# BY YOUR SIDE

AIG EUROPEAN GROUP

**SOLVENCY & FINANCIAL CONDITION REPORT 2017**

## Contents

# EXECUTIVE SUMMARY

**Anthony Baldwin**
Chief Executive Officer

## AIG IN EUROPE

2017 was a year that demonstrated the importance of insurance as an industry, the resilience of our business, and the validity of our focus on our core business lines and on our clients.

In a year where a series of natural catastrophes laid waste to livelihoods and homes, we were able to stand side by side with our clients and help them to get back on their feet, offering immediate support. This combination of unprecedented catastrophes, combined with adverse claims development in other lines of business, impacted performance. However, it is testament to our financial strength that we are able not just to withstand, but also to rebound from these events.

During 2017 we have continued to improve our business mix, increasing the importance of our more profitable lines of business.

We have emphasised the importance of our Claims service offering this year and have had ample opportunity to demonstrate our ability to support our clients in their time of need. I'm proud of our teams and the response they have provided our clients.

We continue to listen to our clients and to create new products and solutions with them and for them. We have been able to customise risk solutions to meet their needs and take on challenges that others may have found too complex. I'm proud of the work we've done to innovate during 2017 and to utilise new technologies to increase efficiency and make it easier for clients to benefit from our products and services.

## NEW MANAGEMENT TEAM AT AIG

In 2017 we welcomed Brian Duperreault back to AIG as Chief Executive Officer of the AIG Group. Brian's return to the business is a testament to the strength and potential of AIG. Brian has appointed a new senior management team including Peter Zaffino who is responsible for the General Insurance business, which includes AIG Europe Limited. We will also welcome back former colleague Chris Townsend to AIG who joins as head of International in 2018.

The focus of this new senior management team is on making AIG the best company it can be. Our aim is to be an industry leader and to provide products and services to our customers to help them navigate an increasingly complex future. We need

**GROWTH OPPORTUNITIES ACROSS EUROPE TO PARTNER WITH OUR CUSTOMERS TO HELP THEM ACHIEVE THEIR AMBITIONS.**

**OUR STRATEGY IS UNDERPINNED BY FIVE KEY PILLARS**

1 **Value Based Management**
Value Based Management, which means we focus on those segments where we have the greatest ability to create value.

2 **Customer Focus**
Customer, which means putting our customer at the centre of everything that we do and delivering an improved client and partner experience.

3 **Operational Efficiency**
Operational Efficiency, which means focusing on process and operational excellence.

4 **Technology**
Technology/IT, by modernising, digitising and mobilising our technology capabilities to better serve our customers and empower our people.

5 **People**
People, meaning we seek to develop, attract and engage with a diverse workforce.

| | AIG Holdings Europe Limited | AIG Europe Limited |
|---|---|---|
| Own Funds | £3,558.6m | £3,676.0m |
| Solvency Capital Requirement | £2,791.4m[1] | £2,523.6m[2] |
| Surplus | £767.2m | £1,152.4m |
| Solvency Ratio | 127.5%[1] | 145.7%[2] |

[1] Partial Internal Model calculation basis

[2] Internal Model calculation basis

to increase our relevance to our clients by meeting their needs in a constantly evolving world.

This means focusing on profitable underwriting. In the year to come we will be blending the art and the science of underwriting and ensuring that we truly understand our clients and are providing service excellence. Underwriting will be enhanced by best-in-class data and claims analytics.

## 2017 COMPANY PERFORMANCE

In 2017, the wider insurance environment remained challenging. Alongside our peers, performance was impacted by a combination of natural catastrophes, continued competitive rate pressure and low investment returns.

These challenges validate our strategy of focusing on underwriting discipline and on those business lines and geographic areas that are most profitable.We grew our most profitable business lines in 2017, notably in Personal Insurance and Financial Lines, whilst continuing to focus on improving returns and reducing volatility across the whole product portfolio.

Our business mix has continued to improve towards more profitable lines of business has continued to improve and net premium written during 2017 rose thanks to growth in these more profitable lines as well as favourable currency movements.

The key loss events during the year were hurricanes Harvey, Irma and Maria during which we were able to support our clients when they needed us most, demonstrating the value of our market-leading claims service, backed by our capital strength. We also saw a number of low-frequency high value claims in the year, arising from prior underwriting years which impacted our loss ratio in 2017.

The losses experienced in the 2017 results come primarily from strategic decision made in previous years to take on more net risk exposures. Through the second half of last year, we took steps to reduce our overall net exposures to these types of losses by focussing on risk selection, lowering overall risk limits and the targeted use of reinsurance.

We also continue to focus on our operating efficiency, and have invested in a number of strategic projects to underpin the effectiveness of our operating platform and build a solid platform for future growth.

Our capital position remains robust. This year, AEL received approval of its internal model for Solvency II purposes which meant that capital surplus rose to 146%. Total equity at 30 November 2017 is £3.2 billion.

We continue to focus on our core capabilities, including claims, 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:

- 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;
- Operational Efficiency, which means focusing on process and operational excellence;
- 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.

## BY YOUR SIDE AT AIG

Handling claims is central to our business. We introduced Claims First during 2017 and we have better defined what clients should expect from our claims service during their time of need. We also used our claims insights to partner with our clients to help them better understand the risks they might face.

During the year our teams have held workshops to help clients plan for various types of crises. We have also continued to dive into the wealth of claims data that we hold to provide insight into claims trends on subjects as diverse as environmental liability to mergers and acquisitions to cyberattacks.

I'm also really proud of the actions taken by our teams in response to the three Atlantic hurricanes. As soon as Hurricanes Harvey, Irma and Maria occurred, AIG Europe's Property Claims team leapt into action, identifying clients at risk and forming a CAT Response team to support them. We had feet on the ground within days and our team were able to ensure business continuity measures were in place, losses were assessed, and interim cash flow payments were released as necessary. Practical support included sourcing generators and a fuel supply for clients in Puerto Rico who would otherwise have gone without power.

## INNOVATION AT AIG

We have continued to innovate at AIG and in 2017 we have led the way in utilising Blockchain technology to meet the changing needs of our clients. Blockchain provides an immutable, secure and transparent shared digital ledger that provides a single view for all participants. In June our multinational team were able to pilot the first multinational "smart contract" based insurance policy on the blockchain working with Standard Chartered plc and IBM. We converted a master policy written in the UK, and three local policies in the US, Singapore and Kenya, into a "smart contract" that provides a shared view of policy data and documentation in real-time.

In a separate project just a few months later our Trade Credit team partnered with TradeIX Limited to complete the first blockchain-enabled trade finance transaction for a global logistics company with financing provided by Standard Chartered. By using the Blockchain our client was able to have real-time visibility to manage customer terms and credit risk. This new use of the digital ledger will make it easier for companies to benefit from trade finance.

Both innovations highlight the collaborative way that we are pursuing these initiatives as they involved partnering both with a client and with a technology partner. Only by collaborating and learning with our clients will we be able to solve the problems of the future.

## OUTLOOK FOR 2018

The macro-economic outlook for 2018 remains challenging. Uncertainty about the outcome of the Brexit negotiations and the future shape of the relationship between the UK and EU continue to weigh on the economic environment and are likely to lead to further currency instability.

AIG began planning for Brexit prior to the UK referendum and in March 2017 we announced our decisive move to locate a new European insurance company in Luxembourg. We are now in the advanced stages of restructuring our business and our solution will be fully operational on 1 December 2018, subject to applicable legal and regulatory approvals. As a result of this restructuring, we will not be dependent on grandfathering legislation or transitional arrangements.

We have created a new European insurance company ("AIG Europe SA") which will have licensed branches across 19 countries, and a new UK insurance company ("American International Group UK Limited"). The inforce book for each of the UK and EEA operations will transfer to the relevant entity. This will eliminate Brexit risks around servicing of claims.

Following the restructure, AIG will have one entity in the UK to write UK business and one in Luxembourg to write business in EEA countries and Switzerland through its branch network. Further information on our Brexit restructure can be found at www.aig.com/brexit.

Our parent group announced in January the acquisition of Validus, a leading provider of reinsurance, primary insurance, and asset management services. This is a significant step forward in our strategy to make AIG a growing, profitable leader in the insurance industry. Validus is an excellent strategic fit for AIG, bringing a great set of franchises across specialized products and regions to our General Insurance business, including an important presence within Lloyd's. It will also expand the bench of our management team and deepen our underwriting expertise.

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 help our clients to prepare so they can face the future with confidence.

**A Baldwin**
Chief Executive Officer

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

| | AIG Holdings Europe Limited | AIG Europe Limited |
|---|---|---|
| Own Funds | £3,558.6m | £3,676.0m |
| Solvency Capital Requirement | £2,791.4m[1] | £2,523.6m[2] |
| Surplus | £767.2m | £1,152.4m |
| Solvency Ratio | 127.5%[1] | 145.7%[2] |

1 Partial Internal Model calculation basis
2 Internal Model calculation basis

## 2017 SOLVENCY AND FINANCIAL CONDITION

This document sets out the Solvency and Financial Condition Report for the AIG European Group in accordance with Solvency II Regulations. The European Group is made up of AIG Holdings Europe Limited (AHEL) and its subsidiaries. The group SFCR also includes the solo solvency and financial condition information for AIG Europe Limited which is shown side-by-side with the AIG European Group information as AEL contributes in excess of 90% of the group Solvency Capital Requirement (SCR). After the adoption of the AHEL Partial Internal Model, the SCR decreased in 2017 which resulted in an amount of Tier 2 Own Funds being ineligible when applying Solvency II Tiering rules.

This group SFCR also includes information on two other insurance subsidiaries. AIG Life Limited is a UK insurance subsidiary, which publishes its own solo SFCR separately and is available at http://www.aiglife.co.uk/. AIG Israel Insurance Company Limited is a non-UK insurance subsidiary based in Israel and is not subject to Solvency II Regulations.

## CAPITAL MANAGEMENT

On 18 July 2017, both the AIG European Group's partial internal model and AEL's internal model were approved for use by the PRA for the calculation of its group and solo SCR.

The AIG European Group and AEL view both the Partial Internal Model and Internal Model to be true representations of its risk profile and continue to monitor its solvency by reference to the Internal Model capital-requirement.

The AIG European Group's Partial Internal Model Solvency Capital Requirement (PIM-SCR) at 30 November 2017 is £2,791.4m. This is covered by £3,558.6m of eligible capital resources, providing a Solvency II surplus of £767.2m and a Solvency II coverage ratio of 127%. 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 Internal Model Solvency Capital Requirement (IM-SCR) at 30 November 2017 is £2,523.6m. This is covered by £3,676.0m of eligible capital resources, providing a Solvency II surplus of £1,152.4m and a Solvency II coverage ratio of 146%. 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 EUROPEAN GROUP DIRECTORS' REPORT

The Directors are responsible for preparing the AIG European Group Solvency Financial Condition Report, including the attached public quantitative reporting templates, in all material respects in accordance with the Solvency II Directive, applicable laws and regulations.

### STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 AIG European Group 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 AIG European Group has complied with all material respects with Solvency II requirements throughout the financial year 2017. The AIG European Group reasonably believes that it will continue to comply with the Solvency II requirements 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 are a director in office at the date this report is approved, confirms that:

- so far as each of them is aware, there is no relevant audit information of which the company's auditors are unaware; and
- 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 AIG European Group 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,

**James Lenton**
Chief Financial Officer

## Directors

The current listing of Directors is as follows:

| | |
|---|---|
| Director | Mr A Baldwin |
| Director | Mr J Lenton |
| Director | Mr C Newby |
| Director | Mr F Brossart |
| Director | Mr A Winslow |
| Independent Non-Executive Director | Mr A Hope |
| Independent Non-Executive Director | Mr M Bowers |
| Independent Non-Executive Director | Mr P Tromp |
| Independent Non-Executive Director | Mr J-M Nessi |

# AIG EUROPE LIMITED DIRECTORS' REPORT

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 the Solvency II Directive, applicable laws and regulations.

## 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 |

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

| | | |
|---|---|---|
| Mr C Newby | Appointed | 25 July 2017 |
| Mr R Schimek | Resigned | 31 October 2017 |

### STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 Solvency II requirements throughout the financial year 2017. The Company reasonably believes that it will continue to comply with the Solvency II requirements 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:

- so far as each of them is aware, there is no relevant audit information of which the company's auditors are unaware; and
- 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,

**James Lenton**
Chief Financial Officer

# INDEPENDENT AUDITORS' REPORT

Report of the external independent auditors to the Directors of AIG Holdings 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 SINGLE GROUP-WIDE SOLVENCY AND FINANCIAL CONDITION REPORT

### Opinion

Except as stated below, we have audited the following documents prepared by the Company as at 30 November 2017:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Single Group-Wide Solvency and Financial Condition Report of the Company as at 30 November 2017, ('**the Narrative Disclosures subject to audit**'); and
- Group templates S.02.01.02, S.23.01.22 and S.32.01.22 ('**the Group Templates subject to audit**').
- Company templates S.02.01.02,S.12.01.02 S.17.01.02, S.23.01.01 and S.28.02.01 in respect of AIG Europe limited ('the group members') ('**the Company Templates subject to audit**').

The Narrative Disclosures subject to audit, the Group Templates subject to audit and the Company Templates subject to audit are collectively referred to as the '**relevant elements of the Single Group-Wide 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:

- Information contained within the relevant elements of the Single Group-Wide Solvency and Financial Condition Report set out above which is, or derives from the Solvency Capital Requirement, as identified in the Appendix to this report;
- The 'Executive Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Single Group-Wide Solvency and Financial Condition Report;
- Group templates S.05.01.02, S.05.02.01 and S.25.02.22;
- Company templates S.05.01.02, S.05.02.01, S.19.01.21 and S.25.03.21;
- The written acknowledgement by management of their responsibilities, including for the preparation of the Single Group-Wide Solvency and Financial Condition Report ('**the Responsibility Statement**');

To the extent the information subject to audit in the relevant elements of the Single Group-Wide Solvency and Financial Condition Report includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the relevant elements of the Single Group-Wide Solvency and Financial Condition Report of the Company as at 30 November 2017 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) (ISAs (UK)) including ISA (UK) 800 and ISA (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 Single Group-Wide Solvency and Financial Condition Report* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Single Group-Wide Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the Single Group-Wide Solvency and Financial Condition Report is not appropriate; or
- the directors have not disclosed in the Single Group-Wide Solvency and Financial Condition Report any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Single Group-Wide Solvency and Financial Condition Report is authorised for issue.

### Emphasis of Matter – Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' of the Single Group-Wide Solvency and Financial Condition Report, which describe the basis of accounting. The Single Group-Wide 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 Single Group-Wide 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 Single Group-Wide Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

### Other Information

The Directors are responsible for the Other Information.

Our opinion on the relevant elements of the Single Group-Wide Solvency and Financial Condition Report does not cover the Other Information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Single Group-Wide Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Single Group-Wide Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the Single Group-Wide Solvency and Financial Condition Report or a material misstatement of the Other Information. 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.

