced our expenses and also took steps to exit certain geographies, narrowing our footprint to those countries where we can operate a sustainable, profitable business.

We have also continued to put our clients at the centre of everything we do and collaboration has been a major theme for AIG Europe in 2016. I'm proud of the great strides we have taken this year to work closer than ever before with our clients and partners to innovate and co-create products that address their needs both today and tomorrow.

## 2016 Solvency and Financial Condition

In 2016, we continued to operate in a challenging environment. Low interest rates, uncertainty reinforced by the UK's referendum decision to leave the European Union, the growing spectre of inflation and the commoditisation of certain products continued to put a downward pressure on prices, profitability, and investment returns.

We also experienced a higher level of severe claims as well as some adverse claims development which led us to take a decision, in line with our parent company AIG Group, to strengthen our reserves.

These challenges validate our strategy of focusing on underwriting discipline and on those business lines and geographic areas that are most profitable. We have continued to improve our business mix towards those areas of focus and, even though we have chosen to walk away from premium in certain lines of business, overall, the level of net written premiums have risen.

We continue to focus on our core capabilities, including financial lines, multinational and client risk solutions, leveraging our geographic reach, our capacity and our expertise. We are confident that we can compete effectively in this market with this continued focus.

Our strategy is underpinned by five key pillars highlighted in the strategic report within Annual Accounts and Report:

- Value Based Management, which means we focus on those segments where we have the greatest ability to create value;
- Customer, which means putting our customer at the centre of everything that we do and delivering an improved client and partner experience;
- Simplification, which means improving efficiency, simplifying our organisational structure and empowering employees;
- Technology / IT, by modernising, digitising and mobilising our technology capabilities to better serve our customers and empower our people;
- People, meaning we seek to develop, attract and engage with a diverse workforce.

## Capital Management

On 1 January 2016, the Company smoothly transitioned into the Solvency II (SII) regime following significant amount of preparatory work over the last few years to achieve readiness. Solvency II represents a shift to a more risk-based approach to the measurement and monitoring of capital for insurance groups in the European Union.

The Company currently uses the Standard Formula to calculate its solvency capital requirement; however it intends to replace this with an Internal Model once approval is received from the PRA. As an Internal Model aspirant firm, the Company views the Internal Model to be a true representation of its risk profile and therefore also monitors its solvency by reference to the Internal Model capital requirement.

The Company's Standard Formula Solvency Capital Requirement (SF-SCR) at 30 November 2016 is £3,360.5m. This is covered by £3,642.9m of eligible capital resources, providing a Solvency II surplus of £282.4m and a Solvency II coverage ratio of 108.4%. Both metrics are defined by the regulations to mean the excess of the Company's total eligible own funds over its solvency capital requirement.

## AIG Europe Limited Solvency II Capital Performance at a glance

|                                                            |                  |
|------------------------------------------------------------|------------------|
| <b>Own Funds</b>                                           | <b>£3,642.9m</b> |
| <b>Standard Formula Solvency Capital Requirement (SCR)</b> | <b>£3,360.5m</b> |
| <b>Surplus</b>                                             | <b>£282.4m</b>   |
| <b>Solvency Ratio</b>                                      | <b>108.4%</b>    |

*European Solvency II Group (AHEL) will publish its Group SFCR on 31 May 2017 and will be available to download from our website.*

### Innovation and collaboration

The insurance industry is ripe for disruption, and in order for AIG to remain at the forefront it recognises the need to innovate and collaborate. The Company has made significant investments in technology to deliver value to its clients, for example by introducing digital platforms for brokers and clients in Financial Lines.

Innovation also comes in the form of new product offerings. The Company launched five new industry segments in 2016, and it now has dedicated groups for Financial Services, Energy, Construction, Manufacturing and Transportation. It also actively seeks partnerships with intermediaries and clients to ensure win-win outcomes through collaboration.

### Outlook for 2017

The macro-economic background for 2017 remains challenging. As the process of the UK leaving the EU commences this year we anticipate continued uncertainty and elsewhere political instability is also likely to result in a subdued economic environment.

The uncertainty surrounding Brexit is also likely to lead to currency instability which may also impact our financial performance. The impact on Solvency position is anticipated to be minimal given we hold foreign currency assets to back our capital requirements originating from foreign currency liabilities.

During 2016, we embarked on a journey to simplify our geographic focus as well as improving our business risk mix which will provide us with further capital benefits in 2017. We continue to simplify our business and reduce costs through efficiencies. We see targeted growth opportunities across Europe to partner with our customers to help them achieve their ambitions. We will continue to focus on the largest European economies where we still have the ability to add scale. We will focus even more on profitable business – on lines and geographies where we can add the most value. We also need to be agile and innovative in our thinking to embrace new ways of working. We will be flexible and work in collaboration with our clients as a business enabler: to give our customers the security to allow them to take risks and make investments.



**Chief Executive Officer**  
**Anthony Baldwin**

## DIRECTORS' REPORT

### Directors

The current listing of Directors is as follows:

|                                                 |               |
|-------------------------------------------------|---------------|
| Chief Executive Officer                         | Mr A Baldwin  |
| Chief Financial Officer                         | Mr J Lenton   |
| Executive Director                              | Mr N Minnich  |
| Chairman and Independent Non-Executive Director | Mr A Hope     |
| Senior Independent Non-Executive Director       | Mr M Bowers   |
| Independent Non-Executive Director              | Mr P Tromp    |
| Independent Non-Executive Director              | Mr J-M Nessi  |
| Independent Non-Executive Director              | Ms C Kampmann |
| Non-Executive Director                          | Mr R Schimek  |

During the year, the following resignations and appointments took place:

|               |           |                  |
|---------------|-----------|------------------|
| Mr M Garceau  | Resigned  | 31 March 2016    |
| Ms S Maag     | Resigned  | 31 March 2016    |
| Mr N Minnich  | Appointed | 21 April 2016    |
| Mr R Schimek  | Appointed | 6 October 2016   |
| Mr J Shephard | Resigned  | 31 December 2015 |
| Mr F Spagnoli | Resigned  | 31 March 2016    |

### Statement of Directors' Responsibilities

The Directors are responsible for preparing the Solvency Financial Condition Report, including the attached public quantitative reporting templates, in all material respects in accordance with PRA Rules and the Solvency II Regulations.

The Solvency II Directive, the Delegated Acts, related Implementation Rules, Technical Standards and Guidelines, as well as PRA rules provide the regulatory framework in which the Company operates. The Solvency II rules and regulations include, but are not limited to, the recognition and measurement of its assets and liabilities including Technical Provisions and Risk Margin, the calculation of its capital requirement and the reporting and disclosures of the Solvency II results.

### Compliance with SCR

The Company has complied with all material respects with the requirements of the PRA Rules and Solvency II regulations as applicable throughout the financial year 2016. The Company reasonably believes that it will comply with the PRA rules and Solvency II regulations subsequently and will continue to comply for the foreseeable future.

### Statement of disclosure of information to auditors

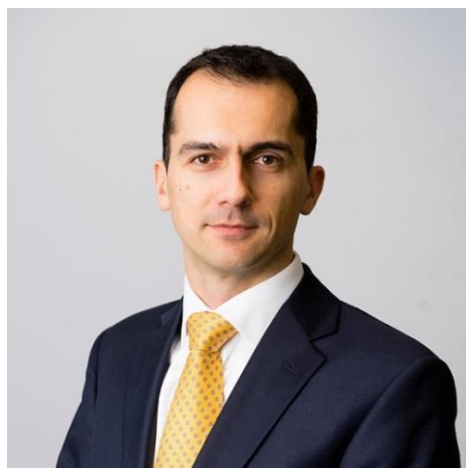
In accordance with Section 418 of the Companies Act 2006, each of the persons who is a director in office at the date this report is approved, confirms that:

- (a) so far as each of them is aware, there is no relevant audit information of which the company's auditors are unaware; and
- (b) each of them have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

### Independent Auditors

The Company has, by elective resolution, dispensed with the appointment of auditors annually and subject to the terms of their appointment, PricewaterhouseCoopers LLP are deemed to continue in office until the resolution is revoked.

On behalf of the Board,



**Chief Financial Officer**  
**James Lenton**

## REPORT OF THE EXTERNAL INDEPENDENT AUDITORS TO THE DIRECTORS OF AIG EUROPE LIMITED ('THE COMPANY') PURSUANT TO RULE 4.1 (2) OF THE EXTERNAL AUDIT PART OF THE PRA RULEBOOK APPLICABLE TO SOLVENCY II FIRMS

### Report on the Audit of the relevant elements of the Solvency and Financial Condition Report

#### Opinion

Except as stated below, we have audited the following documents prepared by the Company as at 30 November 2016:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 30 November 2016, ('**the Narrative Disclosures subject to audit**'); and
- Company templates S.02.01.02, S.12.01.02, S.17.01.02, S.23.01.01, S.25.01.21 and S.28.02.01 ('**the Templates subject to audit**').

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

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

- The 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;
- Company templates S.05.01.02 and S.05.02.01;
- The written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('**the Responsibility Statement**').

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of the Company as at 30 November 2016 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & I)), International Standard on Auditing (UK) 800 and International Standard on Auditing (UK) 805, and applicable law. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report section of our report.

#### Emphasis of Matter - Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

#### Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations which have been supplemented by the approvals made by the PRA under section 138A of FSMA, the PRA Rules and Solvency II regulations on which they are based, as detailed within the SFCR E.1 Own funds and listed below:

- Approval of items of ancillary own funds

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

#### Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion, in accordance with applicable law, ISAs (UK & I) and ISAs (UK) 800 and 805 as to whether the information subject to audit in the relevant elements of the Solvency and Financial Condition Report is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based. ISAs (UK & I) require us to comply with the Auditing Practices Board's Ethical Standard for Auditors

An audit involves obtaining evidence about the amounts and disclosures in the relevant elements of the Solvency and Financial Condition Report sufficient to give reasonable assurance that the relevant elements of the Solvency and Financial Condition Report are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the relevant elements of the Solvency and Financial Condition Report. In addition, we read all the financial and non-financial

information in the Solvency and Financial Condition Report to identify material inconsistencies with the audited relevant elements of the Solvency and Financial Condition Report. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

This report, including the opinion, has been prepared for the Directors of the Company to comply with their obligations under External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose save where expressly agreed by our prior consent in writing.

#### **Report on Other Legal and Regulatory Requirements**

In accordance with Rule 4.1 (3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are required to read the Other Information and consider whether it is materially inconsistent with the relevant elements of the Solvency and Financial Condition Report and our knowledge obtained in the audits of the Solvency and Financial Condition Report and of the Company's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



*PricewaterhouseCoopers LLP*

*Chartered Accountants*

London

13th April 2017

- The maintenance and integrity of the AIG Europe Limited's website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Solvency and Financial Condition Report since it was initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of Solvency and Financial Condition Reports may differ from legislation in other jurisdictions.



#### Solvency & Financial Condition Report 2016

## A. Business and Performance

This section of the report sets out the details regarding AIG Europe Limited's business structure, key operations, market position and the financial performance for 2016.

- Key elements of the section are:
- Business information;
- Underwriting Performance;
- Investment Performance; and
- Performance from other activities.

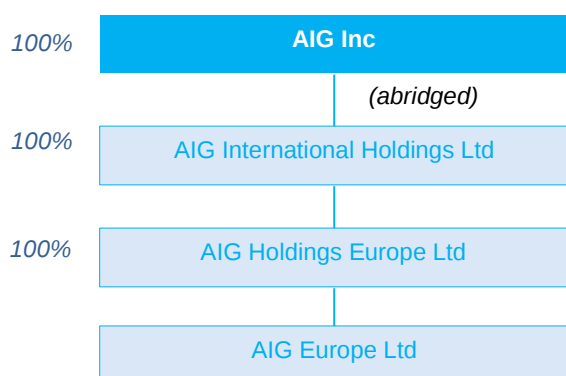
## A.1 BUSINESS

### Company Information

AIG Europe Limited (the Company) is incorporated in the United Kingdom and registered in England and Wales. The Company is a wholly owned subsidiary of AIG Holdings Europe Limited (AHEL) and with 100% voting interest.

AHEL's ultimate parent company is American International Group, Inc (AIG Inc.), a company incorporated in the State of Delaware, United States of America with headquarters in New York City.

The following chart shows, in simplified form, a structure chart of the Company and its ultimate parent as at 30 November 2016.



On 1 June 2016, AIG Holdings Europe Limited (AHEL) replaced AIG Europe Holdings Limited (AEHL) as the immediate parent of the Company. This was effectively a like-for-like replacement, and the governance model of the group remained unchanged.

The Company is a multiline insurance company writing substantially all lines of property and casualty insurance.

### Country Branches

The Company actively pursues business across 27 countries that represent the UK, Norway, Switzerland and 24 EU member states.

The Company employs more than 4,900 staff, who facilitate the operation of a company that specialises in dealing with the top end of the global insurance market.

Through AIG Inc's wide global reach, product range and large capital base the Company is able to write business in smaller countries and leverage the size of the group through use of global reinsurance treaties.

Major lines of insurance written include commercial, personal and consumer, accident and health and specialty coverage.

The Solvency and Financial Condition Report (SFCR) is presented in millions of pounds sterling, and the attached public quantitative reporting templates (QRTs) in Appendix B are in thousands of pounds sterling as set out in Article 2 of the Commission Implementing Regulation (EU) 2015/2452. The functional and reporting currency of the Company is pounds sterling

The Company's registered office and principal place of business and the contact details of its external auditors and supervisory authority are shown below:

#### Registered Office

The AIG Building  
58 Fenchurch Street  
London EC3M 4AB  
+44 (0) 20 7954 7000

#### External Auditors

PricewaterhouseCoopers LLP  
7 More London Riverside  
London SE1 2RT  
+44 (0) 20 7583 5000

#### Supervisory Authority

Prudential Regulation Authority (PRA)  
20 Moorgate  
London EC2R 6DA  
+44 (0) 20 7601 4444

AHEL's registered office address is the same as the Company's office address above.

The SFCR has been authorised for issue by the Board of Directors on 13 April 2017.

### Material Participating Undertakings

As at 30 November 2016, the Company holds participations in 8 subsidiaries amounting to £60.0m valued in accordance with Article 75 of the Delegated Acts.

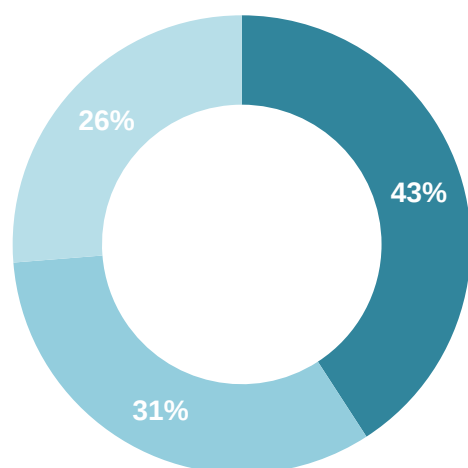
The Company's material principal subsidiaries are listed below by principal activity, place of incorporation, ownership proportions and Solvency II values for these holdings.

| Name                                             | Principal Activities       | Country        | Ownership | Solvency II value (£m) |
|--------------------------------------------------|----------------------------|----------------|-----------|------------------------|
| AIG Europe (Services) Limited                    | Administrative services    | United Kingdom | 100%      | 28.1                   |
| Hansa Grundstückverwaltung GmbH & Co KG          | Real estate company        | Germany        | 94.499%   | 13.4                   |
| AIG Global Reinsurance Operations Limited (RISO) | Reinsurance administration | Belgium        | 100%      | 12.1                   |

## MATERIAL LINES OF BUSINESS BY OPERATING SEGMENT AND SOLVENCY II

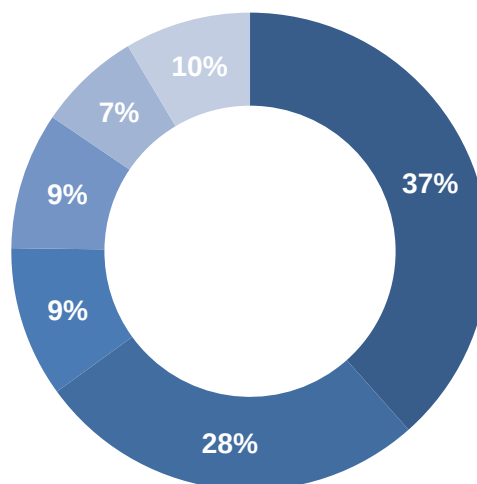
The Company's insurance products are split into Commercial and Consumer insurance segments. The Commercial insurance segment caters to the insurance needs of commercial and institutional customers. The Consumer insurance segment provides customer-focused service, innovative product development capabilities and strong distribution relationships across multiple channels. The insurance segments are further split into Insurance Lines of Business (LoB) and Solvency II LoB as follows:

INSURANCE LOB AND  
OPERATING SEGMENTS



2016  
Net  
Premiums  
Written  
(NPW)  
£3,661.3m

SOLVENCY II LOB



### Liability and Financial Lines (LFL)

Constitutes the largest section of the Commercial insurance segment of the Company at 43% of Net Premiums Written in 2016. The Company is a market leader in multiple Financial Lines products including Directors and Officers liability, Cyber insurance, M&A insurance, Kidnap & Ransom insurance and Professional liability insurance. The Company's Casualty book includes Primary and Excess liability business providing coverage for general liability, motor fleet liability, employer's liability and crisis management.

### Property and Special Risks (PSR)

Represents the Company's second largest Commercial insurance segment at 31% of Net Premiums Written in 2016 and includes Property Insurance products for Commercial Properties, Upstream and Downstream Energy, Power Generation, Oil Rig, Chemicals, Mining and Construction and Speciality Insurance products for Aerospace, Environmental, Marine, Political Risks, Surety and Trade Credit.

### Personal Insurance (PI)

Amounts to 26% of Net Premiums Written in 2016 for the Company and includes Personal Accident and Health, Personal Property, Personal Auto and Service Programmes.

Under Solvency II, insurance products and offerings are categorised into 16 standardised Solvency II lines of business (LoB). The Company's top 5 material Solvency II LoBs by Net Premiums Written in 2016 are:

- General Liability (37%)
- Fire and other damage to property (28%)
- Income protection (9%)
- Marine, aviation and transport (9%)
- Motor vehicle liability (7%)

"Others" Solvency II LoB consist largely of Medical Expense Insurance, Miscellaneous Financial Loss insurance and Credit and Suretyship insurance, collectively representing 10% of the Company's Net Premiums Written in 2016.

## SIGNIFICANT EVENTS DURING THE REPORTING PERIOD AND UP TO THE DATE OF THE REPORT

### Brexit



The Company has significant operations and employees in the UK and the EU in which it enjoys certain benefits based on the UK's membership of access to the EU.

On June 23, 2016, the United Kingdom (UK) held a referendum in which a majority of voters elected for the UK to withdraw its membership in the European Union (EU).

In the run up to the Referendum, the Company took the following pre-emptive actions to insulate its capital position against short term market volatilities:

- Strategic asset allocation: the Company de-risked its portfolio and disposed of the majority of its collateralised debt notes which are subject to higher capital charges.
- Letters of credit: the Company obtained approval from the PRA for an additional £200m of letters of credit to be included as ancillary own funds.

The Company tracked the impact on Company's Solvency position by movements in the key macro economic indicators such as movements in credit spreads, foreign exchange and interest rates. The Company has complied with all material respects with Solvency II requirements throughout the financial year 2016.

On 29 March 2017, Article 50 of the Lisbon Treaty was triggered by the British Government to start the process of formal negotiations between the UK and the EU.

In the same month, the Company made a decisive move to locate an insurance company in Luxembourg to ensure continued smooth operation of the Company business across the European Economic Area (EEA) and Switzerland once the UK leaves the EU. From 2019, the Company proposes to have two subsidiary insurance companies in Europe – one in the UK to write UK business and one in Luxembourg to write EEA and Swiss business.

This move ensures the Company is positioned for whatever form the UK's exit from the EU ultimately takes. Luxembourg, a founding member of the European Union, offers us a secure location in a stable economy with an experienced and well-respected regulator in continental Europe close to many of our major markets. The UK remains a core market where the Company will continue to invest and grow and will continue to support its European operations from the UK.

The proposed restructure is expected to complete in the first quarter of 2019, subject to regulatory approval.

### Geographic Focus

At the beginning of last year our parent company AIG Inc made a global strategic update to the market. This outlined plans to achieve a number of financial goals while simplifying the business, becoming increasingly client focused and delivering operating synergies.

This led to AIG Europe narrowing its geographic footprint. In October it was announced that Fairfax Financial Holdings Limited (Fairfax) will acquire renewal rights for the portfolio of local business written by AIG Inc's operations in Bulgaria, Czech Republic, Hungary, Poland, Romania and Slovakia and assume the AIG Inc operating assets and employees for these countries. These transactions are expected to close during the course of 2017. Shortly after the year end in December 2016, AIG disposed of its ownership interest in AIG Greece Representation of Insurance Enterprises S.A., which acts as a Managing General Agent (MGA) for AIG Europe Limited's Greece branch, to EXIN Group. It is therefore anticipated that by the end of 2017, AIG Europe will have underwriting operations in 21 countries.

### Capital Increase

On 16 March 2017, the Company issued a further 200 shares to its immediate parent, AIG Holdings Europe Limited at par value with an associated share premium of £200m.

## A.2 UNDERWRITING PERFORMANCE

### Underwriting performance by material lines of business and geographical areas

The Company primarily manages its business by insurance lines of business as defined on page 10. Under Solvency II, the lines of business are pre-defined with majority of the business originating from the lines highlighted in the section A.2.1

The Company noticed an adverse a higher level of severe claims as well as some adverse claims development which led to a decision to strengthen its reserves.

These challenges validate our strategy of focusing on underwriting discipline and on those business lines of geographic areas that are most profitable. We have continued to improve our business mix towards those areas of focus and, even though we have chosen to walk away from premiums in certain lines of business, overall, the level of net written premiums have risen.

We continue to focus on our core capabilities, including financial lines, multinational and client risk solutions, leveraging our geographical reach, our capacity and our expertise. We are confident that we can compete effectively in this market with this continued focus.

#### A.2.1 Underwriting performance by Solvency II lines of business

The table below provides key performance indicators for major Solvency II lines of business. Page 10 provides how these are aligned to management view of insurance lines of business.

| £m                              | General Liability | Fire and Other<br>Damage to<br>Property | Marine, Aviation<br>and Transport | Income<br>Protection | Motor Vehicle<br>Liability |
|---------------------------------|-------------------|-----------------------------------------|-----------------------------------|----------------------|----------------------------|
| Net Premiums Written (NPW)      | 1,354.0           | 999.1                                   | 328.2                             | 338.7                | 264.6                      |
| Net Premiums Earned (NPE)       | 1,367.3           | 990.3                                   | 417.0                             | 334.2                | 243.2                      |
| Claims incurred                 | (1,169.8)         | (636.1)                                 | ( 264.1)                          | (160.3)              | (220.8)                    |
| Expenses incurred               | (529.3)           | (500.0)                                 | (122.3)                           | (158.3)              | (99.3)                     |
| <b>Underwriting performance</b> | <b>(331.8)</b>    | <b>(145.8)</b>                          | <b>30.6</b>                       | <b>15.6</b>          | <b>(76.9)</b>              |

#### General Liability

General liability business experienced adverse prior year development and also higher levels of severe claims across Casualty and Commercial D&O business leading to adverse prior year development. Additionally, Liability reserves was strengthened as a result of the Lord Chancellors announcement to lower the Ogden discount rate from 2.5% to minus 0.75%

#### Fire and Other Damage to Property

The Fire and Other Damage to Property underwriting performance was impacted by higher levels of severe claims through terrorist attacks and storm impacts of hurricane Desmond, Storm Eva and German floods in the Property business.

#### Marine, Aviation and Transport

The underwriting performance for Marine, Aviation and Transport was in line with the expectations for 2016.

#### Income Protection

During the year, Income Protection business experienced a growth in earned premium which combined with expense optimisation resulted in underwriting profit.

#### Motor Vehicle Liability

General liability business experienced adverse prior year development in the Primary Auto market. The underwriting performance was also impacted by reserve strengthening as a result of the lowering of the Ogden discount rate.

### A.2.2 Underwriting performance by material geographical areas

The Company does not disclose underwriting results by operating segments. The Company's material geographical areas where it carries out business include United Kingdom (31.2%), France (13.4%), Germany (10.0%), Italy (8.6%), Ireland (5.8%) and Netherlands (4%) representing 72.8% of the Company's NPW in 2016.

| £m                              | UK             | France      | Germany       | Italy       | Ireland       | Netherlands   |
|---------------------------------|----------------|-------------|---------------|-------------|---------------|---------------|
| NPW                             | 1,140.8        | 490.3       | 364.3         | 314.0       | 211.4         | 146.1         |
| NPE                             | 1,189.3        | 490.2       | 365.5         | 312.6       | 190.8         | 148.8         |
| Claims incurred                 | (1,036.8)      | (211.3)     | (335.2)       | (194.7)     | (172.0)       | (143.0)       |
| Expenses incurred               | (389.4)        | (251.8)     | (70.3)        | (91.5)      | (44.5)        | (31.1)        |
| <b>Underwriting performance</b> | <b>(236.9)</b> | <b>27.1</b> | <b>(40.0)</b> | <b>26.4</b> | <b>(25.7)</b> | <b>(25.3)</b> |

**United Kingdom:** The UK market experienced adverse claims development across Casualty and Commercial D&O business. The underwriting performance was also impacted by higher levels of severe claims through storm impacts of hurricane Desmond and Storm Eva.

Additionally, UK Liability reserves were strengthened as a result of the Lord Chancellors announcement to lower the Ogden discount rate from 2.5% to minus 0.75%.

**France:** The French market's underwriting performance was in line with expectations for 2016.

**Germany:** The German market experienced higher levels of severe claims in the Energy and Excess Casualty line and floods which impacted the underwriting performance for 2016.

**Italy:** The Italian market experienced moderate growth in net premiums earned due to higher premium retention.

**Ireland:** The Irish market experienced adverse claims development in Casualty business (including Primary Auto).

**Netherlands:** The underwriting performance for Netherlands was impacted by higher levels of severe claims within Financial lines.

### A.3 INVESTMENT PERFORMANCE

The Company's investment management framework sets out its Strategic Asset Allocation (SAA) that is approved by the Board and is reviewed annually. Assets categories that are included in the SAA are those that are suitable for the Company's liabilities profile by nature, term and currency and for which the investment manager could assess, monitor and control risks.

In line with investment limits set out in the SAA, the Company holds a diversified investment portfolio in government bonds, corporate bonds, securitised assets, loans, mutual funds, equities, investments in group undertakings and cash.

#### INVESTMENT RETURN

The Company measures its investment performance using total investment return which comprises of Net Investment Income (NII) and other gains and losses comprising of realised and unrealised gains and losses and impact of movements in foreign exchange rates.

NII is the investment income net of investment management expenses. The total investment return split by asset classes and type of investment income and expenses are shown in the table below:

| Asset Classes<br>£m | Gross<br>Investment<br>Income | Investment<br>Expenses | Net<br>Investment<br>Income<br>(NII) | Realised<br>Gains and<br>Losses | Unrealised<br>Gains and<br>Losses<br>(recognised in<br>equity) | Forex gains<br>and losses | Total<br>Investment<br>Return |
|---------------------|-------------------------------|------------------------|--------------------------------------|---------------------------------|----------------------------------------------------------------|---------------------------|-------------------------------|
| Corporate Bonds     | 156.2                         | (8.8)                  | 147.5                                | 17.4                            | (2.5)                                                          | 449.2                     | 611.5                         |
| Government Bonds    | 45.5                          | (4.5)                  | 41.0                                 | 12.5                            | (1.7)                                                          | 244.0                     | 295.8                         |
| Securitised Assets  | 16.9                          | (1.3)                  | 15.6                                 | 17.5                            | 7.7                                                            | 27.7                      | 68.6                          |
| Mutual Funds        | -                             | (0.3)                  | (0.3)                                | 37.4                            | (42.3)                                                         | 10                        | 4.8                           |
| Equity Instruments  | 0.3                           | -                      | 0.3                                  | -                               | -                                                              | -                         | 0.3                           |
| Loan Participations | 11.2                          | (0.5)                  | 10.7                                 | -                               | -                                                              | 15.6                      | 26.3                          |
| Short Term Deposits | 2.0                           | -                      | 2.0                                  | -                               | -                                                              | -                         | 2.0                           |
| <b>Total</b>        | <b>232.1</b>                  | <b>(15.4)</b>          | <b>216.8</b>                         | <b>84.8</b>                     | <b>(38.8)</b>                                                  | <b>746.5</b>              | <b>1,009.3</b>                |

The split of Total investment return of £1,009.3m by components and by assets classes is given below and it is mainly driven by;

- 1) £746.5m foreign exchange gains arising from the strengthening of US Dollar and Euro against Pound Sterling following the Brexit vote as the Company's investment portfolio has large exposures to these currencies.
- 2) £216.8m NII mainly driven by interest income of Corporate Bonds. The NII in 2015 includes a one-off £52.7m dividend income from the liquidation of its subsidiary AIG Building (UK) Ltd and therefore, NII for 2016 is lower than 2015.
- 3) £84.8m fair value gains driven by fall in interest rates attributed to extension of quantitative easing program of European Central Bank (ECB) on disposal/ maturity of Bonds, Securitised assets and Mutual Funds.

#### GAINS AND LOSSES RECOGNISED IN EQUITY

Net unrealised losses recognised in equity for 2016 amount to £38.8m mainly attributable to fall in price of Mutual Funds.

## INVESTMENTS IN SECURITISATIONS

The Company does not sponsor or transfer assets to, act as the servicer for or involved in the design of these asset-backed structures. The Company's investment in securitisations reduced by £359.1m as part of its asset de-risking strategy to liquidate assets that attract higher risk charges.

The Company's holdings in securitised assets at 30 November 2016 as shown on its statutory financial statements is as follows:

| Investments in Securitisations | £m           |
|--------------------------------|--------------|
| RMBS                           | 254.4        |
| CMBS                           | 60.7         |
| <b>Total</b>                   | <b>315.1</b> |

As at 28 February 2017, as a continuation of its asset de-risking strategy, the Company disposed all of its holdings in Residential Mortgage Backed Securities (RMBS) and a number of Commercial Mortgage Backed Securities (CMBS) amounting to £264.4m.

## A.4 PERFORMANCE FROM OTHER ACTIVITIES

The 'Performance from other activities' subsection of the report aims to provide an overview of the qualitative and quantitative information regarding income from other activities, other expenses and lease arrangements.

### OTHER MATERIAL INCOME AND EXPENSES

| Other material income and expenses  | £m     |
|-------------------------------------|--------|
| Net foreign exchange (losses)/gains | (33.8) |
| Administrative expenses             | 693.2  |

The Company operates in a number of overseas branches. Each overseas branch determines its own functional currency based on factors specific to its operations and is usually the currency of the primary economic environment in which it operates.

The Company hedges the foreign exchange risk arising from the retranslation of its Euro functional currency branches. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and the translation of foreign currency denominated monetary assets and liabilities at year end exchange rates are recognised in the income statement as part of other income.

Administrative expenses are incurred to support the infrastructure of the organisation and include but are not limited to personnel costs, projects and bad debt expenses.

## LEASE ARRANGEMENTS

At 30 November 2016, the Company had annual commitments in respect of non-cancellable operating leases. The operating lease expense for the financial year 2016 amounted to £23.6m. The Company is committed to payments in 2017 which are expected to be £14.8m.

The total of future minimum lease payments under non-cancellable operating leases on land and buildings are £40.4m in 2016 as analysed in the table below:

| £m                            | Not later than one year | Later than one year and not later than five years | Later than five years | Total |
|-------------------------------|-------------------------|---------------------------------------------------|-----------------------|-------|
| Future minimum lease payments | 14.8                    | 20.0                                              | 5.6                   | 40.4  |

The Company lets its properties to tenants through operating leases. At 30 November 2016, the Company expects to receive total future sublease payments of £7.5m in relation to non-cancellable operating leases on properties over the next 9 years.

## A.5 ANY OTHER MATERIAL INFORMATION

The information presented in Section A provides a true and fair view of the business and performance of the Company during the period.



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## B. System of Governance

The 'System of Governance' section of the report sets out details regarding the administration and management of the Company. The section also outlines the process of risk management and the fit and proper and outsourcing arrangements put in place.

Key elements of the sections are:

- Overview of the System of Governance;
- Fit and Proper;
- Risk Management System;
- Own Risk and Solvency Assessment; and
- Outsourcing arrangements.

## B. SYSTEM OF GOVERNANCE

### B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE

The 'General Information on the System of Governance' subsection of the report aims to provide details of the Company's management structure along with roles and responsibilities and key functions of various committees and working groups.

#### B.1A MANAGEMENT AND GOVERNANCE STRUCTURE

The oversight of the Company's business and its operations are provided through its governance structure, in which the management of risk plays a significant part. Governance starts with the Company's Board, which has overall responsibility for management of the company through providing leadership of the company within a framework of prudent and effective controls which enables each for the risks faced by the Company to be assessed and managed. The governance structure provides oversight and direction to the Company.

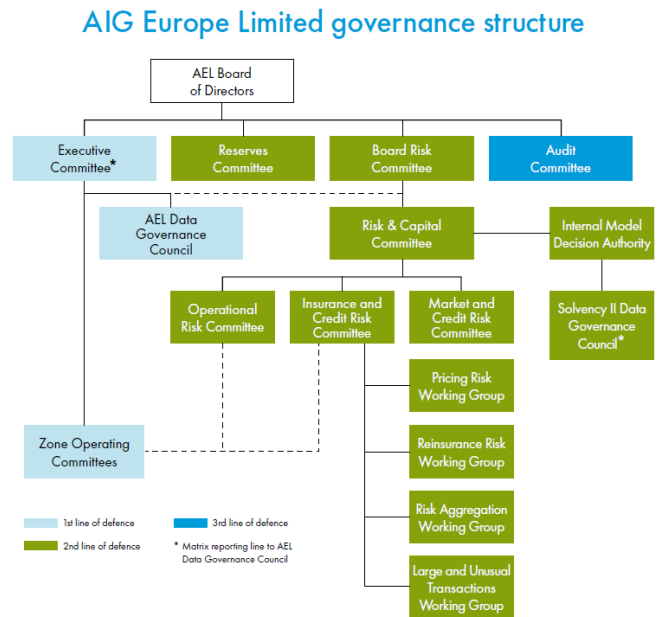
Included in the governance framework is the risk management framework which supports the Company's risk culture. The risk framework covers the Company's business and operational functions and risk areas. It sets out the risk committees, risk reporting and risk controls. The risk governance structure provides an oversight and decision-making framework within which material risks are continually identified, assessed, monitored and managed at a regional level, utilising outputs from the Economic Capital Model (ECM), where appropriate.

The governance structure has three levels of committees:

- 1) Board committees;
- 2) Executive Risk committees; and
- 3) Working Group committees.

The governance structure is designed to support the Company's embedding of a strong risk culture through the integration of risk management with regulatory requirements and business activities such as strategy and planning. Each of these committees has a distinct role to play within the Company's risk governance framework.

The organisation chart below provides a high-level overview of the Company's governance structure:



#### THE "THREE LINES OF DEFENCE" MODEL

The Company's risk management framework is based on the "Three Lines of Defence" model. This structure allows for each function and individual to have a clear understanding of their risk management responsibilities and aids embedding an effective risk culture across the Company.

#### BOARD OF DIRECTORS

The Board has overall responsibility for the oversight of the management of the Company. Its role is to provide entrepreneurial leadership of the Company within a framework of prudent and effective controls which enables each of the risks faced by the Company to be assessed and managed. The Board is responsible for promoting the long-term success of the Company whilst securing an appropriate degree of protection for policyholders. Its objectives are to set the Company's strategic aims, monitor management's performance against those strategic aims, set the Company's risk appetite, ensure the Company is adequately resourced and that effective controls are in place. All

authority in the Company flows from the Board, but it delegates to sub-committees the matters set out in their respective terms of reference.

The Board is composed of a mix of executive directors, independent non-executive directors and a Group non-executive director, so as to achieve a balance of skills, experience, challenge and debate and so that no individual or small group of individuals can dominate its decision-making. Any major changes to the Company's business activities must receive Board approval prior to implementation.

### B.1A.A FIRST LINE OF DEFENCE

Senior management (executive/business/operational), along with all staff in the organisation are responsible for implementing and maintaining the controls necessary for achievement of the Company's strategic and business objectives, the ownership and management of its inherent risks, its compliance with corporate standards and its legal and regulatory obligations.

#### The Executive Committee

The Executive Committee (ExCo) has responsibility for developing and implementing strategy for, and managing operational issues relating to, the insurance companies designated as part of the Company, UK and Europe region.

It is responsible to the Board for the day-to-day management of the Company and oversight of management of the other legal entities in the region. It develops strategy (for example, through annual business and capital plans), proposes the strategy to the Board, and once approved, implements it as an executive body.

The ExCo is composed of the CEO and a mix of senior executives. The independent non-executive directors of Company may interview proposed candidates for positions prior to their appointment.

The ExCo receives reports from each core business unit to enable it to monitor progress against the strategic plan, and where applicable develop and propose material adjustments to the Board. It also maintains an oversight of transformation projects and other strategic initiatives.

The ExCo reports into the Board via the CEO report and achieves co-ordination with wider Group strategy via the reporting lines of its individual members.

#### Zone Operating Committee

The Zone Operating Committee (OpCo) has responsibility for managing the business of the Zone within the limits of the mandate delegated to it by the ExCo. This includes implementing the strategy for the Zone agreed with the ExCo, monitoring and reporting of financial and operating

performance, management and control of risk and overseeing compliance with applicable regulations. As an executive body, Zone OpCo forms part of the first line of defence.

#### Data Governance Council

The role of the European Data Governance Council (EDGC) includes:

- Continuously improve data quality and reliability and access to information, within the context of a sustainable and cost-effective data management infrastructure; and
- Ensure that the region effectively manages its data in accordance with all applicable data management policies and standards.

Business and Solvency II requirements are currently the main drivers for data governance and data quality management in the Company with particular focus on data used in SCR calculations using both Internal Model and Standard Formula.

The European Data Governance Council and its sub-committees, the Solvency II Data Governance Council (SII DGC) and Data Quality Working Group both provide direction and oversight for all data management activities and forum for data quality reporting and issue escalation.

The Data Management Team is responsible for implementation of AIG Europe Data Policy, Data Governance Standards and Data Quality Standards. They

maintain end to end data flow documentation covering the main functions and business processes involved in production of data used in technical provisions, internal model and standard formula capital requirements calculation. The team performs regular data quality assessments and data quality risk and control assessments and manages remediation of identified issues.

The SII DGC is principally comprised of specialists representing different data segments, while the EDGC is comprised mainly of more senior departmental heads. There is some common membership between the two bodies and between the EDGC and the ExCo, including the Chief Data Officer.

The EDGC reports to the ExCo on a monthly basis via a reporting hydra. The SII DGC has a dual reporting line: (1) into the Internal Model Decision Authority, which in turn reports its activities to the Risk and Capital Committee (RCC), and (2) to the EDGC, so as to ensure compliance of any capital modelling-related data strategies with the regional data strategy and methodology. It provides each body with a report of its proceedings, including its data quality assessment report.

### B.1A.B SECOND LINE OF DEFENCE

The oversight functions are responsible for defining the risk framework and for monitoring the effectiveness of risk controls and for reporting their weaknesses or failures to the relevant risk committees. In this context, these functions are the “Second Line of Defence” against failure.

Enterprise Risk Management (ERM) also partners with the business in providing advice, guidance and challenge in managing their risks.

#### Board Risk Committee

The role of the Board Risk Committee (BRC) is to challenge, oversee and monitor the management of risks within the Company to ensure they are being managed within the risk governance requirements and risk appetite approved by the Board. The BRC is part of the second line of defence.

The BRC is composed of each of the independent non-executive directors plus the CEO. Its standing attendees include the Chief Risk Officer and General Counsel. The BRC reviews the business plan to ensure that risks to the business plan and the capital implications are adequately identified and assessed as part of the business planning process and that appropriate mitigating actions are in place.

The chairman of the BRC reports to the Board on key discussions and actions of the BRC. As with all other Board sub-committees, copies of its minutes are made available to the Board. Where the BRC asks for further information or for particular issues to be addressed and reported on, the Enterprise Risk Management (ERM) function is responsible for capturing a list of action points and ensuring that these are reported back on in full at the subsequent and following BRC meetings until the action point is closed. The RCC is the body which bears primary responsibility for ensuring that the BRC's instructions are carried out.

#### Reserves Committee

The role of the Reserves Committee is to ensure that the Company maintains reasonable and adequate technical reserves and to oversee and manage all forms of reserving risk assumed or accepted by the Company. The Reserves Committee is part of the second line of defence. The Reserves Committee is composed of four independent non-executive directors, the Chief Risk Officer, CFO, Chief Actuary, Head of Claims, Heads of Consumer and one of the

four key Commercial product tower Heads. The CEO, General Counsel, AIG P&C/International Chief Actuary, profit centre Actuarial Heads, Consumer Lines Actuary, one of the four Commercial Lines Actuaries, Head of Insurance Risk and Internal Audit are standing invitees. The Reserves Committee reports to the Board via a summary report that highlights material issues which the Committee considers should be escalated for the Board's attention or action.

#### Risk and Capital Committee

The Risk and Capital Committee (RCC) is authorised by the BRC and by the ExCo to manage the risk profile of the Company within the risk governance framework and risk appetite approved by its Board of Directors.

This risk management framework is itself supported by and delivered through a set of processes, which aid the identification, measurement, monitoring, management and reporting of risks. These processes and deliverables include the Risk Register, Risk Appetite Framework, Internal Model Output (for risk analytics), Stress and Scenario Testing and Risk Indicator Reporting. The outputs of these risk processes are fundamental to the delivery of the Own Risk and Solvency Assessment (ORSA) and, ultimately, the half-yearly ORSA reports.

The delivery of the risk management framework is reviewed and challenged within the risk governance structure, which is made up of a series of cascaded Risk Committees. The outputs of the risk management processes mentioned above are escalated through the committee structure with each ORSA report and its underlying components reviewed and challenged at each level and ultimately owned and signed off by the Board.

The RCC has sub-committees, (each chaired by a member of ExCo) covering Insurance, Market and Operational Risk, to manage risk profile in each of these areas at a more granular level. Other members include relevant European business heads, risk experts from ERM and actuarial expertise from the Internal Model team.

The Insurance Risk Committee in itself has four Sub-Groups that focus on particular aspects of Insurance Risk and report to the Insurance Risk Committee on any recommendations and findings undertaken as a result of the execution of their responsibilities.

The responsibilities of each committee are as follows:

- **Pricing Sub-Group:** To ensure underwriting adherence to technical pricing, to drive improvements in rating strength and pricing integrity and to monitor and analyse the Company's pricing risk profile;
- **Reinsurance Sub-Group:** To set the reinsurance strategy and to determine reinsurance treaty structures;
- **Risk Aggregation Sub-Group:** To aggregate and perform analysis on risk accumulation of key perils; and
- **Large and Unusual Transaction (LUT) Sub-Group:** To consider transactions that meet or exceed set trigger levels in relation to the Company's risk profile before the Company becomes committed. The LUT is an ad-hoc meeting of the RCC.

The Market Risk Committee meets at least four times a year and any such time as required to focus on the entire balance sheet of the Company by monitoring and managing the Company's Market Risk, Investment Risk, Counterparty Credit Risk and Liquidity Risk.

The responsibilities of the committee are as follows:

- To monitor the overall Market Risk (including investments credit) profile against the Board approved risk appetite;
- To propose and approve an appropriate Market Risk Policy and Liquidity Policy. Ensure, through monthly or more frequent reviews, that such policies are kept up to date and relevant within the context of regulatory, economic and company specific business developments;
- To review and approve Market Risk, Counterparty Credit, Liquidity and Investment limits and/ or guidelines within any parameters defined by the Board approved risk appetite;
- To assess the effectiveness of systems established by management to identify, assess and manage the Risks;
- To monitor capital adequacy and liquidity to ensure that Treasury can satisfy planned and agreed future requirements of the business;
- To review and approve the annual Investment Plan prepared by the Company's Investment Managers;
- To monitor the performance of the investment portfolio against the investment plan and wider market developments;
- To review and analyse the Risk management information and recommend any necessary changes to the RCC;
- To periodically review and update the market risks on the Company's risk register and review the effectiveness of controls. To implement additional controls where required to ensure the company remains within risk appetite and meeting all legal and compliance obligations.

The RCC also delegates responsibility to the Internal Model Decision Authority and the EDGC to cover specific aspects of the Company's risk management that is concerned with the effective operation and utilisation of the internal model.

Finally, oversight responsibility over profit centres' adherence to product development controls and processes is delegated to the product development functions thus helping to ensure any conduct risk associated with the development and launch of new products is appropriately managed. ERM is also represented in this forum.

The RCC fulfils its duty to oversee the internal model via the Internal Model Decision Authority, which reports into the RCC on a quarterly basis. The RCC is deliberately designed to be a second line of defence body, but composed of members who are also in a position to take immediate executive action to address risk issues. The RCC is comprised of a core membership of designated ExCo members. Other ExCo members may attend where an agenda item touches on their subject-matter expertise.

Any matter due to go to the BRC should first receive RCC review. The chair of the RCC produces a narrative report for the BRC (copied to the Company ExCo) on key issues arising in RCC meetings which the committee considers materially significant. Where the RCC identifies an action or requires further information in relation to a risk, it gives instructions to the relevant committee member and tracks the progress of the required steps through an actions list.

### B.1A.C THIRD LINE OF DEFENCE

The Internal Audit function delivers the "Third Line of Defence" by providing independent assurance to the Board, through the Audit Committee, regarding the effectiveness of the First and Second Lines of Defence.

#### Audit Committee

The role of the Audit Committee includes:

- Assisting the Board in discharging its responsibilities for the integrity of the Company's financial statements;
- Providing independent and objective assurance and oversight of the effectiveness of the systems of internal controls (financial, operational, compliance and risk management), including those systems and controls reviewed by Internal Audit;
- Providing oversight of the qualifications, independence and performance of External Audit;
- Monitoring the Company's compliance with legal and regulatory requirements;
- Approves Solvency II policies, quarterly and annual returns prior to being approved by the Board.

The Audit Committee is part of the third line of defence. The Audit Committee is composed of all the independent non-executive directors. The Chief Financial Officer (CFO), General Counsel, the Chief Risk Officer (CRO), the Head of Internal Audit and the lead partner of the External auditors are standing invitees.

The Committee reports directly to the Board using a narrative report that highlights material issues which the Committee considers should be escalated for the Board's attention or action. In addition, documents such as the annual accounts must be reviewed by the Audit Committee prior to being put before the Board.

#### Internal Audit

Internal audit forms the third line of defence. An independent internal audit function, through a risk-based approach to its work, provides assurance to the Board and senior management. This assurance covers how effectively the Company assesses and manages its risks and includes assurance on the effectiveness of the first and second lines of defence. It encompasses all elements of the risk management framework (from risk identification, risk assessment and response, to communication of risk related information) and all categories of the Company's objectives: strategic, ethical, operational, reporting and compliance.

#### B.1A.D ADEQUACY AND APPROPRIATENESS OF THE SYSTEM OF GOVERNANCE

The governance structure has been designed to ensure that management are able to provide the appropriate levels of oversight whilst allowing decisions to be made more quickly and ensuring that the Company's employees are empowered to make decisions at the right levels of the Company.

The Company continues to align its management and governance structure to proactively respond to the business and regulatory needs.

The various Board-level committees have clearly defined responsibilities which have been delegated by the Board. These committees are in turn supported by the relevant working groups, forums and sub-committees whose members and attendees have specific experience and expertise, allowing them to provide more detailed review and oversight. These bodies are empowered to make decisions and take actions within the limits of their delegated authority, thereby allowing the Company to adapt to changes in an agile and flexible manner.

The governance structure therefore provides a mechanism for the Company to anticipate and respond to potential changes in the business environment or risk profile within an appropriate period of time. The governance structure is also designed to facilitate the formulation, scrutiny and once approved, implementation of strategy. As a member of a wider group, the broad strategic direction of the Group as a whole is set by AIG, Inc.'s executive operating committee. The ExCo formulates a detailed strategy for the Company in the form of the annual business plan, taking account of Group strategic direction. The plan is presented to the Board who scrutinise it to assess its benefits and risks to determine whether its implementation would be in accordance with:

- The Company's risk appetite;
- The Company's short-term and longer-term strategy and business plan;
- The Company's legal and regulatory duties in each jurisdiction;
- The fair treatment of those who are (or may become) the Company's policyholders; and
- The safety and soundness of the Company.

The Board's terms of reference give it overall responsibility for setting the Company's strategy and it will not approve any strategy that it does not consider meets the above criteria.

Once the Business Plan is agreed, the ExCo's role is to implement it. It achieves this at local level through the Zone OpCos which contribute to the preparation of, and once approved by the Board, formulate a granular strategy for their Zones to implement the business plan.

The risk governance structure is integrated into the strategy development and business planning process. The ERM function carries out a comprehensive risk review of the business plan with the aim of ensuring that the strategic approach results in a risk profile continues to be manageable and is aligned to the scale and potential return of its underwriting and operating activities. This also facilitates awareness of the risks that the Company faces, either inherently as part of its operations or as a result of its planned strategy, and allows management to take appropriate steps to ensure that those risks are kept at an appropriate level that allows the Company to remain sustainably profitable. The Business Plan, together with ERM's assessment of it, are reviewed and assessed by the RCC and the BRC before being put forward for final approval to the Board.

Creating simpler access to its organisation has been an important goal in the last 12 months. The Company's revised organisation design is centred on a single regional office focused on strategic leadership alongside a consistent and simplified Zone and country operation structure across Europe. This has improved its ability to develop and share best practice across the Company, understand where to invest and enable the Company's front line practitioners to be more focused on client needs, which in turn influences the development of its business strategies.

### B.1A.E KEY FUNCTIONS, ROLES AND RESPONSIBILITIES

Persons who effectively run the Company or have other key functions are required to meet the fit and proper requirements. The system of governance includes finance function, risk function, compliance function, actuarial function and internal audit function. The roles and responsibilities for each of these functions and their key function holders are set out in turn below:

#### 1) Finance Function – Chief Financial Officer (CFO)

The Finance function is led by the CFO and member of the ExCo and is responsible for overseeing the leadership and transformation of regional controlling, capital management, reinsurance, taxation, corporate actuarial and treasury. The Finance controlling team is responsible for recording and organising the financial transactions generated by other departments. It has the following key responsibilities:

- External reporting for the Company and its subsidiaries including statutory accounts and Solvency II reporting;
- Business planning;
- Business partnering including management information;
- Tax;
- Capital management including reinsurance; and
- Rating agency relationships.

The Management of the Company is responsible for establishing and maintaining adequate internal controls over Solvency II reporting. The Company's internal controls over Solvency II, under the supervision of the Board, are

designed to provide reasonable assurance that the SF-SCR calculation is complete, accurate and is underpinned by an appropriate level of data governance.

The Company's internal control over Solvency II reporting includes procedures that:

- ensure data inputs are complete, accurate and of appropriate quality to use in the SF-SCR calculation;
- provide reasonable assurance that the Solvency II reporting tool is producing expected results; and
- provide reasonable assurance regarding prevention or timely detection of errors & omissions that could have a material effect on the Solvency II reporting.

For the submissions done during the reporting period under consideration, checks have been performed to ensure the accuracy of data feeding into the SF-SCR reporting by data quality team and detailed review by AIG Finance Controls Unit (FCU) of quarterly and annual submissions including review of End-User-Tools (EUT) controls.

#### 2) Risk Function – Chief Risk Officer

The Company's ERM function oversees the delivery of the risk management framework. The function is led by the CRO and the team is split between a central team delivering entity-wide risk management and Zone Risk Officers present in each of the Company's major locations across the region.

- Insurance Risk (including underwriting, reserving risk and catastrophe risk);
- Market Risk (including asset-liability management);
- Liquidity Risk;
- Credit Risk (including risks associated with utilisation of reinsurance and other risk mitigation techniques);
- Operational Risk; and
- Business & Strategy Risk.

The ERM function implements the Company's Risk Management Framework (RMF) through a suite of "Risk Processes". The results and findings from these processes are reviewed, challenged and escalated through the Company's risk governance framework.

The Zone Risk Officers provide local risk expertise to the Company's branches.

The ERM function supports the identification, measurement, management, monitoring and reporting of its major risk groupings, which include but are not limited to:

The ERM function supports all European operations within the the Company region. A matrix reporting structure ensures a common approach to risk management throughout the Company and ensures that all relevant risks are identified, measured, managed, monitored and reported. ERM continues to work closely with management to improve the risk profile of the business and strengthen the RMF throughout Europe.

The 'Risk Management System' subsection B.3 of the report aims to provide an overview of the key risks encountered by the Company and the corresponding processes and procedures put in place for the management of these risks. The section also outlines the overall risk culture established within the Company.

#### 3) Compliance Function – Chief Compliance Officer

The ECG is organised in accordance with the AIG Global Compliance Group (GCG) Structure. ECG consists of: the advisory group (which consists of the Chief Compliance Officer, Deputy Chief Compliance Officer and local compliance officers (LCO) within country); the Monitoring and Testing group (M&T); and the Financial Crime Group (FCG). Also the ECG works closely with the members of the GCG privacy team based in London.

### Compliance function responsibilities

- **Compliance Policies and Procedures:** AIG's compliance policy issuance is governed by the AIG Policy Framework distributed by the AIG Policy Governance Unit. The Framework is designed to provide consistency across the Company in the development, implementation, monitoring, and maintenance for policies, which are documents that communicate the philosophy, rules and expectations of the Company. ECG, by input to GCG, reviews its policies, and any related procedures, periodically to determine whether updating is necessary to reflect changes in law or regulations. Compliance policies are maintained on the Compliance page of the AIG intranet as well as the AIG Policy Portal.
- **Subject Matter Expertise:** GCG possesses subject matter expertise with regard to the key Compliance Risks ("Key Compliance Risks"), which are evaluated as part of the Compliance risk assessment process, as well as via other means during the year. Although day-to-day management of these risks resides within the Business in order to assist businesses with the management of locally-required compliance risk issues, the FCG and privacy group also provides advisory guidance for these matters.
- **Advisory Services:** ECG provides guidance and advice on GCG various compliance risk-related matters in order to assist Business Segments and Corporate Functions as they assess opportunities, as well as address challenges, related to governance, performance and growth to facilitate strategies for execution.
- **Compliance Risk Assessments:** ECG participates in an annual global risk and control self-assessment ("RCSA") program to facilitate the identification, assessment, monitoring and measurement of operational risks.
- **Compliance Testing:** GCG has developed and maintains a function-wide testing program designed to verify that business operations comply with certain AIG and Business Segment policies and standards, as well as key laws and regulations. The testing program includes coverage of the Level 3 Compliance Risks that have been agreed upon with Operational Risk Management. The program is managed in EMEA by the M&T group who are responsible for the execution of the approved Test plan. Each Business Segment is responsible for a Monitoring Plan that is designed to enable management to determine where it might need to focus resources in order to improve processes, develop remediation plans to address control deficiencies, address emerging risks or implement key initiatives in order to meet business objectives.
- **Compliance Training:** Corporate Compliance is responsible for developing and implementing an annual global compliance training program addressing enterprise-wide key compliance topics, which is designed to enhance employee knowledge and understanding of compliance policies and procedures, laws, regulations and standards of good business conduct. Each Business Segment Compliance Unit is responsible for developing a training program tailored to Key Compliance Risks specific to Business Segments.

### 4) Actuarial Function - Chief Actuary

The Actuarial function is led by the Chief Actuary. The Chief Actuary works closely with the Company's CFO and has a reporting line to the Finance Chief Actuary at Group. The Actuarial function is responsible for calculating the probability and risk of future events using specialised mathematical techniques, software and commercial expertise.

The Actuarial Function is a critical function for the Company, having a significant impact on the pricing, reserving and capital modelling calibration of all lines of business. The Actuarial Department of the Company is a key contributor to the effective control management of Insurance Risks relating to the failure of pricing, risks relating to the failure of a product or strategy, and risks relating to adverse reserve development. The principal activities of the Actuarial Department are as follows:

- **Portfolio/Account Pricing:** The Actuarial Function provides advice and support in respect of understanding portfolio trends and related pricing decisions as well as individual account pricing for large complex policies across various countries. This support includes pricing profitability studies, individual account pricing, technical raters and Account Quality Index ('AQI').
- **Strategic Pricing:** Actuarial also develop structured Excel raters to enable a more controlled environment in which accounts are priced whilst maintaining the ability for underwriting judgement within agreed parameters. Actuarial are heavily involved with the design and development of a strategic IT platform that acts as a well governed yet flexible front-end allowing the Company to trade in such a way that risk data and exposure data is captured, allowing for a more robust premium rate management environment across the Company.
- **Reserving:** The Actuarial Function leads the analysis of historic data and recent trends in order to advise Senior Management on the appropriate levels of reserves to cover the expected cost of claims and highlights trends seen in historic claim movements. The level of reserves is AIG Europe's largest liability on its balance sheet; hence an accurate valuation of reserves is critical for the Company to run its business effectively. The Actuarial Function makes reserving recommendations to the Reserves Committee.
- **Capital Modelling Calibration:** Combining analytical skills, actuarial modelling software and business knowledge, the Actuarial Function plays a leading role in the increasingly important task of modelling of AIG Europe's Insurance Risk and supporting the internal model validation process as part of the Internal Model Decision Authority process. This element feeds into the ECM, which plays a wider role in determining the overall capital impact of changes to the Company's risk profile. Actuarial also helps calculate the Insurance Risk elements of the Standard Formula requirements for the Company which is in turn used as a benchmark to compare against the results of the Internal Model.

- **Solvency II Technical Provisions:** In compliance with the European Union Solvency II legislation, the Actuarial Function calculates both the best estimate technical provisions and the risk margin which forms the market value of the Company's technical provisions. These calculations are performed based on the latest draft regulations and in conjunction with the ECM team, ensuring consistency with the Internal Model.
- **Planning:** The Actuarial Function develops a best estimate view of the loss ratio for the budget year; this takes into account information such as expected change in business mix, expected future premium rates, expected future claims inflation and expected changes to terms and conditions as well as considering the historical loss ratio trends by segment. This is then discussed with the wider business.
- Overseeing the preparation and submission of the Actuarial function report to the Board which sets out the assessment of the reliability and adequacy of the calculation of technical provisions and an opinion on the underwriting policy and overall reinsurance arrangements;
- Timely provision of actuarial inputs into Solvency II Pillar 3 reporting;
- Owning the risks identified in the European risk register;
- Peer review of pricing profitability studies; and
- Production of management information around profitability as required by the wider business.

## 5) Internal Audit Function – Head of Internal Audit

The Board, senior management, Internal Audit, other second line functions, business managers and all colleagues have a shared commitment to maintain and enhance the integrity of the Company's control environment. Within the context of the control framework, auditing is an independent risk assessment function established within the organisation to evaluate, test, and report on the adequacy and effectiveness of management's systems of internal control, providing third line of defence.

The purpose of these evaluations and tests is to:

- Assist the Audit Committee in executing their oversight responsibilities and,
- Provides an independent assessment of the Company's system of internal control, through reviewing how effectively key risks are being managed, and assists management in the effective discharge of its responsibilities by carrying out independent appraisals and making recommendations for improvement.

The Internal Audit function is responsible for establishing, implementing and maintaining an effective and efficient audit programme, taking into account the Company's activities, system of governance and risk management processes. The Internal Audit function is led by the Head of Internal Audit.

The Head of Internal Audit is responsible for developing and maintaining an efficient and effective programme of internal auditing through:

- Delivering a comprehensive, dynamic and globally-aligned audit programme for the Company and, more specifically, the Company;
- Evaluating the control framework with respect to the reliability, integrity and timeliness of financial information and statements and key non-financial data;
- Evaluating the processes and controls established to ensure compliance with corporate ethical standards, policies, plans, procedures and with applicable laws and regulations;
- Evaluating change activities such as significant projects and large scale business initiatives during the life or term of those projects and initiatives for the purpose of identifying possible unmitigated risks and highlighting other project management issues;
- Monitoring and evaluating the effectiveness of the Company's risk management processes;

- Reporting periodically on Internal Audit Group (IAG)'s purpose, authority, responsibility and performance relative to its plan and organisational objectives;
- Coordinating with risk management and other control functions to facilitate the implementation of an effective and efficient system of internal control;
- Managing the global delivery and relationship management for the ExCo;
- Supporting the assurance needs of the Board and the Audit Committees by developing tailored planning, reporting and advice to meet local corporate governance and regulatory requirements; and
- Managing the requirements of the regions' regulators and taking on the approved person's role in respect of the Company.

### Maintaining audit independence

The Head of Internal Audit reports on the audit program, its status, and the condition of the control environment directly to the Board through the Audit Committee. This reporting relationship which also includes audit plans, financial budgets and staffing considerations is designed to ensure the ongoing independence of the internal audit function in order to provide for the objectivity of its findings, recommendations and opinions.

The Head of Internal audit is authorised by the Audit Committee to have full and complete access to any of the organisation's records, properties and personnel.

The Head of Internal Audit is also authorized to designate members of the audit staff to have such full and complete access in the discharging of their responsibilities.

Consistent with generally accepted professional internal auditing standards relating to independence, objectivity and authority, internal auditors are not to engage in developing or installing procedures or preparing records, or in any other activity which would normally be the subject of audits. Internal auditors are not to have direct responsibility or any authority over any of the activities or operations that they review. Internal auditors will assist management in maintaining adequate and effective systems of controls through objective appraisals, recommendations and control consultations.

## **B.1.B MATERIAL CHANGES IN THE SYSTEM OF GOVERNANCE DURING THE PERIOD**

During 2016, the Company introduced a new modular structure comprising of three zones - UK, North Europe and South Europe. The purpose of this realignment is to simplify processes in the region, create integrated and empowered leadership and strengthen the Company's industry expertise.

The Company introduced during 2016 the "Governance Playbook" which incorporated the above changes. The playbook defines the following governance arrangements:

- A well-defined governance model across all zones, with clearly set-out interdependencies and a well-defined Committee structure;

- Updates to Board and Committee terms of reference to ensure ongoing compliance with the Senior Insurance Managers Regime (SIMR); and
- Schedules of standing agenda items; developed for the Board and several of its sub-committees to ensure that their terms of reference are met. The development also ensures that key proposals and documents are consistently reviewed and challenged at sub-committee level before being put before the Board.

## **B.1.C REMUNERATION POLICY**

The AIG Group compensation programme is structured so as to make enterprise-wide compensation decisions consistent with the Company's compensation philosophy.

### Principles of the remuneration policy

The guiding principles that form the foundation of the compensation philosophy and strategy are:

- Provide a market-competitive, performance-driven Total Direct Compensation (TDC) structure (i.e., TDC, which consists of base salary plus annual incentive plus long-term incentive);
- Variable incentive compensation will be used to reward annual and long-term risk-adjusted performance and to provide exceptional pay opportunities for top performers at all levels within the Company;
- Weight TDC opportunities toward variable incentive compensation (both annual and long-term), which will increase as a percentage of total compensation at higher grade levels, while making sure that all variable incentive elements appropriately balance risk and reward; and
- Use performance measures to drive high-performance business results compared to relevant benchmarks and to achieve sustainable increases in the "intrinsic value" of the firm.

### Performance criteria

To ensure fair, compelling, competitive and consistent compensation opportunities throughout the firm, employees are assigned to pay grades based on their job responsibilities (internal equity) and compensation is administered under a structure that is anchored on competitive market data (external equity).

Each pay grade has a salary range and ranges for target annual incentives and long-term incentives; these grades and ranges will be designed to reflect that the Company competes in multiple markets and geographies, and that a "one size fits all" approach will not meet the needs of its various Business Units.

The Company values differentiated incentive compensation. Managers have discretion in determining short term incentives, so long as they stay within short term incentive pools and differentiate individual performance. Decision aids are provided on how to make the compensation determination and manager toolkits are provided with advice on ways to recognize top performance and have better, continuous performance conversations with employees.

Annual and long-term incentives paid to current and former executive officers are subject to recovery if it is determined they have been based on financial statements that were restated due to material noncompliance with any financial reporting requirement under the securities laws within three years prior to payment or if the Compensation and Management Resources Committee (CMRC), in its discretion, determines that such incentives were based on erroneous data to a degree that it deems material.

### Human Resources

The Human Resources (HR) team is responsible for the following aspects of the business: Business Partnership, Talent Management, Talent Acquisition, HR Operations, Compensation and Benefits and Payroll.

The HR team is a key control for Operational Risks relating to employment legislation and people related risks, such as a lack of appropriately skilled resourcing, which covers aspects of the Company's Operational Risks relating to Employment Practices (EPWS).

This is managed by a combination of ensuring remuneration and staff benefit packages are competitive, appropriate talent, development and succession frameworks are in place to enable ongoing development and long term prospects for employees and effective recruitment practises are maintained to attract new skills to the business. Global Job Grading is a global initiative that is operated to ensure that the process of remuneration and career progression within the company is transparent and encourages the right skills and behaviours amongst staff.

Additionally, HR actively supports effective performance management by recruiting, training, coaching and developing effective managers to maintain good performance. HR coordinate tools to assist in this process such as the Annual Performance Review Process which validates the performance of individuals against their goals and their peers.

The HR team also plays a key role in ensuring that the Company remains compliant with relevant employment legislation and is largely managed by the enforcement of core policies including the Code of Conduct, Disciplinary and Grievance Procedures and the Equal Opportunities Policy.

Additionally, HR is responsible for ensuring that employees are paid appropriately within the local tax laws. They ensure that the relevant payments are made to the government authorities on time and also make appropriate contributions to pension funds.

### Compensation

The total Direct Compensation consists of the following elements:

| Direct compensation      | Fixed/variable |
|--------------------------|----------------|
| Base salary              | Fixed          |
| Annual incentives        | Variable       |
| Long-term incentives     | Variable       |
| Benefits and perquisites | Fixed/variable |

Under the Company's long term incentives plan, a significant portion of executives' compensation is provided in equity, based on performance metrics over a three-year period and subject to an additional vesting period. This promotes long-term value creation for the Company's shareholders and appropriately account for the time horizon of risks.

### Risk and Compensation Plans

The Company remains committed to continually evaluating and enhancing our risk management control environment, risk management processes and enterprise risk management functions, including through enhancements to its risk governance framework. The Company's compensation practices are integral parts of its approach to risk management, and the Committee regularly monitors the Company's compensation programs to ensure they align with sound risk management principles.

#### **B.1.D MATERIAL TRANSACTIONS DURING THE PERIOD**

There were no material transactions during the reporting period between the Company and AIG Holdings Europe Limited, the Board members and members of the administrative, management or supervisory body.

## B.2 FIT AND PROPER

The 'Fit and Proper' subsection of the report aims to provide a description of the Company's processes for assessing the fitness and propriety for persons who effectively run the Company or have other key functions.

### Assessment of fit and proper

Persons who effectively run the Company or have other key functions are required to meet the fit and proper requirements. The Company has established fit and proper policies and processes which comply with the current Approved Persons regime. The process comprises of two stages:

#### 1. PRE-APPOINTMENT

- **References** - The Company takes reasonable steps to obtain appropriate references from the person's previous employer(s) CRB checks: Following receipt of the person's consent the Company obtains and assesses any disclosures contained within a UK criminal records bureau check (or overseas equivalent if applicable).
- **Credit checks** - As an additional means to the person's financial soundness, the Company carries out a credit records check through a recognised agency.
- **Other due diligence from publically available sources** - This includes such other due diligence as may be appropriate in order to form an assessment of the person's fitness and propriety, including from publicly available sources such as the Financial Services Register and Companies House (in relation to testing the accuracy of declarations around directorships).
- **Pre-appointment questionnaire** against which the findings of the above can be cross-checked.
- **Qualifications** - Request and review evidence of relevant qualifications as appropriate.
- **Application** - Require a formal application with CV (containing the candidate's full employment history accounting for any gaps, and the reasons for leaving each employer) and ensure that the person is interviewed at an appropriate level in order to assess his or her competence, knowledge, experience and training (including the person's training needs and requirements), taking into account the duties that will be expected of that person as set out in the role profile for the position.

#### 2. ONGOING POST-APPOINTMENT

The Company gathers the information it has collected as part of the recruitment process on the person's skills gaps and where appropriate develops a learning and development plan and induction programme.

The assessment for the pre-appointment stage is carried out by the Human Resources department and the person's proposed manager in the Company. Where the appointment is to a Board or ExCo level position, the proposed appointee is also interviewed by one or more non-executive directors. In this case, the assessment will take account of the qualifications, knowledge and experience already existing within these bodies in order to ensure an appropriate diversity of these attributes among management.

The ongoing assessments of suitability are carried out through the annual review and appraisal process. Human Resources, working with Compliance, will provide Approved Persons with an annual training programme of legal and regulatory briefings. Human Resources will also require annual self-certification by its Approved Persons as to their fitness and propriety. The Company Secretary (CoSec) will collect this information.

Annual Self Certification is required to be submitted by all Approved Persons at the Company and its Appointed Representatives to ensure that they remain fit and proper. Findings are reported to HR, and the Profit Centre Manager. Company Secretariat will undertake this process in March of each year.

Retrospective criminal checks are carried out on existing Approved Persons who have not been previously subjected to a criminal records check.

### Senior Insurance Managers' Regime

The Senior Insurance Managers' Regime (SIMR) came into force on 7 March 2016 and replaces the Approved Persons regime. The regime applies to the most senior executive management and directors who are subject to regulatory approval. Under section 59 of the Financial Services and Markets Act 2000 (FSMA), authorised firms are required to ensure that individuals seeking to perform one or more of the PRA-designated Senior Management Functions seek PRA approval prior to taking up their position.

### Training of the Board Members

The Company Secretary is responsible for identification and coordination of general training needs of the Board members. These may include general governance issues or technical matters. In addition individual Board members may identify further training needs.

### B.3 RISK MANAGEMENT SYSTEM

#### Risk Management Overview, Strategy and Objectives

The Company believes that a strong, effective and embedded risk management framework is crucial to maintaining successful business operations and delivering sustainable, long-term profitability. The Company achieves this through a strong risk culture articulated by effective ERM senior leadership and embodied by management at all levels through its governance structure and risk management processes.

The Company utilises the “Three Lines of Defence” model for risk management, as described in Section B.1.A Management and Governance Structure above. Overseeing the Company’s risk management framework is a risk governance structure that encompasses its principal business operations and risk areas and defines a framework of risk committees, risk reporting and risk controls embedded throughout the Company.

The Company seeks to maintain a risk profile that meets the following business objectives:

- Deploy its resources in the service of its customers, accepting risks that the Company is able to manage;
- Maintain the financial strength to assure its customers, affiliates and distributors the Company will be able to honour its commitments;
- Operate from a position of strength on requirements from its external stakeholders including regulatory requirements, creditor covenants and rating agency expectations;
- Take measured risks that generate sustainable and profitable growth and deploy its resources where the Company can achieve the greatest long-term risk-adjusted returns;
- Diversify its revenue streams and sources of risk; and
- Manage its risks actively and positively, to avoid or mitigate risks that are beyond its appetite or not adequately compensated; The Company has limited appetite for risks where it does not receive adequate compensation and ensure they are tightly controlled.

The Company will assume risks that:

- Are aligned with strategic objectives, growth and/or innovation opportunities in specific markets, or where the Company has or can develop a competitive advantage.
- Are well understood by management and where the Company has organisational capabilities or expertise to manage them well.
- Allow the development of information and capabilities for future profitable growth in new markets or segments.

- Are appropriately priced to provide an adequate risk-adjusted return on capital, apart from limited instances as described above as an investment for future growth.

The Company will avoid risks that:

- Expose the Company or the AIG Group to a material level of legal, regulatory or accounting risk, unless appropriate review and mitigation is exercised.
- Result in outsized risk exposures relative to peers or its financial resources.

The Company’s approach to risk-taking is quantified through its risk appetite statement which aligns the Company’s strategic business goals against the risks it faces, ensuring that these risks are maintained at levels consistent with the Company’s financial resources. This, in tandem with continuous management and monitoring of the Company’s capital position, ensures that the Company continues to manage its business in an environment of controlled, proportionate risk-taking to generate sustainable earnings and deliver long-term value for AIG’s shareholders.

The Company’s adherence to its quantified risk parameters is supported by ongoing risk identification exercises conducted across AIG, the outputs of which are documented within its standing risk register framework, which captures the material risks that the company faces. The Company’s identified risks are managed through the application of a set of regional Level 2 ‘Statements of Operating Standards’, which align to AIG’s global corporate policies and define risk management processes and controls adopted across its business.

The impact of these risk management and risk mitigation activities is given appropriate context through the utilisation of risk management information, which includes the results of the Company’s stress testing programs as well as periodical risk reporting assessments provided to the Company’s Executive Risk Committees, thereby allowing senior management to take the appropriate decisions required to manage the Company as a risk-aware business.