### Responsibilities of Directors for the Single Group-Wide Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Single Group-Wide Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations which have been modified by the modifications, and supplemented by the approvals and determinations made by the PRA under section 138A of FSMA, the PRA Rules and Solvency II regulations on which they are based, as detailed below:

#### Modifications

- Permission to publish a Single Group-Wide SFCR

#### Approvals

- Approval of items of ancillary own funds
- Approval to use a full or partial internal models

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Single Group-Wide 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 Single Group-Wide Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the information subject to audit in the relevant elements of the Single Group-Wide Solvency and Financial Condition Report is prepared, in all material respects, in accordance with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Single Group-Wide Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the Single Group-Wide Solvency and Financial Condition Report.

A further description of our responsibilities for the audit is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' 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.

### Other Matter

The Company has authority to calculate its Group Solvency Capital Requirement using a partial internal model ('the Group Model') approved by the Prudential Regulation Authority in accordance with the Solvency II Regulations. The group members have authority to calculate their Solvency Capital Requirements using partial internal models ('the Solo Models') approved by the Prudential Regulation Authority in accordance with the Solvency II Regulations. In forming our opinion (and in accordance with PRA Rules), we are not required to audit the inputs to, design of, operating effectiveness of and outputs from the Group Model and the Solo Models, or whether the Group Model and the solo Models are being applied in accordance with the Company's and the group members' application or approval order.

### 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 also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit 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

**PricewaterhouseCoopers LLP**
Chartered Accountants
7 More London Riverside, London SE1 2RT, UK
17 May 2018

### APPENDIX – RELEVANT ELEMENTS OF THE SINGLE GROUP-WIDE SOLVENCY AND FINANCIAL CONDITION REPORT THAT ARE NOT SUBJECT TO AUDIT

The relevant elements of the Single Group-Wide Solvency and Financial Condition Report that are not subject to audit comprise:

The following elements of Group template S.02.01.02:

- Row R0550: Technical provisions – non-life (excluding health) – risk margin
- Row R0590: Technical provisions – health (similar to non-life) – risk margin
- Row R0640: Technical provisions – health (similar to life) – risk margin
- Row R0680: Technical provisions – life (excluding health and index-linked and unit-linked) – risk margin
- Row R0720: Technical provisions – Index-linked and unit-linked – risk margin

The following elements of Group template S.12.01.02

- Row R0100: Technical Provisions as a sum of BE and RM - Risk Margin

The following elements of Group template S.23.01.22

- Row R0020: Non-available called but not paid in ordinary share capital at group level
- Row R0060: Non-available subordinated mutual member accounts at group level
- Row R0080: Non-available surplus at group level
- Row R0100: Non-available preference shares at group level
- Row R0120: Non-available share premium account related to preference shares at group level
- Row R0150: Non-available subordinated liabilities at group level
- Row R0170: The amount equal to the value of net deferred tax assets not available at the group level
- Row R0190: Non-available own funds related to other own funds items approved by supervisory authority
- Row R0210: Non-available minority interests at group level
- Row R0380: Non-available ancillary own funds at group level
- Row R0680: Group SCR

- Row R0740: Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds
- Row R0750: Other non available own funds

The following elements of Company template S.02.01.02:

- Row R0550: Technical provisions – non-life (excluding health) – risk margin
- Row R0590: Technical provisions – health (similar to non-life) – risk margin
- Row R0640: Technical provisions – health (similar to life) – risk margin
- Row R0680: Technical provisions – life (excluding health and index-linked and unit-linked) – risk margin
- Row R0720: Technical provisions – Index-linked and unit-linked – risk margin

The following elements of Company template S.17.01.02

- Row R0280: Technical provisions calculated as a sum of BE and RM –Risk margin

The following elements of Company template S.23.01.01

- Row R0580: SCR
- Row R0740: Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

The following elements of Company template S.28.02.01

- Row R0310: SCR

Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.

## SOLVENCY & FINANCIAL CONDITION REPORT 2017

# A. BUSINESS AND PERFORMANCE

This section of the report sets out the details of AIG European Group's business structure, key operations, market positon and the financial performance for 2017.

**KEY ELEMENTS OF THE SECTION ARE:**

- Business information;
- Underwriting Performance;
- Investment Performance; and
- Performance from other activities.

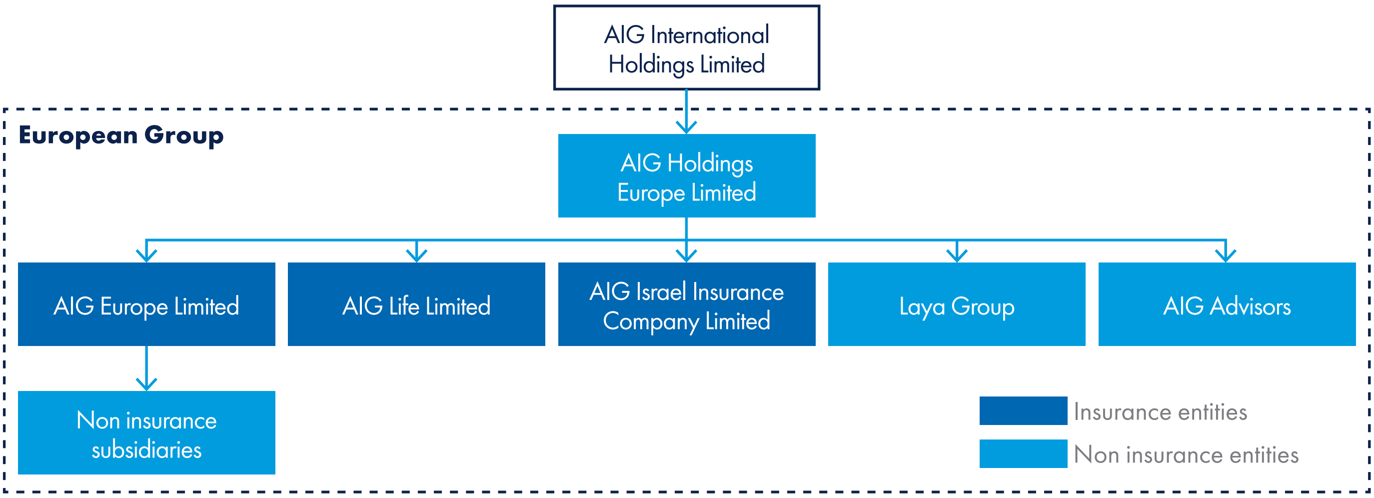
## A.1 BUSINESS

### European Group information

The European Group is made up of AIG Holdings Europe Limited (AHEL) and its subsidiaries. The group is formed in a simple structure so as to enable efficient decision making and delegation of responsibilities.The component entities of the European Group are fairly autonomous in their own right.

AHEL is a wholly owned subisdiary of AIG International Holdings Limited, a Swiss incorporated company. Its ultimate parent company AIG Inc., a company incorporated in the State of Delaware, United States of America with headquarters in New York City.

A simplified group structure as at 30 November 2017 is shown in the diagram below:



AIG Europe Limited (AEL) and AIG Life Limited (AIG Life) are insurance companies incorporated in the United Kingdom and registered in England and Wales. They are authorised and regulated by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). AEL is the core subsidiary of the European Group, representing 93% of the Group's net assets as at 30 November 2017. AEL is a multiline insurance company writing substantially all lines of property and casualty insurance. Major lines of insurance written include commercial, personal and consumer, accident and health and specialty coverage.

AEL and AIG Life are both in scope of Solvency II.

This Single Solvency and Financial Condition Report (SFCR) is prepared in accordance with Article 256(2) of the Solvency II Directive and paragraph 3 from the Reporting Section of PRA's Rulebook and covers both AHEL and AEL.

The AIG Life 2017 SFCR report is separately reported and available for download from http://www.aiglife.co.uk/.

The Solvency and Financial Condition Report (SFCR) is presented in millions of pounds sterling, and the attached public quantitative reporting templates (QRTs) in Appendix F 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 European Group's third insurance company, AIG Israel Insurance Company Limited (AIG Israel) has been granted licence by the Israeli Commissioner of the Capital Markets and Insurance (ICCMI) to write general and life insurance business in Israel.

AIG Israel is not in scope of Solvency II, however for the purpose of calculation of the Group's solvency position, its capital resources and requirements are valued in accordance with Solvency II rules and regulations as applicable.

The European Group's registered office address and the contract details of its external auditors and supervisory authorities 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 EC2R 6DA
+44 (0) 20 7583 5000

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

The single SFCR has been authorised for issue by the Board of Directors on 17 May 2018.

## Material participating undertakings

The European Group's participating undertakings as at 30 November 2017 are listed in the table below.

| Participation | Principal Activity | Country | Ownership |
|---|---|---|---|
| AIG Europe Limited | UK composite insurer operating across 27 countries in Europe. | UK | 100% |
| AIG Life Limited * | UK life insurer specialising in protection products | UK | 100% |
| AIG Israel Insurance Company Limited * | Israel insurer specialising in retail general, life and health insurance policies | Israel | 100% |
| Avondhu Limited * | Holding company for Laya Healthcare Limited (Laya Group) | Jersey | 100% |
| Laya Healthcare Limited * | Provision of insurance intermediary services in the Irish market | Ireland | 100% |
| AIG Advisors Srl | Provision of insurance intermediary services to affiliates within the AIG Inc. group | Italy | 100% |
| AIG Europe (Services) Limited | Provision of operational and administrative services to affiliates within the AIG Inc. group | UK | 100% |
| AIG Medical Management Services UK Limited | Provision of case management and occupational health services | UK | 100% |
| AIG Receivables Management Limited | Provision of technology based receivables management products | UK | 100% |
| AIG Trade Finance Limited | Provision of technical knowledge in trade finance | UK | 100% |
| AIG Global Reinsurance Operations Limited | Provision of (re)insurance intermediary services within the AIG Inc. group | Belgium | 100% |
| AIG Germany Holdings | Holding company for Wynona 1837 GmbH | Germany | 100% |
| Wynona 1837 GmbH | Sole purpose is to manage an interest entitling it to a share of profits of AEL's German branch | Germany | 100% |
| Hansa GmbH | General Partner and Managing Director of Hansa KG. | Germany | 100% |
| Hansa KG | Real estate management | Germany | 94.499% |
| Privilege Holdings Sarl * | Real estate management | Luxembourg | 50% |
| Habitus Holdings Sarl * | Real estate management | Luxembourg | 50% |
| Privilege Southampton Sarl * | Real estate management | Luxembourg | 50% |
| Privilege Cardiff Sarl * | Real estate management | Luxembourg | 50% |
| Trivium Lozorno Sarl | Real estate management | Slovakia | 50% |
| Trivium Urban Logistics | Real estate management | Jersey | 50% |
| CI Group | Provision of commercial insurance brokerage and intermediary services | UK | 20% |

* Entities with 31 December year end. These entities are consolidated on a quarter-lag basis with adjustments for any material non-routine transactions during the lag period.

AEL, the largest subsidiary of the European Group, operates from 27 country branches. AEL has passporting rights in 6 other EEA countries including Croatia, Estonia, Gibraltar, Iceland, Latvia and Slovenia but it is currently not actively pursuing business in these countries. AIG Israel operates from Israel and AIG Life operates from the UK, Channel Islands, Isle of Man and Gibraltar. The European Group does not have any branches. It employs more than 4,543 staff, who facilitate the operation of a company that specialises in dealing with the top end of the global insurance market, particularly multinational corporations, where AIG's wide global reach, product range and large capital base can be used to write business in smaller countries and leverage the size of the group through use of global reinsurance treaties.

The European Group solvency position is calculated using Method 1: Accounting Consolidation as prescribed in Article 230 of the Solvency II Directive. Using this method, insurance holding companies, insurance undertakings and ancillary service undertakings are fully consolidated. The entities that do not fall within one of those three classifications are consolidated using the adjusted equity method.

AHEL has taken advantage of the exemption in Section 401 of Companies Act 2006 from the requirement to produce consolidated financial statements.

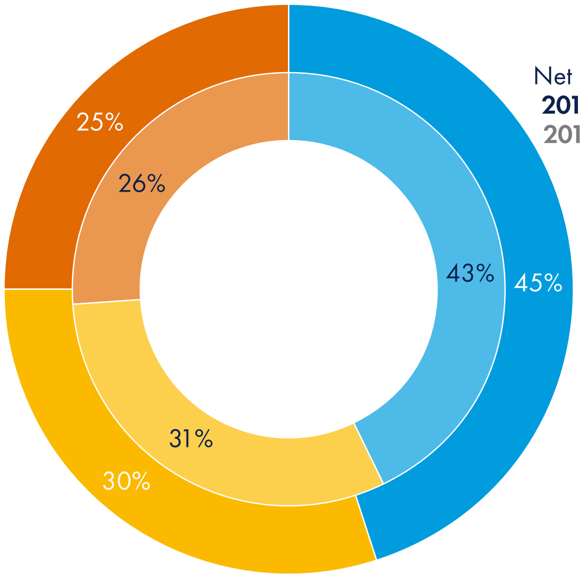
## AIG EUROPEAN GROUP MATERIAL LINES OF BUSINESS BY OPERATING SEGMENT AND SOLVENCY II

AEL, as the core insurance subsidiary, contributed 92.8% of the European Group's aggregated net written premiums for FY2017. AEL's business segments are organised into Commercial and Consumer lines. Commercial lines refer to products and services for the commercial and institutional customers. This line represents around 74% of the AEL's net premiums written. Product lines include traditional types such as general liability, property and financial lines; and highly specialised ones for political risk, cyber security and aviation. Consumer lines focus on customer-centric services, innovating product offerings and developing strong distribution relationships. Main product types in this segment are personal accident, income protection and medical expense cover.

AIG Israel contributed 4.7% of the European Group's aggregated net written premium for FY2017. The majority of AIG Israel's business is on the consumer side, these being retail policies which are marketed, sold and serviced directly to customers either through call centres or online. Most of the commercial business and a small proportion of its retail business is also sold through intermediaries.

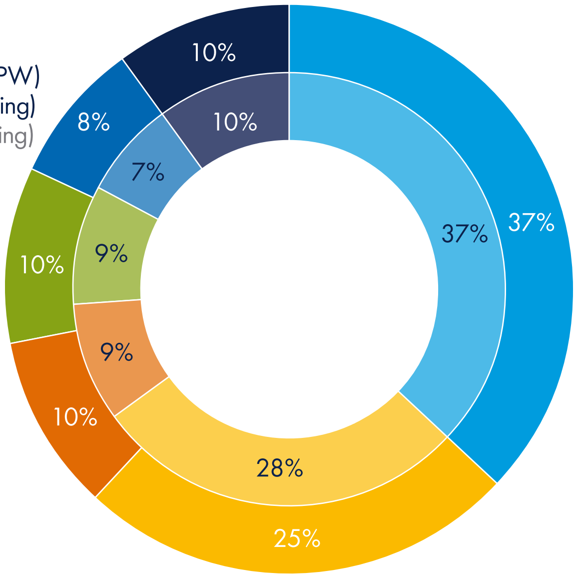
AIG Life contributed 2.5% of the European Group's aggregated net written premium for FY2017. AIG Life is a provider of long term life insurance, critical illness and income protection products. Products are sold through intermediaries and distribution partnerships. All of AIG Life's products are considered to belong within two business segments, Life and Health.

### Insurance LoB and operating segments



Net Premiums Written (NPW)
**2017: £4,072.9**m (outer ring)
**2016: £3,937.2**m (inner ring)

### Solvency II LoB



🟦 Liability and Financial Lines (LFL)
Constitutes the largest section of the Commercial insurance segment of the Company at 45% of Net Premiums Written in 2017 (2016: 40%). AEL 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.