The Company’s Board, through its sister committee, the Board Risk Committee, has ultimate responsibility for development and oversight of the risk management framework; the Board delegates the management of risks within its risk appetite and the risk governance framework to the Company’s Risk and Capital Committee (RCC). The RCC escalates matters of importance to the Board as needed.

## Risk Culture

The Company has an ongoing commitment towards maintaining an effective risk culture, as it is critical to its success in maintaining and developing an effective risk management system. The five key elements which underpin the risk culture are:

- **Visible Leadership** – senior management takes an active role in promoting the risk management framework.
- **Communication** – internal communication to all levels of management and staff to describe and inform (to an appropriate level of detail) the risk framework (strategy, governance), risk policies/procedures and the company risk profile.
- **Involvement** – appropriate contribution at all levels of management and staff to the processes of identifying, assessing, managing, monitoring and reporting risks. All Company's employees have a responsibility to manage risk.
- **Compensation** – alignment of incentives to risk management objectives and use of risk adjusted performance measures to evaluate performance.
- **Professional Development** – provision of information and appropriate levels of training to elevate individual competencies, and thereby organisational capabilities, in risk management across AIG.

This structure allows for each function and individual to have a clear understanding of their risk management responsibilities and aids embedding an effective risk culture across the Company.

The current risk governance structure provides an oversight and decision-making framework within which material risks are continually identified, assessed, monitored and managed at a regional level.

The risk governance structure has three distinct levels of committees (i.e. Board Committees, Executive Risk Committees and Working Group Committees) and is designed to support the Company's efforts in embedding a strong risk culture through the integration of risk management with regulatory requirements and business activities such as strategy and planning. Each of these committees has a distinct role to play within the risk governance framework.

ERM utilises the following set of "Risk Processes" to implement and embed the Company's risk management framework.

## Risk Identification

The Company operates in an ever-changing environment, where new risks may emerge periodically, leading the company to continually assess and revise its current risk profile. As a result, the Company participates in an AIG-wide consistent risk identification process and incorporates the assembled risk profiles and identified material risks into its Risk Register and other related elements of the company's Risk Management Framework.

The Company conducts risk identification through a number of methods, including:

- Ongoing assessments of relevant branch level and regional (ExCo level) risks in risk committees;
- Identifying growing or emerging risks through conducting risk analysis and follow up monitoring of the annual

business plans of the Company and its many lines of business;

- The application of insight from selected external industry studies and media coverage of loss events;
- Participation in and review of the outputs of an enterprise-wide Vulnerability Identification Process, which is designed to ensure that potential new or emerging risks are brought to the attention of senior management; and
- The assessment of internally and externally generated loss events and Risk and Control Self Assessments (RCSAs).

The outputs from these activities enable the Company to identify key areas for focus and to identify their potential impact on the company's risk profile.

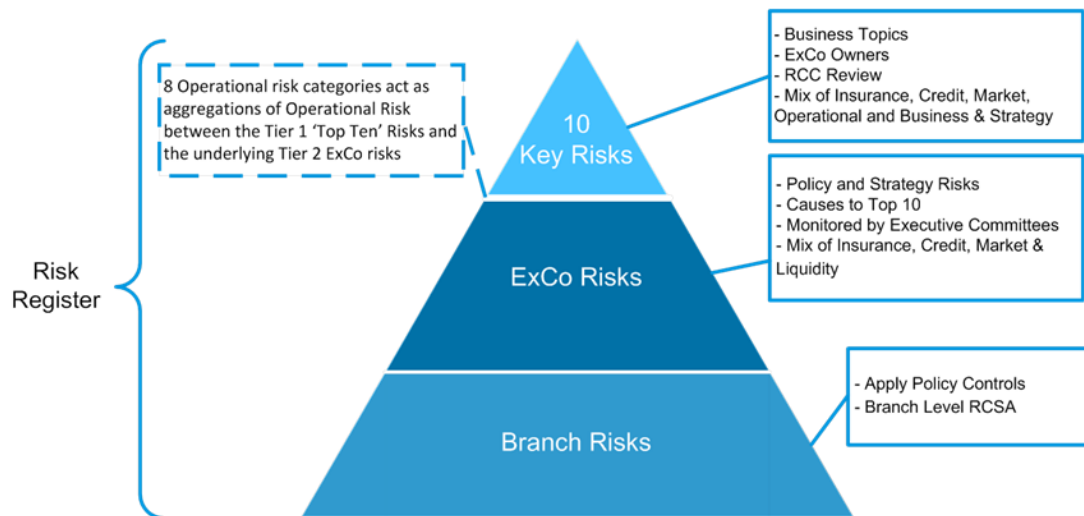
## Risk Register

The Company currently has in place a three-tier structure for the capturing, discussion and assessment of risks. The current three-tier structure is described below:

- **Tier 1** - Comprised of the 'Top Ten' key risks, spanning the whole of the Company's operations. These risks are owned at RCC level. The Top Ten key risks are disclosed in Section C Risk Profile on page 36 of this Report.
- **Tier 2** - Comprised of Granular ExCo risks; owned and managed through the Executive Risk Committees that report to the RCC (being the Insurance, Market, Credit and Operational Risk Committees).
- **Tier 3** - Comprised of 24 Branch risks which are managed at a local branch level.

The risks identified at Tier 2 and Tier 3 levels are designed to align to the 'Top Ten' key risks identified for Tier 1. This enables the Company to maintain a dynamic, interactive risk register structure, where issues or developments within specific risks at a certain level are discussed and taken into account for relevant risks within the other tiers, regardless of whether they are at a Europe-wide or local level.

This also allows the Company to better reflect the dynamic, ever-changing risk landscape that it currently operates within a diagram of the three levels of risk is provided below for illustration purposes:



#### Tier 1: 10 Key Risks

The 'Top Ten' risks are designed to align to the five main risk categories of Insurance, Market, Operational, Credit and Business/Strategy Risk. This allows the Company to produce risk dashboards for the RCC, ExCo and BRC covering all of the 'Top Ten' risks, as well as a more detailed report for each relevant Risk Committee. Please see Section C for the Company's list of Top Ten risks.

#### Tier 2: The 'ExCo' Risks

The 'Top Ten' key risks within Tier 1 are then broken down into more granular ExCo risks. These ExCo risks are managed by the respective Insurance, Market, Credit and Operational risk committees, with cross-cutting Business/Strategy Risks managed at the Company RCC. Each of these risks have a number of potential causes and controls which require review and management, interacting with global and regional support functions as well as branch operations. These ExCo risks are supported by specific tailored Key Risk Indicators (KRI) for use in committee decision making.

#### Tier 3: Branch Risks

All the Company branches manage, assess and report on a suite of branch risks, which broadly aligns to the Tier 2 ExCo risks. All the Company branch countries share a core set of branch risks in common, although each branch will have the option to include a small number of temporary 'hot topic' risks following consultation with ERM. This allows individual branches to manage these risks and associated mitigation plans in a detailed manner that is aligned to the operational and regulatory environment that each branch operates in.

#### Risk Management and Control

The management of the Company's key risks and the establishment and application of relevant mitigating controls is an essential part of the management of its activities against appetite. Without appropriately designed and monitored controls, the likelihood of the Company being in line with its defined risk appetite is reduced. Therefore the management of the Company's risk controls plays a key part in its Risk Management Framework.

#### Risk reporting and risk indicators

ERM periodically reports on the results of the processes above and the position of Key Risk Indicators (KRIs) through the Risk Governance Framework. This risk reporting and communication framework principally consists of three channels, being the Monthly Risk Reports and Quarterly Risk assessments (both of which utilise KRIs) as well as the Quarterly Zone Hydras.

#### Monthly risk reports

ERM produces monthly reports covering the activities of the Insurance, Market, Operational and Credit Risk Committees for review by the RCC, which provides users with an overview of:

- Key internal or external risk developments over the last month that may impact on the Company's risk profile;
- Updates on the progress of remediation on identified management actions;

- Actions and points of focus in the last risk type committee (Insurance, Market, Operational and Credit Risk committees); including reviews of relevant ExCo-level risks; and
- Results of relevant, in-scope KRIs relating to each risk.

These reports are designed to provide senior management with an ongoing overview of developments to the Company's risk profile and concurrent risk management activities, and act as a bridge between iterations of more detailed Quarterly Risk Reports.

### Quarterly risk assessments

The ERM function co-ordinates the production of detailed Regional Risk Reports covering each of the Company's "Top Ten" risks for discussion by the Insurance, Market, Operational and Credit Risk Committees before reporting these to the RCC on a quarterly basis.

These reports communicate ERM's view of the current and future risk and control landscape around each of the "Top Ten" key risks. These assessments utilise a combination of qualitative and quantitative factors (most notably the current

calculated risk appetite for each "Top Ten" key risk against its defined risk appetite) to grade each of the "Top Ten" key risks from high to low risk.

This reporting format provides executive management with a detailed breakdown of the Company's major risk areas and delivers up-to-date analysis of the granular details of the Company's risk profile.

### STRESS AND SCENARIO TESTING FRAMEWORK

The Company calculates its capital requirements using the Standard Formula. Since the internal model provides a more tailored and comprehensive assessment of the Company's risk profile compared to the Standard Formula, the Internal Model is deemed to deliver the Company's true economic view of risk.

The Company makes significant use of Stress and Scenario Testing for the purpose of quantifying both the capital and liquidity implications of certain risks under internal model. The Company's suite of stress and scenarios tests are utilised in the following areas:

**Internal Model Calibration** - The results of Stress and Scenario Testing are key calibration inputs for two modules of the Company's internal model; Operational Risk and Man-Made Catastrophe Risk. For each risk module, a representative set of scenarios are designed and the results are used as calibration points for the model.

**Internal Model Validation** - Stress and Scenario Testing is used to independently validate the internal model, through providing an alternative, quantitative lens to view specific risks and compare against the internal model output (e.g. comparing specific model simulations against independently calculated scenarios).

**Business Plan Risk Review** - With the annual business plan providing a best estimate projection, the Company stress tests the forecasts to understand the impacts of various scenarios on both profitability and the Company's future capital position.

**Reverse Stress Testing** - The Company performs annual Reverse Stress Testing exercises to identify and assess events and circumstances that would cause the Company's business model to become unviable. Reverse Stress Testing allows the Company to assess the extreme risks which could threaten the Company and consequently ensure early warning indicators and both mitigating (pre event) and remediating (post event) management actions have been developed.

**Emerging Risk Stress Testing** - Stress and Scenario Testing is used to quickly quantify the Company's exposure to emerging risks. Shifting macro-economic trends and external events are assessed through stress testing to deliver entity-specific loss analysis.

The outcome of the stress testing, including basis and assumptions are detailed in Section C.6 of this Report.

### SOLVENCY CAPITAL MANAGEMENT

The Company's Solvency Capital Requirement is calculated using the Standard Formula. Management intend for the Company's SCR to be calculated using a bespoke internal economic capital model (the Solvency II Internal Model), pending approval from the PRA. Until approval, the Company will need to comply with the Standard Formula capital requirements.

Management develop and regularly reassess capital targets and operating ranges in order to ensure the Company holds an appropriate and efficient amount of capital. A suite of stress and scenario tests are employed to independently assess the level of capital buffer above the Standard Formula – Solvency Capital Requirement (SF-SCR).

For the risk appetite framework, the Company utilise a further basis, a view of loss assessed in terms of its direct impact on its 1:200 capital resources, the basis being Solvency II, with no discounting or provision for tax loss absorbency. The Company refers to this approach as its "Risk Profile Valuation Basis" and it provides a further lens through which to analyse and assess its risk profile.

This basis allows for risk management decisions to be based on a clear understanding and quantification of risk (in terms of loss to capital resources) at a given probability. The Company's risk profile is assessed on this basis at the 1:7 and 1:200 loss points.

The target capital level under the Standard Formula has been set at a level based on the current Board approved 1 in 7 risk appetite which minimises the risk of breaching the SF-SCR. The Company has available Tier 1 and Tier 2 capital to meet its SF-SCR and target capital buffer although it aims to predominantly hold its capital in Tier 1.

Management believe that the Standard Formula model overstates the Company's 1 in 200 loss scenario and therefore it is not an appropriate reflection of the Company's risk profile. The proposed Internal Model target capital buffer is therefore greater than the existing Standard Formula target capital buffer.

## OWN RISK AND SOLVENCY ASSESSMENT

The Own Risk & Solvency Assessment (ORSA) is a set of processes undertaken to define, assess and manage the risk and solvency capital position of the Company. The ORSA Process draws together the results and analysis delivered through each of the above risk processes and provides a current and forward-looking assessment of the Company's risk profile.

### ORSA GOVERNANCE

The Company applies a number of number of governance processes over the Company's ORSA, in order to ensure that risk management processes and the risk and solvency position of the Company are appropriately defined, assessed and managed.

The Head of Risk Framework, Monitoring & Regulatory Reporting is responsible for conducting centralised risk management activities such as documenting the ORSA Report, maintaining the risk register and producing management information packs for several risk committees.

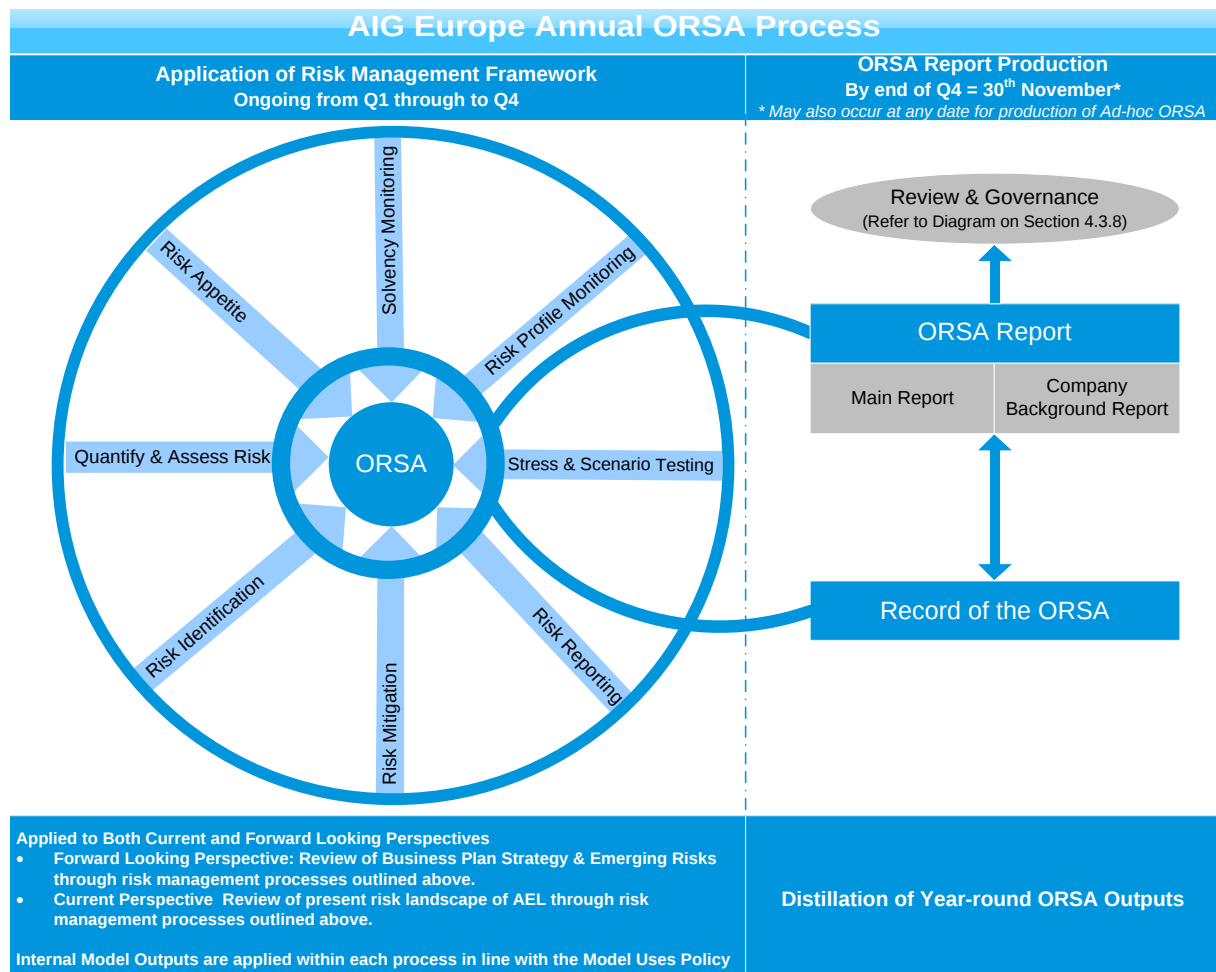
### ORSA REPORT

The ORSA Report is used to summarise the outputs of these risk management and capital assessment processes. This report includes both the quantitative and the qualitative outputs of these processes and links these to the Company's business performance, to assist the Board and senior management in making strategic business decisions.

The ERM function prepares two ORSA reports annually (one at half year, the other at year end) and these are reviewed, challenged and ultimately signed off at Board level. In addition, a further interim update of the ORSA may be produced in cases where an event occurs that results in a material change to the Company's Risk Profile, Internal

Model or Business Plan. The ORSA process and report is used and embedded in the first line of defence.

The ORSA Report is a distillation of the key outputs from these processes into a key document for management and the regulator. The submission of the final ORSA report includes the completion of several key business processes undertaken by Enterprise Risk Management (ERM) in conjunction with wider business management. The diagram below provides an indication of the ORSA process, including the principal internal stakeholders (such as the Risk and Capital Committee, ERM and the Company Board) and how it fits in with the Company's key business processes:



## B.4 INTERNAL CONTROL SYSTEM

The description of the internal control system is disclosed in Section B.1A.E Key Functions, Roles and Responsibilities above along with the description on Finance Function.

## B.5 INTERNAL AUDIT FUNCTION

The description of the internal audit function is disclosed in Section B.1A.E Key Functions, Roles and Responsibilities above within the internal audit function.

## B.6 ACTUARIAL FUNCTION

The description of the actuarial function is disclosed in Section B.1A.E Key Functions, Roles and Responsibilities above within the actuarial function.

## B.7 OUTSOURCING ARRANGEMENTS

The 'Outsourcing' subsection of the report aims to provide a description of the Company's critical outsourcing activities and the outsource service providers. The Company's Outsourcing Service Providers (OSPs) are defined as Third Parties that perform/provide core business activities, i.e. insurance products/services (and/or regulated activities) on behalf of the company.

The Company utilises outsourcing arrangements for a number of operational activities in order to reduce operational costs and free internal personnel for other key functions within the Company.

The screening/due diligence process confirms if a vendor is suitably qualified and possesses the expertise, experience and capabilities for the goods and/or services being provided to the Company. The area's Senior Management is required to ensure adherence to internal policies, procedures and applicable international, regional and local laws and regulations. The process also investigates if the vendor is financially sound based on the vendor's current financial and other key operating information, which is either publicly available or provided by the Vendor.

The Risk and Control Services/Commercial team are responsible for the relevant risk management and assurance of AIG's policies associated with outsourcing. The policy addresses regulatory, legal and control requirements that require proper governance and management of the Company vendors. In addition, other policies and standards are adopted to comply with regional and local laws and regulatory requirements.

A risk rating (High, Medium, and Low) for each vendor is assigned to assure the appropriate oversight is performed in conjunction with the Control Groups and establishes the frequency and mechanism for initial and ongoing oversight. The scope and frequency of ongoing oversight of a vendor may be increased or decreased due to but not limited to the following:

- change to legal/regulatory requirements and laws;
- notification of a security incident, privacy incident;
- change in ownership of the vendor; and
- control issues identified during an assessment.

Risk-based oversight, monitoring and management reporting of vendor activities to the area's Senior Management must be established and performed by the Business Sponsor/Contract Owner on a regular basis. Each vendor engagement must have a sponsor/ contract owner who is responsible for establishing, maintaining and managing the vendor as well as its performance for goods or services provided. Performance monitoring includes but is not limited to:

- assessing adherence to contracts terms;
- reviewing contract performance and operational issues;
- ensuring that the vendor is complying with consumer protection laws and regulations;
- reviewing customer complaints about services or products handled by the vendor;
- assessing the adequacy of business recovery and business contingency plans and reporting and monitoring of metrics (e.g., KPIs)

During the reporting period the following auxiliary functions were outsourced:

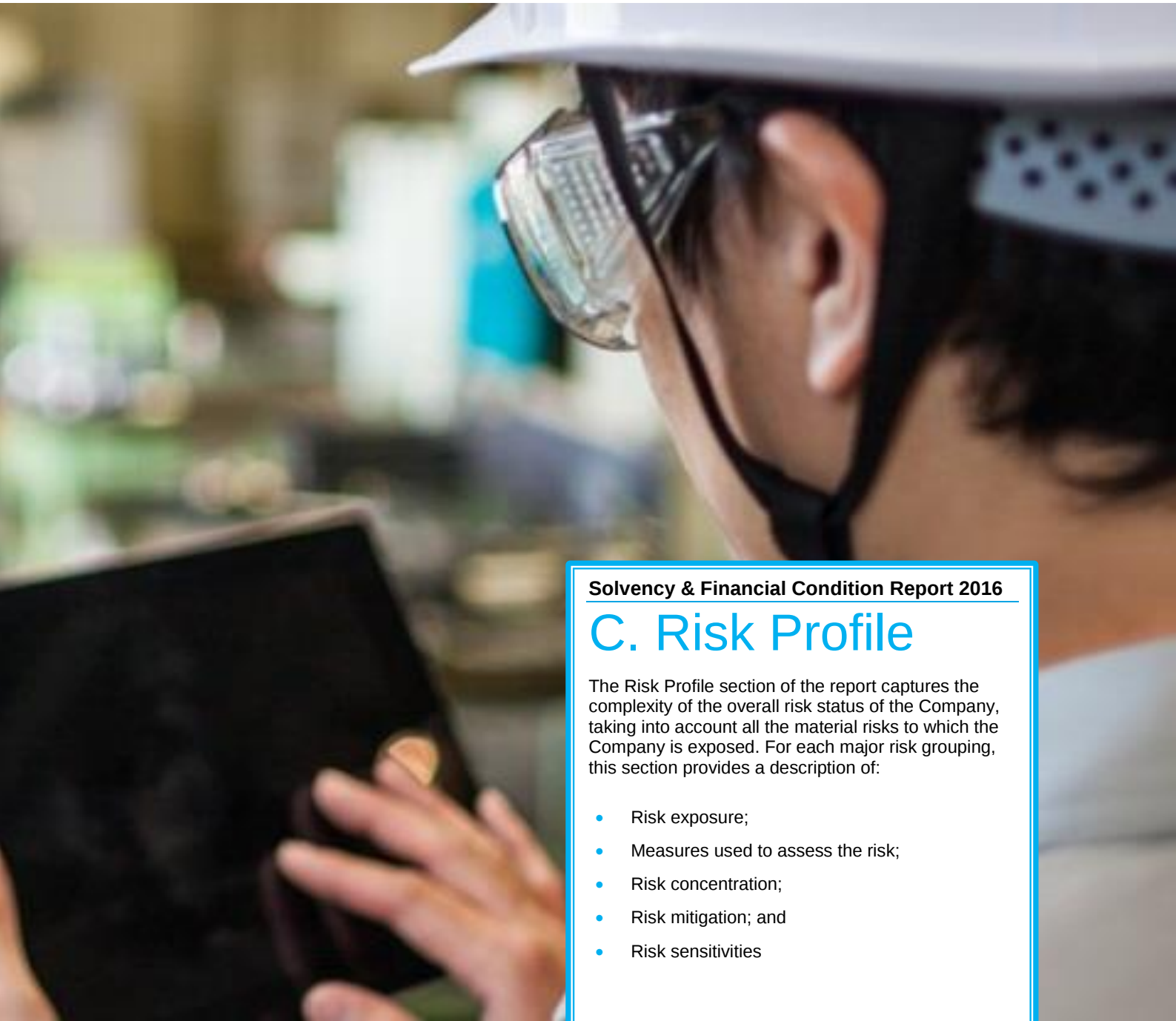
| Outsourced operation                          | Jurisdictions                                   | Description                                                                       |
|-----------------------------------------------|-------------------------------------------------|-----------------------------------------------------------------------------------|
| <b>Administration</b>                         | Ireland, Spain & Switzerland.                   | Administration & fulfilment; premium collection, data entry, refunds and billing. |
| <b>Claims Handling</b>                        | Belgium, Denmark, France, Italy, Portugal & UK. | Claims handling and settlement.                                                   |
| <b>Sales, Distribution &amp; Underwriting</b> | Denmark, Netherlands & UK.                      | Advised & non-advised Sales, introductions, underwriting.                         |
| <b>Sales</b>                                  | Greece, France, Spain & UK.                     | Sales & distribution: non-advised sales.                                          |
| <b>Specialist Technical Services</b>          | Belgium, Spain & UK.                            | Surveyors, appraisers and engineers.                                              |

*The Company has outsourced contracts across Europe. This table shows the material jurisdictions based on the estimate annual cost.*

## **B.8 ANY OTHER MATERIAL INFORMATION**

The information presented in Section B provides a true and fair view of the system of governance of the Company during the period.

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#### Solvency & Financial Condition Report 2016

## C. Risk Profile

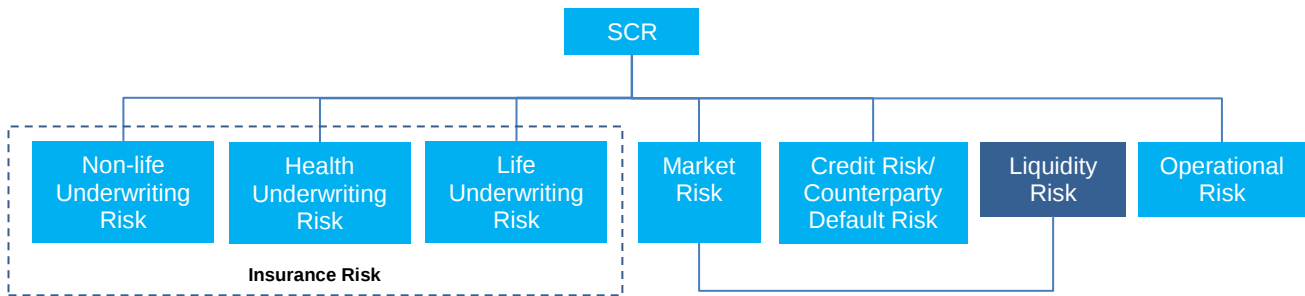
The Risk Profile section of the report captures the complexity of the overall risk status of the Company, taking into account all the material risks to which the Company is exposed. For each major risk grouping, this section provides a description of:

- Risk exposure;
- Measures used to assess the risk;
- Risk concentration;
- Risk mitigation; and
- Risk sensitivities

## C. RISK PROFILE

The Company believes that a strong, effective and embedded risk management framework is crucial to maintaining successful business operations and delivering sustainable, long-term profitability. The Company's goal is to achieve this through a risk culture articulated by its ERM senior leadership and embodied by management at all levels through the governance structure and risk management processes.

The Company's Solvency Capital Requirement (SCR) is calculated using the Standard Formula. Management intend for the Company's SCR to be calculated using a bespoke internal economic capital model (the Solvency II Internal Model), pending approval from the PRA.



### Risk Profile, Measurement and Assessment

The Company's Risk Management Framework supports the identification, measurement, management, monitoring and reporting of the five major risk groupings the Company is exposed to, including:

- Insurance risk (Underwriting Risk);
- Market Risk;
- Credit Risk (Counterparty Default Risk);
- Liquidity Risk; and
- Operational Risk;

The Company's Risk Profile is a point in time measurement of the risks that the Company is exposed to. The Company's risk assessment draws on available Management Information (MI) and Key Risk Indicators (KRIs) to provide context to judgements and strategic decisions, which are split between a current and forward looking perspective on each of its major risks.

KRI results, particularly those that breach an agreed trigger level, are discussed within the appropriate risk committee within the risk management governance structure to identify the root cause and to approve remedial actions for the relevant risk owners to execute.

Where key risk hotspots are identified, being either those that have crystallised or may potentially emerge, the assessments will quantify their potential or actual impact and propose remediation actions for specific Risk Owners and management to take note of and, if agreed, execute.

The Company has identified a number of risks that may potentially impact on the successful execution of the its business plan and ability to generate sustainable profits during 2017 and beyond.

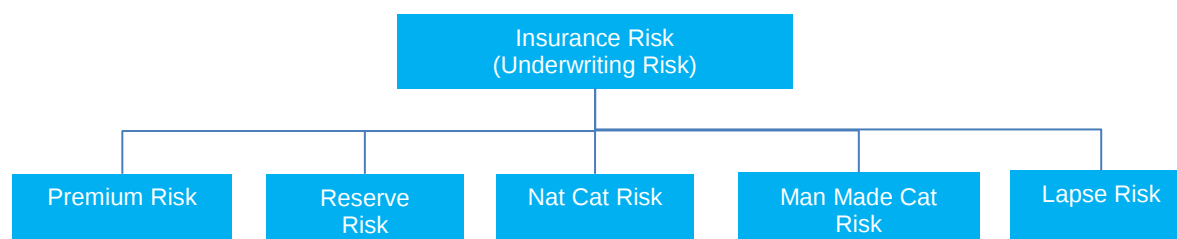
These risks are assigned to one or more of its Top Ten Risks and ranked in order of materiality, based on the potential impact of each risk on the balance sheet and on the likelihood of each risk occurring.

### Top Ten risks on the Company's Risk Watch List

| Risk Area                 |    | Description                                            |
|---------------------------|----|--------------------------------------------------------|
| Insurance Risk            | 1  | Failure of Pricing, Product or Strategy                |
|                           | 2  | Aggregation / Accumulation Risk – Natural Catastrophe  |
|                           | 3  | Aggregation / Accumulation Risk – Man Made Catastrophe |
|                           | 4  | Adverse Reserve Development                            |
| Market Risk               | 5  | Unexpected Loss in Market Value                        |
|                           | 6  | Liquidity Risk                                         |
| Credit Risk               | 7  | Unexpected Credit Loss – Reinsurer Failure             |
|                           | 8  | Unexpected Credit Loss – Other Counterparties          |
| Operational Risk          | 9  | Operation Risk                                         |
| Business & Strategic Risk | 10 | Business & Strategy Risk                               |

## C.1 INSURANCE RISK (UNDERWRITING RISK)

Insurance Risk encompasses the risks the Company is exposed to arising from its insurance underwriting operations and is broadly split and assessed between the following risk categories:



### INSURANCE RISK EXPOSURES

#### 1. PREMIUM RISK

Premium risk arises from the failure of pricing, product or strategy. It encompasses the risk of loss due to the potential timing, frequency and severity of covered loss events differing from that assumed at the time of underwriting and pricing a risk. Premium risk arises during market and/or investment cycles where there is pressure on pricing margins, which results in being unable to charge an appropriate price without undermining its market position.

Premium Risk is driven by changes in actual earned premiums and forecast premiums.

#### 2. RESERVE RISK

Reserve risk arises from adverse reserve development through failing to set sufficient cash reserves or through failing to adopt a robust and consistent reserve strategy offered to insureds and countries. It represents the difference between the actual versus expected variability in the timing or amount (size/severity and count/ frequency) of loss costs including indemnity, legal and loss adjustment expenses.

Reserve Risk is influenced by changes in Claims Provisions.

#### 3. NATURAL CATASTROPHE RISK

Natural Catastrophe Risk arises from the failure to manage risk aggregation or accumulation that may result in an increased exposure to natural catastrophe losses (e.g. hurricanes, earthquakes, floods etc.). If insured risks are overly correlated due to say, geographical concentration, losses can occur and affect multiple lines of business.

#### 4. MAN MADE CATASTROPHE RISK

Man Made Catastrophe Risk arises from failure to manage risk aggregation or accumulation that may result in increased exposure to man-made catastrophe losses (e.g. terrorism, explosion, systemic financial losses, latent disease, pandemic etc).

#### 5. LAPSE RISK

Non-life lapse risk reflects the risk of loss, or of adverse change in the value of insurance liabilities, resulting from a discontinuance of insurance policies. Article 118 of the Solvency II Delegated Acts specifies the approach to be used in calculating the capital requirement for non-life lapse risk under the Standard Formula.

The Company's exposure to Insurance Risks is the largest contributor to its capital requirement under Standard Formula and the details are given in section E below.

### MEASURES USED TO ASSESS INSURANCE RISK

The following KRIs are used to assess the different insurance risks described:

| Premium Risk<br>Failure of pricing / Ineffective strategy / Failure of product                              |                                                                                                                                                                                                                                                                                                                                             |
|-------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Premium adequacy                                                                                            | This is calculated as the latest view of the projected combined ratio (taken from actuarial profitability studies) divided by the break-even combined ratio. A ratio of 100% indicates the line of business is expected to exactly break even.                                                                                              |
| Ultimate Loss Ratio vs Budget                                                                               | This measures the Ultimate Loss Ratio for the latest accident year versus budget by determining the magnitude of the impact on P&L caused by the actual loss ratio versus budget.                                                                                                                                                           |
| Incurred Loss Ratio Development vs Average                                                                  | This measures the Incurred Loss Ratio for the latest 2 accident years versus the average of the 5 previous accident years, at the same stage of development.                                                                                                                                                                                |
| Reserve Risk<br>Adverse reserve development                                                                 |                                                                                                                                                                                                                                                                                                                                             |
| Magnitude of prior year reserve movements                                                                   | This measure the prior year development in the reserves as a percentage of reserves held on a quarterly basis. The results are obtained from the corporate actuarial department once sign off has been received from the reserves committee. The direction of successive reserve movement is also commented on by ERM, as part of this KRI. |
| Natural Catastrophe Risk and Man Made Catastrophe Risk<br>Failure to manage risk aggregation / accumulation |                                                                                                                                                                                                                                                                                                                                             |
| 1 in 200 the Company Worldwide All Perils and Regional/Peril Outputs                                        | This compares the latest risk profile to the predetermined risk appetite, with reference to the all perils 1 in 200 Aggregate Exceedance Probability ("AEP") at both peril level and Worldwide All Perils level.                                                                                                                            |
| 1 in 200 the Company Worldwide All Perils and Regional/Peril Outputs                                        | This compares the latest risk profile to the predetermined risk appetite, with reference to the 5-ton bomb accumulation on the Global Property portfolio.                                                                                                                                                                                   |

There are no material changes to the measures used to assess premium risk, reserve risk, natural catastrophe risk and man made catastrophe risk during the year 2016.

## INSURANCE RISK CONCENTRATION

Insurance risk concentration occurs due to the concentration of an insurance operation in a particular geographic area, industry or insurance peril. It may also occur as a result of a correlation between individual insured perils.

The Company has the largest exposures by premiums and by reserves to the SII LoBs General Liability, Fire and other Property Damage and Marine, Aviation and Transport and therefore, contribute significantly to Premium and Reserve risk. Even a single event in a business segment or industry may have a material impact on re-payment capacity. Particular attention is paid to events with a low frequency and a high impact, for example storms, hail and floods.

Non-life catastrophe risk represents the second largest component of non-life underwriting risk.

The natural catastrophe risk sub-module is based on a consistent, comprehensive, risk commensurate and fair approach to account for all possible natural perils. The natural perils include windstorm, earthquake, flood, hail and subsidence.

Natural Catastrophe results are aggregated at the region/peril combination where region is a particular major geographical territory such as Europe, United Kingdom or North America and peril is the natural catastrophe hazard.

The Company has material risk concentrations in liability and fire risk perils which make up over 88% of man-made catastrophe risk.

## INSURANCE RISK MITIGATION TECHNIQUES

The Company manages insurance risks by monitoring and controlling the nature of and accumulation by geographic location of the risks in each line of business underwritten, the terms and conditions of the underwriting and the premiums the Company charges for taking on the risk. This is achieved through a number of common techniques and procedures; some of the more significant of these are highlighted below:

| Type of risk                             | Risk mitigation techniques                                                                                                                                                                                                                                                                                            |
|------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Premium Risk - Failure of pricing</b> |                                                                                                                                                                                                                                                                                                                       |
| Pricing guidelines                       | The Company seeks to manage pricing risk through the setting and review of pricing guidelines relevant to each business line and the application of a strict hierarchy of underwriting authorities to ensure that policies are underwritten with management oversight.                                                |
| Review of large and unusual transactions | Large and unusual transactions are referred to the Large and Unusual Transactions (LUT) referral group, primarily comprised of members of the Company's Insurance Risk Committee for consideration from a Statement of Financial Position, liquidity and portfolio point of view before the Company becomes committed |
| Purchase of reinsurance                  | The Company also mitigates exposure to pricing risk through the purchase of reinsurance.                                                                                                                                                                                                                              |

|                                                                             |                                                                                                                                                                                                                                                      |
|-----------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Premium Risk - Ineffective strategy / Failure of product</b>             |                                                                                                                                                                                                                                                      |
| Review of business plans and new products                                   | The Company seeks to manage this risk through the use of processes and procedures over the production, review and analysis of annual business plans and the introduction of new products for each line of business, prior to approval and execution. |
| Assessment of key projects and strategic investments                        | The Company also has processes in place for the identification, assessment and approval of key projects and strategic investments.                                                                                                                   |
| <b>Reserve Risk - Adverse reserve development</b>                           |                                                                                                                                                                                                                                                      |
| Monitoring adherence to claims reserving policies and procedures            | The Company seeks to manage this risk through monitoring adherence to established policies and procedures in place governing claims reserving practices.                                                                                             |
| <b>Catastrophe Risk - Failure to manage risk aggregation / accumulation</b> |                                                                                                                                                                                                                                                      |
| Use of pre-bind rules and authorities                                       | The Company seeks to manage this risk through the use of pre-bind rules and authorities to manage significant within line and cross-line exposures.                                                                                                  |
| Review of large and unusual transactions                                    | Large and unusual transactions are referred to the LUT for further consideration.                                                                                                                                                                    |

## PROCESS FOR MONITORING THE EFFECTIVENESS OF INSURANCE RISK MITIGATION TECHNIQUES

As disclosed in Section B.1.A above, the RCC actively monitors the continued effectiveness of the above risk mitigation techniques through processes and deliverables including the Risk Register, Risk Appetite Framework, Internal Model Output (for risk analytics), Stress and Scenario Testing and Risk Indicator Reporting. The outputs of these risk processes are fundamental to the delivery of the Own Risk and Solvency Assessment (ORSA) and, ultimately, the half-yearly ORSA reports.

In relation to Reserve Risk, the Company's Actuarial Team conducts quarterly reserve reviews of the Company's overall book to determine appropriate reserve levels and quarterly reviews of the Company's expected IBNR adequacy. The Company also employs external consultants to perform reviews of its reserves to provide an independent review of their adequacy.

## C.2 MARKET RISK

Market risk is the risk that the Company is adversely affected by movements in the fair value of its financial assets arising from market movements, such as credit spreads, interest rates and foreign exchange rates or other price risks.

The Company is exposed to Market Risk on both the asset and the liability sides of its balance sheet, through both on and off-balance sheet exposures including, but not limited to:

- Assets in the Company's investment portfolio including, but not limited to, bonds, loans, structured products, equity, alternative investments and real estate;
- Capital markets transactions, such as exchange-traded and over-the-counter derivatives;
- The Company's insurance businesses providing services to clients that can generate assets and liabilities with valuations linked to Market Risk Factors
- Operating Subsidiaries that maintain their financial records in a currency other than the British Pound, generating Forex translation risk; and
- Transactions that require cash-flow settlement in a currency other than the functional currency, generating Forex transaction risk.
- Investment assets within the Company's defined benefit pension scheme



### MARKET RISK EXPOSURE

A description of the Company's components of Market Risk are shown below:

| Market Risk Components | Description                                                                                                                                                                                                                                                                                                                 |
|------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Spread risk            | The potential financial loss due to the increase in the spread that an asset trades at relative to a comparable government bonds hence a decrease in the asset's market value.                                                                                                                                              |
| Currency risk          | The potential financial loss arising from the change in value of currency exchange rates or from closing out a currency position at a loss due to adverse movements in exchange rates.                                                                                                                                      |
| Interest rate risk     | The potential financial loss arising from the reduction in the value of the investment portfolio and liabilities due to changes in the level of interest rates.                                                                                                                                                             |
| Equity risk            | The potential financial loss arising from the reduction in the value of the investment portfolio due to changes in prices of equities, mutual funds and equity-linked capital market instruments. The Company's exposure to Equity risk is immaterial because holdings in underlying equity securities are not significant. |
| Property risk          | The potential financial loss arising from the reduction in the value of the investment portfolio due to changes in real estate prices. The Company's exposure to Property risk is immaterial because holdings in properties are not significant.                                                                            |

### MEASURES USED TO ASSESS MARKET RISK

The following Key Risk Indicators (KRI) and Early Warning Indicators (EWI) are used by the Company to assess the risks described in the previous section.

| Market Risk Components | Key Risk Indicators/Early Warning Indicators (EWI)                                                                                                                                                                                                                                                                                                                                   |
|------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Spread risk            | EWI based on spread indexes. A rise of more than 40bps for an index of single A rated bonds over a quarter will trigger discussion about a change in SAA.                                                                                                                                                                                                                            |
| Currency risk          | FX exposure is monitored on a quarterly basis and the MRC is informed of the exposure when thresholds (2% and 5% capital) measured with a 1 year VaR are breached. Discuss a rebalancing of GBP Net assets into EUR net assets.                                                                                                                                                      |
| Interest rate risk     | Monitor 5Y swap rate movements. An intra-year move of over 75 basis points should trigger discussions about change in SAA at the MRC.<br>Monitor 1Y and 5Y Swaptions implied volatility to assess market sentiment in interest rates.<br>Monitor Overnight Index Swap (OIS) rate vs central bank base rates to assess market sentiment about base rate increase by the central bank. |

There are no material changes to the measures used to assess market risk as listed above during the year 2016.

The Company's exposure to Market Risks is the second largest contributor to its capital requirement under Standard Formula and the details are given in section E of this document (page 66).

## MARKET RISK CONCENTRATION

The Company holds and maintains a diversified investment portfolio in corporate bonds, government bonds, securitisations, loans and mortgages, un-listed equities, mutual funds, investments in group undertakings (participations) and short-term deposits.

The Company has a well-defined Risk Appetite for Market Risk (and its Investment activities) and it manages its Investment portfolio so that the Total Return is maximized and risks do not breach the concentration limits.

### Market Risk Concentration – by Credit Rating

| Bond Ratings | Market Risk Concentration<br>£m | Market Risk Concentration<br>% |
|--------------|---------------------------------|--------------------------------|
| AAA          | 2,442.9                         | 26.2%                          |
| AA           | 2,468.4                         | 26.4%                          |
| A            | 2,612.3                         | 28.0%                          |
| BBB          | 1,046.1                         | 11.2%                          |
| BB           | 423.1                           | 4.5%                           |
| B            | 241.5                           | 2.6%                           |
| CCC          | 4.9                             | 0.1%                           |
| Not Rated    | 96.7                            | 1.0%                           |
| <b>Total</b> | <b>9,336.0</b>                  | <b>100.0%</b>                  |

Bonds (government, corporate and securitised assets) comprise the largest portion of the Company's investment portfolio out of which 81% were either rated AAA, AA or A in 2016. Therefore, the Company's exposures to the increase in corporate spreads and downgrade in ratings are concentrated within bonds rated A and above.

### Market Risk Concentration – by Issuer

The top five exposures (by Solvency II market values) are:

| Issuer names                    | Market Risk Concentration<br>£m | Market Risk Concentration<br>% |
|---------------------------------|---------------------------------|--------------------------------|
| Federal Republic of Germany     | 531.6                           | 5.7%                           |
| UK Government                   | 357.5                           | 3.8%                           |
| European Investment Bank        | 235.9                           | 2.5%                           |
| Kingdom of Denmark              | 205.4                           | 2.2%                           |
| Kreditanstalt fuer Wiederaufbau | 130.6                           | 1.4%                           |

Each of the issuer above is either a government, government agency or a supranational body and therefore, the associated market risks are considered to be low.

### Market Risk Concentration – by Currency

The Company have large net asset exposures to British Pound, Euro and US Dollars. The split of excess of assets over liabilities by major currencies is as follows:

| Currency      | Market Risk Concentration<br>£m | Market Risk Concentration<br>% |
|---------------|---------------------------------|--------------------------------|
| Euro          | 1,379.9                         | 44.4%                          |
| British Pound | 800.8                           | 25.8%                          |
| US Dollar     | 735.9                           | 23.7%                          |
| Other         | 189.2                           | 6.1%                           |
| <b>Total</b>  | <b>3,105.8</b>                  | <b>100%</b>                    |

## MARKET RISK MITIGATION TECHNIQUES

The Company manages its investment portfolio with respect to the market risk profile of its liabilities in order to minimise the impact on its solvency position due to adverse market movements. Risk mitigation of market risk is executed through the combined use of investment limits, guidelines and principles detailed below.

### Risk Mitigation and the Prudent Person Principle

The Company's investment management policy ensures its continued compliance with the Prudent Person Principle (PPP) as laid down in Article 132 of the Directive 2009/138/EC.

As detailed in Investment Performance in section A above, the Company's investment management framework sets out its SAA that is approved by the Board and is reviewed annually.

Tactical deviations from SAA to maximise investment returns are permitted but they are limited to changes in allocation of asset categories covered by SAA only. The Company rebalances its portfolio on a quarterly basis so that the actual allocation of assets is not materially different from SAA.

**Market Risk:** The Company's Spread Risk is mitigated through the implementation of SAA investment asset limits. Asset categories that are included in SAA are those that are suitable for the Company's liabilities profile by nature, term and currency and for which AAMEL (the investment manager) could assess, monitor and control risks. The Company doesn't invest in any asset category that is not included in SAA.

Through monitoring of its investments in government bonds, supranational bonds, high grade corporate bonds and covered bonds of short to medium-term duration. The Company's investments in variable rate bonds and loans and mortgages provide an effective hedge against its Technical Provision liabilities that are linked with inflation and interest rates. Currency Risk mitigation is achieved by the monitoring of its excess of assets over liabilities by currency.

**Underwriting and Liquidity Risks:** The Company holds a diversified investment portfolio in government bonds, corporate bonds, investment in securitisations, loans and mortgages and cash and cash equivalents.

The majority of the government bonds, corporate bonds and investment in securitisations held by the Company are liquid with active markets and therefore provide sufficient coverage for the uncertainties and short-term nature of its Technical Provision liability cash flows (detailed in Liquidity Risk section). In addition, the Company's holdings in Loans and mortgages ensure asset coverage for its medium to long-term Technical Provisions liabilities such as Periodic Payment Orders (PPOs) and claims from longer-tail lines of business.

The details of maturity profile for Solvency II assets and liabilities as at 30 November 2016 is shown on Section C.4 Liquidity Risk on page 48.

**Counterparty Default Risk (Credit Risk):** SAA implemented by IMA sets out the limits to avoid concentration of risks to a particular sector, issuer, currency, credit rating and country.

The Company holds a well-diversified portfolio due to aforementioned limits and it uses derivatives and collaterals for risk management purposes only.

The Company has reinsurance arrangements with a large number of reinsurers and its reinsurance assets are backed by collaterals and therefore, Credit Risk is kept in control

---

## PROCESS FOR MONITORING THE EFFECTIVENESS OF MARKET RISK MITIGATION TECHNIQUES

The scope and magnitude of the Company's market risk exposures is managed under a robust framework that contains documented risk taking authorities, defined risk limits and minimum standards for managing market risk in a manner consistent with the Company's Risk Appetite.

The Board of the Company either as a whole or through its committees oversees market risk and approve annually the Company's Risk Appetite Framework which contains among other things, the risk appetite for Market Risk.

The Board of the Company discharges its responsibility for oversight of the Policies and Procedures through the RCC, and as such is empowered to provide guidance and

oversight regarding Market Risk within the Region. The RCC is responsible for reviewing and approving the Level 2 SOS and reporting to the local entities Board regarding Market Risk as the RCC deems appropriate or as the Local Boards requests. The RCC is chaired by the CRO.

The MRC, chaired by the Company's CFO, was established by the Company's RCC as one of its four sub-committees. The primary purpose of the MRC is to monitor and manage the Market Risk profile of the Company against the Board approved Risk Appetite. The MRC regularly reviews the latest market risk developments and requests more precision when needed.

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### C.3 COUNTERPARTY DEFAULT RISK (CREDIT RISK)

Counterparty Default Risk (Credit Risk) is defined as the change in the value of assets and liabilities caused by unexpected default or deterioration in the credit standing of independent counterparties and debtors. Credit Risk may also result from a widening of credit spreads.

Counterparty Default Risk excludes investments and credit derivatives which are assessed within the Market Risk profile.

#### CREDIT RISK EXPOSURE

The Company is exposed to Credit Risk on both asset and liability side of its balance sheet and its Credit Risk is categorised into two components below:

- Type 1 exposures that include risk mitigating contracts like reinsurance arrangements, securitisations, derivatives, deposits with ceding and credit institutions, cash at bank and letters of credit that are not diversifiable but are likely to be rated.
- Type 2 exposures that include diversifiable and unrated exposures such as receivable from intermediaries, policyholder debtors etc.

The Company's exposure to Credit Risks is the fourth largest contributor to its capital requirement under Standard Formula and the details are given in section E below.

#### MEASURES USED TO ASSESS CREDIT RISK

The following Key Risk Indicators (KRI) are used by the Company to assess its credit risks

| KRIs                                                                | Description                                                                                                                                                                                                                                                                                                                                                                                                                 |
|---------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Unexpected Credit Loss owing to Reinsurer failure                   | The Company faces a risk of material losses if its main reinsurers fail or are unable to pay their contractual share of claims payable. The Company's assessment of 'Unexpected Credit Loss owing to Reinsurer Failure' is 'Low'. Record capital levels of Reinsurers and strong underwriting profits up to this point have led to increasing equity being held in the market, thus reducing the risk of reinsurer failure. |
| Unexpected Credit Loss (all parties counterparties including group) | The Company faces a risk of material losses and cash flow issues if other internal (intra-group) or third party obligors are unable to pay amounts due and default in their commitments.                                                                                                                                                                                                                                    |

#### CREDIT RISK CONCENTRATION

Credit Risk concentration is associated with any single exposure or group of exposures with the potential to produce large losses to threaten the Company's core operations. It may arise either in the form of single name concentration or industry concentration.

The Company's most material Credit Risk concentration relates to type 1 exposure of reinsurance arrangements (reinsurance recoverable and reinsurance receivables) that amounted to £2,186.9m at 2016.

Amongst Type 2 exposures, the Company's most material Credit Risk concentration relates to Receivables due from intermediaries and arising out of insurance operations and it amounts to £9.7m at 2016 and this exposure is well diversified.

The largest reinsurance balance is with AIG Group and the details of top five reinsurer balances are as follows:

| Reinsurer Name                     | £m    |
|------------------------------------|-------|
| American International Group, Inc. | 865.4 |
| Unilever                           | 137.3 |
| Deutsche Post AG                   | 108.1 |
| Swiss Re Ltd                       | 102.5 |
| HSBC Holdings plc                  | 74.6  |

The details of top 5 cash balances by counterparties are:

| Counterparty Name                                          | £m   |
|------------------------------------------------------------|------|
| Citigroup Inc.                                             | 91.0 |
| Netherlands, Kingdom of                                    | 67.9 |
| VIVAT N.V.                                                 | 39.9 |
| JPMorgan Chase & Co.                                       | 10.7 |
| Helvetia Schweizerische Lebensversicherungsgesellschaft AG | 9.6  |

## CREDIT RISK MITIGATION TECHNIQUES

The Company has established an effective Credit Risk management framework that includes guidelines and processes to govern day-to-day credit risk-taking activities. The Company's Chief Credit Officer (CCO) and credit executives are primarily responsible for implementing and maintaining a risk management framework consistent with the Company's Credit Policy, and the Company's Credit Procedures.

The Company monitors and controls its company-wide Credit Risk concentrations and attempts to avoid unwanted or excessive risk accumulations, whether funded or unfunded. To minimize the level of Credit Risk in some circumstances, the Company may require third-party guarantees, reinsurance or collateral, such as letters of credit and trust collateral accounts. The Company treats these as credit exposures and includes them in its risk concentration exposure data. The Company also identifies its aggregate credit exposures to its underlying counterparty risks.

Credit risk mitigation involves managing the approval process for requests for credit limits, program limits and credit transactions above authorities or where concentrations of risk may exist or be incurred. Credit risks are managed and controlled by the the Company's CCO through techniques listed below:

- Aggregating the Company's credit exposure data by counterparty, country, sector and industry and regularly reporting and reviewing risk concentrations with senior management;
- Administering regular portfolio credit reviews of investment and credit-incurring business units and recommending corrective actions where required;
- Approving appropriate credit reserves and credit-related other-than-temporary impairments;
- Overseeing the submission of individual transactions with high unsecured credit exposures to the Company Large and Unusual Transactions Referral Group for its consideration; and
- Overseeing the Watch List process within the Company portfolios.

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## PROCESS FOR MONITORING THE EFFECTIVENESS OF CREDIT RISK MITIGATION TECHNIQUES

The Credit Risk Committee meets quarterly to manage, monitor and report the credit risks within the Company. The committee adheres to its terms of reference with respect to its membership, chair, the frequency of meetings, and record keeping.

The Credit Risk Committee executes its responsibilities effectively by review of the credit risk profile against the risk appetite, and adhoc portfolio reviews. The two key credit risks within the counterparty risk module and effectiveness of their mitigating controls are reviewed regularly. The Credit Risk Committee reviews the portfolios of the insurance credit lines which are modelled and managed within the Insurance Risk module. The Credit Risk Committee also receives and comments on relevant Credit Risk content relating to the Economic capital model calibration, model validation and model outputs. Feedback and challenge is provided by the committee on these all of these reports.

Overall, the Credit Risk Committee is effective in assessing its risk profile and in execution of its duties. Improvements are needed with regard to specific credit analytics and KRIs and complete agenda papers being sent timely by all the stakeholders and timeliness of minutes.

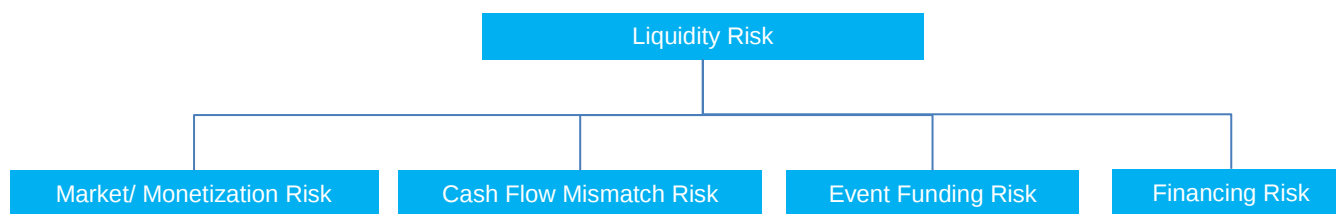
Reinsurance recoverables are a key risk consideration for the Company. The Reinsurance Credit Department is dedicated to the management of reinsurance recoverables within AIG, and conducts the following principal control activities:

- Periodic detailed assessments of the financial strength and condition of current and potential reinsurers, both foreign and domestic;
  - Monitoring both the financial condition of reinsurers as well as the total reinsurance recoverable ceded to reinsurers, and set limits with regard to the amount and type or exposure AIG is willing to take with reinsurers; and
  - Reviews the nature of the risks ceded and the need for measures, including requiring collateral from active reinsurance counterparties, to mitigate credit risk.
-

## C.4 LIQUIDITY RISK

Liquidity refers to the ability to generate sufficient cash resources to meet the Company's payment obligations. It is defined as unencumbered cash and assets that can be monetized in a short period of time at a reasonable cost in both normal and stressed market conditions.

Liquidity risk is defined as the risk that the Company's financial condition will be adversely affected by the inability or perceived inability to meet its short-term cash, collateral or other financial obligations. The failure to appropriately manage liquidity risk can result in reduced operating flexibility, increased costs, and reputational harm. Liquidity Risk has been categorised into:



### LIQUIDITY RISK EXPOSURE

**Market/Monetization Risk:** The risk that the assets cannot be readily transformed into cash due to unfavourable market conditions. Market liquidity risk may limit the Company's ability to sell assets at reasonable values to meet liquidity needs.

**Cash flow Mismatch Risk:** The risk of discrete and cumulative cash flow mismatches or gaps over short-term horizons under both expected and adverse business conditions that may create future liquidity shortfalls.

**Event Funding Risk:** The risk that additional funding will be required as the result of a trigger event. Event funding risk comes in many forms and may result from a downgrade in credit rating, a market event, or some other event that created a funding obligation or limits existing funding options.

**Financing Risk:** The risk that the Company will not be able to raise additional cash on a secured or unsecured basis due to unfavourable market conditions, company-specific issues or any other issue that impedes access to additional funding.

### MEASURES USED TO ASSESS LIQUIDITY RISK

The Company's Treasury and ERM have developed "Standard Metrics" on the Company's short-term liquidity position, to assess liquidity risks. These Standard Metrics, as detailed below, are used in conjunction with 12-month liquidity stress testing to monitor liquidity position.

| Metrics                             | Description                                                                                                              |
|-------------------------------------|--------------------------------------------------------------------------------------------------------------------------|
| Short-term Cash Coverage Ratio      | Measures the sufficiency of cash equivalents to meet immediate forecasted net cash flow needs over a two-week period     |
| Liquid Assets Coverage Ratio (LACR) | Provides a view into the sufficiency of liquid assets to meet forecasted net cash flow needs over various time horizons. |
| Liquid Assets Ratio                 | Provides a point in time asset side view into the ratio of liquid to total assets.                                       |
| Cash Flow Forecast Variance Ratio   | Provides a view into the performance of cash flow forecasts against actual experience over a defined time horizon.       |

## LIQUIDITY RISK CONCENTRATION

Liquidity Risk is impacted by the concentrations in both assets and liabilities. A concentration in assets can disrupt the Company's ability to generate cash in times of illiquidity or reduced market liquidity for certain asset classes.

A liability concentration (or funding concentration) exists when the funding structure of the Company makes it vulnerable to a single event or a single factor, such as a significant and sudden withdrawal of funds or inadequate access to new funding.

The amount that represents a funding concentration is an amount that, if withdrawn by itself or at the same time as similar or correlated funding sources would require the institution to significantly change its day to day funding strategy.

The Company being a non-life insurer has made all of its financial investments in assets designated as available for sale except for loans and mortgages, and therefore, can be sold when needed.

For the purpose of monitoring liquidity risk these are classified as available on demand or within one year and therefore, the largest concentration of assets is within one year maturity category.

Similarly, due to short-term and seasonal nature of the Company's business, most of the insurance related liabilities are due for payment within five years with the largest concentration of insurance liabilities in its second year. Under Solvency II regime the insurance liabilities are split into two components namely, the Best Estimate Technical Provision and Risk Margin (see section D for details).

The Risk Margin is payable at the time of transfer of insurance liabilities and therefore, for liquidity risk monitoring purposes is assumed to be paid within one year. Subordinated liabilities of £50m will mature in 2019 and therefore due for payment in three years' time.

The details of maturity profile for Solvency II assets and liabilities as at 30 November 2016 are as follows:

| Maturity Profile<br>£m                                     | On<br>demand<br>or within<br>one year | 1-2<br>years     | 2 - 3<br>years   | 3 - 4<br>years | 4 - 5<br>years | 5 - 10<br>years | Over 10<br>years | Total           |
|------------------------------------------------------------|---------------------------------------|------------------|------------------|----------------|----------------|-----------------|------------------|-----------------|
| <b>Assets</b>                                              |                                       |                  |                  |                |                |                 |                  |                 |
| Government Bonds                                           | 2,856.0                               | -                | -                | -              | -              | -               | -                | 2,856.0         |
| Corporate Bonds                                            | 6,164.2                               | -                | -                | -              | -              | -               | -                | 6,164.2         |
| Structured notes                                           | 2.7                                   | -                | -                | -              | -              | -               | -                | 2.7             |
| Collateralised securities                                  | 313.2                                 | -                | -                | -              | -              | -               | -                | 313.2           |
| Collective Investments<br>Undertakings                     | 3.6                                   | -                | -                | -              | -              | -               | -                | 3.6             |
| Loans and mortgages                                        | 102.3                                 | 35.9             | 61.1             | 23.2           | 50.5           | 106.8           | 29.2             | 408.9           |
| Equities                                                   | 7.6                                   | -                | -                | -              | -              | -               | -                | 7.6             |
| Cash and cash equivalents                                  | 210.0                                 | -                | -                | -              | -              | -               | -                | 210.0           |
| Holding in related<br>undertakings incl.<br>participations | 60.0                                  | -                | -                | -              | -              | -               | -                | 60.0            |
| Deposits other than cash<br>equivalents                    | 80.2                                  | -                | -                | -              | -              | -               | -                | 80.2            |
| Reinsurance Recoverables                                   | 419.0                                 | 537.0            | 306.0            | 199.6          | 137.0          | 252.6           | 67.0             | 1,918.3         |
| Other assets                                               | 900.6                                 |                  |                  |                |                |                 |                  | 900.6           |
| <b>Total Assets</b>                                        | <b>11,119.2</b>                       | <b>572.9</b>     | <b>367.1</b>     | <b>222.8</b>   | <b>187.5</b>   | <b>359.4</b>    | <b>96.2</b>      | <b>12,925.1</b> |
| <b>Liabilities</b>                                         |                                       |                  |                  |                |                |                 |                  |                 |
| Gross Best Estimate<br>Technical Provisions                | 1,917.6                               | 2,162.6          | 1,319.5          | 900.1          | 628.9          | 1,212.3         | 414.8            | 8,555.7         |
| Risk Margin                                                | 576.5                                 | -                | -                | -              | -              | -               | -                | 576.5           |
| Subordinated liabilities                                   | -                                     | -                | 50.0             | -              | -              | -               | -                | 50.0            |
| Other liabilities                                          | 637.1                                 |                  |                  |                |                |                 |                  | 637.1           |
| <b>Total Liabilities</b>                                   | <b>3,131.2</b>                        | <b>2,162.6</b>   | <b>1,369.5</b>   | <b>900.1</b>   | <b>628.9</b>   | <b>1,212.3</b>  | <b>414.8</b>     | <b>9,819.3</b>  |
| <b>Excess of assets over<br/>liabilities</b>               | <b>7,988.0</b>                        | <b>(1,589.7)</b> | <b>(1,002.4)</b> | <b>(677.2)</b> | <b>(441.4)</b> | <b>(852.9)</b>  | <b>(318.5)</b>   | <b>3,105.8</b>  |

## LIQUIDITY RISK MITIGATION TECHNIQUES

The Company has established an effective liquidity risk management framework which is guided by the liquidity risk tolerance as set forth by the Statement of Risk Appetite approved by the Board.

The purpose of the framework is to establish minimum liquidity requirements that protect the Company's long-term viability and ability to fund its ongoing business and meet short-term financial obligations in a timely manner in both normal and stressed conditions.

Liquidity risk is mitigated through investment in predominately liquid financial assets and constant monitoring of expected asset and liability maturities.

The Company further manages this risk through reviews of Liquidity Risk Management Reports provided by the Treasury function as well as review and approval of stress scenarios designed by Treasury to assess the liquidity risk of the Company in extreme situations.

The Company's Treasury department is also operationally responsible for ensuring that sufficient funding required for a stressed scenario is available and that the sources of funding are appropriately diversified. Also, the Treasury department maintains a Contingent Funding Plan that is triggered in the event of breaches in the liquidity risk limits.

AIG Liquidity Management Policy prescribes procedures to maintain sufficient liquidity to meet the obligations as they become due and the Company complies with this policy.

The Company risk appetite is set to maintain defined target liquid asset levels under both baseline and stressed conditions.

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## PROCESS FOR MONITORING THE EFFECTIVENESS OF LIQUIDITY RISK MITIGATION TECHNIQUES

The Company has established a liquidity risk management framework which is guided by the liquidity risk tolerance as set forth by the Statement of Risk Appetite approved by the Board. The purpose of the framework is to establish minimum liquidity requirements that protect the Company's long-term viability and ability to fund its ongoing business and meet short-term financial obligations in a timely manner in both normal and stressed conditions. The Company's

Liquidity Risk Management team is responsible for the implementation of this framework whereas, the MRC are responsible for the monitoring the Liquidity Risk through a range of responsibilities. These include meeting at least quarterly to manage, monitor and report on the Liquidity risks within the Company. The MRC executes its responsibilities effectively by review of the liquidity risk profile against its present risk appetite as well as reviewing key risk exposures.

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## EXPECTED PROFIT IN FUTURE PREMIUMS (EPIFP)

The Company calculates EPIFP by separately projecting the expected future gross and ceded profits directly, using the insurance receivables and gross BBNI premium as a starting point for the gross profits. This is carried out separately for each actuarial reserving Line of Business, and only the profit-making policies are taken into account.

This is a practical approach by directly calculating the expected profits arising from future premiums.

The expected profit included in future premiums as calculated in accordance with Article 260(2) for 2016 is £294.8m.

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## C.5 OPERATIONAL RISK

Operational risk is defined as the risk of loss, or other adverse consequences, resulting from inadequate or failed internal processes, people, systems or external events.

Operational risk is considered a key risk area of the Company and it is inherent in each of its business units. Operational risks can have many impacts, including but not limited to unexpected economic losses or gains, reputational harm due to negative publicity, regulatory action from supervisory agencies, operational and business disruptions and damage to customer relationships.

### OPERATIONAL RISK EXPOSURES

The Company has the exposure to the following types of Operational risk:

| Operational Risk Components              | Description                                                                                                                                                                                                                                                                                                                             |
|------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Execution, Delivery & Process Management | Risks associated with the failure to execute or process transactions timely and accurately with clients, counterparties and/or external vendors/suppliers.                                                                                                                                                                              |
| Clients, Products & Business Practices   | Risks associated with the unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements) or from the nature or design of a product. It also includes non-compliance with laws, rules, regulations, agreements, prescribed practices and ethical standards. |
| Employment Practices & Workplace Safety  | Risks associated with acts inconsistent with employment relation, health and safety and anti-discrimination laws or agreements.                                                                                                                                                                                                         |
| Business Disruption & Systems Failure    | Risks associated with the interruption of business activity due to system or communication failures, the inaccessibility of information or the unavailability of utilities.                                                                                                                                                             |
| Financial Integrity & Reporting          | Risks associated with the disclosure of materially incorrect or untimely information, whether financial or non-financial, or the failure to disclose information to external or internal stakeholders or to the general public.                                                                                                         |
| External Fraud                           | Risks associated with acts intended to defraud, misappropriate property or circumvent regulations or the law by one or more third party.                                                                                                                                                                                                |
| Internal Fraud                           | Risks associated with acts intended to defraud, misappropriate property or circumvent regulations, the law or company policy which involves at least one internal party.                                                                                                                                                                |
| Damage to Physical Assets                | Risks associated with the damage or unavailability of physical assets as a result of a natural disaster or other traumatic event.                                                                                                                                                                                                       |

The Company's exposure to Operational Risks is the third largest contributor to its capital requirement under Standard Formula and the details are given in section E below.

### MEASURES USED TO ASSESS OPERATIONAL RISK

The Company monitors various components of its operational risks using the following metrics:

| Operational Risk Component               | Metrics                                                                                                                                                                               |
|------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Execution, Delivery & Process Management | <ul style="list-style-type: none"> <li>• Credible MI on SLA management</li> <li>• Risk Events Complaints</li> </ul>                                                                   |
| Clients, Products & Business Practices   | <ul style="list-style-type: none"> <li>• Risk Events</li> <li>• Multinational delivery MI</li> <li>• Risk rating of third parties</li> <li>• Number of Audits and Findings</li> </ul> |
| Employment Practices & Workplace Safety  | <ul style="list-style-type: none"> <li>• Staff turnover, staff surveys and exit interviews</li> <li>• Risk Events</li> </ul>                                                          |
| Business Disruption & Systems Failure    | <ul style="list-style-type: none"> <li>• Business continuity plan status and testing results</li> <li>• Severity 1 and 2 incident reviews</li> </ul>                                  |
| Financial Integrity & Reporting          | <ul style="list-style-type: none"> <li>• Number and severity of emerging requirements</li> <li>• Regulatory fines or s166 reviews</li> </ul>                                          |
| External Fraud                           | <ul style="list-style-type: none"> <li>• Risk Events</li> <li>• Results of Vulnerability Testing</li> </ul>                                                                           |

## OPERATIONAL RISK CONCENTRATION

General Liability, Fire and Other Damage to Property, Marine, Aviation and Transport and Motor Vehicle Liability lines represent the largest concentration of operational risk under SF-SCR.

## OPERATIONAL RISK MITIGATION TECHNIQUES

AIG's Group's Operational Risk Management ("ORM") Framework, which the Company aligns to, facilitates the identification, assessment, monitoring, and measurement of operational risk and promotes a culture where each employee has responsibility for managing operational risk. The ORM Framework establishes a structure within which the ORM process evolves commensurate with changes in the regulatory and business environment.

The Company Limited's Operational Risk is primarily controlled through adherence to regional procedures which set out the territory specific controls in place to comply with AIG's centrally defined corporate policies. The Company monitors the appropriate application of these controls through adherence to the AIG ORM Framework.

## PROCESS FOR MONITORING THE EFFECTIVENESS OF OPERATIONAL RISK MITIGATION TECHNIQUES

ERM and management have worked together to continue enhancement of the operational risk framework in the Company.

The Risk Event reporting process for the Company is further enhanced in its journey to maturity. ORM's focus is on awareness and it is delivered through multiple training and awareness sessions with senior management, including lunch & learns with staff. Additional "tone from the top" messages are initiated from senior management, including a "raise your hand" campaign by the CEO of the Company, and messages from the President of AIG to again confirm the need for all employees to raise risk events.

The analysis of risk events was enhanced through monthly risk event forums (across the region, as well as with global ORM colleagues). The network of risk champions is also expanded significantly (more than 240 across Europe), with their main goal to support the identification and reporting of risk events in their business units.

ORM reviews all risk events reported and communicate management actions for significant events, to all relevant Governance forums and committees.

Risk identification is further supported by the execution of Risk and Control Self-Assessments across the Company. These involved workshops facilitated by ORM and covered all processes within the target business unit. The process is continuously reviewed for further simplification and standardisation.

ORM conducts an independent validation of the operational risk component of the Company's internal capital model and it leads to a comprehensive review and refresh of key scenarios and the library of key operational risks for the Company, aligning this to a global top-down risk assessment.

## C.6 RISK SENSITIVITIES

The Company conducts various tests to identify the implications of a wide-range of risks within the Stress and Scenario Testing Framework. This ensures that potential adverse scenarios are considered and negative outcomes can be adequately mitigated either through controls implemented in advance or through timely remedial measures.

Stress and Scenario Testing (including Reverse Stress Testing) is a key risk management tool used within the Company alongside the Company's Economic Capital Model (ECM). The Company also conducts reverse stress tests on an annual basis that examine the conditions that would render the Company business model unviable.

The details of various SSTs are as follows:

| Types of SSTs                | Risks covered                                   | Timeline                               |
|------------------------------|-------------------------------------------------|----------------------------------------|
| Business Plan SST            | All material risks over 1 year planning period  | Performed annually                     |
|                              | All material risks over 5 years planning period |                                        |
| Reverse Stress Testing (RST) | Solvency/Capital RSTs                           | Performed annually                     |
|                              | Liquidity RSTs                                  |                                        |
|                              | Reputational & Strategic RSTs                   |                                        |
| Risk Specific SST            | Liquidity Risks                                 | Performed monthly                      |
|                              | Securitisation Stress Testing                   | Performed quarterly                    |
| Regulatory SST               | PRA General Insurance Stress Test (GIST)        | Performed every two years (odd years)  |
|                              | EIOPA                                           | Performed every two years (even years) |
|                              | Federal Reserve (CCAR Stress Testing)           | Performed annually                     |
| Strategic planning SSTs      | All Risks                                       | Performed annually                     |
| Emerging Risks SSTs          | All Risks                                       | Performed annually                     |

## STRESS TESTS AND SENSITIVITIES

In order to monitor the impact of sensitivity of material risks and events on the Company's risk profile and SII Surplus, the Company has performed the following stress test and forex sensitivity test as reported in the Company's 2016 ORSA report.

These tests were performed using business planning data from the Company's 2017 Business Plan and 2017 Capital Plan that were based on 3Q16 actual with 3 months forecast and hereon with defined as the Base Position 2016 for the purpose of this section.

The 2016 actual year end results, as reported in Section D and E below, are different from the Base Position 2016 because the actual year end results take into account the developments after 3Q16 and which were not included in the original forecast, for example the further reserves strengthening and Ogden rate decrease.

The details of methods, assumptions and outcome of these tests are detailed below.