🟨 Property and Special Risks (PSR)
Represents the Company's second largest Commercial insurance segment at 30% of Net Premiums Written in 2017 (2016: 31%) and Includes Property Insurance products for Commercial Properties, Upstream and Downstream Energy, Power Generation, Oil Rig, Chemicals, Mining and Construction and Speciality Insurance products.

🟧 Personal Insurance (PI)
Amounts to 25% of Net Premiums Written in 2017 (2016: 26%) for the Company and includes Personal Accident and Health, Personal Property, Personal Auto and Service Programmes.

🟩 Life and Health insurance (LAH)
Amounts to 4% of Net Premiums Written in 2017 (2016: 4%) 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 Group's top 5 material Solvency II LoBs by Net Premiums Written in 2017 are:

🟦 General Liability (37%)

🟨 Fire and other damage to property (25%)

🟧 Income protection (10%)

🟩 Marine, aviation and transport (10%)

🟦 Motor vehicle liability (8%)

⬛ "Others" Solvency II LoB consist largely of Medical.
Expense Insurance, Miscellaneous Financial Loss insurance and Credit and Suretyship insurance, collectively representing c.15% of the European Group's net premiums written.

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

### Internal Model Approval

On 18 July 2017, AIG Holding Europe Limited received approval from the PRA to calculate its Solvency Capital Requirement using Partial Internal Model whilst the AIG Europe Limited received approval from the PRA to calculate its Solvency Capital Requirement using the Internal Model in place of the Standard Formula. The Standard Formula SCR is a one size fits all capital calculation model which provides for a generic benchmark which comprises of standardised risk modules calculated using a number of pre-determined factors called helper tabs and aggregated through EIOPA-specified correlation matrices.

Whilst the Standard Formula SCR is a good fit for most insurance firms with relatively low variety of insurance product offerings and straightforward investment strategy, it has inherent limitations. The Standard Formula SCR is more rigidly defined, formulaic and not calibrated to accurately reflect the complexities of a diverse multinational insurance firm such as AIG Europe.

The Company's internal model is a better reflection of its capital requirements on a true economic basis and better aligned to its business model. The internal model approval demonstrates the regulator's confidence in its technical modelling capabilities and in the Board and Management's understanding of the model and the effectiveness of the governance supporting the model and its use in the business, as describe in Section B System of Governance in this report.

The methodology and assumptions driving the difference between the Company's Internal Model and the Standard Formula is provided in Capital Management (Section E).

### Brexit

Since AIG's announcement of its post-Brexit plans in March 2017, the Company has made considerable progress towards establishing a new company in Luxembourg. AIG is working closely with the CAA (Commissariat aux Assurances), Luxembourg's insurance regulator, to ensure that the new set up receives the necessary approvals to commence its European insurance operations with minimal business disruptions while ensuring AIG's policyholders interests are protected.

As part of its Brexit preparatory work, AIG will set up ledgers, systems and forward operations as well as bolstering its physical presence in Luxembourg to ensure business continuity.

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

## A.2 UNDERWRITING PERFORMANCE – EUROPEAN GROUP

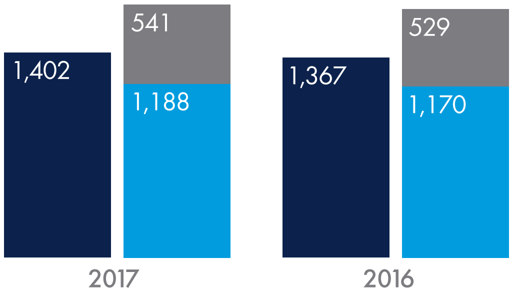
### UNDERWRITING PERFORMANCE BY MATERIAL LINES OF BUSINESS AND GEOGRAPHICAL AREAS

The European Group primarily manages its business by insurance lines of business. 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.A1. AIG Life and AIG Israel are consolidated using their 30 September 2017 financials.

### A.2.A1 Underwriting performance by Solvency II lines of business

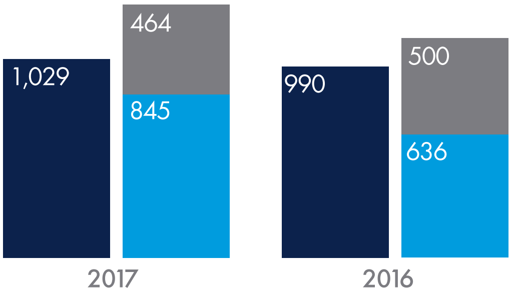
The diagrams below provides key performance indicators for major Solvency II lines of business.

**General Liability**



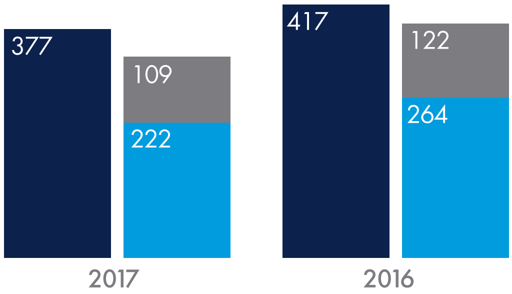
Top line growth driven by profitable segments (mostly UK) mitigated by remediation actions in North zone. Loss Ratio slight improvement driven by business mix improvement more than offsetting some adverse loss pick updates.

**Fire and Other Damage to Property**



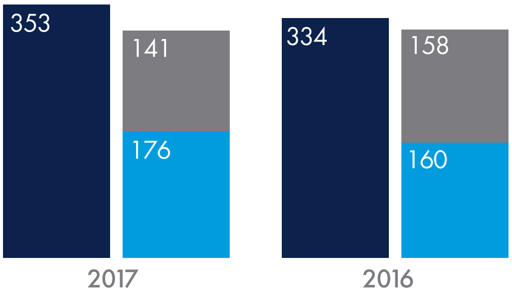
Portfolio underwriting performance impacted by significant natural catastrophe losses (Harvey, Maria, Irma, California wildfires) and increase in attritional loss activity in the Property business. Expenses decrease through net commission management and general overhead discipline.

**Marine, Aviation and Transport**



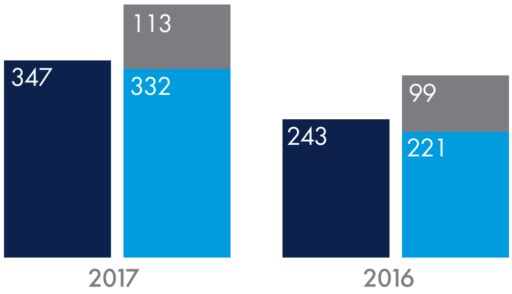
Improved underwriting performance as a result of portfolio optimisation actions undertaken in 2016. The actions included enhanced underwriting selection, technical pricing utilisation and reinsurance structure update.

**Income Protection**



Premiums increase driven by strengthening of Functional CCY vs GBP in 2017. Loss Ratio increase of 2pts YoY driven by PYD benefit in 2016. CR improvement from lower GOE (AIG initiatives to reduce cost and sale of East Zone countries to Fairfax).

**Motor Vehicle Liability**



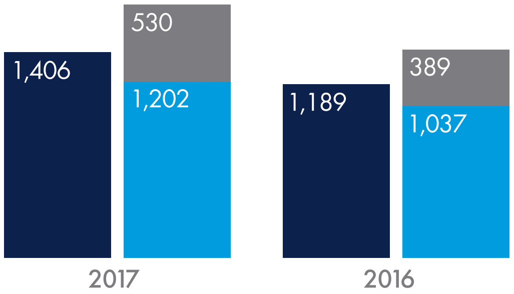
Top line growth mostly driven by UK and France. Loss Ratio increase driven in the UK by Ogden and in Italy, Belgium, & Denmark by deterioration of claim experience.

■ Premiums ■ Claims ■ Expenses

### A.2.A2 Underwriting performance by material geographical areas

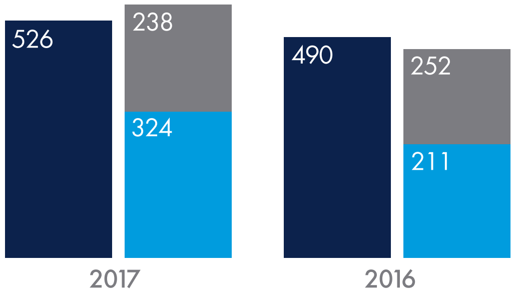
The European Group's material geographical areas are the United Kingdom (33.4%), France (12.5%), Germany (9.2%), Italy (8.1%), Ireland (5.7%) and Spain (4.0%). These six countries make up 72.9% of the Group's Net Premiums Earned in FY 2017. The underwriting performance of each geographic region, as shown in table below, takes into account life and non-life business that relates to that region.

**United Kingdom**



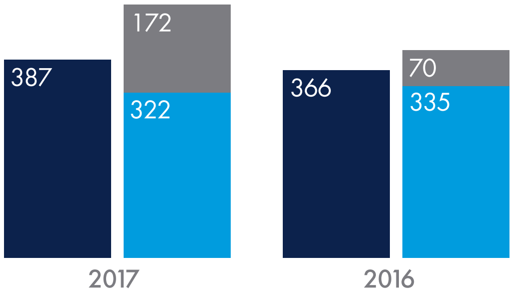
Increase partially driven by hurricane losses impacting Property and Marine businesses partially offset by lower severe losses incurred in 2017.

**France**



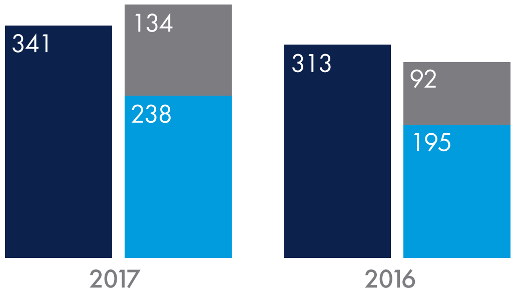
Net premium earned increased by 7.3%. Losses impacted by hurricanes Harvey and Imra.

**Germany**



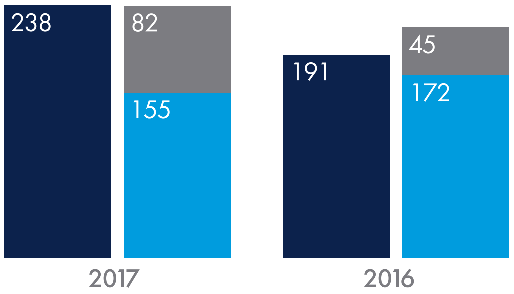
LR improvement driven by Casualty large losses booked in 2016 in Excess Casualty (adverse PYD and AY L/R updates) and remediation actions executed in 2017 to improve business mix and profitability of the book.

**Italy**



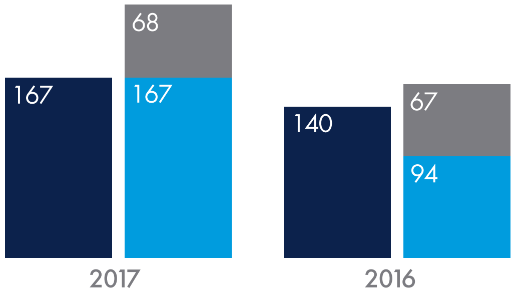
The Italian market experienced moderate growth in net premiums earned due to higher premium retention and strengthening in foreign exchange rates against the pound sterling.

**Ireland**



The Irish market experienced moderate growth in net premiums earned due to higher premium retention and strengthening in foreign exchange rates against the pound sterling.

**Spain**



LR increase driven by Casualty deterioration of loss experience in 2017 (with adverse PYD and AY L/R updates)

■ Premiums ■ Claims ■ Expenses

## A.2 UNDERWRITING PERFORMANCE – AIG EUROPE LTD

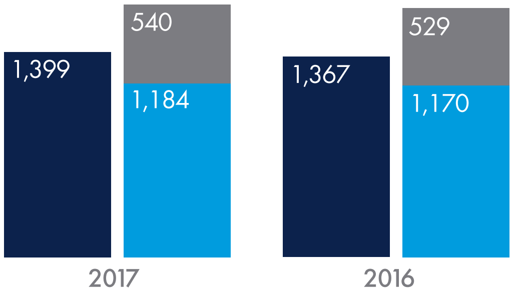
## UNDERWRITING PERFORMANCE BY MATERIAL LINES OF BUSINESS AND GEOGRAPHICAL AREAS

### A.2.B AIG Europe Limited

A.2.B1 Underwriting performance by Solvency II lines of business

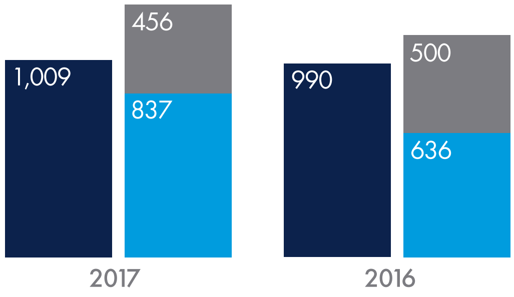
The diagram below provides key performance indicators for major Solvency II lines of business. Page 10 provides how these are aligned to management view of insurance lines of business:

**General Liability**



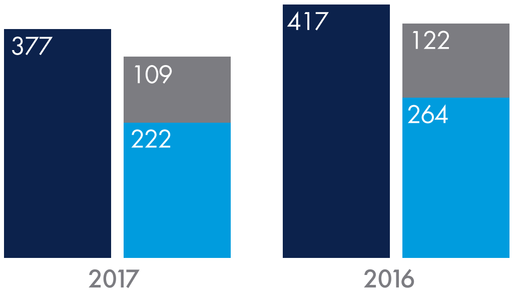
Top line growth driven by profitable segments (mostly UK) mitigated by remediation actions in North zone. Loss Ratio slight improvement driven by business mix improvement more than offsetting some adverse loss pick updates.

**Fire and Other Damage to Property**



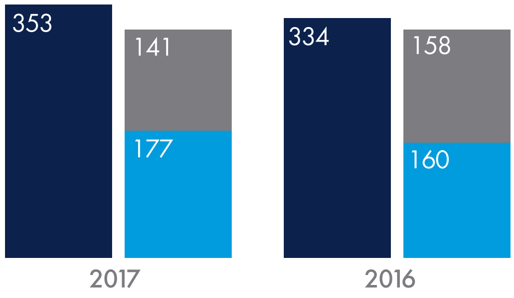
Portfolio underwriting performance impacted by significant natural catastrophe losses (Harvey, Maria, Irma, California wildfires) and increase in attritional loss activity in the Property business. Expenses decrease through net commission management and general overhead discipline.

**Marine, Aviation and Transport**



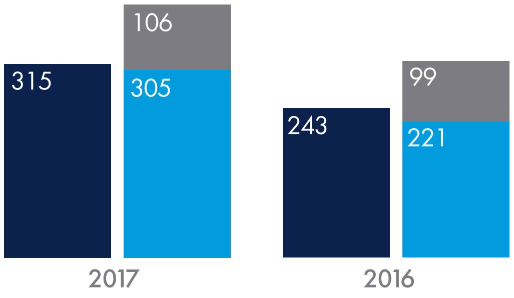
Improved underwriting performance as a result of portfolio optimisation actions undertaken in 2016. The actions included enhanced underwriting selection, technical pricing utilisation and reinsurance structure update.

**Income Protection**



Premiums increase driven by strengthening of Functional CCY vs GBP in 2017. Loss Ratio increase of 2pts YoY driven by PYD benefit in 2016. CR improvement from lower GOE (AIG initiatives to reduce cost and sale of East Zone countries to Fairfax).

**Motor Vehicle Liability**



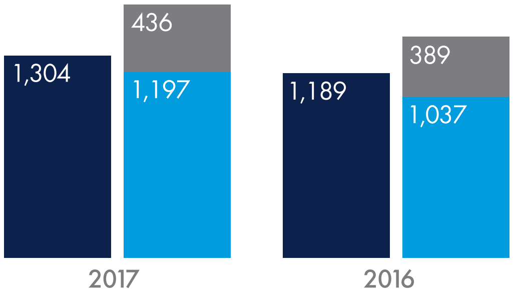
Top line growth mostly driven by UK and France. Loss Ratio increase driven in the UK by Ogden and in Italy, Belgium, & Denmark by deterioration of claim experience.

■ Premiums ■ Claims ■ Expenses

### A.2.B2 Underwriting Performance by Material Geographical Area

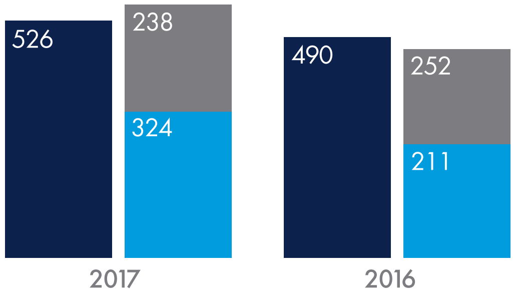
For AIG Europe Limited, the material geographical areas are the United Kingdom (33.4%), France (13.5%), Germany (9.9%), Italy (8.7%), Ireland (6.1%) and Spain (4.3%). These six countries make up 75.9% of AIG Europe Limited's Net Premiums Earned in FY 2017. The underwriting performance of each geographic region, as shown in table below, takes into account life and non-life business that relates to that region.

**United Kingdom**



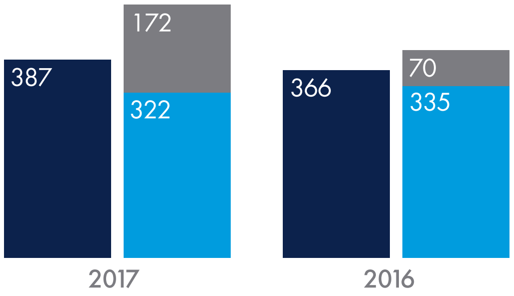
Increase partially driven by hurricane losses impacting Property and Marine businesses partially offset by lower severe losses incurred in 2017.

**France**



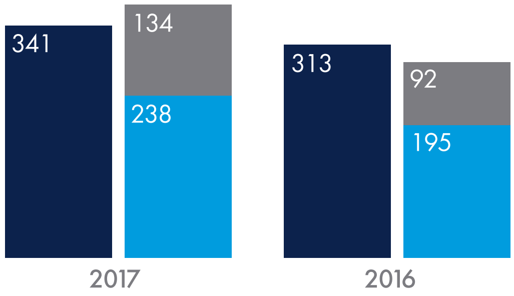
Net premium earned increased by 7.3%. Losses impacted by hurricanes Harvey and Imra.

**Germany**



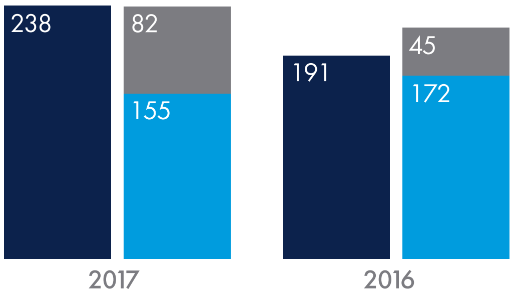
LR improvement driven by Casualty large losses booked in 2016 in Excess Casualty (adverse PYD and AY L/R updates) and remediation actions executed in 2017 to improve business mix and profitability of the book.

**Italy**



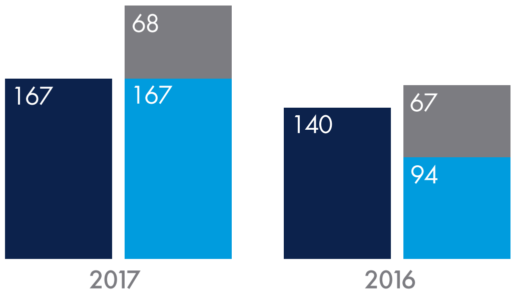
The Italian market experienced moderate growth in net premiums earned due to higher premium retention and strengthening in foreign exchange rates against the pound sterling.

**Ireland**



The Irish market experienced moderate growth in net premiums earned due to higher premium retention and strengthening in foreign exchange rates against the pound sterling.

**Spain**



LR increase driven by Casualty deterioration of loss experience in 2017 (with adverse PYD and AY L/R updates)

■ Premiums ■ Claims ■ Expenses

## A.3 INVESTMENT PERFORMANCE

### A.3.A AIG European Group Investment Return

Investment performance is defined as net investment income, realised and unrealised gains and losses less investment management expenses.

The European Group's investment performance by asset class for FY 2017 and 2016 are shown in the table below:

| Asset Classes £m | Gross Investment Income | | Realised Gains and Losses (incl. forex) | | Unrealised Gains and Losses (incl. forex) | | Total Investment Return | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Corporate Bonds | 170.5 | 224.1 | 17.0 | 209.1 | (60.6) | 558.0 | 127.0 | 991.3 |
| Government Bonds | 90.9 | 78.2 | 3.0 | 71.5 | (98.0) | 204.8 | (4.1) | 354.4 |
| Securitised Assets | 1.2 | 7.6 | 5.7 | 49.9 | 0.1 | 8.3 | 7.0 | 65.8 |
| Mutual Funds | 0.0 | 0.2 | (0.9) | 9.8 | 0.9 | 1.37 | 0.0 | 11.4 |
| Equity Instruments | 0.3 | 0.6 | 0.0 | (0.5) | 0.0 | – | 0.3 | 0.1 |
| Loan Participations | 8.9 | 0.9 | 3.3 | 3.8 | (2.7) | 13.5 | 9.5 | 18.2 |
| Short Term Deposits | 2.5 | 3.6 | 0.0 | – | 0.0 | (0.1) | 2.5 | 3.4 |
| **Total *** | **274.3** | **315.1** | **28.2** | **343.6** | **(160.3)** | **785.9** | **142.1** | **1,444.6** |

*AIG Life and AIG Israel are consolidated using their 30 September financials.

£142.1m of total investment returns are made up of:

- £160.3m unrealised losses driven by the weakening of GBP against major currencies following the EU Referendum, given that a significant proportion of the European Group's investments are denominated in EUR and USD.
- £28.2m realised gains on maturities and disposals are driven by a fall in interest rates and favourable credit spread movements.
- £274.3m investment income representing coupon payments from corporate and government bonds.

The European Group incurred investment management expenses of £14.7m during the reporting period.

### A.3.B AIG Europe Limited Investment Return

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 order to achieve this objective, the Company holds a diversified investment portfolio that is invested in government bonds, corporate bonds, securitised assets, loans, mutual funds, equities, investments in group undertakings and cash.

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 unrealised gains/losses on financial assets arise from Available for Sale (AFS) instruments only and are recognised directly in equity.

| Asset Classes £m | Gross Investment Income | | Investment Expenses | | Net Investment Income (NII) | | Realised Gains and Losses | | Unrealised Gains and Losses (recognised in Equity) | | Forex gains and losses | | Total Investment Return | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Corporate Bonds | 132.8 | 156.2 | (8.7) | (8.8) | 124.1 | 147.5 | 41.9 | 17.4 | (47.4) | (2.5) | (38.5) | 449.2 | 80.1 | 611.5 |
| Government Bonds | 33.4 | 45.5 | (7.0) | (4.5) | 26.4 | 41.0 | 6.4 | 12.5 | (27.0) | (1.7) | (15.5) | 244.0 | (9.8) | 295.8 |
| Securitised Assets | 3.2 | 16.9 | (0.1) | (1.3) | 3.1 | 15.6 | 10.8 | 17.5 | (5.1) | 7.7 | – | 27.7 | 8.8 | 68.6 |
| Mutual Funds | – | – | – | (0.3) | – | (0.3) | 0 | 37.4 | 0.1 | (42.3) | – | 10.0 | 0.1 | 4.8 |
| Equity Instruments | 0.4 | 0.3 | – | – | 0.4 | 0.3 | 0 | – | – | – | – | – | 0.4 | 0.3 |
| Loan Participations | 13.1 | 11.2 | (0.9) | (0.5) | 12.3 | 10.7 | 0 | – | – | – | 3.1 | 15.6 | 15.4 | 26.3 |
| Short Term Deposits | 2.3 | 2.0 | (0.2) | – | 2.1 | 2.0 | 0 | – | – | – | – | – | 2.1 | 2.0 |
| **Total** | **185.2** | **232.1** | **(16.9)** | **(15.4)** | **168.4** | **216.8** | **59.1** | **84.8** | **(79.4)** | **(38.8)** | **(50.9)** | **746.5** | **97.1** | **1,009.3** |

The split of Total investment return of £97.1m by components and by assets classes is given below and it is mainly driven by:

1) £168.4m NII mainly driven by interest income of Corporate Bonds. The fall in NII is driven by low yields on bonds.
2) £59.1m realised gains on disposal and maturity of bonds.
3) Partly offset by £79.4m unrealised losses and £50.9m foreign exchange losses due to strengthening of GBP against US Dollar and Euro.

#### Gains and losses recognised in equity

Net unrealised losses recognised in equity for 2017 amount to £79.4m (2016: £38.8m) mainly attributable to fall in price of bonds due to corporate spread widening and increase in interest rates.

#### Investments in securitisation

The Company does not sponsor or transfer assets to, or act as the servicer to these asset-backed structures, and the Company is not involved in the design of these entities.

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

| Investments in Securities, £m | 2017 | 2016 |
|---|---|---|
| RMBS | – | 254.4 |
| CMBS | 54.3 | 60.7 |
| **Total** | **54.3** | **315.1** |

## A.4 PERFORMANCE FROM OTHER ACTIVITIES

### A.4.A AIG European Group

No other activities are material to the AIG European Group.

### A.4.B AIG Europe Limited

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

### Other material income and expenses

| Other material income and expenses, £m | 2017 | 2016 |
|---|---|---|
| Net foreign exchange (losses)/gains | 89.6 | (33.8) |
| Administrative expenses | 687.2 | 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 inccured 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 2017, the Company held annual commitments in respect of non-cancellable operating leases. The Company is committed to payments during 2018 which are expected to be £11.1m.

The total of future minimum lease payments under non-cancellable operating leases on land and buildings are £49.0m in 2017 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 2017 | 11.1 | 24.4 | 13.5 | 49.0 |
| Future minimum lease payments 2016 | 14.8 | 20.0 | 5.6 | 40.4 |

The Company expects to receive total future sublease payments of £6.5m in relation to non-cancellable operating leases on properties over the next 8 years.

## A.5 ANY OTHER MATERIAL INFORMATION

### A.5.A AIG European Group

The details of significant intra-group transactions during the reporting period are:

- AIG Europe Limited (AEL) issued a £50m subordinated debt to AIG Europe Holdings Limited (AEHL) on 17 August 2012. Interest is charged at LIBOR + 3% per annum. On 1 June 2016, the loan was novated to International Holdings GmbH and ceased to be an intra-group loan. Between 1 December 2015 and 1 June 2016, interest of £0.9m was paid by AEL to AEHL in respect of this loan. Further details are available in QRT S.36.01.
- AIG Life issued a £41m subordinated debt to AIG Europe Holdings Limited (AEHL) on 31 December 2014. Interest is charged at LIBOR + 3.5% per annum. On 1 June 2016, the loan was novated to AIG Holdings Europe Limited (AHEL). On 1 July 2016, £26m of the subordinated debt was capitalised. During FY2017, interest of £0.6m was charged in respect of this loan. Further details are available in QRT S.36.01.
- AEHL issued a £76m loan to AEL on 2 September 2015. Interest is charged at 1.23% per annum. On 1 June 2016, the loan was novated to AIGIH and ceased to be an intra-group loan. Between 1 December and 1 June 2016, interest of £0.8m was paid by AEHL to AEL in respect of this loan. Further details are available in QRT S.36.01.
- During FY2017, AIG Europe Services Limited (AESL) provided administrative services to AEL, for which the latter was charged £19.4m. Further details are available in QRT S.36.04.

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

### A.5.B AIG Europe Limited

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

### A.5.C AIG Life Limited

In July 2017 AIG Life launched a partnership arrangement with Royal Bank of Scotland (RBS) to sell our protection products. The company continues to execute its partnership strategy and has agreed a partnership with a building society which will commence in 2018.

Approval was received for the use of a transitional measure on Technical Provisions (TMTP) in September 2017.

## SOLVENCY & FINANCIAL CONDITION REPORT 2017

# B. SYSTEM OF GOVERNANCE

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

**KEY ELEMENTS OF THE SECTION ARE:**

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

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

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

### B1A. Management and governance structure

The European Group's business strategy and operations operate within its governance structure, of which the management of risk plays a significant part. Governance starts with the European Group'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 European Group.

Included in the governance framework is the risk management framework which supports the European Group's risk culture. The risk framewok covers the Company's business and operations 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.

It is designed to support the Company's 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 Company's risk governance framework.