### A. European Windstorm Scenario

The Company considered the impact of an early 2017 European Windstorm on its SII Surplus. European Windstorm continues to be the main driver of the Company's Natural Catastrophe risk profile and therefore, the Company re-performed the Europe windstorm stress test proposed by EIOPA in 2014. The EIOPA has described the stress as:

*"This scenario is based on a very intense January windstorm. The windstorm enters Europe from the northwest having an east-southeast direction as it passes over Ireland and southern UK before attaining an east-northeast direction over Northern Europe. The windstorm impacts severely Ireland and southern England, northern France, the Netherlands, Belgium, northern Germany and Denmark as it makes its way across Europe"*

#### Methods and assumptions used:

The details of risks impacted and methods and assumptions used to assess the impact of this stress test are as follows:

| Risks in Scope | Methods and Assumptions                                                                                                                                                             |
|----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Insurance Risk | The Company considered the impact of 1 in 100 loss from European Storm taking place in 2017. The Company has assumed that this stress test impacted Property and Energy lines only. |

## Outcome

The Company manages to keep its SII Ratio above 100% and therefore, its SF-SCR is not breached. The lowest SII Ratio is observed at 2017.

## B. Foreign Exchange Sensitivity

The Company has large exposures to Euro and US Dollars and other foreign currencies due to its operations as local currencies are used by regional offices for settlement of liabilities. Any fluctuation in exchange rates has an impact on the Company's surplus and therefore, the Company considered the impact of exchange rate sensitivity.

### Methods and assumptions used:

The Company performed foreign exchange sensitivity test and the details of risks covered by this sensitivity, methods and assumptions used to assess the impact on SII Ratio are as follows:

| Risks in Scope                 | Methods and Assumptions                                                                                                                                                                                                                                                 |
|--------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Insurance Risk and Market Risk | <p>The Company considered both the impact of 5% to 25% weakening and 5% to 25% strengthening of British Pound against other currencies.</p> <p>Most probable stress considered was the impact of 15% fall in British Pound, as observed after Brexit vote, in 2017.</p> |

### Outcome of scenario

The results of this sensitivity are as follows. The depreciation of British Pound against other currencies has an adverse impact on the Company's SII Ratio and vice versa. Under this sensitivity the 25% decrease in British Pound resulted in the lowest SII Ratio.

| British Pound Weakens   |        |        |        |        |        |        | British Pound Strengthens |        |        |        |        |
|-------------------------|--------|--------|--------|--------|--------|--------|---------------------------|--------|--------|--------|--------|
| Change in British Pound | -25%   | -20%   | -15%   | -10%   | -5%    | 0%     | +5%                       | +10%   | +15%   | +20%   | +25%   |
| SII Ratio               | 107.8% | 109.4% | 111.0% | 112.6% | 114.1% | 115.5% | 116.9%                    | 118.1% | 119.2% | 120.2% | 121.1% |

\*Based on third quarter actuals

## C.7 OTHER MATERIAL RISKS

The information presented in Section C provides a true and fair view of the risk profile of the Company during the period.



#### **Solvency & Financial Condition Report 2016**

## **D. Valuation for Solvency Purposes**

The 'Valuation for Solvency Purposes' section of the report describes the valuation of assets, technical provisions and other liabilities from IFRS basis to Solvency basis. The section also outlines the approach and methodology underlying the valuation.

Key elements of the section include:

- Assets;
- Technical Provisions (TPs);
- Other Liabilities; and
- Any other information

**D. VALUATION FOR SOLVENCY PURPOSES****Valuation basis, methods and main assumptions**

In accordance with Article 75 of the Solvency II Directive, the Company's assets and liabilities other than technical provisions are measured in accordance with principles of an arm length transaction between knowledgeable willing parties using market consistent valuation methods.

| Solvency II Balance Sheet<br>as at 30 November 2016, £m | Notes | IFRS              | Reclassification<br>Adjustments | Solvency II<br>Valuation<br>Adjustments | Solvency II      |
|---------------------------------------------------------|-------|-------------------|---------------------------------|-----------------------------------------|------------------|
| <b>Assets</b>                                           |       |                   |                                 |                                         |                  |
| Deferred acquisition costs                              | 8     | 288.6             |                                 | (288.6)                                 | 0.0              |
| Intangible assets                                       | 9     | 25.7              |                                 | (25.7)                                  | 0.0              |
| Deferred tax assets                                     | 7     | 81.4              | (52.7)                          | 61.9                                    | 90.6             |
| Pension benefit surplus                                 | 10    | 21.0              |                                 |                                         | 21.0             |
| Property, plant & equipment held for own use            | 6     | 141.6             |                                 |                                         | 141.6            |
| Investments                                             | 1     | 9,376.2           | 98.6                            | 12.6                                    | 9,487.3          |
| Property (other than for own use)                       |       |                   |                                 |                                         | 0.0              |
| Participations                                          |       | 45.7              |                                 | 14.3                                    | 60.0             |
| Equities                                                |       | 9.2               |                                 | (1.6)                                   | 7.6              |
| Equities - listed                                       |       | 0.0               |                                 |                                         | 0.0              |
| Equities - unlisted                                     |       | 9.2               |                                 | (1.6)                                   | 7.6              |
| Bonds                                                   |       | 9,237.5           | 98.6                            | (0.1)                                   | 9,336.0          |
| Government Bonds                                        |       | 3,275.0           | (419.0)                         |                                         | 2,856.0          |
| Corporate Bonds                                         |       | 5,647.4           | 516.8                           |                                         | 6,164.2          |
| Structured notes                                        |       | 2.7               |                                 |                                         | 2.7              |
| Collateralised securities                               |       | 312.4             | 0.8                             |                                         | 313.2            |
| Investment funds                                        |       | 3.6               |                                 |                                         | 3.6              |
| Deposits other than cash equivalents                    |       | 80.2              |                                 |                                         | 80.2             |
| Loans & mortgages                                       | 2     | 401.6             | 4.4                             | 2.9                                     | 408.9            |
| Other loans & mortgages                                 |       | 401.6             | 4.4                             | 2.9                                     | 408.9            |
| Reinsurance recoverable from:                           | D.2   | 2,662.9           |                                 | (744.6)                                 | 1,918.4          |
| Non-life excluding health                               |       | 2,662.9           |                                 | (759.5)                                 | 1,903.4          |
| Health similar to non-life                              |       | 0.0               |                                 | 9.2                                     | 9.2              |
| Life excluding Health and index-linked and unit-linked  |       | 0.0               |                                 | 5.8                                     | 5.8              |
| Insurance & intermediaries receivables                  | 11    | 1,363.5           | (1,353.8)                       |                                         | 9.7              |
| Reinsurance receivables                                 | 4     | 216.9             |                                 |                                         | 216.9            |
| Receivables (trade, not insurance)                      | 3     | 523.7             | (103.0)                         |                                         | 420.8            |
| Cash and cash equivalents                               | 5     | 210.0             |                                 |                                         | 210.0            |
| <b>Total assets</b>                                     |       | <b>15,313.2</b>   | <b>(1,406.5)</b>                | <b>(981.5)</b>                          | <b>12,925.2</b>  |
| <b>Liabilities</b>                                      |       |                   |                                 |                                         |                  |
| <b>Technical Provisions</b>                             |       |                   |                                 |                                         |                  |
| Technical provisions – non-life                         | D.2   | (10,550.4)        | 690.2                           | 776.8                                   | (9,083.4)        |
| Non-life excluding health                               |       | (10,550.4)        | 690.2                           | 1,101.6                                 | (8,758.6)        |
| Health similar to non-life                              |       | 0.0               |                                 | (324.9)                                 | (324.9)          |
| Technical provisions – life                             |       | 0.0               |                                 | (48.8)                                  | (48.8)           |
| <b>Liabilities other than Technical Provisions</b>      |       |                   |                                 |                                         |                  |
| Provisions other than technical provisions              | 13    | (112.9)           | 40.8                            |                                         | (72.0)           |
| Pension benefit obligations                             | 14    | (70.5)            |                                 |                                         | (70.5)           |
| Deposits from reinsurers                                | 17    | (6.8)             |                                 |                                         | (6.8)            |
| Deferred tax liabilities                                | 16    | (77.5)            | 52.7                            | (12.5)                                  | (37.3)           |
| Insurance & intermediaries payables                     |       | (55.1)            | 55.1                            |                                         | 0.0              |
| Reinsurance payables                                    | 18    | (501.6)           | 501.6                           |                                         | 0.0              |
| Payables (trade, not insurance)                         | 12    | (516.5)           | 66.1                            |                                         | (450.5)          |
| Subordinated liabilities                                | 15    | (50.0)            |                                 |                                         | (50.0)           |
| Subordinated liabilities not in BOF                     |       | 0.0               | (12.8)                          |                                         | (12.8)           |
| Subordinated liabilities in BOF                         |       | (50.0)            | 12.8                            |                                         | (37.2)           |
| <b>Total Liabilities</b>                                |       | <b>(11,941.3)</b> | <b>1,406.5</b>                  | <b>715.4</b>                            | <b>(9,819.4)</b> |
| <b>Excess of Assets over Liabilities</b>                |       | <b>3,371.9</b>    | <b>0.0</b>                      | <b>(266.1)</b>                          | <b>3,105.8</b>   |

## D.1 ASSETS

### NOTE 1: INVESTMENTS (OTHER THAN ASSETS HELD FOR INDEX-LINKED AND UNIT-LINKED CONTRACTS)

Under Solvency II, investments excluding participations are measured using fair value principles in line with IFRS 13 and therefore, no measurement differences arise for investments designated as available for sale (AFS) in the Company's 2016 Annual Report and Accounts.

Investments are classified into the three tiers of fair value hierarchy based on the characteristics of inputs available in the marketplace. The following valuation hierarchy is used:

- **Level 1:** Quoted market prices in active markets for the same assets
- **Level 2:** Quoted market prices in active markets for similar assets with adjustments to reflect differences. The adjustments reflect factors specific to the asset including the condition or location of the asset, the extent to which inputs relate to items that are comparable with the asset and the volume or level of activity in the markets within which the inputs are observed.
- **Level 3:** Alternative valuation methods which make use of relevant market inputs including:
  - Quoted prices for identical or similar assets in markets which are not active;
  - Inputs other than quoted prices that are observable for the asset, including interest rates and yield curves observable at commonly quoted intervals, implied volatilities and credit spreads;
  - Market-corroborated inputs, which may not be directly observable but are based on or supported by observable market data.

The Company's investments are segregated into the following categories:

- Participations
- Equities,
- Government Bonds,
- Corporate Bonds,
- Collateralised Securities,
- Collective Investment Undertakings (Investment Funds)
- Deposits other than cash equivalents

Except for investments in participations, all of the Company's assets categories are measured at fair value for IFRS purposes, therefore no measurement difference arises.

The accrued interest is reclassified from other receivables under IFRS to the value of the underlying investment under Solvency II. This resulted in a change of £98.6m in the value of investment on the Solvency II economic balance sheet as at 30 November 2016.

**Participations:** Holdings in related undertakings, including participations are held at cost less impairment under IFRS. For Solvency II, participations are valued using the adjusted equity method by applying Article 75 valuation principles on the individual assets and liabilities of the Company's subsidiaries. The valuation difference of £14.3m in Participations mainly relates to the derecognition of the subsidiaries' intangible assets under Solvency II.

| £m                                   | IFRS           | Reclassification Adjustments | Solvency II Valuation Adjustments | Solvency II    |
|--------------------------------------|----------------|------------------------------|-----------------------------------|----------------|
| Participations                       | 45.7           |                              | 14.3                              | 60.0           |
| Equities                             | 9.2            |                              | (1.6)                             | 7.6            |
| Bonds                                | 9,237.5        | 98.6                         | (0.1)                             | 9,336.0        |
| Investment Funds                     | 3.6            |                              |                                   | 3.6            |
| Deposits other than cash equivalents | 80.2           |                              |                                   | 80.2           |
| <b>Total Investments</b>             | <b>9,376.2</b> | <b>98.6</b>                  | <b>12.6</b>                       | <b>9,487.3</b> |

### NOTE 2: LOANS AND MORTGAGES

#### Alternative valuation method

Loans and Mortgages are measured at fair value using the Income Approach through the discounted cash flow method for the purpose of Solvency II. A valuation adjustment is, therefore, required from IFRS basis where these are measured at amortised cost.

The Company's discounted cash flow method relies on the use of unobservable market inputs to reflect the assumptions market participants would use in pricing the asset or liability based on sources independent of the entity pricing the asset or liability. Based on the characteristics of inputs available in the marketplace, the fair value estimates of the loans and mortgages are classified as level 3 under the fair value hierarchy.

Unobservable inputs reflect the Company's own assumptions about the assumptions market participants use in pricing the asset or liability (including assumptions about risks inherent in the asset or liability or inherent in the model used to estimate the price of the asset or liability).

Unobservable inputs are developed based on the best information available in the circumstances, which might include the Company's own data and should take into account all information about market participant assumptions that is reasonable available. In developing unobservable inputs, it does not need to undertake all possible efforts to obtain information about market participant assumptions in pricing the asset or liability.

The Company's own data used to develop unobservable inputs is adjusted if information indicating that market participants would use different assumptions is reasonably available without undue cost and effort. The unobservable valuation inputs are updated only when corroborated by evidence such as market transactions.

The adjustment amounts to £2.9m. The accrued interest is reclassified from other receivables under IFRS to the value of the underlying investment under Solvency II. This resulted in a change of £4.4m in the value of loans and mortgages on the Solvency II economic balance sheet as at 30 November 2016.

| £m                  | IFRS  | Reclassification Adjustments | Solvency II Valuation Adjustments | Solvency II |
|---------------------|-------|------------------------------|-----------------------------------|-------------|
| Loans and Mortgages | 401.6 | 4.4                          | 2.9                               | 408.9       |

### NOTE 3: RECEIVABLES (TRADE, NOT INSURANCE)

The receivables (trade, not insurance balances) relate to prepayments and other receivables which are due within 1 year and the IFRS carrying values are taken to approximate fair values under Solvency II using marked-to-model income approach.

Trade receivables solely comprise of amounts due within 12 months.

The fair value of receivables which are past-due does not differ materially from their amortised cost and are therefore considered to be held at fair value.

The accrued interest of £103.0m on investments disclosed as Receivables (trade, not insurance) under IFRS is reclassified to the appropriate lines of investments and loans and mortgages under Solvency II as disclosed in Notes 1 and 2.

| £m                                 | IFRS  | Reclassification Adjustments | Solvency II Valuation Adjustments | Solvency II |
|------------------------------------|-------|------------------------------|-----------------------------------|-------------|
| Receivables (trade, not insurance) | 523.7 | (103.0)                      |                                   | 420.8       |

### NOTE 4: REINSURANCE RECEIVABLES

Reinsurance receivables comprise amounts past-due by reinsurers and linked to reinsurance business that are not included in reinsurance recoverable. This includes:

- Receivables from reinsurers that relate to settled claims of policyholders or beneficiaries.
- Receivables from reinsurers in relation to other than insurance events or settled insurance claims (e.g. commissions).

Reinsurance receivables solely comprise amounts which are due within 12 months. The fair value of reinsurance receivables does not differ materially from their amortised cost and are therefore considered to be held at fair value.

| £m                      | IFRS  | Reclassification Adjustments | Solvency II Valuation Adjustments | Solvency II |
|-------------------------|-------|------------------------------|-----------------------------------|-------------|
| Reinsurance Receivables | 216.9 |                              |                                   | 216.9       |

### NOTE 5: CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprises cash on hand and demand deposits with banks together with short-term highly liquid investments that are readily convertible into known amounts of cash and that are not subject to a significant risk of change in value.

Such investments are classified as cash equivalents where they have maturity dates of three months or less from the date of acquisition.

Cash and cash equivalents are considered to be held at fair value under Solvency II.

| £m                        | IFRS  | Reclassification Adjustments | Solvency II Valuation Adjustments | Solvency II |
|---------------------------|-------|------------------------------|-----------------------------------|-------------|
| Cash and Cash Equivalents | 210.0 |                              |                                   | 210.0       |

**NOTE 6: PROPERTY, PLANT & EQUIPMENT HELD FOR OWN USE**

Property, plant and equipment held for own use are defined as tangible assets and are measured at fair values.

Alternative valuation method

Properties held for own use are held at revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses and this method is used as an approximation to derive Solvency II values.

Properties held for own use are revalued on a regular basis at open market valuation by independent, professionally qualified valuers. These valuations are in accordance with the requirements of the International Valuation Standards Committee, the revaluation model within IAS 16, '*Property, Plant and Equipment*' and IFRS 13, '*Fair Value Measurement*'.

Property and equipment are depreciated to their residual values over their useful lives. Depreciation is calculated on a straight line basis to reduce the carrying value to the residual amount over the following years:

- Land Not depreciated
- Property 40 years
- Leasehold improvements 5 years
- Fixtures and fittings 4 years

The residual values, length of the economic lives and depreciation method applied are reviewed on a regular basis, and at least at every reporting date, and adjusted as appropriate. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

In addition, the Company conducts a market valuation analysis of each property in the interim period to look for indicators if the market values have moved significantly. The assessments are based on future cash flows and current rental yields.

| £m                                             | IFRS  | Reclassification<br>Adjustments | Solvency II<br>Valuation<br>Adjustments | Solvency II |
|------------------------------------------------|-------|---------------------------------|-----------------------------------------|-------------|
| Property, Plant and Equipment held for own use | 141.6 |                                 |                                         | 141.6       |

**NOTE 7: DEFERRED TAX ASSET**

The Solvency II measurement principles for deferred taxes are consistent with the financial statements (IAS 12). Deferred tax asset or liability is, therefore, calculated based on the temporary difference between Solvency II values and the tax values.

Deferred tax comprise the amounts of income taxes recoverable in future periods in respect of:

- Deductible temporary differences.
- The carry forward of unused tax losses.
- The carry forward of unused tax credits.

Deferred taxes in respect of deductible temporary differences are valued on the basis of the difference between:

- The values ascribed to assets and liabilities recognised and valued in accordance with Solvency II.
- The values ascribed to assets and liabilities as recognised and valued for tax purposes.

Deferred tax asset or liability is calculated by jurisdiction such that applicable national tax rates are used for these calculations.

The deferred tax assets and liabilities are netted off if the counterparty is the same tax authority and there is an ability to settle net. Deferred tax assets are further tested for recoverability from brought-forward losses or expected future taxable profits of the company.

| £m                  | IFRS | Reclassification<br>Adjustments | Solvency II<br>Valuation<br>Adjustments | Solvency II |
|---------------------|------|---------------------------------|-----------------------------------------|-------------|
| Deferred Tax Assets | 81.4 | (52.7)                          | 61.9                                    | 90.6        |

**NOTE 8: DEFERRED ACQUISITION COST**

Deferred acquisition costs are defined as acquisition costs relating to contracts in force at the balance sheet date which are carried forward from one reporting period to subsequent reporting periods, relating to the unexpired periods of risks. In accordance with Article 12 of the Solvency II Delegated Acts, deferred acquisition costs are valued at nil for Solvency II purposes.

All cash-flows arising from expenses that will be incurred in servicing all recognised insurance and reinsurance obligations over the lifetime should, therefore, be considered in determining the best estimate technical provisions. The relevant adjustment is made in the EBS under technical provisions.

| £m                         | IFRS  | Reclassification<br>Adjustments | Solvency II<br>Valuation<br>Adjustments | Solvency II |
|----------------------------|-------|---------------------------------|-----------------------------------------|-------------|
| Deferred Acquisition Costs | 288.6 |                                 | (288.6)                                 | 0.0         |

**NOTE 9: INTANGIBLE ASSETS**

Intangible assets are measured at fair value, where an active market exists. An active market is a market in which all of the following conditions exist:

- The items traded in the market are homogenous.
- Willing buyers and sellers can normally be found at any time.
- Prices are available to the public.

Intangible assets are valued at zero unless the intangible asset can be sold separately and the values can be derived using quoted prices in active markets.

The Company's intangible assets include capitalised software costs and acquired brands which are carried at historical cost under IFRS and in the absence of an active market, these assets are measured at zero under Solvency II.

Goodwill is defined as the intangible asset that arises as a result of a business combination and that represents the economic value of assets that cannot be individually identified or separately recognised in a business combination. Under Article 12 of the Solvency II Delegated Acts, goodwill is not recognised.

| £m                | IFRS | Reclassification<br>Adjustments | Solvency II<br>Valuation<br>Adjustments | Solvency II |
|-------------------|------|---------------------------------|-----------------------------------------|-------------|
| Intangible Assets | 25.7 |                                 | (25.7)                                  | 0.0         |

**NOTE 10: PENSION BENEFIT SURPLUS**

The Company operates a number of pension schemes for its employees, the most significant of which are for employees based in the United Kingdom, Germany, the Netherlands and Ireland. For all pension plans disclosed, the scheme's assets cannot be allocated on a consistent and reasonable basis to individual participating member companies. However, it has been determined that the Company is most likely to benefit or suffer from any surplus or deficit in the scheme as a whole. In accordance with IAS 19, 'Employee Benefits' the Company has taken the decision that it is reasonable to allocate the entire deficit to the Company.

The assets of the schemes are held separately from those of the Company, being invested with external investment managers, to meet long term pension liabilities of past and present members.

The investment managers make investment decisions, based on guidelines laid down by the Trustees.

The valuations calculated for the purposes of IAS 19 have been based upon the most recent full actuarial valuation, updated in accordance with the requirements of IAS 19 to determine the liabilities of the scheme at year end.

The expected rate of return on plan assets is the average rate of return, including both income and changes in the fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the schemes. It is based on market expectations at the beginning of the year and is used to determine the expected return on assets for the pension expense.

| £m                      | IFRS | Reclassification<br>Adjustments | Solvency II<br>Valuation<br>Adjustments | Solvency II |
|-------------------------|------|---------------------------------|-----------------------------------------|-------------|
| Pension Benefit Surplus | 21.0 |                                 |                                         | 21.0        |

**NOTE 11: INSURANCE AND INTERMEDIARIES RECEIVABLES**

This represents debtor balances which are past due. Insurance and intermediaries balances that are not past due are future cash flows and hence are reclassified to Solvency II Technical Provisions.

The fair value of receivables which are past-due does not differ materially from their amortised cost and are therefore considered to be held at fair value. The reclass to Solvency II Technical Provisions amounts to £1,353.8m.

| £m                                       | IFRS    | Reclassification<br>Adjustments | Solvency II<br>Valuation<br>Adjustments | Solvency II |
|------------------------------------------|---------|---------------------------------|-----------------------------------------|-------------|
| Insurance and Intermediaries Receivables | 1,363.5 | (1,353.8)                       |                                         | 9.7         |

**D.2 TECHNICAL PROVISIONS**

Solvency II requires Technical Provisions to be segmented by Solvency II lines of business. The Company's segmentation of lines of business is more granular and is dependent on IFRS reserving process that groups the risks using major/minor risk codes and reserving classes. The grouping of risks considers both the homogeneity of the risk profiles and the sufficiency of credible data in the analysis of development pattern and the underlying volatility. As with standard actuarial techniques, large individual claims are considered separately from the remainder of the risk group if the inclusion would otherwise distort results, or if separation would be considered to produce a more reliable valuation.

Reserving classes are further split by country and then allocated by currency based on currency mix factors. These factors are calculated based on outstanding loss reserves and earned premium data as at the valuation date.

The currency level reserves are converted into cash flows using payment patterns and are discounted by applying risk-free yield curves (by currency) that are provided by EIOPA to get Technical Provisions by reserving classes.

Technical Provisions by reserving classes are then mapped to the Solvency II lines of business. In cases where more than one reserving class maps to a single Solvency II line of business, the reserving classes are assumed to be independent of each other. In cases where one reserving class maps to more than one Solvency II lines of business, an investigation is carried out to derive allocation assumptions based on the outstanding claims or claims reserve as at valuation date. This includes where reserving classes should be split into direct business, proportional reinsurance business and non-proportional reinsurance business.

**VALUATION BASIS, METHODS AND MAIN ASSUMPTIONS**

The technical provisions are defined as the probability-weighted average of future cash flows, discounted to take into account the time value of money considering all possible future scenarios. The cash flow projection used in the calculation of the best estimate takes account of all the cash in-flows and out-flows required to settle the insurance and reinsurance obligations over their lifetime.

Technical provisions are grouped into the following key components:

- Gross claims provisions: Best Estimate of provisions that relate to the earned exposure.
- Gross premium provisions: Best Estimate of provisions that relate to the unearned exposure i.e. driven from unearned premium and policies which are bound but not yet incepted (BBNI) at the valuation date.
- Risk margin: Additional provision to bring the Best Estimates to the level required to transfer the obligations to a third party undertaking.

**GROSS CLAIMS PROVISIONS**

IFRS best estimate of reserves (with no margin for prudence) are used as the starting point to estimate the gross claims provisions before the following adjustments are applied:

- Expenses
- Events Not in Data (ENID).
- Discounting credit.
- Reinsurance recoveries (less bad debt).
- Any segmentation required to complete the calculations.

The IFRS reserves are calculated using a deterministic process, analysing gross and net claims separately, using a combination of Chain Ladder and Bornhuetter-Ferguson methods. Expert judgements are applied on the selection of the method used to estimate the ultimate, development factors, tail factors and prior loss ratios for each origin period. Over 20 years of data is considered for the analysis.

## GROSS PREMIUM PROVISIONS

The Unearned Premium Reserve (UEPR) is used as the starting point to estimate gross best estimate premium provisions before the following adjustments are applied:

- Application of budget loss ratios to reduce the unearned premium reserve for claims liability.
- BBNI business.
- Expenses
- ENID
- Discounting credit.
- Future premium (payables and receivables).
- Reinsurance recoveries (less bad debt).
- Any segmentation required to complete the calculations.

The UEPR amount includes the unearned Late Travelling Premium (LTP) balance as at the valuation date. LTP are premiums that are incepted but not yet fully booked into the system by year-end for various reasons, such as delays in receiving information from the broker.

## SOLVENCY II ADJUSTMENTS

The details of Solvency II adjustments that are applied to IFRS reserves to get Best Estimates of Technical Provisions are as follows:

### A. CLAIMS CASH FLOWS OF UNEARNED BUSINESS

Budget loss ratios are used to calculate the expected losses from unearned business in the premium provisions. They are derived utilising the actuarial best estimate ultimate loss ratio

assumptions with adjustments made to allow for future expected inflation and rate changes.

### B. BBNI (BOUND BUT NOT INCEPTED)

BBNI premium income relates to policies which the Company is legally obliged to write but which have not yet been incepted as at the valuation date. This business usually arises due to tacit arrangements (i.e. where policies are automatically renewed unless either the policyholder or insurer provides a cancellation notice before the auto renewal date). BBNI premium and commission are allowed

for in the calculation and profit from BBNI acts to reduce the best estimate Technical Provisions.

The BBNI methodology differs depending on the country to accurately reflect individual country bookings, data availability and seasonality characteristics. BBNI is adjusted by lapse rates.

### C. EXPENSES

Solvency II requires the best estimates to take into account expenses which relate to recognised insurance and reinsurance obligations of insurance and reinsurance undertakings. These expenses have been classified into the following five subgroups and the table below illustrates which expenses are included in the claims provision and which are included in the premium provision.

Assumptions on the percentage loadings of Solvency II expenses are based on Gross Operating Expenses. Key assumptions are applied around the proportion of administration expenses to include in the Solvency II expense loading.

| Expense type                    | Premium provision | Claims provision |
|---------------------------------|-------------------|------------------|
| Administrative expenses         | ✓                 |                  |
| Investment management expenses  | ✓                 | ✓                |
| Claims management expenses      | ✓                 | ✓                |
| Reinsurance management expenses | ✓                 | ✓                |
| Acquisition expenses            | ✓                 |                  |

Since IFRS reserves include Allocated Loss Adjustment Expenses ("ALAE") therefore no further allowance for ALAE is made in the best estimate technical provisions. All expenses are applied on a gross basis and it is assumed there are no ceded expenses.

### D. EVENTS NOT IN DATA (ENID)

ENID adjustment is designed to capture those potential future claims that do not exist in the historical data used for IFRS reserves calculation. These claims are typically caused by low-frequency, high-severity man-made hazards.

Historical events which are contained within the Company's historical loss experience are also considered to ascertain whether further scenarios or loadings need to be applied.

## E. DISCOUNTING CREDIT

Claims and premium provisions are converted to future cash flows by application of payment patterns to determine how much of the provisions will be paid out in each of the future calendar years.

Ceded claims cash flows are assumed to have the same payment pattern as the gross cash flows. For each country within Continental Europe, the same payment patterns are used by line of business, which mirrors the IFRS best estimate reserving process.

The risk-free yield curves (with no volatility adjustment and matching adjustment) provided by EIOPA for each currency are used to discount future cash flows of premium and claim provisions to the valuation date, to take account of the time-value of money. The cash flows are discounted mid-year, which assumes that the average claim is paid mid-year.

## F. FUTURE PREMIUM (PAYABLES AND RECEIVABLES)

The Solvency II regime allows liability cash flows to be offset by premium receivables cash flows that are expected to be received but are not overdue, in the technical provisions calculation. Similarly, premiums payables which have not yet been paid by the Company also need to be taken into account.

Due to nature of the business, premium receivables and payables relate to first year of projected cash flows and therefore, are not discounted. Premium receivables are much higher than premium payables and therefore, result in reduction of premiums provision.

Premiums provision calculation on a net basis takes into account reinsurance payables (i.e. money owed by the Company in respect of reinsurance contracts).

## G. REINSURANCE RECOVERIES (LESS BAD DEBT)

The reinsurance recoveries are calculated separately for the claims provision and the premiums provision, with the ceded IFRS reserves and ceded UEPR respectively used as the start point in the calculation.

To determine the IFRS ceded reserves, a netting-down approach is used, where the estimates of claims gross and net of reinsurance are modelled and the reinsurance recoveries taken as the difference. The reinsurance structure for the existing business is considered in the projection of the best estimate by the reserving team.

### Principle of correspondence

The Company currently adopts the principle of correspondence in its treatment of all reinsurance, for both current and future reinsurance contracts. Within the Company, if the premium for a reinsurance contract is paid out (e.g. in the form of deposit premium) in advance of the underlying business being bound, this premium is treated as a separate balance to the technical provisions in the EBS. Therefore there is no allowance in the technical provisions

for recoveries or premiums from outwards reinsurance premiums relating to unbound inwards business.

The reinsurance bad debt provision is an adjustment to take into account the potential losses due to the default of reinsurance counterparties.

The adjustment increases net technical provisions in both the claims and premium provisions. The ceded IFRS reserves and the credit rating for each reinsurer as at the valuation date are used to allocate the ceded recoveries due on claims and premiums provisions to each reinsurer. The other inputs required by the simplification method are the modified duration, probability of default and loss-given default for each reinsurer.

In accordance with the principle of correspondence described above, reinsurance premiums and recoveries in respect of future reinsurance premiums are allowed for in the technical provisions where the purchase is consistent with the ongoing business strategy, as laid out in the budget.

## RISK MARGIN

Methodology 1, prescribed by EIOPA, is used to project the future Solvency Capital Requirement ('SCR') relating to current obligations. Standard Formula SCR of Underwriting Risk, Counterparty Default Risk, Operational Risk and Catastrophic Risks are taken into account in Risk Margin calculation. This methodology breaks down the SCR by risk component and by line of business in order to run them off individually. It allows consideration of individual duration for each line of business.

The individual future SCRs are then aggregated using the correlation matrix in the Standard Formula and the future SCR is discounted with the appropriate GBP yield curve as

prescribed by EIOPA (consistent with the yield curve applied for discounting the Technical Provisions). It is then multiplied by the Cost of Capital to obtain the final Company Risk Margin. The Cost of Capital used is 6% as required by EIOPA. Lapses and other policyholder behaviours are assumed to be immaterial given the nature of the Company's business. Multi-year policies are assumed to be immaterial given the general business is to write one-year policies.

An allocation of the Risk Margin by Solvency II lines of business is also produced using the allocation of net TPs by lines as a proxy.

## LEVEL OF UNCERTAINTY

### UNCERTAINTY IN BEST ESTIMATE RESERVING

Future claims experience is dependent on the external environment, which is subject to uncertainty, including that related to legislative, social and economic change. The impact of uncertain external factors is considered throughout the reserving exercise and discussed as part of the quarterly Reserve Committee meetings. Some of the key uncertainties include:

**Financial Lines:** This is a key area of uncertainty given the current macro environment and increased market and regulatory scrutiny of the banks. Examples of specific uncertainty include LIBOR fixing, credit crisis claims and Payment Protection Insurance ("PPI") mis-selling.

**Casualty:** Litigation changes such as the Jackson reforms, Ministry of Justice reforms, Legal Aid, Sentencing and Punishment of Offenders Act (LASPO), abuse claims and industrial disease claims are areas of uncertainty.

**Cat Excess:** This consists of high-layer excess financial and casualty business, which typically has long reporting and settlement delays. As a result, there is a significant degree of relative uncertainty around the estimation of reserves for this book of business.

Uncertainty in the best estimate reserves can also arise from model error. Model error occurs when the methodology used does not accurately reflect the development process for the line of business (i.e. misspecification of the model). The reserving process considers model error in the three ways detailed below.

Modelling is completed using a variety of different methods including:

- Chain-ladder.
- Bornhuetter Fergusson.
- Frequency/Severity.
- Cape Cod.

Modelling is completed on both paid claims and incurred claims. For some lines of business, different large loss modelling approaches are tested.

The results of the modelling under each method type are compared and documented as part of the modelling process and calculation of final claim reserves to allow for mitigation of model error.

### UNCERTAINTY IN CASH FLOWS

The payment of future claims is dependent on the payment pattern used to discount the cash flows. Two main assumptions are made in application of the pattern:

- The development of the reinsurance paid claims is equal to the development of gross paid claims. This assumption has been validated by comparing the gross and net payment patterns.
- The payment patterns derived from the estimation of the IFRS reserves are appropriate to use for both the claims provision and the premium provision.

### UNCERTAINTY IN THE EXPENSES ESTIMATE

The expense allocation is based on incurred historical expenses and expert judgement is applied to convert these expenses to a Solvency II valuation basis. The main judgments relate to the inclusion of head office costs and the portion of direct expenses to include in the administration loading.

### UNCERTAINTY IN THE BBNI ESTIMATE

The premium estimate is sensitive to the number of weeks that are assumed as bound prior to inception in countries where more granular policy level data for the calculation is not available. This assumption has been subject to sensitivity-testing, and is particularly relevant for quarters where major renewal dates might be captured (for example, 1st of January). Although the actual BBNI premium estimate is sensitive to the number of weeks assumed, the impact on Solvency II Technical Provisions are dampened as only the profit portion of the BBNI premium is considered.

## VALUE OF TECHNICAL PROVISIONS FOR EACH MATERIAL LINE OF BUSINESS

General Liability, Marine, Aviation and Transport and Fire and Other Damage business represent over 90% of the Company's technical provisions. The main methods and assumptions applied in the calculation of the technical provisions for these segments are described in Section D.2 above.

All assumptions are applied in a consistent manner for each line of business although the underlying values may differ by line (e.g. there is a higher discount benefit in General Liability compared to Fire and Other Damage as claims in General Liability take longer to settle).

## TECHNICAL PROVISION BY MATERIAL SOLVENCY II LINE OF BUSINESS

| Non-Life Technical Provisions               | Best Estimate  | Risk Margin  | SII Value      | Reinsurance Recoverable | Net Technical Provisions |
|---------------------------------------------|----------------|--------------|----------------|-------------------------|--------------------------|
|                                             | 2016           | 2016         | 2016           | 2016                    | 2016                     |
|                                             | £'m            | £'m          | £'m            | £'m                     | £'m                      |
| General liability insurance                 | 5,271.9        | 360.5        | 5,632.5        | 1,063.9                 | 4,568.6                  |
| Fire and other damage to property insurance | 1,140.4        | 69.4         | 1,209.8        | 388.3                   | 821.4                    |
| Marine, aviation and transport insurance    | 716.5          | 44.7         | 761.3          | 195.4                   | 565.9                    |
| Motor vehicle liability insurance           | 651.1          | 41.4         | 692.6          | 169.8                   | 522.7                    |
| <b>Total Material non-life obligations</b>  | <b>7,780.0</b> | <b>516.0</b> | <b>8,296.1</b> | <b>1,817.4</b>          | <b>6,478.7</b>           |
| <b>Total non-life obligations</b>           | <b>8,510.0</b> | <b>573.4</b> | <b>9,083.4</b> | <b>1,912.6</b>          | <b>7,170.9</b>           |

### GENERAL LIABILITY INSURANCE

General Liability lines made up over 62% of SII technical provisions. IFRS reserves for Liability and Financial lines that represent casualty (general liability), D&O and Professional Indemnity business are the starting point for the calculation of technical provisions of this Solvency II line. Solvency II adjustments are applied to IFRS reserves to get Solvency II Technical Provisions and the most material adjustments that result in reduction of IFRS reserves are for the UEPR profit which amounts to £243.0m and future premium (receivables and payables) of £314.0m.