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

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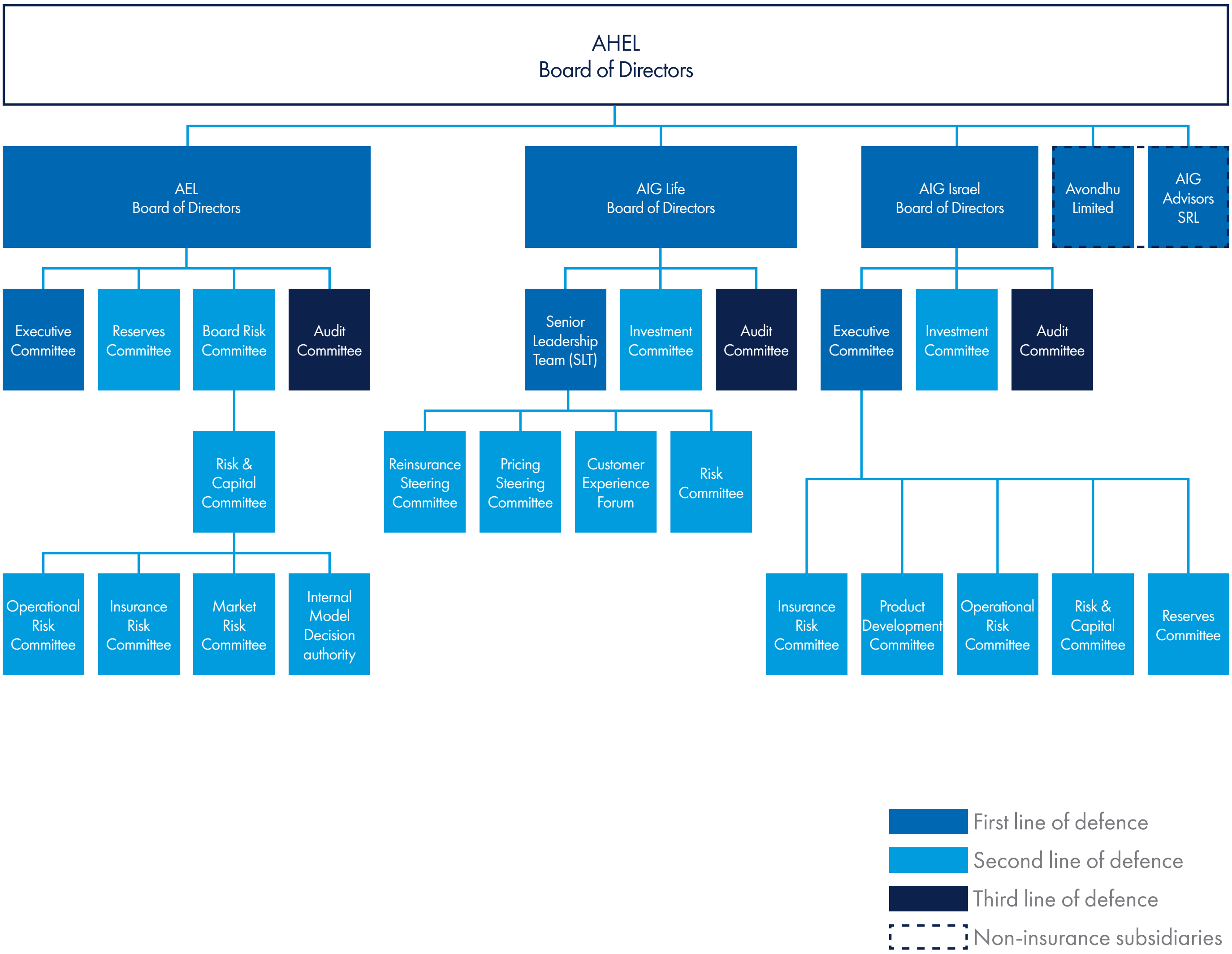
## EUROPEAN GROUP STRUCTURE



## EUROPEAN GROUP BOARD

The European Group's Board has overall responsibility for the management of the Company. As the holding company of the European Group, the Group Board is in particular responsible for ensuring it has visibility across all its subsidiaries so that it is able to identify risks present within the European Group to which insurers and their policyholders may be exposed which are not apparent when looking at the solo entities, and that effective controls are in place. The Board is also responsible for ensuring that the Group solvency capital requirement is met and that the Company adheres to applicable regulations under the Solvency II legislation, including various reporting obligations.

The Board meets at least four times a year with more frequent meetings as required. It is composed of a mix of AEL executive directors, Independent Non-Executive Directors and AIG Life executive directors 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 taking.

### Allocation of responsibilities

The European Group's system of governance is broadly aligned to its organisation structure above. The AHEL Board is able to fulfil its duties through the reporting required under its Terms of Reference controlled through the use of a standing items schedule, including assurance function reporting.

The AHEL Board delegates the governance of its subsidiaries to the Boards of AEL, AIG Life, AIG Israel and its two other non-insurance entities, Laya Group and AIG Advisors SRL. This system of governance model avoids duplicative and disproportionate reviews at the AHEL Board level and is both adequate and appropriate for the level of complexity to the role of a holding company. The underlying insurance subsidiaries have appropriate and adequate governance structures including properly constituted sub committees in compliance with local laws and regulation.

All three of AHEL's insurance subsidiaries, AEL, AIG Life and AIG Israel are regulated and have properly constituted unitary boards, appropriately structured committees and executive management teams. They also have specific personnel dedicated to the 'controlled functions' (Compliance, Risk and Audit).

The core documentation, which supports the allocation of responsibilities, is as follows:

1) AHEL Group Governance Policy;
2) AIG Europe Limited Governance Playbook;
3) Governance Maps for AIG Life and AEL;
4) SIMR documentation including Fit and Proper Policy for AIG Life and AEL;
5) Structure charts (updated each quarter);
6) Documented roles and responsibilities for all members of the Executive Committee ('ExCo'), the Board and the controlled functions (held by Company Secretariat);

Similar governance structures are in place for AIG Israel, appropriate to its size and complexity.

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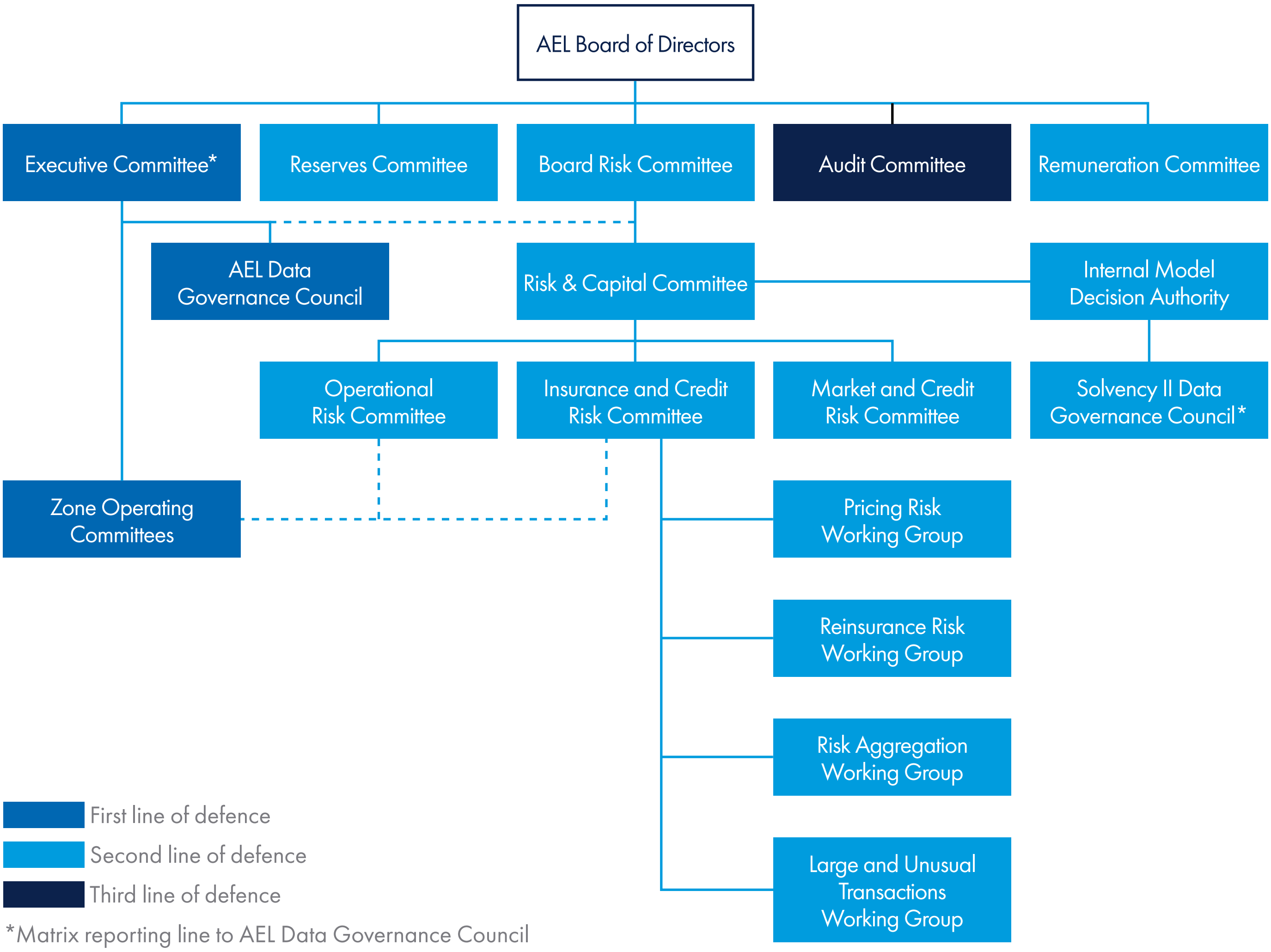
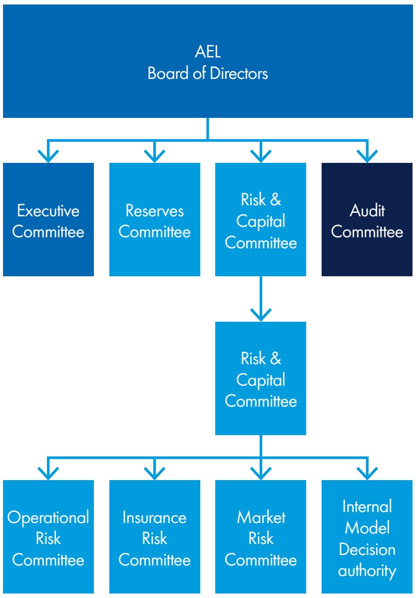
### AIG Europe Limited Governance Structure



*Matrix reporting line to AEL Data Governance Council

## Overview of Management and Governance Structure in AEL



The AEL Board has overall responsibility for the oversight of the management of AEL. Its role is to provide entrepreneurial leadership of AEL within a framework of prudent and effective controls which enables each of the risks faced by AEL to be assessed and managed. All authority in AEL flows from the Board, which in turn delegates the authority to sub-committees as set out in their respective terms of reference.

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

The Reserves Committee is responsible to ensure that AEL maintains reasonable and adequate technical reserves and to oversee and manage all forms of reserving risk assumed or accepted by AEL.

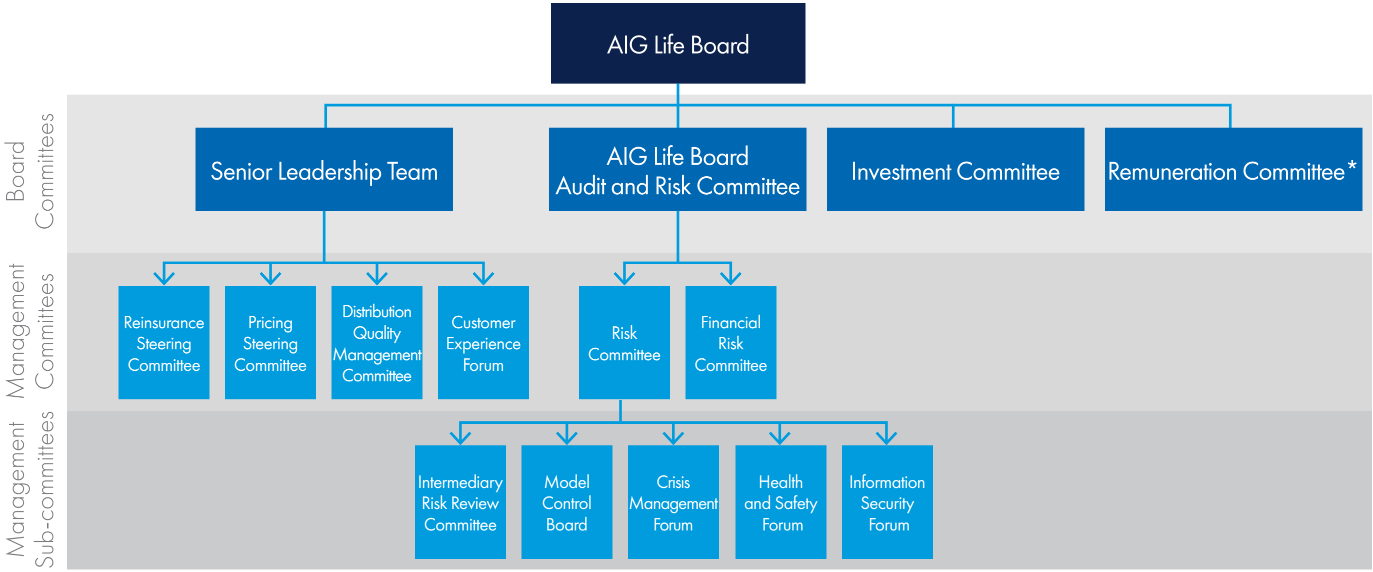
The Risk and Capital Committee (RCC) is authorised by the BRC and by the ExCo to manage the risk profile of AEL within the risk governance framework and risk appetite approved by its Board of Directors. The RCC has sub-committees, (each chaired by a member of ExCo) covering Insurance, Market and Operational 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.

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

## Overview of Management and Governance Structure in AIG Life



The role of the AIG Life Board is to exercise effective control and oversight over its business in accordance with legislative and regulatory requirements. The Senior Leadership Team (SLT) develops, implements and manages AIG Life's business strategy including the monitoring of its progress against the strategic plan.

The SLT is composed of the CEO and senior management and is responsible to maintain an oversight of the various strategic initiatives. The SLT reports directly to AIG Life Board.

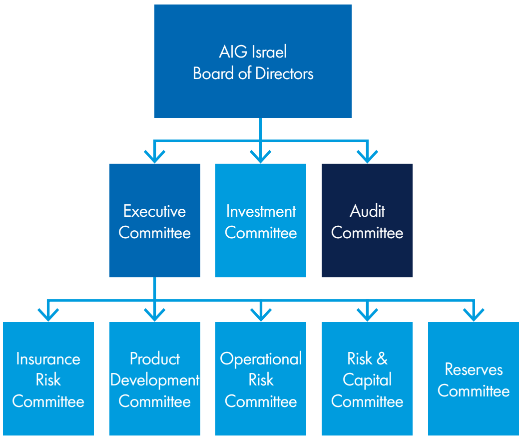
The Investment Committee is responsible for overseeing the performance of the assets held by AIG Life, identifying, developing and recommending appropriate investment strategies to the AIG Life Board based on the needs of the business.

The Risk Committee oversees the risk management processes of AIG Life, ensuring that all risks are formally evaluated and categorised, that plans for the management of such risks are effective, and that the AIG Life Board and Audit Committee are informed of the results of this analysis and monitoring work. The Risk Committee reviews and approves the suite of AIG Life Risk Policies with a small number of core risk management policies requiring subsequent Board approval. The Risk Committee has oversight of model development and changes, data quality and governance and the overall risk and control environment.

Solvency capital reporting and adherence to risk appetite is provided to the Risk Committee for review prior to submission to the Audit Committee and Board. The Risk Committee also has responsibility for reviewing the AIG Life ORSA prior to submission to the Board for approval, on an annual basis or more often if appropriate.

The Audit Committee reports directly to the Board highlighting 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.

## Overview of Management and Governance Structure in AIG Israel



AIG Israel has a strong risk culture articulated by effective ERM and embodied by management at all levels through the governance structure and risk management processes. The Board has the ultimate responsibility for development and oversight of the risk management framework and delegates the management of risks to the Board's Investment Committee and to the Executive Committee (Ex-Co).

As required by the local regulation, there are two Board committees: Audit Committee and Investment Committee. The Audit Committee and Investment Committee convene on a monthly basis. The Audit Committee, through its Internal Audit function provides independent assurance to the Board, through the Audit Committee, regarding the effectiveness of the First and Second Lines of Defence. The Audit Committee convenes a minimum of 6 meetings a year.

ERM provides its insight and risk reports to these committees and specifically to Investment Committee, as required by regulation and the Investment Committee.

In addition to the Board committees, there are five management committees as detailed below:

- Risk & Capital Committee (RCC) convenes at least quarterly, chaired by the GM. The Committee's Terms of Reference (TOR) is to recommend the Board as to the Company's overall risk management framework, including risk appetite; Solvency II; reinsurance exposure policy; and other capital management issues.
- Insurance Risk Committee (IRC) convenes at least quarterly, chaired by the CRO. The Committee is responsible to assess, manage, monitor and report on the insurance risk of the company, ensuring the company operates within its insurance risk appetite, reviewing reinsurance changes approving price changes, and reviewing key underlining assumptions used in the pricing models.
- Product Development Committee (PDC) convenes at least 6 times a year and chaired by the Life and A&H Consumer Product Manager. The Committee is responsible for establishing and maintaining a framework that assures all products are developed and approved using a disciplined and consistent process before they are offered and that takes into account: (1) customer needs; (2) legal and regulatory requirements; (3) AIG policies; and (4) internal business strategies.
- Operational Risk Committee (ORC) convenes quarterly, chaired by the CRO, and includes representatives from different business units. The ORC monitors current and emerging operational risks, mitigating actions and related decisions. The Committee's TOR is to overview the operational risk framework; to promote the operational risk agenda and initiatives; to oversee, monitor, and discuss recommendations to mitigate operational risks; and to implement a procedure for risk events analysis.
- Reserves Committee (RC) was set up in 2016 and convenes at least annually, chaired by the GM. The Committee's TOR is to ensure that the Company maintains reasonable and adequate technical reserves, to challenge the reserves (including Unearned Premium Reserves, Incurred But Not Enough Reported (IBNER), Incurred But Not Reported (IBNR), Unallocated Loss Adjustment Expenses (ULAE) and ad-hoc reserves) within the range of actuarial reasonable best estimates and stat reserves provided, in line with the Company's reserving policy taking into account.

## EUROPEAN GROUP – THE "THREE LINES OF DEFENCE" MODEL

The European Group'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 Group.

### Overview of Management and Governance structure in AIG Europe Limited

### 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 and independent non-executive directors, 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.1.A.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. In this context, senior management are risk-takers and hence form the "First Line of Defence" against failure.

#### 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, ExCo forms part of the first line of defence.

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 AEL Data Governance Council (ADGC) 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 AEL with particular focus on data used in SCR calculation using both Internal Model and Standard Formula.

The European Data Governance Council and its sub-committees: Solvency II Data Governance Council and Data Quality Working Group 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.1.A.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 Commerical 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: The aggregation and analysis of 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 Market Risk, Investment Risk, Counterparty Credit Risk and Liquidity Risk profile of the Company. 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 MI and recommend any necessary changes to the RCC;
- To periodically review and update the market risks on the AEL 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 ADGC 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

PDF 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 it 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.1.A.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; and
- 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 will, through a risk-based approach to its work, provide assurance to the Board and senior management. This assurance will cover how effectively the Company assesses and manages its risks and will include 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.1.A.D Key functions, roles and responsibilities for the European Group

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, the risk management 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 who is a 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 is a process, under the supervision of the Board, 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:

- pertain to data inputs are complete, accurate and of appropriate quality to use in the SF-SCR calculation;
- provide reasonable assurance on 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 FCU of quarterly and annual submissions including review of 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. 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:

- 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 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 European Compliance Group (' 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 2017, the Company introduced a 'Remuneration Committee' to it's governance structure.

The Committee has delegated responsibility from the Board to oversee the on-going appropriateness of the AIG Compensation Philosophy and its application to the company, pay and benefits of each of the executive directors, the Executive Committee and other Key Function Holders in line with the remuneration policy of the AIG Group.

The overarching purpose of the Committee is:

- REVIEW THE DESIGN OF THE APPLICABLE AIG GROUP REMUNERATION STRUCTURE TO ENSURE IT IS DESIGNED TO: PROMOTE THE LONG TERM SUCCESS OF THE COMPANY;
- ensure performance related elements are transparent, stretching and rigorously applied;
- be in accordance with standard market practice;
- be consistent with good risk management;
- meet regulatory requirements; and
- match the current financial situation and future prospects of the Company

## 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.

## B.3 RISK MANAGEMENT SYSTEM

## AIG EUROPEAN GROUP

### Risk Management Overview, Strategy and Objectives

The Risk Management Framework of AHEL builds on the strength and depth of the risk management processes undertaken in each of the insurance subsidiaries, overseen by the respective subsidiary Boards.

At AHEL level the focus is on assessing the major cross cutting risks and risk concentrations which exist across the three insurance subsidiaries. The Group therefore leverages output from the key risk management deliverables from each of these firms, including their ORSAs, risk monitoring of key concentrations and the results of stress testing to support the identification of shared risk areas or accumulations of risk which could impact the group as a whole.

Each component of the insurance subsidiaries' risk management frameworks are delivered by both first and second line of defence teams, the outputs of these activities are critical feeds into the Group Own Risk and Solvency Assessment in this report.

### Risk Culture

The European Group 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 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 European Group. 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.

### AHEL Group Internal Model

AHEL has developed an Economic Capital Model (ECM) which has been approved in July 2017 by PRA. ECM captures all risks within AHEL excluding AIG Life and AIG Israel, and uses the Standard Formula to calculate the capital requirement for AIG Life and AIG Israel. This means that, at a Group level, the ECM is a 'partial internal model' which has to be integrated with the Standard Formula in order to calculate the Group SCR.

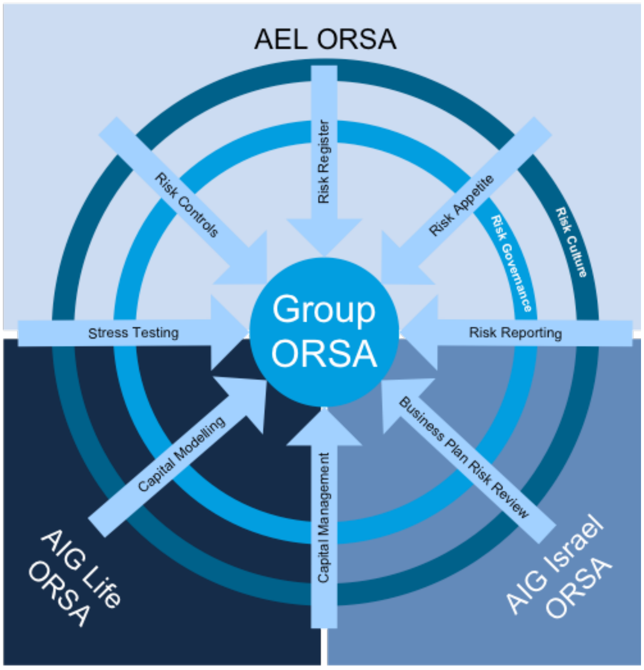
Following the Directive and the Delegated Regulation providing several integration techniques, it has been decided to use Integration Technique 1 as defined in Annex XVIII of the Directive for AHEL.

Following the concept of Integration Technique 1, AHEL's Group SCR will be the sum of the:

- Capital requirement of the partial internal model.
- Capital requirement of the Standard Formula.

There are no risks that are out of scope of the model and there is no intangible asset which is not valued as zero.

## GROUP OWN RISK AND SOLVENCY ASSESSMENT



The AHEL Group ORSA looks at the current and forward looking risk profile of AHEL and its insurance subsidiaries; AEL, AIG Life and AIG Israel. The AHEL Group ORSA is performed, reviewed and approved annually.

AEL, AIG Life and AIG Israel apply a number of governance processes over their respective ORSA, in order to ensure that risk management processes and the risk and solvency positions are appropriately defined, assessed and managed.

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 to their business performance, to assist the Board and senior management in making strategic business decisions.

The AEL ERM function prepares an ORSA report annually as do AIG Life and AIG Israel's risk management function.The ORSA reports are reviewed, challenged and ultimately signed off by each of their respective Boards. 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 its 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.

## AIG EUROPE LIMITED

### 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.

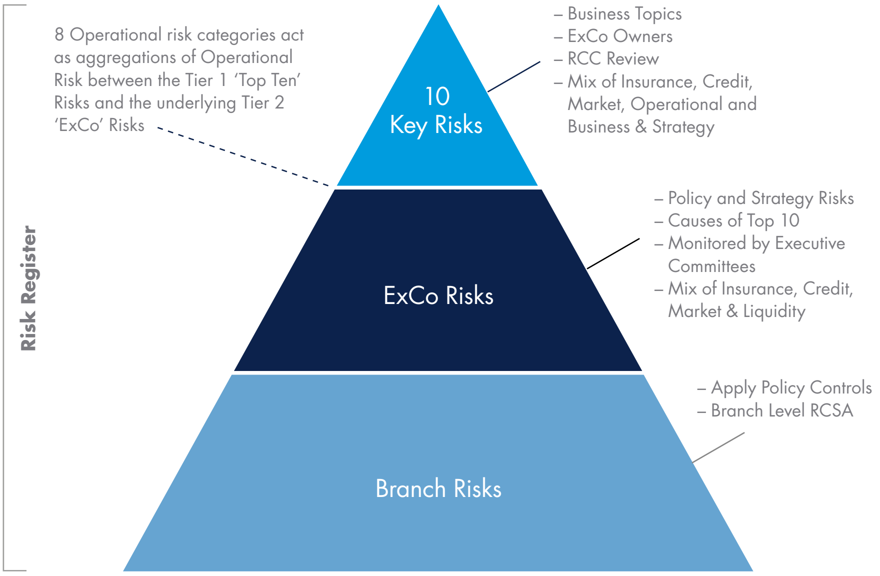
### Risk Register

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.
- **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 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

Since IMAP approval by PRA in July 2017, the Company calculates its capital requirements using its own Internal Model. 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 of this Report.

### Solvency Capital Management

As stated above, since Internal Model approval by PRA in July 2017, the Company's Solvency Capital Requirement is calculated using its Internal Model.

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 Internal Model – Solvency Capital Requirement (IM-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.

AEL targets holding sufficient capital to meet the IM SCR run off to 'ultimate'. AEL's IM SCR is designed to capture all relevant risks faced by the business over a 1-year time horizon. Management believe that the capital buffer is sufficient to provide for the run-off of liabilities beyond the 1-year time horizon, to cover all risks until the ultimate settlement of all liabilities (Ultimate SCR). The Company has available Tier 1 and Tier 2 capital to meet its IM-SCR and target capital buffer although it aims to fully hold its capital requierement in Tier 1.

## B.4 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

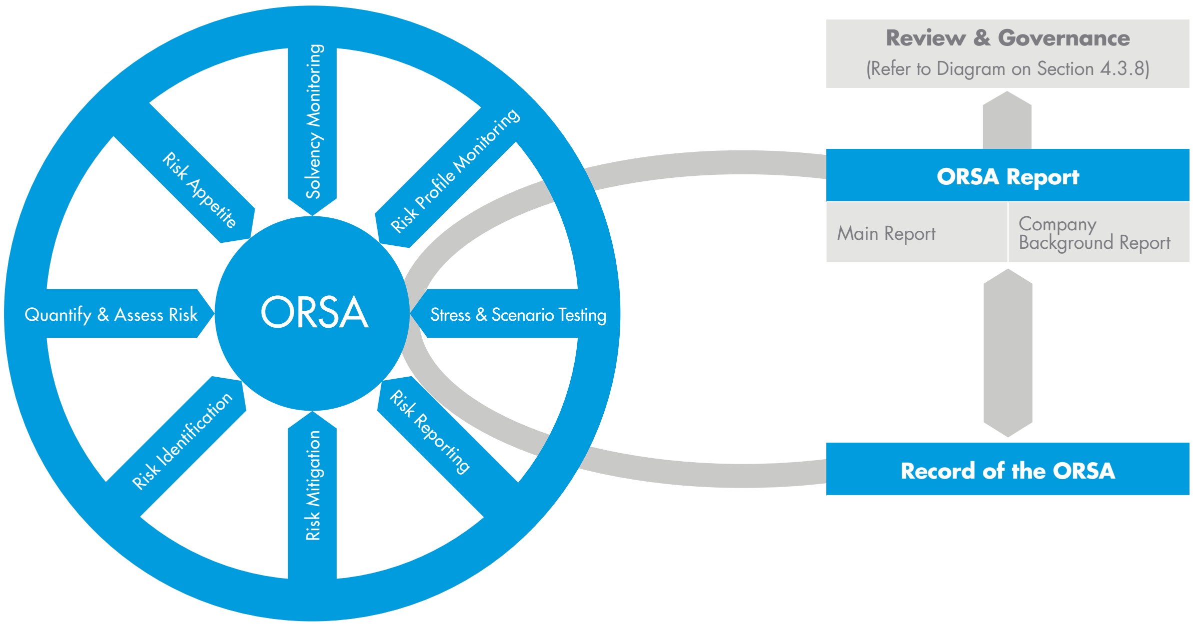
The ORSA Report is used to summarise the outputs of these risk management and capital assessment processes. This report includes both the quantitative and the qualitative outputs of these processes and links these to the Company's business performance, to assist the Board and senior management in making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

The ERM function prepares at least one ORSA report annually and this is 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:

**AIG Europe Annual ORSA Process**

| Application of Risk Management Framework<br>Ongoing from Q1 through to Q4 | ORSA Report Production<br>By end of Q4 = 30 November*<br>*May also occur at any date for production of Ad-hoc ORSA |
|---|---|



| Applied to Both Current and Forward Looking Perspectives<br>– Forward Looking Perspective:<br>– Review of Business Plan Strategy & Emerging Risks through risk management processes outlined above.<br>– Current Perspective Review of present risk landscape of AEL through risk management processes outlined above.<br>Internal Model Outputs are applied within each process in line with the Model Uses Policy | Distillation of Year-round ORSA Outputs |
|---|---|

## B.5 INTERNAL CONTROL SYSTEM

The description of the internal control system is disclosed in Section B1A.D Key Functions, Roles and Responsibilities above along with the description on Finance Function.

## B.6 INTERNAL AUDIT FUNCTION

The description of the internal audit function is disclosed in Section B1A.D Key Functions, Roles and Responsibilities above within the internal audit function.

## B.7 ACTUARIAL FUNCTION

The description of the actuarial function is disclosed in Section B1A.D Key Functions, Roles and Responsibilities above within the actuarial function.

## B.8 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 |
|---|---|---|
| Administration | Ireland, Spain & Switzerland. | Administration & fulfilment; premium collection, data entry, refunds and billing. |
| Claims Handling | Belgium, Denmark, France, Italy, Portugal & UK. | Claims handling and settlement. |
| Sales, Distribution & Underwriting | Denmark, Netherlands & UK. | Advised & non-advised Sales, introductions, underwriting. |
| Sales | Greece, France, Spain & UK. | Sales & distribution: non-advised sales. |
| Specialist Technical Services | 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.9 ADEQUACY AND APPROPRIATENESS OF THE SYSTEM OF GOVERNANCE

As mentioned above, the AHEL Board delegates the governance of its subsidiaries to the Boards of AEL, AIG Life, AIG Israel and its two other non-insurance entities, Laya Group and AIG Advisors SRL. The simplified 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 employees of each subsidiary are empowered to make decisions at the right levels.