### FIRE AND OTHER DAMAGE TO PROPERTY INSURANCE

Fire and Other Damage lines represents circa 13% of SII technical provisions. IFRS reserves that represent Property and Energy business are the starting point for the calculation of technical provisions for this Solvency II line. Solvency II adjustments are applied to IFRS reserves to get Solvency II Technical Provisions and the most material adjustments that result in reduction of IFRS reserves are for the UEPR profit which amounts to £166.6m and future premium (receivables and payables) of £166.4m.

### MARINE, AVIATION AND TRANSPORT INSURANCE

Marine, Aviation and Transport represents 8% of SII technical provisions. IFRS reserves that represent Marine and Aerospace business are the starting point for the calculation of technical provisions for this Solvency II line. Solvency II adjustments are applied to IFRS reserves to get Solvency II Technical Provisions and the most material adjustments that result in reduction of IFRS reserves are for the UEPR profit which amounts to £50.3m and future premium (receivables and payables) of £73.1m.

### MOTOR VEHICLE LIABILITY INSURANCE

Motor Vehicle Liability insurance represents 7% of Solvency II technical provisions. IFRS reserves that represent Casualty (Auto) and Personal Auto Liability business are the starting point for the calculation of TPs for this Solvency II line. Solvency II adjustments are applied to IFRS reserves to get Solvency II Technical Provisions and the most material adjustments that result in reduction of IFRS reserves are for the UEPR profit which amounts to £37.4m and future premium (receivables and payables) of £51.7m.

## PERIODIC PAYMENT ORDERS

Life technical provisions arise from non-life claims of Motor Vehicle Liability and General Liability lines that are paid as annuities. These annuities are called Periodic Payment Orders (PPOs).

| Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations | Best Estimate | Risk Margin | SII Value   |
|------------------------------------------------------------------------------------------------------------------------------------|---------------|-------------|-------------|
|                                                                                                                                    | 2016          | 2016        | 2016        |
|                                                                                                                                    | £'m           | £'m         | £'m         |
| <b>Total</b>                                                                                                                       | <b>45.7</b>   | <b>3.1</b>  | <b>48.8</b> |

Undiscounted annuity cash flows that are used to determine IFRS reserves for PPOs are the starting point for Best Estimate Liability under Solvency II. Solvency II adjustments of expenses and discounting are then applied to the undiscounted cash flows to get Best Estimate Liability.

\*BE – Best Estimate

\*\*RM – Risk Margin

– Risk Margin

### D.3 OTHER LIABILITIES

#### NOTE 12: PAYABLES (TRADE, NOT INSURANCE)

Payables (trade, not insurance) are carried at amortised cost using the effective interest method. The effect of movement in own credit risk on the valuation is not expected to be material, therefore no adjustment to the IFRS values are needed.

Trade payables include amounts due to employees, suppliers, public entities, etc. and which are not insurance-related, parallel to receivables (trade, not insurance) on the asset side of the balance sheet.

Trade payables solely comprises of amounts which fall due within 12 months and are considered to be held at fair value under IFRS.

The £66.1m reclassification adjustment is made up of two entries:

- £106.9m on reclassification adjustment is taken to Solvency II technical provisions
- £40.8m reclassification adjustment is taken from Provisions other than Technical Provisions as the balance does not meet the uncertain timing or amount criteria under Solvency II.

| £m                               | IFRS    | Reclassification Adjustments | Solvency II Valuation Adjustments | Solvency II |
|----------------------------------|---------|------------------------------|-----------------------------------|-------------|
| Payables (Trade, Not Insurance), | (516.5) | 66.1                         |                                   | (450.5)     |

#### NOTE 13: PROVISIONS OTHER THAN TECHNICAL PROVISIONS

These comprise liabilities of uncertain timing or amount, excluding the ones reported under "Pension benefit obligations". The provisions are recognised as liabilities (assuming that a reliable estimate can be made) when they represent obligations and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations.

Provisions and accruals are valued using discounted best estimate liabilities that are probability weighted in accordance with IAS 37.

The £40.8m reclassification adjustment is taken to Payables (trade, not insurance) as the balance does not meet the uncertain timing or amount criteria under Solvency II.

| £m                                         | IFRS    | Reclassification Adjustments | Solvency II Valuation Adjustments | Solvency II |
|--------------------------------------------|---------|------------------------------|-----------------------------------|-------------|
| Provisions Other Than Technical Provisions | (112.9) | 40.8                         |                                   | (72.0)      |

#### NOTE 14: PENSION BENEFIT OBLIGATIONS

Pension benefit obligations are disclosed together with pension surplus in the asset section D.1 note 10.

| £m                          | IFRS   | Reclassification Adjustments | Solvency II Valuation Adjustments | Solvency II |
|-----------------------------|--------|------------------------------|-----------------------------------|-------------|
| Pension Benefit Obligations | (70.5) |                              |                                   | (70.5)      |

#### NOTE 15: SUBORDINATED LIABILITIES

Subordinated liabilities are debts which rank after other specified debts when the undertaking is liquidated.

The subordinated loan was entered into on 17 August 2012, with an agreement whereby AIG Europe Holdings Limited (AEHL), the parent undertaking of the Company until 1 June 2016, would provide a loan facility with an initial maximum amount of £50.0 million. On 1 June 2016, as part of the European group restructuring, this loan was transferred from AEHL to AIG International Holdings Limited.

The Company is required to repay all amounts advanced under the facility, at par, on 17 August 2019 unless either the Company or the Lender exercises their option to seek early repayment at any time on or after 17 August 2017.

Any early repayment by the Company is subject to providing the PRA with six months prior notice and gaining regulatory approval for such repayment. Interest is payable on any amounts drawn down under the facility at the rate of 6 month LIBOR plus 3%.

| £m                       | IFRS   | Reclassification<br>Adjustments | Solvency II<br>Valuation<br>Adjustments | Solvency II |
|--------------------------|--------|---------------------------------|-----------------------------------------|-------------|
| Subordinated liabilities | (50.0) |                                 |                                         | (50.0)      |

**NOTE 16: DEFERRED TAX LIABILITIES**

Deferred tax liabilities are disclosed together with deferred tax assets in the asset section under note 8.

| £m                       | IFRS   | Reclassification<br>Adjustments | Solvency II<br>Valuation<br>Adjustments | Solvency II |
|--------------------------|--------|---------------------------------|-----------------------------------------|-------------|
| Deferred Tax Liabilities | (77.5) | 52.7                            | (12.5)                                  | (37.3)      |

**NOTE 17: DEPOSIT FROM REINSURERS**

Deposits from reinsurers are carried on a loans and receivables basis under Solvency II as it is considered a fair approximation of the fair values under IFRS.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

| £m                      | IFRS  | Reclassification<br>Adjustments | Solvency II<br>Valuation<br>Adjustments | Solvency II |
|-------------------------|-------|---------------------------------|-----------------------------------------|-------------|
| Deposit From Reinsurers | (6.8) |                                 |                                         | (6.8)       |

**NOTE 18: REINSURANCE PAYABLE**

Reinsurance payable represents the sum of “creditors arising out of direct insurance operations” and “creditors arising out of reinsurance operations”. These liabilities are measured as the amount due, which represents the amount expected to be paid.

This is considered a fair market value of this liability and no allowance is made for “own credit risk”.

Reinsurance payables reclassification, that amount to £501.6m, comprise of payables which are not past-due and therefore formed part of the Solvency II technical provisions.

| £m                  | IFRS    | Reclassification<br>Adjustments | Solvency II<br>Valuation<br>Adjustments | Solvency II |
|---------------------|---------|---------------------------------|-----------------------------------------|-------------|
| Reinsurance Payable | (501.6) | 501.6                           |                                         | 0.0         |

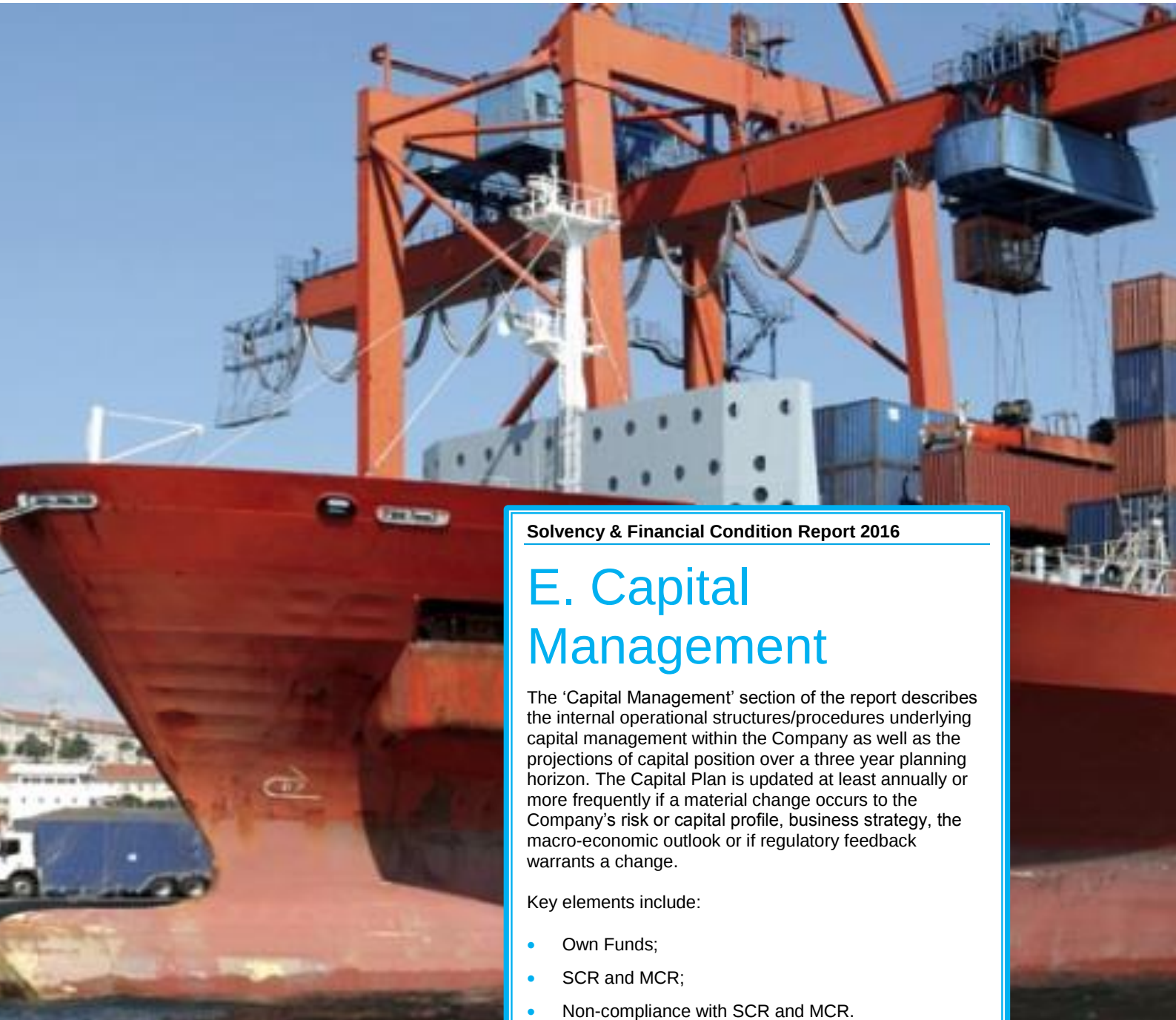
**D.4 ALTERNATIVE VALUATION METHODS**

As there are no quoted market prices for the Company's holdings in loans and mortgages and property, plant and equipment, alternative valuation methods, as defined in the Solvency II regulations, are used to determine the fair values of these assets.

The details for these alternative valuation methods are disclosed in Note 2: Loans and Mortgages and Note 6: Property, plant and equipment separately.

**D.5 OTHER MATERIAL INFORMATION**

The information presented in Section D provides a true and fair view of the valuation for Solvency Purposes of the Company during the period.



#### Solvency & Financial Condition Report 2016

## E. Capital Management

The 'Capital Management' section of the report describes the internal operational structures/procedures underlying capital management within the Company as well as the projections of capital position over a three year planning horizon. The Capital Plan is updated at least annually or more frequently if a material change occurs to the Company's risk or capital profile, business strategy, the macro-economic outlook or if regulatory feedback warrants a change.

Key elements include:

- Own Funds;
- SCR and MCR;
- Non-compliance with SCR and MCR.

## E. CAPITAL MANAGEMENT

### E.1 OWN FUNDS

The Company's Own funds are comprised of items on the balance sheet which are referred to as basic own funds and off balance sheet items that may be called up to absorb losses referred to as ancillary own funds. This sub-section of the report aims to provide a view of capital management activities in the Company, its capital management methods and the structure, amount and quality of Own Funds.

#### COMPOSITION AND QUALITY OF OWN FUNDS

Under Solvency II regulation, capital is referred to as Own Funds and the regulation distinguishes between Basic Own Funds (BOF) and Ancillary Own Funds (AOF). Capital under Solvency II starts with the excess of assets over liabilities as determined by the Economic Balance Sheet (EBS). Qualifying subordinated debt is then added to this and the combined amount is known as Basic Own Funds.

The whole amount is classified into tiers of Own Funds. Restrictions are applied to limit the extent to which the various components of Own Funds can be used to meet the capital requirements.

The composition and total available own funds for the Company as at 30 November 2016 is provided below:

| £m                                                      | Tier 1-<br>Unrestricted | Tier 1 -<br>Restricted | Tier 2       | Tier 3      | Total          |
|---------------------------------------------------------|-------------------------|------------------------|--------------|-------------|----------------|
| Ordinary Share Capital                                  | 197.1                   | -                      |              |             | 197.1          |
| Share Premium Account related to Ordinary Share Capital | 1,260.3                 | -                      |              |             | 1,260.3        |
| Reconciliation Reserve                                  | 1,595.1                 | -                      |              |             | 1,565.1        |
| Subordinated Liabilities                                | -                       | -                      | 37.2         |             | 37.2           |
| Letters of Credit (Ancillary Own Funds)                 | -                       | -                      | 500.0        |             | 500.0          |
| Net Deferred Tax Assets                                 | -                       | -                      |              | 53.3        | 53.3           |
| <b>Total Own Funds</b>                                  | <b>3,052.5</b>          | <b>-</b>               | <b>537.2</b> | <b>53.3</b> | <b>3,642.9</b> |

#### Tier 1 basic own funds

The basic own funds have been classified and tiered in accordance with the Company Own Funds Policy. The Company's ordinary share capital and the related share premium amount are classified as Tier 1 capital since the Company's Articles of Association permit the cancellation of dividends after they have been declared.

The Company currently has no restricted tier 1 capital (paid-in subordinated mutual member accounts, paid-in preference shares and the related share premium account, paid-in subordinated liabilities and items that are included in tier 1 basic own funds under the transitional arrangements).

The reconciliation reserve is classified as Tier 1 capital in accordance with the Solvency II regulations. It is calculated as follows:

| Reconciliation Reserve            | £m             |
|-----------------------------------|----------------|
| Excess of assets over liabilities | 3,105.8        |
| Less:                             |                |
| Ordinary Share Capital            | (197.1)        |
| Share Premium Account             | (1,260.3)      |
| Net Deferred Tax Assets           | (53.3)         |
| <b>Reconciliation Reserve</b>     | <b>1,595.1</b> |

#### Tier 2 basic own funds

The Company has entered into a subordinated loan of £50m from AIG Holdings Europe Limited for the transitional arrangement. The £50m Tier 2 subordinated debt is now held at its amortised cost of £37m (to align with the valuation principles of the EBS under Solvency II). Previously it was held at original cost.

The borrower shall repay the Loan and each Advance made to it, together with all accrued amounts, on the earlier of the date on which repayment of the Facility is required pursuant to the terms of a notice served of the Variable Terms and 17th August 2019.

#### Tier 2 ancillary own funds

The Company currently has £500m of tier 2 ancillary own funds consisting of five Letters of Credit of £100m each provided by five banks, as available under the current regulatory regime as permitted by the PRA.

Three of these LOCs are approved by the PRA on 19 October 2015 for a period of 4 years and will expire on 1 January 2020.

On 17 June 2016, the PRA issued approval for an additional £200m LOC to be used as Tier 2 ancillary own funds. The approval is granted for a period of 1 year and will expire on 17 June 2017. On 16 March 2017, the Company issued 200 shares to its immediate parent, AIG Holdings Europe Limited at par value with an associated share premium of £200m as Tier 1 basic own funds.

### Tier 3 basic own funds

Tier 3 capital resources consists of net residual deferred tax assets after taking into account intra geographical offsets (note this agrees to the net deferred tax position on the EBS for solo reporting only). The current net DTA amounts to £53.3m.

### ELIGIBLE OWN FUNDS

The classification into tiers is relevant to the determination of eligible own funds. These are the own funds that are eligible for covering the regulatory capital requirements – the solvency capital requirement and the minimum capital requirement. For example, the minimum capital requirement must be covered by Tier 1 and Tier 2 capital and may not therefore be covered by Tier 3 capital. The extent to which the tiers are eligible to cover the capital requirements is set out in the implementing measures (also known as delegated acts).

The table below presents the amount of total eligible funds to the SCR and MCR with respect to tiers:

| Available funds                          | Total   | Tier 1 - unrestricted | Tier 1 - restricted | Tier 2 | Tier 3 |
|------------------------------------------|---------|-----------------------|---------------------|--------|--------|
|                                          | £'m     | £'m                   | £'m                 | £'m    | £'m    |
| Total eligible own funds to meet the SCR | 3,642.9 | 3,052.5               | 0.0                 | 537.2  | 53.3   |
| Total eligible own funds to meet the MCR | 3,089.7 | 3,052.5               | 0.0                 | 37.2   | 0.0    |

£3,052.5m (84%) of the Company's eligible own funds are unrestricted tier 1 capital. This consists of the Company's ordinary share capital, share premium and the reconciliation reserve.

### ELIGIBLE OWN FUNDS TO COVER CAPITAL REQUIREMENTS

The Solvency Capital Requirement (SCR) reflects a level of eligible own funds that enables the Company to absorb significant losses and that gives reasonable assurance to policyholders and beneficiaries that payments will be made as they fall due.

The minimum capital requirements should ensure a minimum level below which the amount of resources should not fall. It is necessary that it is calculated in accordance with the standard formula, which is subject to a defined floor and cap based on the risk-based Solvency Capital Requirement.

The Management hold the view that the Standard Formula overstates the Company's 1 in 200 loss scenario and therefore, SF-SCR is an inherently prudent reflection of its risk profile.

As at 30 November 2016, the SF-SCR of £3,360.5m was covered by £3,642.9m of eligible capital resources, providing a Solvency II surplus of £282.4m.

The table below presents the ratio of eligible own funds that the Company holds to cover the solvency capital requirement and minimum capital requirement:

| Eligible Own Funds                 | £'m     |
|------------------------------------|---------|
| SCR                                | 3,360.5 |
| MCR                                | 1,088.1 |
| Ratio of Eligible own funds to SCR | 108.4%  |
| Ratio of Eligible own funds to MCR | 284.0%  |

### MATERIAL DIFFERENCES BETWEEN EQUITY IN THE FINANCIAL STATEMENTS AND THE EXCESS OF ASSETS OVER LIABILITIES

Capital resources are calculated differently under Solvency II and IFRS resulting from differences in the classification and valuation of certain items under Solvency II definitions compared to IFRS:

- Deferred acquisition costs are not recognised under Solvency II.
- Intangibles are disallowed unless they can be readily sold.
- Technical provisions are recalculated under Solvency II on a discounted best estimate basis.
- Deferred tax value changes due to all of the above.
- Debts owed to credit institutions qualify as being recognised as a Tier 2 instrument.

The Company's Own Funds position is different from the equity stated in its financial statements for a number of reasons.

Valuation differences are representative of items of assets and liabilities which have been valued on a different basis for Solvency II reporting purposes compared with IFRS.

Subordinated liabilities are included as a reconciling item in the table above since they are treated as liabilities for GAAP but count towards Own Funds for Solvency II.

Ancillary Own Funds represent a difference as these are off-balance sheet items for IFRS reporting, but have been approved by the regulator for use as Own Funds for Solvency II.

Deductions made to Own Funds are those explicitly required under Solvency II for solo insurers, both in respect of available Own Funds and also as a result of applying tiering to Own Funds to reflect the relative quality of items of Own Funds eligible to cover the SCR.

On 17 June 2017, the £200m LOC used as Tier 2 ancillary own funds approved by the PRA for the period of one year will expire.

On 16 March 2017, the Company issued 200 shares to its immediate parent, AIG Holdings Europe Limited at par value with an associated share premium of £200m as Tier 1 basic own funds.

| Excess of Assets over Liabilities – Attribution of Valuation Difference                  |  | £m             |
|------------------------------------------------------------------------------------------|--|----------------|
| Difference arising from SII valuation of assets                                          |  | (981.6)        |
| Difference arising from SII valuation of technical provisions                            |  | 727.9          |
| Difference arising from SII valuation of other liabilities                               |  | (12.6)         |
| Total of reserves and retained earnings from financial statements                        |  | 1,914.6        |
| <b>Reserves from financial statements adjusted for Solvency II valuation differences</b> |  | <b>1,648.3</b> |
| Ordinary share capital                                                                   |  | 197.1          |
| Share premium account related to ordinary share capital                                  |  | 1,260.3        |
| <b>Excess of assets over liabilities</b>                                                 |  | <b>3,105.7</b> |
| Add: Subordinated liabilities                                                            |  | 37.2           |
| Less: Foreseeable dividends                                                              |  | -              |
| <b>Basic own funds</b>                                                                   |  | <b>3,142.9</b> |
| Add: Letter of Credit                                                                    |  | 500.0          |
| <b>Total own funds</b>                                                                   |  | <b>3,642.9</b> |

## CAPITAL INSTRUMENTS AND RING FENCED FUNDS

During the period, no capital instruments were issued or redeemed. In addition, there were no restricted own funds due to ring fencing.

## E.2 SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

The SCR and MCR requirement section of the report aims to provide a comprehensive view to assess the adequacy of the Company's capital in line with the regulatory requirements.

### E.2.1 SOLVENCY CAPITAL REQUIREMENT (SCR)

The SCR is the amount of funds that the Company is required to hold in line with the Solvency II Directive. The SCR calculation is a formula based figure calibrated to ensure that all quantifiable risks are taken into account.

The assessment of the SCR using the standard formula approach is based on a modular approach consisting of; life, non-life, market, health and counterparty default risks with associated sub-modules. These are aggregated in the standard formula using correlation matrices, both at the sub-module and the main module level. An intangible asset module is then added (uncorrelated) to give the BSCR. The operational risk component and adjustments for risk absorbing effect of future profit sharing and deferred taxes are then allowed for, to give the overall SCR.

The table on the right highlights the capital requirements for each risk module:

| Capital Requirement for each Risk Module (£m)                       | Net solvency capital requirement |
|---------------------------------------------------------------------|----------------------------------|
| Market risk                                                         | 1,052.2                          |
| Counterparty default risk                                           | 175.0                            |
| Life underwriting risk                                              | 11.5                             |
| Health underwriting risk                                            | 221.8                            |
| Non-life underwriting risk                                          | 2,577.1                          |
| Diversification                                                     | (895.7)                          |
| Intangible asset risk                                               |                                  |
| <b>Basic Solvency Capital Requirement</b>                           | <b>3,141.9</b>                   |
| Operational Risk                                                    | 255.5                            |
| Loss-absorbing capacity of technical provisions                     |                                  |
| Loss-absorbing capacity of deferred taxes                           | (37.0)                           |
| Diversification effects due to RFF nSCR aggregation for article 304 |                                  |
| <b>Solvency capital requirement</b>                                 | <b>3,360.5</b>                   |

### E.2.1.A INSURANCE RISK MODULE (UNDERWRITING RISK MODULE)

#### Non-Life Underwriting Risk Sub-module:

Non-life underwriting risk is the largest component of SF-SCR and it mainly arises from::

- £1,840.1m of Premium and Reserve Risk driven by earned premiums, forecast premiums and claims provisions of Non-life lines (e.g. General Liability; Fire and other Damage to Property; Marine, Aviation and Transport; Motor Vehicle Liability lines etc.). Reserve strengthening due to adverse development of prior year losses and decrease in Ogden rate; increase in earned premium and forecast premiums due to growth in business has contributed to increase in this risk.
- £1,392.8m of Catastrophe Risk driven by the Company's exposure to man-made catastrophe and natural catastrophe risks. The largest exposures to man-made catastrophe arise from fire, liability and marine risks and those to natural catastrophe from windstorms, floods and earthquake risks. Catastrophe Risk has reduced during the year due to aggregate XOL cover.

| Non-Life Underwriting Risk        | Standard Formula £m |
|-----------------------------------|---------------------|
| Non-life premium and reserve risk | 1,840.1             |
| Non-life lapse risk               | 185.2               |
| Non-life catastrophe risk         | 1,392.8             |
| Diversification benefit           | (841.0)             |
| <b>Non-Life Underwriting Risk</b> | <b>2,577.1</b>      |

#### Health Underwriting Risk Sub-module:

| Health Underwriting Risk        | Standard Formula £m |
|---------------------------------|---------------------|
| Health underwriting risk        | 164.6               |
| Health catastrophe risk         | 113.2               |
| Diversification benefit         | (55.9)              |
| <b>Health Underwriting risk</b> | <b>221.8</b>        |

£221.8m SF-SCR health underwriting risk arises from::

- £164.6m health NSLT risk mainly driven by earned premiums, forecast premiums and claims provisions of Medical Expense, Income Protection and Workers Compensation lines.
- £113.2m Health Catastrophe risk driven by accident concentration risk.

#### Life Underwriting Risk Sub-module:

| Life Underwriting Risk | Standard Formula £m |
|------------------------|---------------------|
| Life underwriting risk | 12                  |

Life Underwriting Risk represents the risk of loss, or of adverse change in the value of life annuities arising from non-life obligations – namely Periodic Payment Orders (PPOs), due to changes in the level, trend, or volatility of mortality rates, longevity rates, disability/ sickness /morbidity rates, lapses or surrender, expenses and revision rates.

### E.2.1.B MARKET RISK MODULE

The Market Risk component of SF-SCR is driven by risks inherent within the Company's assets and liabilities portfolio and the details of the changes over the reporting period are as follows:

|                                           | 30-Nov-2016<br>£'m |
|-------------------------------------------|--------------------|
| Spread risk                               | 672.4              |
| Currency risk                             | 570.7              |
| Interest rate risk                        | 73.0               |
| Equity risk                               | 61.0               |
| Property risk                             | 26.6               |
| Diversification within market risk module | (351.5)            |
| <b>Total Market Risk</b>                  | <b>1,052.2</b>     |

£1,052.2m of Market Risk SF-SCR arises from:

- £672.4m Spread Risk mainly driven by the Company's investments in bonds, securitised assets and loans.
- £570.7m Currency Risk mainly driven by exposure of the Company's assets and liabilities denominated in foreign currencies.
- £73.0m Interest Rate Risk driven by changes in assets and liabilities of the Company due to changes in discount rates.
- £61.0m Equity Risk mainly driven by investment in listed equities of the Company's pension plan; investment in unlisted equities and participations.

### E.2.1.C COUNTERPARTY DEFAULT RISK MODULE (CREDIT RISK MODULE)

£175m Counterparty Default Risk SF-SCR arises from risk of default on Reinsurance Recoverables and Cash at Bank.

| Credit (Counterparty default) Risk | Standard Formula £m |
|------------------------------------|---------------------|
| Credit (Counterparty default) Risk | 175.0               |

### E.2.1.D OPERATIONAL RISK SCR

£256m Operational Risk SF-SCR is driven by technical provisions and earned premium of all lines of business.

| Operational Risk | Standard Formula £m |
|------------------|---------------------|
| Operational risk | 255.5               |

## E.2.2 MINIMUM CAPITAL REQUIREMENT (MCR)

The Company uses the Standard Formula to calculate its Minimum Capital Requirement (MCR). The amount of the MCR for the reporting period is £1,088.1m.

The following table shows the MCR calculation:

| Overall MCR calculation            | MCR - '£m      |
|------------------------------------|----------------|
| Linear MCR                         | <b>1,088.1</b> |
| SCR                                | 3,360.5        |
| MCR cap                            | <b>1,512.2</b> |
| MCR floor                          | <b>840.1</b>   |
| Combined MCR                       | <b>1,088.1</b> |
| Absolute floor of the MCR          | 3.1            |
| <b>Minimum Capital Requirement</b> | <b>1,088.1</b> |

### Information on the Inputs used to Calculate the MCR

The non-life MCR is based on factors applied to net premiums written amounts in the previous 12 months and the net best estimate technical provisions both split by Solvency II class of business. The charge for premium and technical provision elements are then summed to create a total charge.

| Calculation of MCR (inputs) (£m)                                         | Net (of reinsurance) best estimate provisions | Net (of reinsurance) written premiums in the last 12 months |
|--------------------------------------------------------------------------|-----------------------------------------------|-------------------------------------------------------------|
| Medical expenses                                                         | 22.7                                          | 71.8                                                        |
| Income protection insurance                                              | 222.7                                         | 338.7                                                       |
| Workers' compensation insurance                                          | 43.7                                          | 0.8                                                         |
| Motor vehicle liability insurance and proportional reinsurance           | 481.3                                         | 264.6                                                       |
| Other motor insurance and proportional reinsurance                       | 22.8                                          | 32.2                                                        |
| Marine, aviation and transport insurance and proportional reinsurance    | 521.2                                         | 328.2                                                       |
| Fire and other damage to property insurance and proportional reinsurance | 752.1                                         | 999.1                                                       |
| General liability insurance and proportional reinsurance                 | 4,208.1                                       | 1,354.0                                                     |
| Credit and suretyship insurance and proportional reinsurance             | 60.9                                          | 56.3                                                        |
| Legal expenses insurance and proportional reinsurance                    |                                               |                                                             |
| Assistance and proportional reinsurance                                  | 11.9                                          | 40.3                                                        |
| Miscellaneous financial loss insurance and proportional reinsurance      | 156.6                                         | 82.1                                                        |
| Non-proportional health reinsurance                                      |                                               |                                                             |
| Non-proportional casualty reinsurance                                    | 40.1                                          | 49.6                                                        |
| Non-proportional marine, aviation and transport reinsurance              | 10.9                                          | 8.0                                                         |
| Non-proportional property reinsurance                                    | 42.4                                          | 35.6                                                        |

## APPROACH TO CAPITAL MANAGEMENT

Capital management focuses on two aspects;

- ensuring that there is sufficient coverage of both the regulatory capital requirements (MCR and SCR) as well as the economic capital targets set; and
- optimisation of the quality of available Own Funds, in respect of the capital position of the organisation and also in the context of the wider European and worldwide Group.

The Finance function provides the Board and Risk and Capital Committee (RCC) with information on the Company's capital position and monitors the surplus in line with internal, regulatory and rating agency capital requirements. The Capital Management department also works alongside Enterprise Risk Management to conduct group internal and regulatory stress and scenario testing. The governance and oversight of the capital management process is laid out in the subsection System of Governance.

## CAPITAL MANAGEMENT PLAN

The Company produces an annual Capital Management Plan, which sets out target capital parameters and strategy to be maintained over a three year business planning horizon. The intention of the plan is to ensure the Company meets regulatory capital requirements and other business expectations such as dividend payments to the AIG Group parent whilst also optimising capital efficiency.

The Company Capital Plan aims to:

- Document the regulatory and internal minimum capital levels and show capital projections under baseline and stressed scenarios.
- Support the dividend plan.
- Describe the capital implications and actions required in the event that a stress scenario occurs.

The Capital Plan is a complete and comprehensive analysis of the Company's capital sources and uses a three year time frame that takes into consideration:

- Multiple macroeconomic and financial market scenarios.
- Business and Strategic Plan, budget and goals.
- The Company's overall capital level relative to its risk tolerance.
- Applicable regulations.
- The Company's capital management goals.
- Multiple future scenarios involving capital resources and requirements under the Solvency II Internal Model and Standard Formula views.

It presents the key facts with respect to the Company's assessment of capital adequacy, and analyses the impact of the proposed restructuring events and capital actions.

## CAPITAL MANAGEMENT PROCESS AND POLICY

The Company has a Capital Management Policy in place which is approved annually by the Board, concerned with all matters relating to the capital level and capital structure of the Company. It establishes a formal capital assessment and management framework in order to achieve the following objectives:

- Ensuring adequate capital is maintained within the Company to meet regulatory and rating agency requirements and ensuring capital is available to support strategic plans.
- Enabling the Company to follow and meet its rating agency strategy and in particular to achieve its target ratings.
- Optimising the Company's sources and usage of capital.
- Ensuring that excess capital is returned to Group on a timely basis without compromising the other objectives, as above.

The Capital Management Policy pertains to capital level and capital structure.

- Cover the PRA's requested amount above Minimum Capital Level
- Cover the risk appetite approved by the Board as part of the Risk Appetite Framework. This is currently set at a 1 in 7 year financial scenario
- Meet the total level of capital necessary to achieve an 'A' rating from A.M. Best.

The Company has an active capital management process to ensure it meets regulatory capital requirements and rating agency expectations while optimising capital efficiency by returning "excess" capital to its parent.

The PRA authorised the Company to hold £500m of the capital buffer in the form of a Letter of Credit (LoC) whilst the balancing amount of the buffer is covered by called up capital. The LoC was provided by the following banks BNP, ING, HSBC, SMBC and SCB in the amount of £100.0m each.

## E.3 USE OF DURATION-BASED EQUITY RISK SUB-MODULE IN THE CALCULATION OF THE SOLVENCY CAPITAL REQUIREMENT

The Company did not make use of the duration-based equity risk sub-module in the reporting during the reporting period.

## E.4 DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY INTERNAL MODEL USED

The Company uses the Standard Formula to calculate the SCR and therefore no differences exist.

## E.5 NON-COMPLIANCE

During the reporting period, there were no instances of non-compliance with the Solvency II capital requirements. In addition, the Company held Own Funds in excess of both the SCR and MCR requirements over the reporting period.