Each insurance subsidiary continues to align its management and governance structure to proactively respond to the business and regulatory needs.

The various Board-level committees of each subsidiary have clearly defined responsibilities which have been delegated by their Boards. 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 each subsidiary, and consequently the European Group, to adapt to changes in an agile and flexible manner.

The governance structure therefore provides a mechanism for the European Group 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 European Group as a whole is set by AIG, Inc.'s executive operating committee. The ExCo formulates a detailed strategy for the European Group in the form of the annual business plan, taking account of AIG 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 European Group's risk appetite;
- The European Group's short-term and longer-term strategy and business plan;
- The European Group's legal and regulatory duties in each jurisdiction;
- The fair treatment of those who are (or may become) the policyholders of its insurance subsidiaries; and
- The safety and soundness of the European Group.

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

## B.10 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.

## SOLVENCY & FINANCIAL CONDITION REPORT 2017

# C. RISK PROFILE

The Risk Profile section of the report captures the complexity of the overall risk status of the European Group, taking into account all the material risks to which the European Group 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

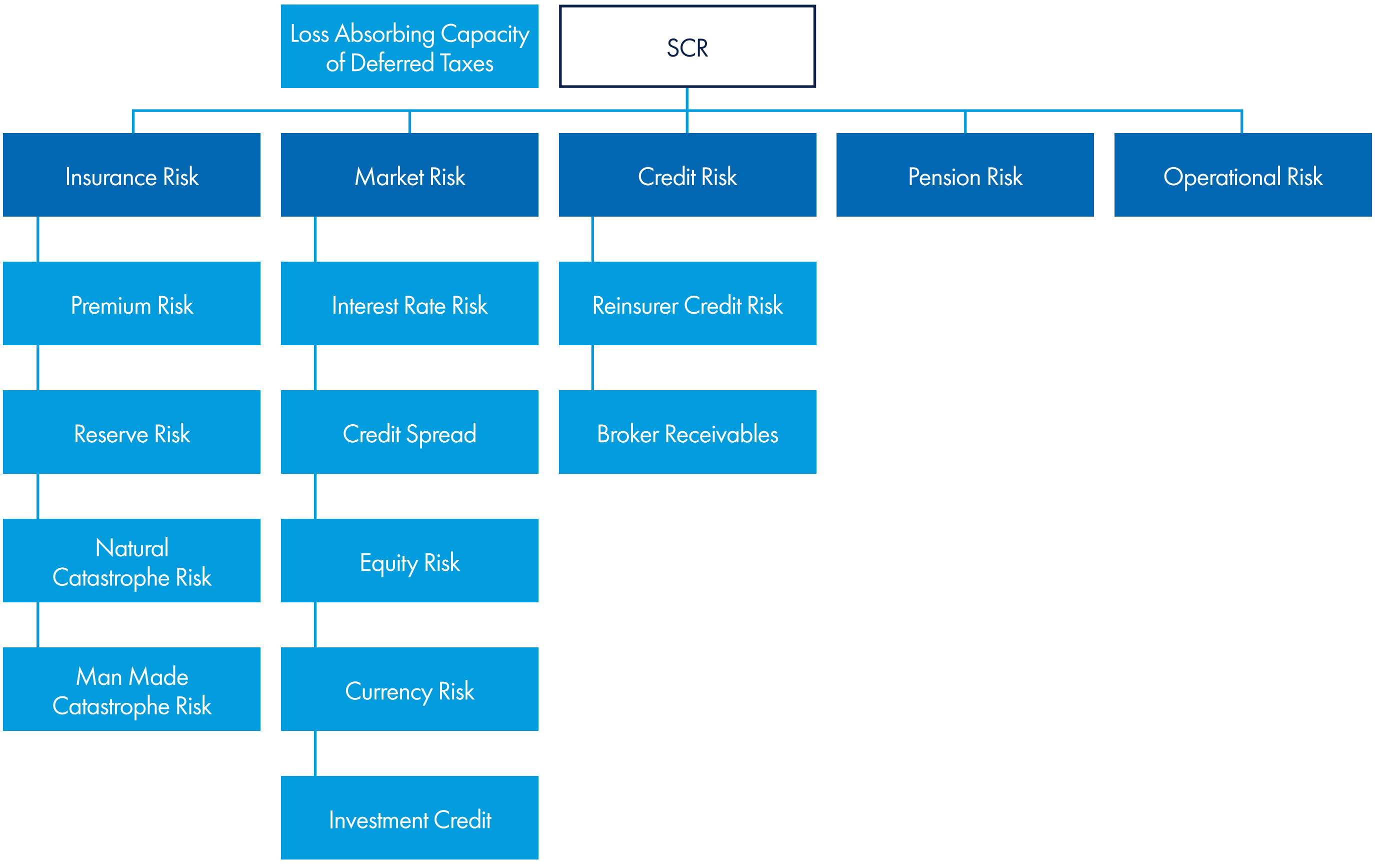
## C. RISK PROFILE

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.

AHEL's capital requirement under Solvency II (which seeks to quantify and reflect its current risk profile) is calculated on a consolidated group basis through the Partial Internal Model (PIM). AHEL currently has and is forecast to maintain a capital surplus above this binding capital constraint over the horizon of our business plan, with each of AHEL's subsidiary insurance entities maintaining capital above their solo entity SCRs.

| European Group SCR £'m | AEL Standalone | AHEL Partial Internal Model | AIG Life | AIG Israel | Standard Formula Consolidated | Group SCR |
|---|---|---|---|---|---|---|
| | Y/E 2017 | Y/E 2017 | Y/E 2017 | Y/E 2017 | Y/E 2017 | Y/E 2017 |
| Insurance risk | 1,964 | 2,012 | 128 | 176 | 265 | 2,277 |
| Market risk | 678 | 680 | 13 | 51 | 91 | 771 |
| Credit risk | 214 | 214 | 12 | 23 | 30 | 244 |
| Operational risk | 281 | 281 | 7 | 8 | 15 | 296 |
| Pension risk | 69 | 83 | 0 | 0 | 0 | 83 |
| Loss Absorbing capacity of deferred taxes | (17) | (17) | (2) | (40) | (39) | (56) |
| Diversification | (786) | (799) | (37) | (97) | (145) | (944) |
| Planned UW Profit | 120 | 120 | | | | 120 |
| **Total SCR** | **2,524** | **2,575** | **121** | **121** | **217** | **2,791** |

The schematic below articulates the risks in scope of the Internal Model:



### 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;
- Market Risk;
- Credit Risk (Counterparty Default Risk);
- Operational Risk;
- Pension 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.

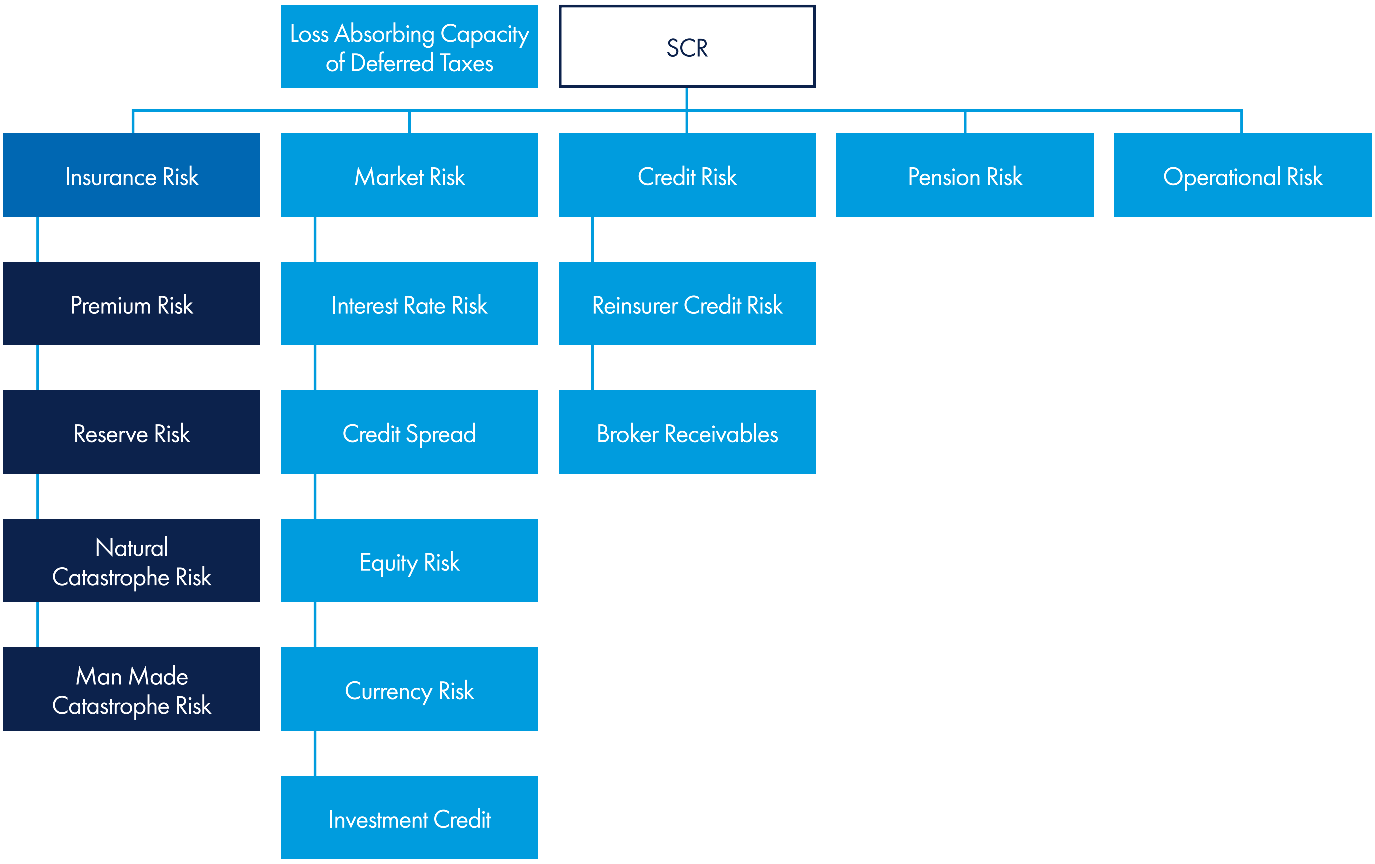
The Company has identified a number of risks that may potentially impact on the successful execution of its business plan and ability to generate sustainable profits during 2018 and beyond.

### 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 | Inadequate or failed internal processes, people, systems, or from external events |
| 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

#### PREMIUM RISK

Premium risk is the risk that the planned loss and expense ratios for future accident years materialise differently from expected. More specifically, premium risk results from fluctuations in the timing, frequency and severity of insured events. It relates to risks from policies that will be written during the period (including renewals), and to unexpired risks on existing contracts. Premium risk includes the risk that premium provisions turn out to be insufficient to compensate claims and paid expenses.

#### RESERVE RISK

Reserve risk is the risk that the eventual reserve requirement is greater than that currently held. More specifically, reserve risk relates to the risk that technical provisions are inadequate due to fluctuations in the timing and amounts of claim settlements. Under Solvency II, it relates to the possible inadequacy of claims provisions, i.e. provisions in respect of business already earned. It also covers the uncertainty in expense provisions relating to this business.

#### NATURAL CATASTROPHE RISK

The Company is exposed to various catastrophic events in which multiple losses can occur and affect multiple lines of business in any calendar year. Natural disasters, such as hurricanes, earthquakes and other catastrophes, have the potential to adversely affect operating results.

#### MAN MADE CATASTROPHE RISK

Man-made catastrophe risk represents the uncertainty regarding aggregate loss potential caused by human activities; including terrorism, financial crisis latent diseases.

The Company's exposure to Insurance Risks is the largest contributor to its capital requirement and represents 62% of the total of risk modules before diversification and planned UW profit.

### Measures used to assess Insurance Risk

#### Premium Risk (Non-Cat)

The modelling of separate capped and excess losses allows the Company to model reinsurance explicitly based on treaties that are in place to determine a distribution of potential net losses. Facultative and captive reinsurance are modelled using a factor/proportional based approach. Excess of Loss reinsurance is modelled on a claim by claim basis.

Using historical loss data split by line of business into homogeneous groups (claims with the same underlying behaviour), loss ratio data is adjusted for changes in rates and inflation.

The process is calibrated by Corporate Actuarial and reviewed by Pricing Actuaries and their profit centers, with guidance on techniques and tools from the Economic Capital Modelling team. This ensures alignment with the pricing and reserving process

#### Premium Risk (Natural Catastrophes)

The Company predominantly utilises a third party Catastrophe Model to model the occurrence and severity of events for windstorm/hurricane, earthquake and flood.

The model uses actual exposure sets of individual in-force policies as a proxy for future exposures. Premium is used as a proxy for exposure and so for changing books the Nat CAT is scaled by change in on-levelled premium.

By modelling individual policies we are able to model more granularly, model facultative reinsurance explicitly and also deliver average cat loss by policy to aid premium setting.

#### Premium Risk (Man-made catastrophes)

Scenarios are developed for each threat based on a 1 in 40, 1 in 100 and 1 in 250 year return period.

Insurance claims arising from scenarios such as latent disease, terrorism, systemic financial markets events, products recall, pandemic, aircraft collision are all considered. These scenarios are based on events not experienced in our loss data, but some non-zero probability potential loss still exists.

Multiple lines of business being impacted by one event is included within the derived scenarios. Workshops with product tower managers, risk officers and actuaries are used to identify and determine scenario inputs. The scenarios are calculated on a gross, gross less facultative and net basis. An Expert Panel reviews and signs off on the scenarios.

### Reserve Risk

The Reserve variability method is to re-project the reserve outcome thousands of times such that a range of reserve outcomes is produced. The method that we use looks to mimic a re-reserving exercise following further development and payments modelled in each simulation.

Consistency of reserve risk calibration is discussed with other parts of AIG in particular the difference in outcome from using other available techniques.

A factor based approach is used to estimate risk on a one year time horizon vs. an ultimate time horizon perspective. A one year time horizon is used to calculate the Solvency II SCR.

The process is calibrated by Corporate Actuarial with guidance on techniques and tools from the Economic Capital Model (ECM). The reserve risk calibration process is done at the same time as that for premium risk ensuring consistency both in terms of data and approach.

Statistical distributions of reserve volatility are selected for each of the lines of business calibrated using historical data and expert judgement regarding the best fit going forward.

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 2017.

## 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 largest concentrations of risk relate to potential natural catastrophe losses with the highest being a European windstorm, followed by a European earthquake, a North American earthquake, and a North American windstorm.