## **F. APPENDICES TO THE SOLVENCY AND FINANCIAL CONDITION REPORT**

## F.1 GLOSSARY

## A

|                |                                             |
|----------------|---------------------------------------------|
| <b>AIG</b>     | American Insurance Group                    |
| <b>A&amp;H</b> | Accident and Health                         |
| <b>AAMEL</b>   | AIG Asset Management (Europe) Limited       |
| <b>ADP</b>     | Tool to support Multinational Business      |
| <b>AEL</b>     | AIG Europe Limited (the Company)            |
| <b>AEP</b>     | Aggregate Exceedance Probability            |
| <b>AFS</b>     | Available for Sale                          |
| <b>AHEL</b>    | AIG Holdings Europe Limited                 |
| <b>ALAE</b>    | Allocated Loss Adjustment Expenses          |
| <b>ALM</b>     | Asset Liability Matching                    |
| <b>AMG</b>     | Asset Management Group                      |
| <b>AOF</b>     | Ancillary Own Funds                         |
| <b>AP/RP</b>   | Adjusted Premiums/Risk Premiums             |
| <b>APCEFL</b>  | AIG Property Casualty Europe Financing Ltd. |
| <b>APCIL</b>   | AIG Property Casualty International Ltd.    |
| <b>AQI</b>     | Account Quality Index                       |
| <b>AY</b>      | Accident Year                               |
| <b>AYLR</b>    | Accident Year Loss Ratio                    |

## B

|             |                                    |
|-------------|------------------------------------|
| <b>BAU</b>  | Business as Usual                  |
| <b>BBNI</b> | Bound But Not Yet Incepted         |
| <b>BCAR</b> | A.M. Best Capital Adequacy Ratio   |
| <b>BCM</b>  | Business Continuity Management     |
| <b>BoE</b>  | Bank of England                    |
| <b>BOF</b>  | Basic Own Funds                    |
| <b>BTA</b>  | Business Travel Assistance         |
| <b>BRC</b>  | Board Risk Committee               |
| <b>BSCR</b> | Basic Solvency Capital Requirement |

## C

|             |                                           |
|-------------|-------------------------------------------|
| <b>CAT</b>  | Catastrophe                               |
| <b>CCAR</b> | Comprehensive Capital Analysis and Review |
| <b>CCO</b>  | Chief Credit Officer                      |
| <b>CDO</b>  | Collateralised Debt Obligation            |

|              |                                                 |
|--------------|-------------------------------------------------|
| <b>CEE</b>   | Central and Eastern Europe                      |
| <b>CEO</b>   | Chief Executive Officer                         |
| <b>CFO</b>   | Chief Financial Officer                         |
| <b>CMA</b>   | Capital Maintenance Agreement                   |
| <b>CMBS</b>  | Commercial Mortgage Backed Security             |
| <b>CML</b>   | Council of Mortgage Lenders                     |
| <b>CMRC</b>  | Compensation and Management Resources Committee |
| <b>COO</b>   | Chief Operating Officer                         |
| <b>CoR</b>   | Combined Operating Ratio                        |
| <b>CoSec</b> | Company Secretary                               |
| <b>CP</b>    | Commercial Property                             |
| <b>CPL</b>   | Compulsory Personal Liability                   |
| <b>CPR</b>   | Constant Prepayment Rates                       |
| <b>CRO</b>   | Chief Risk Officer                              |
| <b>CTOM</b>  | Commercial Target Operating Model               |

## D

|                |                            |
|----------------|----------------------------|
| <b>D&amp;O</b> | Directors and Officers     |
| <b>DAC</b>     | Deferred Acquisition Costs |
| <b>DGC</b>     | Data Governance Council    |
| <b>DM</b>      | Direct Marketing           |
| <b>DTA</b>     | Deferred Tax Asset         |
| <b>DTL</b>     | Deferred Tax Liability     |

## E

|              |                                                        |
|--------------|--------------------------------------------------------|
| <b>EBS</b>   | Economic Balance Sheet                                 |
| <b>ECB</b>   | European Central Bank                                  |
| <b>ECG</b>   | European Compliance Group                              |
| <b>ECM</b>   | Economic Capital Model                                 |
| <b>ECR</b>   | Enhanced Capital Requirement                           |
| <b>EDGC</b>  | European Data Governance Council                       |
| <b>EEA</b>   | European Economic Area                                 |
| <b>EFTA</b>  | European Free Trade Association                        |
| <b>EIOPA</b> | European Insurance and Occupational Pensions Authority |
| <b>EL</b>    | Employer's Liability                                   |
| <b>EMEA</b>  | Europe, Middle East and Africa                         |
| <b>ENID</b>  | Events not in Data                                     |
| <b>ERM</b>   | Enterprise Risk Management                             |

|              |                                    |
|--------------|------------------------------------|
| <b>EPIFP</b> | Expected Profit in Future Premiums |
| <b>EU</b>    | European Union                     |
| <b>EUT</b>   | End User Tools                     |
| <b>ExCo</b>  | Executive Committee                |

## F

|             |                                         |
|-------------|-----------------------------------------|
| <b>FAC</b>  | Facultative Reinsurance                 |
| <b>FCA</b>  | Financial Conduct Authority             |
| <b>FCG</b>  | Financial Crime Group                   |
| <b>FI</b>   | Financial Indemnity                     |
| <b>FL</b>   | Financial Lines                         |
| <b>FOE</b>  | Freedom of Establishment                |
| <b>FOS</b>  | Freedom of Services                     |
| <b>FOS</b>  | Financial Ombudsman Service             |
| <b>FSMA</b> | Financial Services and Markets Act 2000 |
| <b>FSR</b>  | Financial Strength Ratings              |
| <b>FX</b>   | Foreign Exchange                        |

## G

|             |                                          |
|-------------|------------------------------------------|
| <b>GAAP</b> | Generally Accepted Accounting Principles |
| <b>GAVM</b> | Global Actuarial and Value Management    |
| <b>GCG</b>  | Global Compliance Group                  |
| <b>GDP</b>  | Gross Domestic Profit                    |
| <b>GIST</b> | General Insurance Stress Test            |
| <b>GL</b>   | General Liability                        |
| <b>GOE</b>  | Gross Operating Expenses                 |
| <b>GPE</b>  | Gross Premiums Earned                    |
| <b>GPW</b>  | Gross Premium Written                    |
| <b>GRC</b>  | Global Risk Committee                    |

## H

|             |                                           |
|-------------|-------------------------------------------|
| <b>HR</b>   | Human Resources                           |
| <b>HSBC</b> | Hongkong and Shanghai Banking Corporation |

## I

|             |                           |
|-------------|---------------------------|
| <b>IAG</b>  | Internal Audit Group      |
| <b>IBNR</b> | Incurred but not Reported |

|             |                                             |
|-------------|---------------------------------------------|
| <b>ICAS</b> | Individual Capital Adequacy Standards       |
| <b>ICG</b>  | Individual Capital Guidance                 |
| <b>IFRS</b> | International Financial Reporting Standards |
| <b>IHG</b>  | International Holding Company               |
| <b>ILS</b>  | Insurance Linked Securities                 |
| <b>IM</b>   | Internal Model                              |
| <b>IMA</b>  | Investment Management Agreement             |
| <b>IMAP</b> | Internal Model Approval Process             |
| <b>ING</b>  | Internationale Nederlanden Groep            |
| <b>IOT</b>  | Internet of Things                          |

## K

|            |                    |
|------------|--------------------|
| <b>KRI</b> | Key Risk Indicator |
|------------|--------------------|

## L

|                 |                                           |
|-----------------|-------------------------------------------|
| <b>LAC - DT</b> | Loss Absorbing Capacity of Deferred Taxes |
| <b>LCAR</b>     | Liquid Assets Coverage Ratio              |
| <b>LCO</b>      | Local Crime Officers                      |
| <b>LFL</b>      | Liability & Financial Lines               |
| <b>LoB</b>      | Lines of Business                         |
| <b>LoC</b>      | Letters of Credit                         |
| <b>LTA</b>      | Long-term Average                         |
| <b>LTP</b>      | Late Travelling Period                    |
| <b>LUT</b>      | Large and Unusual Transactions            |

## M

|                |                              |
|----------------|------------------------------|
| <b>M&amp;A</b> | Mergers & Acquisitions       |
| <b>M&amp;T</b> | Monitoring and Testing Group |
| <b>MCR</b>     | Minimum Capital Requirement  |
| <b>MGA</b>     | Managing General Agent       |
| <b>MI</b>      | Management Information       |
| <b>MMC</b>     | Man-made Catastrophe         |

## N

|                   |                                      |
|-------------------|--------------------------------------|
| <b>NB</b>         | New Business                         |
| <b>NII</b>        | Net Investment Income                |
| <b>NLC&amp;LG</b> | Non-Life Capital and Liquidity Group |
| <b>NPE</b>        | Net Premiums Earned                  |
| <b>NPW</b>        | Net Premiums Written                 |

## O

|             |                              |
|-------------|------------------------------|
| <b>ORM</b>  | Operational Risk Management  |
| <b>ORR</b>  | Obligor Risk Rating          |
| <b>ORSA</b> | Own Risk Solvency Assessment |
| <b>OSP</b>  | Outsourcing Service Provider |

## P

|                |                                 |
|----------------|---------------------------------|
| <b>P&amp;L</b> | Profit and Loss                 |
| <b>PBT</b>     | Profit before tax               |
| <b>PI</b>      | Personal Insurance              |
| <b>PP</b>      | Personal Property               |
| <b>PPI</b>     | Payment Protection Insurance    |
| <b>PPO</b>     | Periodic Payment Orders         |
| <b>PPP</b>     | Prudent Person Principle        |
| <b>PRA</b>     | Prudential Regulatory Authority |
| <b>PSR</b>     | Property & Special Risks        |
| <b>PWC</b>     | PricewaterhouseCoopers          |
| <b>PYD</b>     | Prior Year Development          |

## Q

|            |                                 |
|------------|---------------------------------|
| <b>QE</b>  | Quantitative Easing             |
| <b>QRT</b> | Quantitative Reporting Template |

## R

|             |                                      |
|-------------|--------------------------------------|
| <b>RCC</b>  | Risk and Capital Committee           |
| <b>RCSA</b> | Risk and Control Self Assessment     |
| <b>RDS</b>  | Realistic Disaster Scenario          |
| <b>RF</b>   | Risk Free                            |
| <b>RGDP</b> | Real Gross Domestic Profit           |
| <b>RI</b>   | Reinsurance                          |
| <b>RM</b>   | Risk Management                      |
| <b>RMF</b>  | Risk Management Framework            |
| <b>RMBS</b> | Residential Mortgage Backed Security |
| <b>ROE</b>  | Return on Equity                     |
| <b>RRP</b>  |                                      |
| <b>RT</b>   | Risk transfer                        |

## S

|                |                     |
|----------------|---------------------|
| <b>S&amp;P</b> | Standard and Poor's |
|----------------|---------------------|

|               |                                                 |
|---------------|-------------------------------------------------|
| <b>SAA</b>    | Strategic Asset Allocation                      |
| <b>SCB</b>    | Standard Chartered Bank                         |
| <b>SCR</b>    | Solvency Capital Requirement                    |
| <b>SFCR</b>   | Solvency Financial Condition Report             |
| <b>SF-SCR</b> | Standard Formula - Solvency Capital Requirement |
| <b>SII</b>    | Solvency II                                     |
| <b>SIMR</b>   | Senior Insurance Managers Regime                |
| <b>SMBC</b>   | Sumitomo Mitsui Banking Corporation             |
| <b>SME</b>    | Small Medium Enterprise                         |
| <b>SST</b>    | Stress and Scenario Testing                     |

## T

|            |                           |
|------------|---------------------------|
| <b>TDC</b> | Total Direct Compensation |
| <b>TOM</b> | Target Operating Model    |

## U

|             |                                      |
|-------------|--------------------------------------|
| <b>UEPR</b> | Unearned Premium Reserve             |
| <b>UK</b>   | United Kingdom                       |
| <b>ULAE</b> | Unallocated Loss Adjustment Expenses |
| <b>UW</b>   | Underwriting                         |
| <b>UWP</b>  | Underwriting Profit                  |

## V

|            |                         |
|------------|-------------------------|
| <b>VAT</b> | Value Added Tax         |
| <b>VBG</b> | Value Based Geographies |
| <b>VBM</b> | Value Based Management  |

## W

|            |                  |
|------------|------------------|
| <b>WAM</b> | Willis/AON/Marsh |
|------------|------------------|

## X

|            |                |
|------------|----------------|
| <b>XoL</b> | Excess of Loss |
| <b>XS</b>  | Excess         |

**F.2 PUBLIC QRTS (ALL AMOUNTS EXPRESSED IN £ THOUSANDS)**

| S.02.01.02<br>Balance Sheet                                                            |              |                   |
|----------------------------------------------------------------------------------------|--------------|-------------------|
|                                                                                        |              | Solvency II Value |
| Assets                                                                                 |              | C0010             |
| Intangible assets                                                                      | R0030        | -                 |
| Deferred tax assets                                                                    | R0040        | 90,563            |
| Pension benefit surplus                                                                | R0050        | 20,994            |
| Property, plant & equipment held for own use                                           | R0060        | 141,649           |
| Investments (other than assets held for index-linked and unit-linked contracts)        | R0070        | 9,487,346         |
| Property (other than for own use)                                                      | R0080        | -                 |
| Holdings in related undertakings, including participations                             | R0090        | 59,967            |
| Equities                                                                               | R0100        | 7,561             |
| Equities - listed                                                                      | R0110        | -                 |
| Equities - unlisted                                                                    | R0120        | 7,561             |
| Bonds                                                                                  | R0130        | 9,336,027         |
| Government Bonds                                                                       | R0140        | 2,855,962         |
| Corporate Bonds                                                                        | R0150        | 6,164,197         |
| Structured notes                                                                       | R0160        | 2,684             |
| Collateralised securities                                                              | R0170        | 313,185           |
| Collective Investments Undertakings                                                    | R0180        | 3,561             |
| Derivatives                                                                            | R0190        | -                 |
| Deposits other than cash equivalents                                                   | R0200        | 80,231            |
| Other investments                                                                      | R0210        | -                 |
| Assets held for index-linked and unit-linked contracts                                 | R0220        | -                 |
| Loans and mortgages                                                                    | R0230        | 408,907           |
| Loans on policies                                                                      | R0240        | -                 |
| Loans and mortgages to individuals                                                     | R0250        | -                 |
| Other loans and mortgages                                                              | R0260        | 408,907           |
| Reinsurance recoverables from:                                                         | R0270        | 1,918,356         |
| Non-life and health similar to non-life                                                | R0280        | 1,912,555         |
| Non-life excluding health                                                              | R0290        | 1,903,379         |
| Health similar to non-life                                                             | R0300        | 9,176             |
| Life and health similar to life, excluding health and index-linked and unit-linked     | R0310        | 5,801             |
| Health similar to life                                                                 | R0320        | -                 |
| Life excluding health and index-linked and unit-linked                                 | R0330        | 5,801             |
| Life index-linked and unit-linked                                                      | R0340        | -                 |
| Deposits to cedants                                                                    | R0350        | -                 |
| Insurance and intermediaries receivables                                               | R0360        | 9,714             |
| Reinsurance receivables                                                                | R0370        | 216,861           |
| Receivables (trade, not insurance)                                                     | R0380        | 420,773           |
| Own shares (held directly)                                                             | R0390        | -                 |
| Amounts due in respect of own fund items or initial fund called up but not yet paid in | R0400        | -                 |
| Cash and cash equivalents                                                              | R0410        | 209,997           |
| Any other assets, not elsewhere shown                                                  | R0420        | -                 |
| <b>Total assets</b>                                                                    | <b>R0500</b> | <b>12,925,160</b> |
| Liabilities                                                                            |              | C0010             |
| Technical provisions - non-life                                                        | R0510        | 9,083,417         |
| Technical provisions - non-life (excluding health)                                     | R0520        | 8,758,566         |
| Technical provisions calculated as a whole                                             | R0530        | -                 |
| Best estimate                                                                          | R0540        | 8,211,706         |
| Risk margin                                                                            | R0550        | 546,860           |
| Technical provisions - health (similar to non-life)                                    | R0560        | 324,851           |
| Technical provisions calculated as a whole                                             | R0570        | -                 |
| Best estimate                                                                          | R0580        | 298,325           |
| Risk margin                                                                            | R0590        | 26,526            |
| Technical provisions - life (excluding index-linked and unit-linked)                   | R0600        | 48,833            |
| Technical provisions - health (similar to life)                                        | R0610        | -                 |
| Technical provisions calculated as a whole                                             | R0620        | -                 |
| Best estimate                                                                          | R0630        | -                 |
| Risk margin                                                                            | R0640        | -                 |
| Technical provisions - life (excluding health and index-linked and unit-linked)        | R0650        | 48,833            |
| Technical provisions calculated as a whole                                             | R0660        | -                 |
| Best estimate                                                                          | R0670        | 45,738            |
| Risk margin                                                                            | R0680        | 3,095             |
| Technical provisions - index-linked and unit-linked                                    | R0690        | -                 |
| Technical provisions calculated as a whole                                             | R0700        | -                 |
| Best estimate                                                                          | R0710        | -                 |
| Risk margin                                                                            | R0720        | -                 |
| Contingent liabilities                                                                 | R0740        | -                 |
| Provisions other than technical provisions                                             | R0750        | 72,042            |
| Pension benefit obligations                                                            | R0760        | 70,517            |
| Deposits from reinsurers                                                               | R0770        | 6,785             |
| Deferred tax liabilities                                                               | R0780        | 37,290            |
| Derivatives                                                                            | R0790        | -                 |
| Debts owed to credit institutions                                                      | R0800        | 12                |
| Financial liabilities other than debts owed to credit institutions                     | R0810        | -                 |
| Insurance & intermediaries payables                                                    | R0820        | -                 |
| Reinsurance payables                                                                   | R0830        | -                 |
| Payables (trade, not insurance)                                                        | R0840        | 450,465           |
| Subordinated liabilities                                                               | R0850        | 50,000            |
| Subordinated liabilities not in Basic Own Funds                                        | R0860        | 12,849            |
| Subordinated liabilities in Basic Own Funds                                            | R0870        | 37,151            |
| Any other liabilities, not elsewhere shown                                             | R0880        | -                 |
| <b>Total liabilities</b>                                                               | <b>R0900</b> | <b>9,819,361</b>  |
| <b>Excess assets over liabilities</b>                                                  | <b>R1000</b> | <b>3,105,799</b>  |

| 05.01.02<br>Premiums, claims and expenses by line of business                                                                |                             |                                 |                                   |                       |                                          |                                             |                             |                                 |                          |            |                              |        |                                                             |                             |          |        |           |           |
|------------------------------------------------------------------------------------------------------------------------------|-----------------------------|---------------------------------|-----------------------------------|-----------------------|------------------------------------------|---------------------------------------------|-----------------------------|---------------------------------|--------------------------|------------|------------------------------|--------|-------------------------------------------------------------|-----------------------------|----------|--------|-----------|-----------|
| Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance) |                             |                                 |                                   |                       |                                          |                                             |                             |                                 |                          |            |                              |        | Line of Business for: accepted non-proportional reinsurance |                             |          |        | Total     |           |
| Medical expense insurance                                                                                                    | Income protection insurance | Workers' compensation insurance | Motor vehicle liability insurance | Other motor insurance | Marine, aviation and transport insurance | Fire and other damage to property insurance | General liability insurance | Credit and suretyship insurance | Legal expenses insurance | Assistance | Miscellaneous financial loss | Health | Casualty                                                    | Marine, aviation, transport | Property |        |           |           |
| C0010                                                                                                                        | C0020                       | C0030                           | C0040                             | C0050                 | C0060                                    | C0070                                       | C0080                       | C0090                           | C0100                    | C0110      | C0120                        | C0130  | C0140                                                       | C0150                       | C0160    |        |           |           |
| Premium written                                                                                                              |                             |                                 |                                   |                       |                                          |                                             |                             |                                 |                          |            |                              |        |                                                             |                             |          |        |           |           |
| Gross - Direct Business                                                                                                      | R0110                       | 73.383                          | 371.223                           | 811                   | 327.895                                  | 36.271                                      | 387.546                     | 1.269.511                       | 1.592.574                | 94.281     | -                            | 41.710 | 112.937                                                     | -                           | -        | -      | 4.308.142 |           |
| Gross - Proportional reinsurance accepted                                                                                    | R0120                       | 3.795                           | 10.021                            | -                     | 7.211                                    | 4                                           | 122.413                     | 299.033                         | 42.661                   | 0          | -                            | 58     | 7.849                                                       | -                           | -        | -      | 493.045   |           |
| Gross - Non-proportional reinsurance accepted                                                                                | R0130                       | -                               | -                                 | -                     | -                                        | -                                           | -                           | -                               | -                        | -          | -                            | -      | -                                                           | 51.127                      | 8.073    | -      | 97.593    |           |
| Reinsurers' share                                                                                                            | R0140                       | 5.412                           | 42.532                            | 9                     | 70.580                                   | 4.036                                       | 969.401                     | 281.269                         | 38.025                   | 38.025     | 1.470                        | 2.569  | 1.141                                                       | -                           | -        | -      | 1.237.560 |           |
| Net                                                                                                                          | R0200                       | 71.766                          | 338.706                           | 801                   | 264.580                                  | 32.238                                      | 328.244                     | 1.353.966                       | 56.257                   | 40.297     | 82.143                       | -      | 49.558                                                      | 7.959                       | 35.562   | -      | 3.661.220 |           |
| Premium earned                                                                                                               |                             |                                 |                                   |                       |                                          |                                             |                             |                                 |                          |            |                              |        |                                                             |                             |          |        |           |           |
| Gross - Direct Business                                                                                                      | R0210                       | 70.899                          | 364.799                           | 766                   | 296.765                                  | 36.344                                      | 536.377                     | 1.207.225                       | 1.576.822                | 90.942     | -                            | 41.174 | 104.463                                                     | -                           | -        | -      | 4.326.574 |           |
| Gross - Proportional reinsurance accepted                                                                                    | R0220                       | 3.788                           | 10.027                            | (0)                   | 7.466                                    | 3                                           | 129.699                     | 315.730                         | 41.624                   | 0          | -                            | 50     | 7.567                                                       | -                           | -        | -      | 515.993   |           |
| Gross - Non-proportional reinsurance accepted                                                                                | R0230                       | -                               | -                                 | -                     | -                                        | -                                           | -                           | -                               | -                        | -          | -                            | -      | -                                                           | 55.177                      | 8.480    | 40.302 | 103.960   |           |
| Reinsurers' share                                                                                                            | R0240                       | 4.875                           | 40.634                            | -                     | 61.055                                   | 10.019                                      | 249.044                     | 532.693                         | 251.177                  | 35.665     | -                            | 1.194  | 34.740                                                      | 2.140                       | 121      | 2.355  | 1.225.712 |           |
| Net                                                                                                                          | R0300                       | 69.811                          | 334.191                           | 766                   | 243.716                                  | 26.328                                      | 417.032                     | 990.262                         | 1.367.268                | 55.277     | -                            | 40.029 | 77.290                                                      | -                           | 53.037   | 8.359  | 37.948    | 3.720.776 |
| Claims incurred                                                                                                              |                             |                                 |                                   |                       |                                          |                                             |                             |                                 |                          |            |                              |        |                                                             |                             |          |        |           |           |
| Gross - Direct Business                                                                                                      | R0310                       | 19.797                          | 166.234                           | 2.925                 | 391.931                                  | 17.879                                      | 241.555                     | 795.668                         | 1.312.759                | 78.890     | -                            | 25.449 | 39.745                                                      | -                           | -        | -      | 3.052.963 |           |
| Gross - Proportional reinsurance accepted                                                                                    | R0320                       | (746)                           | 2.055                             | -                     | 6.157                                    | 12                                          | 133.467                     | 281.744                         | 5.300                    | 4          | -                            | 212    | 3.970                                                       | -                           | -        | -      | 432.175   |           |
| Gross - Non-proportional reinsurance accepted                                                                                | R0330                       | -                               | -                                 | -                     | -                                        | -                                           | -                           | -                               | -                        | -          | -                            | -      | -                                                           | (12.039)                    | 5.490    | 28.341 | 21.792    |           |
| Reinsurers' share                                                                                                            | R0340                       | 82                              | 7.985                             | 39                    | 177.266                                  | 3.017                                       | 110.960                     | 401.294                         | 148.319                  | 27.284     | -                            | 341    | 13.927                                                      | 1.930                       | 62       | 164    | 892.591   |           |
| Net                                                                                                                          | R0400                       | 18.959                          | 166.304                           | 2.885                 | 220.822                                  | 14.874                                      | 264.072                     | 686.136                         | 1.168.740                | 51.610     | -                            | 25.320 | 29.769                                                      | -                           | (13.670) | 5.408  | 28.177    | 2.814.340 |
| Changes in other technical provisions                                                                                        |                             |                                 |                                   |                       |                                          |                                             |                             |                                 |                          |            |                              |        |                                                             |                             |          |        |           |           |
| Gross - Direct Business                                                                                                      | R0410                       | -                               | -                                 | -                     | -                                        | -                                           | -                           | -                               | -                        | -          | -                            | -      | -                                                           | -                           | -        | -      | -         |           |
| Gross - Proportional reinsurance accepted                                                                                    | R0420                       | -                               | -                                 | -                     | -                                        | -                                           | -                           | -                               | -                        | -          | -                            | -      | -                                                           | -                           | -        | -      | -         |           |
| Gross - Non-proportional reinsurance accepted                                                                                | R0430                       | -                               | -                                 | -                     | -                                        | -                                           | -                           | -                               | -                        | -          | -                            | -      | -                                                           | -                           | -        | -      | -         |           |
| Reinsurers' share                                                                                                            | R0440                       | -                               | -                                 | -                     | -                                        | -                                           | -                           | -                               | -                        | -          | -                            | -      | -                                                           | -                           | -        | -      | -         |           |
| Net                                                                                                                          | R0500                       | -                               | -                                 | -                     | -                                        | -                                           | -                           | -                               | -                        | -          | -                            | -      | -                                                           | -                           | -        | -      | -         |           |
| Expenses incurred                                                                                                            | R0550                       | 38.792                          | 158.298                           | 2.285                 | 99.346                                   | 3.455                                       | 122.291                     | 500.033                         | 529.332                  | 21.229     | -                            | 27.645 | 42.727                                                      | 6.710                       | 2.455    | 4.754  | 1.559.352 |           |
| Other expenses                                                                                                               | R1200                       | -                               | -                                 | -                     | -                                        | -                                           | -                           | -                               | -                        | -          | -                            | -      | -                                                           | -                           | -        | -      | -         |           |
| Total expenses                                                                                                               | R1300                       | -                               | -                                 | -                     | -                                        | -                                           | -                           | -                               | -                        | -          | -                            | -      | -                                                           | -                           | -        | -      | 1.559.352 |           |

[illegible]

**S.05.02**  
**Premiums, Claims and Expenses by Country**

|                                               |              | Total Top 5 and home country | Home Country     | Top 5 countries (by amount of gross premiums written) - non-life obligations |                |                |                |                |                                           |
|-----------------------------------------------|--------------|------------------------------|------------------|------------------------------------------------------------------------------|----------------|----------------|----------------|----------------|-------------------------------------------|
|                                               | R0010        |                              | United Kingdom   | France                                                                       | Germany        | Ireland        | Italy          | Netherlands    | other EEA (sum of not material countries) |
|                                               |              | C0070                        | C0080            | C0090                                                                        | C0100          | C0110          | C0120          | C0130          |                                           |
| <b>Premium written</b>                        |              |                              |                  |                                                                              |                |                |                |                |                                           |
| Gross - Direct Business                       | R0110        | 4,308,142                    | 1,426,527        | 530,771                                                                      | 426,399        | 238,577        | 348,301        | 179,997        | 1,157,570                                 |
| Gross - Proportional reinsurance accepted     | R0120        | 493,045                      | 174,422          | 23,664                                                                       | 27,417         | 1              | 8,534          | 335            | 258,671                                   |
| Gross - Non-proportional reinsurance accepted | R0130        | 97,593                       | 49,808           | 3,203                                                                        | 6,280          | 0              | 2,015          | 40             | 36,247                                    |
| Reinsurers' share                             | R0140        | 1,237,560                    | 509,944          | 67,369                                                                       | 95,758         | 27,165         | 44,874         | 34,234         | 458,216                                   |
| <b>Net</b>                                    | <b>R0200</b> | <b>3,661,220</b>             | <b>1,140,813</b> | <b>490,269</b>                                                               | <b>364,339</b> | <b>211,413</b> | <b>313,975</b> | <b>146,139</b> | <b>994,272</b>                            |
| <b>Premium earned</b>                         |              |                              |                  |                                                                              |                |                |                |                |                                           |
| Gross - Direct Business                       | R0210        | 4,326,574                    | 1,456,546        | 528,446                                                                      | 425,215        | 220,623        | 344,445        | 181,739        | 1,169,559                                 |
| Gross - Proportional reinsurance accepted     | R0220        | 515,953                      | 180,215          | 23,575                                                                       | 22,581         | (28)           | 8,964          | 458            | 280,189                                   |
| Gross - Non-proportional reinsurance accepted | R0230        | 103,960                      | 53,201           | 3,543                                                                        | 5,744          | 0              | 2,113          | 43             | 39,316                                    |
| Reinsurers' share                             | R0240        | 1,225,712                    | 500,705          | 65,362                                                                       | 87,997         | 29,833         | 42,966         | 33,402         | 465,447                                   |
| <b>Net</b>                                    | <b>R0300</b> | <b>3,720,776</b>             | <b>1,189,257</b> | <b>490,203</b>                                                               | <b>365,543</b> | <b>190,762</b> | <b>312,556</b> | <b>148,838</b> | <b>1,023,617</b>                          |
| <b>Claims incurred</b>                        |              |                              |                  |                                                                              |                |                |                |                |                                           |
| Gross - Direct Business                       | R0310        | 3,052,963                    | 1,226,812        | 305,705                                                                      | 398,565        | 175,158        | 216,686        | 147,915        | 582,122                                   |
| Gross - Proportional reinsurance accepted     | R0320        | 432,175                      | 376,822          | 3,980                                                                        | 27,861         | -              | 4,572          | 353            | 18,588                                    |
| Gross - Non-proportional reinsurance accepted | R0330        | 21,792                       | 29,051           | 473                                                                          | 3,286          | -              | 280            | (132)          | (11,166)                                  |
| Reinsurers' share                             | R0340        | 892,591                      | 595,856          | 98,818                                                                       | 94,527         | 3,172          | 26,876         | 5,099          | 68,243                                    |
| <b>Net</b>                                    | <b>R0400</b> | <b>2,614,340</b>             | <b>1,036,829</b> | <b>211,340</b>                                                               | <b>335,185</b> | <b>171,986</b> | <b>194,662</b> | <b>143,037</b> | <b>521,301</b>                            |
| <b>Changes in other technical provisions</b>  |              |                              |                  |                                                                              |                |                |                |                |                                           |
| Gross - Direct Business                       | R0410        | -                            | -                | -                                                                            | -              | -              | -              | -              | -                                         |
| Gross - Proportional reinsurance accepted     | R0420        | -                            | -                | -                                                                            | -              | -              | -              | -              | -                                         |
| Gross - Non-proportional reinsurance accepted | R0430        | -                            | -                | -                                                                            | -              | -              | -              | -              | -                                         |
| Reinsurers' share                             | R0440        | -                            | -                | -                                                                            | -              | -              | -              | -              | -                                         |
| <b>Net</b>                                    | <b>R0500</b> | <b>-</b>                     | <b>-</b>         | <b>-</b>                                                                     | <b>-</b>       | <b>-</b>       | <b>-</b>       | <b>-</b>       | <b>-</b>                                  |
| <b>Expenses incurred</b>                      | <b>R0550</b> | <b>1,559,352</b>             | <b>389,412</b>   | <b>251,831</b>                                                               | <b>70,276</b>  | <b>44,506</b>  | <b>91,539</b>  | <b>31,132</b>  | <b>680,656</b>                            |
| <b>Other expenses</b>                         | <b>R1200</b> | <b>-</b>                     | <b>-</b>         | <b>-</b>                                                                     | <b>-</b>       | <b>-</b>       | <b>-</b>       | <b>-</b>       | <b>-</b>                                  |
| <b>Total expenses</b>                         | <b>R1300</b> | <b>1,559,352</b>             | <b>-</b>         | <b>-</b>                                                                     | <b>-</b>       | <b>-</b>       | <b>-</b>       | <b>-</b>       | <b>-</b>                                  |

**life obligations**

|                                              |              | Total Top 5 and home country | Home Country   |
|----------------------------------------------|--------------|------------------------------|----------------|
|                                              | R1400        |                              | United Kingdom |
|                                              |              | C0210                        | C0150          |
| <b>Premium written</b>                       |              |                              |                |
| Gross                                        | R1410        | -                            | -              |
| Reinsurers' share                            | R1420        | -                            | -              |
| <b>Net</b>                                   | <b>R1500</b> | <b>-</b>                     | <b>-</b>       |
| <b>Premium earned</b>                        |              |                              |                |
| Gross                                        | R1510        | -                            | -              |
| Reinsurers' share                            | R1520        | -                            | -              |
| <b>Net</b>                                   | <b>R1600</b> | <b>-</b>                     | <b>-</b>       |
| <b>Claims paid</b>                           |              |                              |                |
| Gross                                        | R1610        | 39,937                       | 39,937         |
| Reinsurers' share                            | R1620        | -                            | -              |
| <b>Net</b>                                   | <b>R1700</b> | <b>39,937</b>                | <b>39,937</b>  |
| <b>Changes in other technical provisions</b> |              |                              |                |
| Gross                                        | R1710        | -                            | -              |
| Reinsurers' share                            | R1720        | -                            | -              |
| <b>Net</b>                                   | <b>R1800</b> | <b>-</b>                     | <b>-</b>       |
| <b>Expenses incurred</b>                     | <b>R1900</b> | <b>5,801</b>                 | <b>5,801</b>   |
| <b>Other expenses</b>                        | <b>R2500</b> | <b>-</b>                     | <b>-</b>       |
| <b>Total expenses</b>                        | <b>R2600</b> | <b>5,801</b>                 | <b>-</b>       |

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## Life and Health SLT Technical Provisions

|                                                                                                                                                        |  |       | Insurance with profit participation | Index-linked and unit-linked insurance |       | Other life insurance                              |                                               |       | Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations | Accepted reinsurance | Total (Life other than health insurance, incl. Unit-Linked) |                                                   |
|--------------------------------------------------------------------------------------------------------------------------------------------------------|--|-------|-------------------------------------|----------------------------------------|-------|---------------------------------------------------|-----------------------------------------------|-------|-----------------------------------------------------------------------------------------------------------------------------------|----------------------|-------------------------------------------------------------|---------------------------------------------------|
|                                                                                                                                                        |  |       |                                     |                                        |       |                                                   |                                               |       |                                                                                                                                   |                      |                                                             |                                                   |
|                                                                                                                                                        |  |       |                                     | C0020                                  | C0030 | Contracts without options and guarantees<br>C0040 | Contracts with options or guarantees<br>C0050 | C0060 |                                                                                                                                   |                      |                                                             | Contracts without options and guarantees<br>C0070 |
| Technical provisions calculated as a whole                                                                                                             |  | R0010 | -                                   | -                                      |       |                                                   |                                               |       |                                                                                                                                   | -                    | -                                                           | -                                                 |
| Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole |  | R0020 | -                                   | -                                      |       |                                                   |                                               |       |                                                                                                                                   | -                    | -                                                           | -                                                 |
| Technical provisions calculated as a sum of BE and RM                                                                                                  |  |       |                                     |                                        |       |                                                   |                                               |       |                                                                                                                                   |                      |                                                             |                                                   |
| Best Estimate                                                                                                                                          |  |       |                                     |                                        |       |                                                   |                                               |       |                                                                                                                                   |                      |                                                             |                                                   |
| Gross Best Estimate                                                                                                                                    |  | R0030 | -                                   | -                                      | -     | -                                                 | -                                             | -     | 45,738                                                                                                                            | -                    | -                                                           | 45,738                                            |
| Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default                             |  | R0080 | -                                   | -                                      | -     | -                                                 | -                                             | -     | 5,801                                                                                                                             | -                    | -                                                           | 5,801                                             |
| Best estimate minus recoverables from reinsurance/SPV and Finite Re                                                                                    |  | R0090 | -                                   | -                                      | -     | -                                                 | -                                             | -     | 39,937                                                                                                                            | -                    | -                                                           | 39,937                                            |
| Risk Margin                                                                                                                                            |  | R0100 | -                                   | -                                      | -     | -                                                 | -                                             | -     | 3,095                                                                                                                             | -                    | -                                                           | 3,095                                             |
| Amount of the transitional on Technical Provisions                                                                                                     |  |       |                                     |                                        |       |                                                   |                                               |       |                                                                                                                                   |                      |                                                             |                                                   |
| Technical Provisions calculated as a whole                                                                                                             |  | R0110 | -                                   | -                                      | -     | -                                                 | -                                             | -     | -                                                                                                                                 | -                    | -                                                           | -                                                 |
| Best estimate                                                                                                                                          |  | R0120 | -                                   | -                                      | -     | -                                                 | -                                             | -     | -                                                                                                                                 | -                    | -                                                           | -                                                 |
| Risk margin                                                                                                                                            |  | R0130 | -                                   | -                                      | -     | -                                                 | -                                             | -     | -                                                                                                                                 | -                    | -                                                           | -                                                 |
| Technical provisions - total                                                                                                                           |  | R0200 | -                                   | -                                      | -     | -                                                 | -                                             | -     | 48,833                                                                                                                            | -                    | -                                                           | 48,833                                            |

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## Life and Health SLT Technical Provisions

|                                                                                                                                                        |       | Health insurance (direct business) |       |       | Annuities stemming from non-life insurance contracts and relating to health insurance obligations | Health reinsurance (reinsurance accepted) | Total (Health similar to life insurance) |
|--------------------------------------------------------------------------------------------------------------------------------------------------------|-------|------------------------------------|-------|-------|---------------------------------------------------------------------------------------------------|-------------------------------------------|------------------------------------------|
|                                                                                                                                                        |       |                                    |       |       |                                                                                                   |                                           |                                          |
|                                                                                                                                                        |       | C0160                              | C0170 | C0180 | C0190                                                                                             | C0200                                     | C0210                                    |
| Technical provisions calculated as a whole                                                                                                             | R0010 | -                                  | -     | -     | -                                                                                                 | -                                         | -                                        |
| Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole | R0020 | -                                  | -     | -     | -                                                                                                 | -                                         | -                                        |
| Technical provisions calculated as a sum of BE and RM                                                                                                  |       | -                                  | -     | -     | -                                                                                                 | -                                         | -                                        |
| Best Estimate                                                                                                                                          |       | -                                  | -     | -     | -                                                                                                 | -                                         | -                                        |
| Gross Best Estimate                                                                                                                                    | R0030 | -                                  | -     | -     | -                                                                                                 | -                                         | -                                        |
| Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default                             | R0080 | -                                  | -     | -     | -                                                                                                 | -                                         | -                                        |
| Best estimate minus recoverables from reinsurance/SPV and Finite Re                                                                                    | R0090 | -                                  | -     | -     | -                                                                                                 | -                                         | -                                        |
| Risk Margin                                                                                                                                            | R0100 | -                                  | -     | -     | -                                                                                                 | -                                         | -                                        |
| Amount of the transitional on Technical Provisions                                                                                                     |       | -                                  | -     | -     | -                                                                                                 | -                                         | -                                        |
| Technical Provisions calculated as a whole                                                                                                             | R0110 | -                                  | -     | -     | -                                                                                                 | -                                         | -                                        |
| Best estimate                                                                                                                                          | R0120 | -                                  | -     | -     | -                                                                                                 | -                                         | -                                        |
| Risk margin                                                                                                                                            | R0130 | -                                  | -     | -     | -                                                                                                 | -                                         | -                                        |
| Technical provisions - total                                                                                                                           | R0200 | -                                  | -     | -     | -                                                                                                 | -                                         | -                                        |

| 5.17.01.02<br>Non-life Technical Provisions                                                                                          |       | Direct business and accepted proportional reinsurance |                             |                                 |                                   |                       |                                          |                                             |                             |                                 |                          |            |                              | Accepted non-proportional reinsurance: |                                       |                                                             |                                       | Total Non-Life obligations |
|--------------------------------------------------------------------------------------------------------------------------------------|-------|-------------------------------------------------------|-----------------------------|---------------------------------|-----------------------------------|-----------------------|------------------------------------------|---------------------------------------------|-----------------------------|---------------------------------|--------------------------|------------|------------------------------|----------------------------------------|---------------------------------------|-------------------------------------------------------------|---------------------------------------|----------------------------|
|                                                                                                                                      |       | Medical expense insurance                             | Income protection insurance | Workers' compensation insurance | Motor vehicle liability insurance | Other motor insurance | Marine, aviation and transport insurance | Fire and other damage to property insurance | General liability insurance | Credit and suretyship insurance | Legal expenses insurance | Assistance | Miscellaneous financial loss | Non-proportional health reinsurance    | Non-proportional casualty reinsurance | Non-proportional marine, aviation and transport reinsurance | Non-proportional property reinsurance |                            |
|                                                                                                                                      |       | C0020                                                 | C0030                       | C0040                           | C0050                             | C0060                 | C0070                                    | C0080                                       | C0090                       | C0100                           | C0110                    | C0120      | C0130                        | C0140                                  | C0150                                 | C0160                                                       | C0170                                 | C0180                      |
| Technical provisions calculated as a whole                                                                                           | R0010 | -                                                     | -                           | -                               | -                                 | -                     | -                                        | -                                           | -                           | -                               | -                        | -          | -                            | -                                      | -                                     | -                                                           | -                                     | -                          |
| Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses                                       | R0050 | -                                                     | -                           | -                               | -                                 | -                     | -                                        | -                                           | -                           | -                               | -                        | -          | -                            | -                                      | -                                     | -                                                           | -                                     | -                          |
| Technical Provisions calculated as sum of BE and RM                                                                                  |       |                                                       |                             |                                 |                                   |                       |                                          |                                             |                             |                                 |                          |            |                              |                                        |                                       |                                                             |                                       |                            |
| Best estimate                                                                                                                        |       |                                                       |                             |                                 |                                   |                       |                                          |                                             |                             |                                 |                          |            |                              |                                        |                                       |                                                             |                                       |                            |
| Premium provisions                                                                                                                   |       |                                                       |                             |                                 |                                   |                       |                                          |                                             |                             |                                 |                          |            |                              |                                        |                                       |                                                             |                                       |                            |
| Gross - Total                                                                                                                        | R0060 | (17,881)                                              | (60,698)                    | 115                             | 67,260                            | 8,116                 | (8,521)                                  | 3,448                                       | 43,892                      | (3,376)                         | -                        | (4,939)    | 18,964                       | -                                      | 4,309                                 | (127)                                                       | 926                                   | 61,490                     |
| Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses                                        | R0140 | (1,114)                                               | (10,149)                    | 9                               | 14,583                            | (1,721)               | (39,091)                                 | (77,221)                                    | 7,172                       | (8,351)                         | -                        | (117)      | (9,752)                      | -                                      | (108)                                 | (14)                                                        | (604)                                 | (126,479)                  |
| Net Best Estimate of Premium Provisions                                                                                              | R0150 | (16,767)                                              | (69,849)                    | 106                             | 52,678                            | 9,837                 | (30,569)                                 | (80,670)                                    | 36,720                      | (4,825)                         | -                        | (4,825)    | 28,716                       | -                                      | 4,418                                 | (113)                                                       | 1,530                                 | 187,969                    |
| Claims provisions                                                                                                                    |       |                                                       |                             |                                 |                                   |                       |                                          |                                             |                             |                                 |                          |            |                              |                                        |                                       |                                                             |                                       |                            |
| Gross - Total                                                                                                                        | R0160 | 41,336                                                | 280,658                     | 44,795                          | 583,870                           | 18,404                | 725,053                                  | 1,136,971                                   | 5,228,049                   | 79,022                          | -                        | 17,114     | 203,064                      | -                                      | 36,849                                | 11,092                                                      | 42,265                                | 8,448,541                  |
| Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses                                        | R0240 | 1,845                                                 | 17,413                      | 1,168                           | 155,226                           | 5,449                 | 234,489                                  | 405,561                                     | 1,056,688                   | 23,081                          | -                        | 366        | 75,152                       | -                                      | 1,163                                 | 96                                                          | 1,362                                 | 2,038,034                  |
| Net Best Estimate of Claims Provisions                                                                                               | R0250 | 39,486                                                | 263,244                     | 43,627                          | 428,644                           | 12,954                | 490,564                                  | 671,411                                     | 4,171,361                   | 56,941                          | -                        | 16,768     | 127,911                      | -                                      | 35,686                                | 10,997                                                      | 40,903                                | 6,409,506                  |
| Total Best estimate - gross                                                                                                          | R0260 | 23,454                                                | 229,960                     | 44,910                          | 651,130                           | 26,520                | 716,532                                  | 1,140,420                                   | 5,271,841                   | 75,647                          | -                        | 12,175     | 222,028                      | -                                      | 41,158                                | 10,865                                                      | 43,190                                | 8,510,031                  |
| Total Best estimate - net                                                                                                            | R0270 | 22,719                                                | 222,696                     | 43,733                          | 481,321                           | 22,792                | 521,153                                  | 752,080                                     | 4,208,082                   | 60,918                          | -                        | 11,936     | 156,427                      | -                                      | 40,104                                | 10,884                                                      | 42,433                                | 6,997,476                  |
| Risk margin                                                                                                                          | R0280 | 2,795                                                 | 23,731                      | -                               | 41,421                            | 2,307                 | 44,741                                   | 69,357                                      | 360,529                     | 5,591                           | -                        | 1,175      | 13,223                       | -                                      | 3,584                                 | 1,034                                                       | 3,897                                 | 573,386                    |
| Amount of the transitional on Technical Provisions                                                                                   |       |                                                       |                             |                                 |                                   |                       |                                          |                                             |                             |                                 |                          |            |                              |                                        |                                       |                                                             |                                       |                            |
| TP as a whole                                                                                                                        | R0290 | -                                                     | -                           | -                               | -                                 | -                     | -                                        | -                                           | -                           | -                               | -                        | -          | -                            | -                                      | -                                     | -                                                           | -                                     | -                          |
| Best estimate                                                                                                                        | R0300 | -                                                     | -                           | -                               | -                                 | -                     | -                                        | -                                           | -                           | -                               | -                        | -          | -                            | -                                      | -                                     | -                                                           | -                                     | -                          |
| Risk margin                                                                                                                          | R0310 | -                                                     | -                           | -                               | -                                 | -                     | -                                        | -                                           | -                           | -                               | -                        | -          | -                            | -                                      | -                                     | -                                                           | -                                     | -                          |
| Technical Provisions                                                                                                                 |       |                                                       |                             |                                 |                                   |                       |                                          |                                             |                             |                                 |                          |            |                              |                                        |                                       |                                                             |                                       |                            |
| Technical provisions - total                                                                                                         | R0320 | 26,250                                                | 253,691                     | 44,910                          | 692,551                           | 28,827                | 761,273                                  | 1,209,777                                   | 5,632,470                   | 81,237                          | -                        | 13,350     | 235,250                      | -                                      | 44,742                                | 12,000                                                      | 47,087                                | 9,083,417                  |
| Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total | R0330 | 735                                                   | 7,264                       | 1,177                           | 169,809                           | 3,728                 | 195,379                                  | 388,340                                     | 1,063,860                   | 14,730                          | -                        | 239        | 65,401                       | -                                      | 1,054                                 | 82                                                          | 758                                   | 1,912,555                  |
| Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total                                                   | R0340 | 25,515                                                | 246,427                     | 43,733                          | 522,742                           | 25,099                | 565,894                                  | 821,438                                     | 4,568,610                   | 66,507                          | -                        | 13,111     | 169,850                      | -                                      | 43,688                                | 11,918                                                      | 46,329                                | 7,170,862                  |

| S.19.01<br>Gross Claims Paid (non-cumulative) |       |                                    |         |         |         |         |         |         |        |        |        |       |
|-----------------------------------------------|-------|------------------------------------|---------|---------|---------|---------|---------|---------|--------|--------|--------|-------|
|                                               |       | Development year (absolute amount) |         |         |         |         |         |         |        |        |        |       |
|                                               |       | 0                                  | 1       | 2       | 3       | 4       | 5       | 6       | 7      | 8      | 9      | 10    |
|                                               |       | C0010                              | C0020   | C0030   | C0040   | C0050   | C0060   | C0070   | C0080  | C0090  | C0100  | C0110 |
| R0100                                         | Prior |                                    |         |         |         |         |         |         |        |        |        | 4,604 |
| R0160                                         | N-9   | 463,966                            | 675,681 | 353,571 | 241,166 | 126,961 | 83,224  | 125,321 | 40,612 | 55,511 | 38,994 |       |
| R0170                                         | N-8   | 615,547                            | 978,280 | 472,007 | 278,219 | 174,043 | 109,385 | 65,525  | 32,434 | 53,621 |        |       |
| R0180                                         | N-7   | 621,228                            | 769,847 | 477,762 | 345,083 | 162,466 | 147,460 | 303,951 | 98,347 |        |        |       |
| R0190                                         | N-6   | 691,637                            | 989,889 | 442,238 | 212,771 | 158,221 | 106,640 | 54,165  |        |        |        |       |
| R0200                                         | N-5   | 729,835                            | 914,804 | 335,157 | 259,632 | 126,445 | 99,867  |         |        |        |        |       |
| R0210                                         | N-4   | 569,623                            | 698,305 | 307,941 | 223,662 | 160,044 |         |         |        |        |        |       |
| R0220                                         | N-3   | 636,508                            | 760,150 | 324,292 | 189,519 |         |         |         |        |        |        |       |
| R0230                                         | N-2   | 532,619                            | 827,633 | 408,853 |         |         |         |         |        |        |        |       |
| R0240                                         | N-1   | 609,166                            | 768,645 |         |         |         |         |         |        |        |        |       |
| R0250                                         | N     | 796,419                            |         |         |         |         |         |         |        |        |        |       |

|       | In Current year | Sum of years (cumulative) |
|-------|-----------------|---------------------------|
|       | C0170           | C0180                     |
| R0100 | 4,604           | 4,604                     |
| R0160 | 38,994          | 2,205,006                 |
| R0170 | 53,621          | 2,779,061                 |
| R0180 | 98,347          | 2,926,143                 |
| R0190 | 54,165          | 2,655,561                 |
| R0200 | 99,867          | 2,465,740                 |
| R0210 | 160,044         | 1,959,575                 |
| R0220 | 189,519         | 1,910,469                 |
| R0230 | 408,853         | 1,769,105                 |
| R0240 | 768,645         | 1,377,811                 |
| R0250 | 796,419         | 796,419                   |
| R0260 | 2,673,079       | 20,849,495                |

| S.19.01<br>Gross undiscounted Best Estimate Claims Provisions |       |                                    |           |         |         |         |         |         |         |         |         |         |
|---------------------------------------------------------------|-------|------------------------------------|-----------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
|                                                               |       | Development year (absolute amount) |           |         |         |         |         |         |         |         |         |         |
|                                                               |       | 0                                  | 1         | 2       | 3       | 4       | 5       | 6       | 7       | 8       | 9       | 10      |
|                                                               |       | C0200                              | C0210     | C0220   | C0230   | C0240   | C0250   | C0260   | C0270   | C0280   | C0290   | C0300   |
| R0100                                                         | Prior |                                    |           |         |         |         |         |         |         |         |         | 161,097 |
| R0160                                                         | N-9   | 0                                  | 0         | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 176,778 |         |
| R0170                                                         | N-8   | 0                                  | 0         | 0       | 0       | 0       | 0       | 0       | 0       | 154,366 |         |         |
| R0180                                                         | N-7   | 0                                  | 0         | 0       | 0       | 0       | 0       | 0       | 396,858 |         |         |         |
| R0190                                                         | N-6   | 0                                  | 0         | 0       | 0       | 0       | 0       | 281,253 |         |         |         |         |
| R0200                                                         | N-5   | 0                                  | 0         | 0       | 0       | 0       | 545,232 |         |         |         |         |         |
| R0210                                                         | N-4   | 0                                  | 0         | 0       | 0       | 514,540 |         |         |         |         |         |         |
| R0220                                                         | N-3   | 0                                  | 0         | 0       | 628,050 |         |         |         |         |         |         |         |
| R0230                                                         | N-2   | 0                                  | 0         | 922,816 |         |         |         |         |         |         |         |         |
| R0240                                                         | N-1   | 0                                  | 1,667,441 |         |         |         |         |         |         |         |         |         |
| R0250                                                         | N     | 2,962,629                          |           |         |         |         |         |         |         |         |         |         |

|       | Year end (discounted data) |
|-------|----------------------------|
|       | C0360                      |
| R0100 | 155,159                    |
| R0160 | 36,389                     |
| R0170 | 73,396                     |
| R0180 | 60,291                     |
| R0190 | 43,706                     |
| R0200 | 61,849                     |
| R0210 | 170,622                    |
| R0220 | 149,483                    |
| R0230 | 382,687                    |
| R0240 | 271,364                    |
| R0250 | 528,653                    |
| R0260 | 1,934                      |

S.23.01.21

Own funds

|                                                                                                                                                                                    |       | Total     | Tier 1 - unrestricted | Tier 1 - restricted | Tier 2  | Tier 3 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|-----------|-----------------------|---------------------|---------|--------|
|                                                                                                                                                                                    |       | C0010     | C0020                 | C0030               | C0040   | C0050  |
| <b>Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35</b>                                     |       |           |                       |                     |         |        |
| Ordinary share capital (gross of own shares)                                                                                                                                       | R0010 | 197,118   | 197,118               |                     | -       | -      |
| Share premium account related to ordinary share capital                                                                                                                            | R0030 | 1,260,275 | 1,260,275             |                     | -       | -      |
| Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings                                                              | R0040 | -         | -                     |                     | -       | -      |
| Subordinated mutual member accounts                                                                                                                                                | R0050 | -         |                       | -                   | -       | -      |
| Surplus funds                                                                                                                                                                      | R0070 | -         | -                     |                     |         |        |
| Preference shares                                                                                                                                                                  | R0090 | -         |                       |                     | -       | -      |
| Share premium account related to preference shares                                                                                                                                 | R0110 | -         |                       | -                   | -       | -      |
| Reconciliation reserve                                                                                                                                                             | R0130 | 1,595,133 | 1,595,133             |                     |         |        |
| Subordinated liabilities                                                                                                                                                           | R0140 | 37,151    |                       | -                   | 37,151  | -      |
| An amount equal to the value of net deferred tax assets                                                                                                                            | R0160 | 53,273    |                       |                     |         | 53,273 |
| Other own fund items approved by the supervisory authority as basic own funds not specified above                                                                                  | R0180 | -         | -                     | -                   | -       | -      |
| <b>Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds</b> |       |           |                       |                     |         |        |
| Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the                                                           | R0220 | -         |                       |                     |         |        |
| <b>Deductions</b>                                                                                                                                                                  |       |           |                       |                     |         |        |
| Deductions for participations in financial and credit institutions                                                                                                                 | R0230 | -         | -                     | -                   | -       |        |
| <b>Total basic own funds after deductions</b>                                                                                                                                      | R0290 | 3,142,950 | 3,052,526             | -                   | 37,151  | 53,273 |
| <b>Ancillary own funds</b>                                                                                                                                                         |       |           |                       |                     |         |        |
| Unpaid and uncalled ordinary share capital callable on demand                                                                                                                      | R0300 | -         |                       |                     | -       |        |
| Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type                                                       | R0310 | -         |                       |                     | -       |        |
| Unpaid and uncalled preference shares callable on demand                                                                                                                           | R0320 | -         |                       |                     | -       | -      |
| A legally binding commitment to subscribe and pay for subordinated liabilities on demand                                                                                           | R0330 | -         |                       |                     | -       | -      |
| Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC                                                                                                  | R0340 | 500,000   |                       |                     | 500,000 |        |
| Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC                                                                                       | R0350 | -         |                       |                     | -       | -      |
| Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC                                                                                 | R0360 | -         |                       |                     | -       |        |
| Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC                                                                    | R0370 | -         |                       |                     | -       | -      |
| Other ancillary own funds                                                                                                                                                          | R0390 | -         |                       |                     | -       | -      |
| <b>Total ancillary own funds</b>                                                                                                                                                   | R0400 | 500,000   |                       |                     | 500,000 | -      |
| <b>Available and eligible own funds</b>                                                                                                                                            |       |           |                       |                     |         |        |
| Total available own funds to meet the SCR                                                                                                                                          | R0500 | 3,642,950 | 3,052,526             | -                   | 537,151 |        |
| Total available own funds to meet the MCR                                                                                                                                          | R0510 | 3,089,677 | 3,052,526             | -                   | 37,151  |        |
| Total eligible own funds to meet the SCR                                                                                                                                           | R0540 | 3,642,950 | 3,052,526             | -                   | 537,151 | 53,273 |
| Total eligible own funds to meet the MCR                                                                                                                                           | R0550 | 3,089,677 | 3,052,526             | -                   | 37,151  | -      |
| <b>SCR</b>                                                                                                                                                                         | R0580 | 3,360,455 |                       |                     |         |        |
| <b>MCR</b>                                                                                                                                                                         | R0600 | 1,088,073 |                       |                     |         |        |
| <b>Ratio of Eligible own funds to SCR</b>                                                                                                                                          | R0620 | 0         |                       |                     |         |        |
| <b>Ratio of Eligible own funds to MCR</b>                                                                                                                                          | R0640 | 0         |                       |                     |         |        |
| <b>Reconciliation reserve</b>                                                                                                                                                      |       |           |                       |                     |         |        |
| Excess of assets over liabilities                                                                                                                                                  | R0700 | 3,105,799 |                       |                     |         |        |
| Own shares (held directly and indirectly)                                                                                                                                          | R0710 | -         |                       |                     |         |        |
| Foreseeable dividends, distributions and charges                                                                                                                                   | R0720 | -         |                       |                     |         |        |
| Other basic own fund items                                                                                                                                                         | R0730 | 1,510,666 |                       |                     |         |        |
| Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds                                                                        | R0740 | -         |                       |                     |         |        |
| <b>Reconciliation reserve</b>                                                                                                                                                      | R0760 | 1,595,133 |                       |                     |         |        |
| <b>Expected profits</b>                                                                                                                                                            |       |           |                       |                     |         |        |
| Expected profits included in future premiums (EPIFP) - Life Business                                                                                                               | R0770 | -         |                       |                     |         |        |
| Expected profits included in future premiums (EPIFP) - Non Life Business                                                                                                           | R0780 | 294,850   |                       |                     |         |        |
| <b>Total Expected profits included in future premiums (EPIFP)</b>                                                                                                                  | R0790 | 294,850   |                       |                     |         |        |

| S.23.01.22                                                                                                                                                                         |       | Own funds   |                       |                     |           |        |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|-------------|-----------------------|---------------------|-----------|--------|
|                                                                                                                                                                                    |       | Total       | Tier 1 - unrestricted | Tier 1 - restricted | Tier 2    | Tier 3 |
|                                                                                                                                                                                    |       | C0010       | C0020                 | C0030               | C0040     | C0050  |
| <b>Basic own funds before deduction for participations in other financial sector</b>                                                                                               |       |             |                       |                     |           |        |
| Ordinary share capital (gross of own shares)                                                                                                                                       | R0010 | 59,392      | 59,392                | -                   | -         | -      |
| Non-available called but not paid in ordinary share capital at group level                                                                                                         | R0020 | -           | -                     | -                   | -         | -      |
| Share premium account related to ordinary share capital                                                                                                                            | R0030 | 3,899,826   | 3,899,826             | -                   | -         | -      |
| Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings                                                              | R0040 | -           | -                     | -                   | -         | -      |
| Subordinated mutual member accounts                                                                                                                                                | R0050 | -           | -                     | -                   | -         | -      |
| Non-available subordinated mutual member accounts at group level                                                                                                                   | R0060 | -           | -                     | -                   | -         | -      |
| Surplus funds                                                                                                                                                                      | R0070 | -           | -                     | -                   | -         | -      |
| Non-available surplus funds at group level                                                                                                                                         | R0080 | -           | -                     | -                   | -         | -      |
| Preference shares                                                                                                                                                                  | R0090 | -           | -                     | -                   | -         | -      |
| Non-available preference shares at group level                                                                                                                                     | R0100 | -           | -                     | -                   | -         | -      |
| Share premium account related to preference shares                                                                                                                                 | R0110 | -           | -                     | -                   | -         | -      |
| Non-available share premium account related to preference shares at group level                                                                                                    | R0120 | -           | -                     | -                   | -         | -      |
| <b>Reconciliation reserve</b>                                                                                                                                                      | R0130 | (1,647,451) | (1,647,451)           | -                   | -         | -      |
| Subordinated liabilities                                                                                                                                                           | R0140 | 1,137,151   | -                     | -                   | 1,137,151 | -      |
| Non-available subordinated liabilities at group level                                                                                                                              | R0150 | -           | -                     | -                   | -         | -      |
| An amount equal to the value of net deferred tax assets                                                                                                                            | R0160 | 41,572      | -                     | -                   | -         | 41,572 |
| The amount equal to the value of net deferred tax assets not available at the group level                                                                                          | R0170 | -           | -                     | -                   | -         | -      |
| Other items approved by supervisory authority as basic own funds not specified above                                                                                               | R0180 | -           | -                     | -                   | -         | -      |
| Non available own funds related to other own funds items approved by supervisory authority                                                                                         | R0190 | -           | -                     | -                   | -         | -      |
| Minority interests (if not reported as part of a specific own fund item)                                                                                                           | R0200 | -           | -                     | -                   | -         | -      |
| Non-available minority interests at group level                                                                                                                                    | R0210 | -           | -                     | -                   | -         | -      |
| <b>Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds</b> |       |             |                       |                     |           |        |
| Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds        | R0220 | -           | -                     | -                   | -         | -      |
| <b>Deductions</b>                                                                                                                                                                  |       |             |                       |                     |           |        |
| Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities                                              | R0230 | -           | -                     | -                   | -         | -      |
| whereof deducted according to art 228 of the Directive 2009/138/EC                                                                                                                 | R0240 | -           | -                     | -                   | -         | -      |
| Deductions for participations where there is non-availability of information (Article 229)                                                                                         | R0250 | -           | -                     | -                   | -         | -      |
| Deduction for participations included by using D&A when a combination of methods is used                                                                                           | R0260 | -           | -                     | -                   | -         | -      |
| Total of non-available own fund items                                                                                                                                              | R0270 | -           | -                     | -                   | -         | -      |
| <b>Total deductions</b>                                                                                                                                                            | R0280 | -           | -                     | -                   | -         | -      |
| <b>Total basic own funds after deductions</b>                                                                                                                                      | R0290 | 3,490,490   | 2,311,767             | -                   | 1,137,151 | 41,572 |
| <b>Ancillary own funds</b>                                                                                                                                                         |       |             |                       |                     |           |        |
| Unpaid and uncalled ordinary share capital callable on demand                                                                                                                      | R0300 | -           | -                     | -                   | -         | -      |
| Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand                      | R0310 | -           | -                     | -                   | -         | -      |
| Unpaid and uncalled preference shares callable on demand                                                                                                                           | R0320 | -           | -                     | -                   | -         | -      |
| A legally binding commitment to subscribe and pay for subordinated liabilities on demand                                                                                           | R0330 | -           | -                     | -                   | -         | -      |
| Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC                                                                                                  | R0340 | 529,433     | -                     | -                   | 529,433   | -      |
| Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC                                                                                       | R0350 | -           | -                     | -                   | -         | -      |
| Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC                                                                                 | R0360 | -           | -                     | -                   | -         | -      |
| Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC                                                                    | R0370 | -           | -                     | -                   | -         | -      |
| Non available ancillary own funds at group level                                                                                                                                   | R0380 | -           | -                     | -                   | -         | -      |
| Other ancillary own funds                                                                                                                                                          | R0390 | -           | -                     | -                   | -         | -      |
| <b>Total ancillary own funds</b>                                                                                                                                                   | R0400 | 529,433     | -                     | -                   | 529,433   | -      |
| <b>Own funds of other financial sectors</b>                                                                                                                                        |       |             |                       |                     |           |        |
| <b>Reconciliation reserve</b>                                                                                                                                                      | R0410 | -           | -                     | -                   | -         | -      |
| Institutions for occupational retirement provision                                                                                                                                 | R0420 | -           | -                     | -                   | -         | -      |
| Non regulated entities carrying out financial activities                                                                                                                           | R0430 | -           | -                     | -                   | -         | -      |
| <b>Total own funds of other financial sectors</b>                                                                                                                                  | R0440 | -           | -                     | -                   | -         | -      |
| <b>Own funds when using the D&amp;A, exclusively or in combination of method 1</b>                                                                                                 |       |             |                       |                     |           |        |
| Own funds aggregated when using the D&A and combination of method                                                                                                                  | R0450 | -           | -                     | -                   | -         | -      |
| Own funds aggregated when using the D&A and a combination of method net of IGT                                                                                                     | R0460 | -           | -                     | -                   | -         | -      |
| <b>Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&amp;A)</b>               |       |             |                       |                     |           |        |
|                                                                                                                                                                                    | R0520 | 4,019,923   | 2,311,767             | -                   | 1,666,584 | 41,572 |
| <b>Total available own funds to meet the minimum consolidated group SCR</b>                                                                                                        |       |             |                       |                     |           |        |
|                                                                                                                                                                                    | R0530 | 3,448,918   | 2,311,767             | -                   | 1,137,151 | -      |
| <b>Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&amp;A)</b>                |       |             |                       |                     |           |        |
|                                                                                                                                                                                    | R0560 | 3,981,879   | 2,311,767             | -                   | 1,666,584 | 3,528  |
| <b>Total eligible own funds to meet the minimum consolidated group SCR</b>                                                                                                         |       |             |                       |                     |           |        |
|                                                                                                                                                                                    | R0570 | 2,557,576   | 2,311,767             | -                   | 245,809   | -      |
| <b>Minimum consolidated Group SCR</b>                                                                                                                                              |       |             |                       |                     |           |        |
|                                                                                                                                                                                    | R0610 | 1,229,043   | -                     | -                   | -         | -      |
| <b>Ratio of Eligible own funds to Minimum Consolidated Group SCR</b>                                                                                                               |       |             |                       |                     |           |        |
|                                                                                                                                                                                    | R0650 | 208%        | -                     | -                   | -         | -      |
| <b>Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&amp;A)</b>                             |       |             |                       |                     |           |        |
|                                                                                                                                                                                    | R0660 | 4,019,923   | 2,311,767             | -                   | 1,666,584 | 41,572 |
| <b>Group SCR</b>                                                                                                                                                                   |       |             |                       |                     |           |        |
|                                                                                                                                                                                    | R0680 | 3,340,224   | -                     | -                   | -         | -      |
| <b>Ratio of Eligible own funds to SCR including other financial sectors' own funds and capital requirements</b>                                                                    |       |             |                       |                     |           |        |
|                                                                                                                                                                                    | R0690 | 120%        | -                     | -                   | -         | -      |
| <b>Reconciliation reserve</b>                                                                                                                                                      |       |             |                       |                     |           |        |
| Excess of assets over liabilities                                                                                                                                                  | R0700 | 2,353,339   | -                     | -                   | -         | -      |
| Own shares (held directly and indirectly)                                                                                                                                          | R0710 | -           | -                     | -                   | -         | -      |
| Foreseeable dividends, distributions and charges                                                                                                                                   | R0720 | -           | -                     | -                   | -         | -      |
| Other basic own fund items                                                                                                                                                         | R0730 | 4,000,790   | -                     | -                   | -         | -      |
| Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds                                                                        | R0740 | -           | -                     | -                   | -         | -      |
| <b>Reconciliation reserve before deduction of participations in other financial sector</b>                                                                                         | R0760 | (1,647,451) | -                     | -                   | -         | -      |
| <b>Expected profits</b>                                                                                                                                                            |       |             |                       |                     |           |        |
| Expected profits included in future premiums (EPIFP) - Life Business                                                                                                               | R0770 | 329,691     | -                     | -                   | -         | -      |
| Expected profits included in future premiums (EPIFP) - Non Life Business                                                                                                           | R0780 | 294,850     | -                     | -                   | -         | -      |
| <b>Total Expected profits included in future premiums (EPIFP)</b>                                                                                                                  | R0790 | 624,541     | -                     | -                   | -         | -      |

## S.25.01.21

## Solvency Capital Requirement - for undertakings on Standard Formula

|                                           |              | Gross solvency capital requirement | USP   | Simplifications |
|-------------------------------------------|--------------|------------------------------------|-------|-----------------|
|                                           |              | C0110                              | C0090 | C0100           |
| Market risk                               | R0010        | 1,052,161                          |       | -               |
| Counterparty default risk                 | R0020        | 174,987                            |       | -               |
| Life underwriting risk                    | R0030        | 11,513                             | -     | -               |
| Health underwriting risk                  | R0040        | 221,821                            | -     | -               |
| Non-life underwriting risk                | R0050        | 2,577,130                          | -     | -               |
| Diversification                           | R0060        | (895,663)                          |       |                 |
| Intangible asset risk                     | R0070        | -                                  |       |                 |
| <b>Basic Solvency Capital Requirement</b> | <b>R0100</b> | <b>3,141,948</b>                   |       |                 |

| Calculation of Solvency Capital Requirement                                                 |              | C0100            |
|---------------------------------------------------------------------------------------------|--------------|------------------|
| Total capital requirement for operational risk                                              | R0130        | 255,507          |
| Loss-absorbing capacity of technical provisions                                             | R0140        | -                |
| Loss-absorbing capacity of deferred taxes                                                   | R0150        | (37,000)         |
| Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC | R0160        | -                |
| <b>Solvency capital requirement excluding capital add-on</b>                                | <b>R0200</b> | <b>3,360,455</b> |
| Capital add-ons already set                                                                 | R0210        | -                |
| <b>Solvency capital requirement</b>                                                         | <b>R0220</b> | <b>3,360,455</b> |
| <b>Other information on SCR</b>                                                             |              |                  |
| <b>Capital requirement for duration-based equity risk sub-module</b>                        | <b>R0400</b> | -                |
| Total amount of Notional Solvency Capital Requirements for remaining part                   | R0410        | -                |
| Total amount of Notional Solvency Capital Requirements for ring fenced funds                | R0420        | -                |
| Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios   | R0430        | -                |
| Diversification effects due to RFF nSCR aggregation for article 304                         | R0440        | -                |

S.28.02.01

Minimum Capital Requirement - Both life and non-life insurance activity

|                                                                             |       | Non-life activities | Life activities |
|-----------------------------------------------------------------------------|-------|---------------------|-----------------|
|                                                                             |       | C0010               | C0020           |
| Linear formula component for non-life insurance and reinsurance obligations | R0010 | 1,087,234           |                 |

| Non-life activities                                                 |                                                             | Life activities                                                     |                                                             |
|---------------------------------------------------------------------|-------------------------------------------------------------|---------------------------------------------------------------------|-------------------------------------------------------------|
| Net (of reinsurance/SPV) best estimate and TP calculated as a whole | Net (of reinsurance) written premiums in the last 12 months | Net (of reinsurance/SPV) best estimate and TP calculated as a whole | Net (of reinsurance) written premiums in the last 12 months |
| C0030                                                               | C0040                                                       | C0050                                                               | C0060                                                       |
| 22,719                                                              | 71,766                                                      | -                                                                   | -                                                           |
| 222,696                                                             | 338,706                                                     | -                                                                   | -                                                           |
| 43,733                                                              | 801                                                         | -                                                                   | -                                                           |
| 481,321                                                             | 264,580                                                     | -                                                                   | -                                                           |
| 22,792                                                              | 32,238                                                      | -                                                                   | -                                                           |
| 521,153                                                             | 328,244                                                     | -                                                                   | -                                                           |
| 752,080                                                             | 999,144                                                     | -                                                                   | -                                                           |
| 4,208,082                                                           | 1,353,966                                                   | -                                                                   | -                                                           |
| 60,916                                                              | 56,257                                                      | -                                                                   | -                                                           |
| -                                                                   | -                                                           | -                                                                   | -                                                           |
| 11,936                                                              | 40,297                                                      | -                                                                   | -                                                           |
| 156,627                                                             | 82,143                                                      | -                                                                   | -                                                           |
| -                                                                   | -                                                           | -                                                                   | -                                                           |
| 40,104                                                              | 49,558                                                      | -                                                                   | -                                                           |
| 10,884                                                              | 7,959                                                       | -                                                                   | -                                                           |
| 42,433                                                              | 35,562                                                      | -                                                                   | -                                                           |

|                                                                         |       | Non-life activities | Life activities |
|-------------------------------------------------------------------------|-------|---------------------|-----------------|
|                                                                         |       | C0070               | C0080           |
| Linear formula component for life insurance and reinsurance obligations | R0200 |                     | 839             |

| Non-life activities                                                 |                                                | Life activities                                                     |                                                |
|---------------------------------------------------------------------|------------------------------------------------|---------------------------------------------------------------------|------------------------------------------------|
| Net (of reinsurance/SPV) best estimate and TP calculated as a whole | Net (of reinsurance/SPV) total capital at risk | Net (of reinsurance/SPV) best estimate and TP calculated as a whole | Net (of reinsurance/SPV) total capital at risk |
| C0090                                                               | C0100                                          | C0110                                                               | C0120                                          |
| -                                                                   | -                                              | -                                                                   | -                                              |
| -                                                                   | -                                              | -                                                                   | -                                              |
| -                                                                   | -                                              | -                                                                   | -                                              |
| -                                                                   | -                                              | 39,937                                                              | -                                              |
| -                                                                   | -                                              | -                                                                   | -                                              |

## Overall MCR calculation

|                             |       | C0130     |
|-----------------------------|-------|-----------|
| Linear MCR                  | R0300 | 1,088,073 |
| SCR                         | R0310 | 3,360,455 |
| MCR cap                     | R0320 | 1,512,205 |
| MCR floor                   | R0330 | 840,114   |
| Combined MCR                | R0340 | 1,088,073 |
| Absolute floor of the MCR   | R0350 | 3,135     |
| Minimum Capital Requirement | R0400 | 1,088,073 |

## Notional non-life and life MCR calculation

|                                                              |       | Non-life activities | Life activities |
|--------------------------------------------------------------|-------|---------------------|-----------------|
|                                                              |       | C0140               | C0150           |
| Notional SCR excluding add-on (annual or latest calculation) | R0510 | 3,357,865           | 2,590           |
| Notional MCR cap                                             | R0520 | 1,511,039           | 1,166           |
| Notional MCR floor                                           | R0530 | 839,466             | 648             |
| Notional Combined MCR                                        | R0540 | 1,087,234           | 839             |
| Absolute floor of the notional MCR                           | R0550 | 3,135               | 3,135           |
| Notional MCR                                                 | R0560 | 1,087,234           | 3,135           |