## 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:

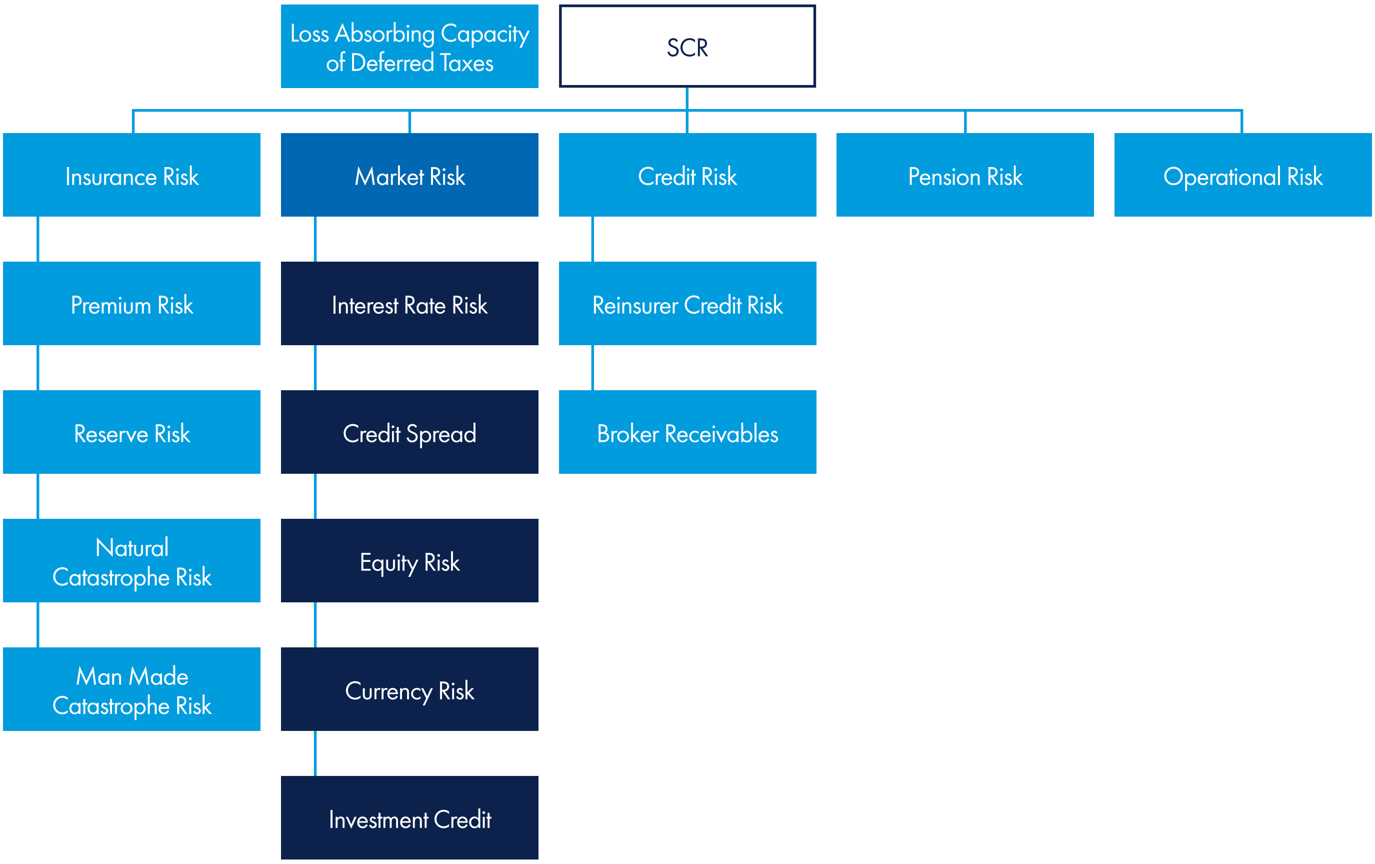
| Type of risk | Risk mitigation techniques |
|---|---|
| Premium Risk – Failure of pricing | |
| Pricing guidelines | The Company seeks to manage pricing risk through the setting and review of pricing guidelines relevant to each business line and the application of a strict hierarchy of underwriting 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. |
| Premium Risk – Ineffective strategy/Failure of product | |
| 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. |
| Reserve Risk – Adverse reserve development | |
| 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. |
| Catastrophe Risk – Failure to manage risk aggregation/accumulation | |
| 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).

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 foreign exchange translation risk; and
- Transactions that require cash-flow settlement in a currency other than the functional currency, generating foreign exchange transaction risk.

### Market risk exposure

A description of the Company's components of Market Risk is 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 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. |
| Investment Credit Risk | In the process of purchasing investment assets to pay claims and meet future liabilities AIG is exposed to investment credit risk. Investment credit risk is the risk of idiosyncratic or systematic default within our investment portfolio which results in credit losses and impairments |

### Measures used to assess Market Risk

Systematic movements in market factors are produced by an external Economic Scenario Generator (ESG). As well as simulating systemic movements in individual market risk factors, the ESG also generates co-movements in market risk factors. These are an important component of the Internal Model dependency structure. The dependency between economic factors such as GDP and inflation are used for dependencies with other risk types.

The Internal Model provides several mechanisms by which by which movements in market risk factor can impact the Company:

- Valuation of invested assets
- Valuation of derivative instruments.
- Discounting of liabilities.
- Insurance risk outcomes (i.e. inflation driving larger claims).
- Foreign exchange translations applied in the simulations of financial statements during SCR computations.

In addition to Interest Rate, Credit Spread, Equity and Exchange Rate risk, Asset Credit risk is included within the Market risk sub-module. This also helps from a governance perspective since representatives from AIG investments are an integral part of market risk framework. Moreover, through co-ordination with AIG investment, AEL can influence both their market risk and invested asset credit risk profiles.

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.<br>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 2017.

The Company's exposure to Market Risks is the second largest contributor to its capital requirement and the details and represents 21% of the total of standalone risks.

### 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 maximised and risks do not breach the concentration limits. Market Risk Concentration – by Credit Rating.

| Bond Ratings | Market Risk Concentration £m | Market Risk Concentration % |
|---|---|---|
| AAA | 2,914 | 14% |
| AA | 2,307 | 27% |
| A | 2,631 | 25% |
| BBB | 985 | 18% |
| BB | 357 | 3% |
| B | 175 | 2% |
| Not Rated | 1,001 | 10% |
| **Total** | **10,370** | **100%** |

Bonds (government, corporate and securitised assets) comprise the largest portion of the Company's investment portfolio out of which 66% were either rated AAA, AA or A in 2017. 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 exposures (by Solvency II market values) are:

| Issuer names | Market Risk Concentration £m | Market Risk Concentration % |
|---|---|---|
| Germany, Federal Republic of | 1,138 | 11% |
| United Kingdom | 692 | 7% |
| France, Republic of | 499 | 5% |
| United States, Government of the | 437 | 4% |

Each of the issuers above is currently a national government and therefore, the associated market risks are considered to be low.

### Market Risk Concentration – by Currency

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

| Currency | Market Risk Concentration £m | Market Risk Concentration % |
|---|---|---|
| Euro | 4,751 | 45.82% |
| British Pound | 2,878 | 27.75% |
| US Dollar | 2,043 | 19.70% |
| Other | 698 | 6.73% |
| **Total** | **10,370** | **100%** |

### Market Risk Mitigation Techniques

The Company manages its investment portfolio with respect to the 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.

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.

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.

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.

### 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.

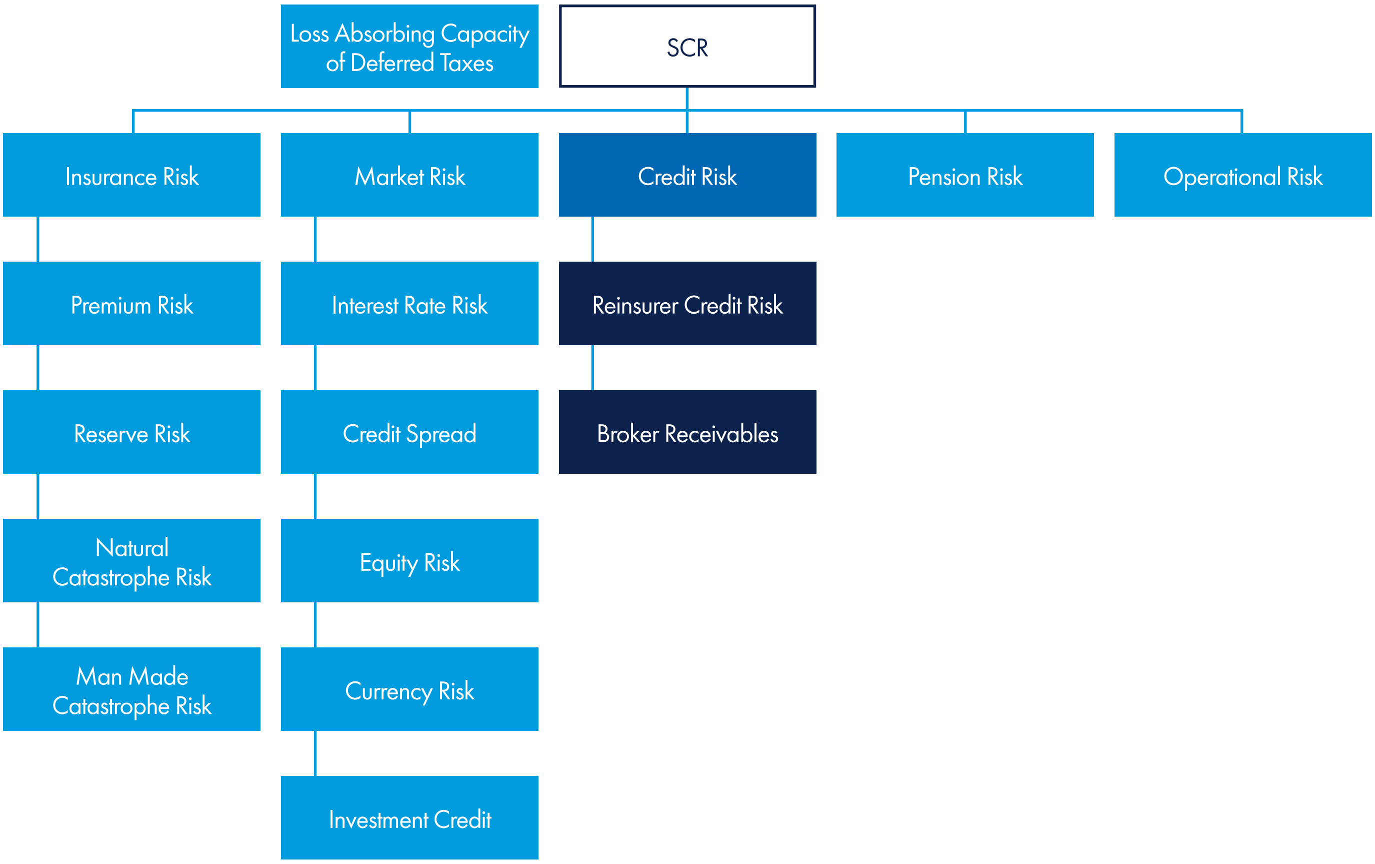
The Board of the Company discharges its responsibility for oversight of the Policies and Procedures through the RCC, and as such is empowered to provide guidance and oversight regarding Market Risk within the Region. The RCC is responsible for reviewing and approving the Level 2 SOS and reporting to 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.

## C.3 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.

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



## Credit Risk Exposure

Credit risk is the risk that the value of a portfolio of assets and liabilities changes due to unexpected changes in the credit quality of issuers of assets, of a trading partner or a default of a third party in a credit insurance product.

Although modelled in other risk areas, the model does also include elements of credit risk:

- Asset Credit Risk (within Market risk)
- Trade Credit (within Insurance Risk)

The Company's exposure to Credit Risks is the fourth largest contributor to its capital requirement and represents 7% of the total of standalone risks.

## 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 owning 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.<br>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 reinsurance arrangements. 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. | 1,012 |
| HSBC Holdings plc | 123 |
| Swiss Re Ltd | 121 |
| Deutsche Post AG | 111 |
| Munich Reinsurance Company | 97 |

The amount of exposure to AIG group in particular is monitored on a regular basis and the solvency ratios of AIG group are subject to continuous assessment.

## 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 minimise 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 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.

## Process for monitoring the effectiveness of credit risk mitigation techniques

Credit Risks are monitored through the governance structure. The Insurance Risk committee monitors and reports on the credit risks within Insurance business. The reinsurance committee, a sub-committee of the Insurance Risk committee, meets quarterly to manage, monitor and report the credit risks associated with reinsurance and broker balances 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 Committees executes its responsibilities effectively by review of the credit risk profile against the risk appetite, and ad-hoc portfolio reviews. The Insurance 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.

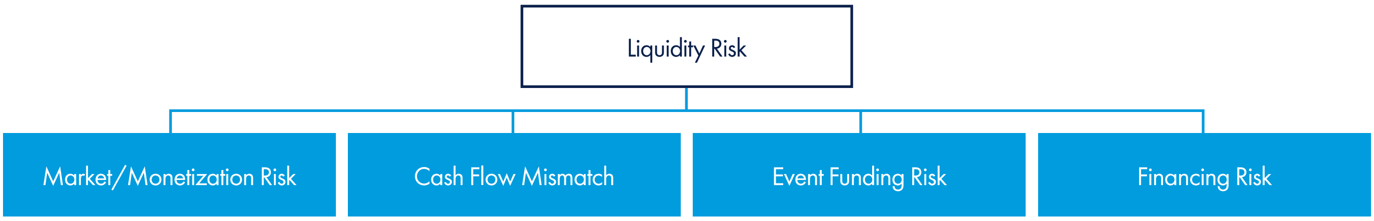
Reinsurance recoverables are a key risk consideration for the Company. The Reinsurance Credit Department is dedicated to the management of reinsurance recoverables within AIG, and conducts the following principal control activities:

- 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 Concentrations

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 predominantly 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.

### 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.

### 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.

## 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. |
| Group Contagion (Reputational) | Risks associated with other areas of the AIG group that impacts the AIG credit rating or confidence in the AIG brand |

The Company's exposure to Operational Risks is the third largest contributor to its capital requirement and represents 8% of the total of standalone risks.

## Measures used to assess Operational Risk

Operational Risk is modelled through the development of a representative set of adverse scenarios, which are then used to model the Company's Operational Risk Profile.

The scenarios are created and developed in subject matter expert workshops with representatives from both first line (Underwriting, Claims, Operations) and Second Line of Defence (ERM).

Three data points are defined for each scenario, setting out a frequency (return period) and expected impact. These data points are then used to create loss distributions for each scenario and in turn are used to calibrate the internal model operational risk module.

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

| Operational Risk Component | Metrics |
|---|---|
| Execution, Delivery & Process Management | Credible MI on SLA management<br>Risk Events Complaints |
| Clients, Products & Business Practices | Risk Events<br>Multinational delivery MI<br>Risk rating of third parties Number of Audits and Findings |
| Employment Practices & Workplace Safety | Staff turnover, staff surveys and exit interviews<br>Risk Events |
| Business Disruption & Systems Failure | Business continuity plan status and testing results<br>Severity 1 and 2 incident reviews |
| Financial Integrity & Reporting | Number and severity of emerging requirements<br>Regulatory fines or s166 reviews |
| External Fraud | Risk Events<br>Results of Vulnerability Testing |

## Operational Risk Concentration

When viewed on a standalone basis, the largest operational risks AHEL is exposed to are the group contagion/reputational risks where a downgrade in AIG Inc credit rating could have a significant impact on client relationships. Other significant operational risks include financial integrity, failure in application of reinsurance and breach of underwriting authority.

## Operational Risk Mitigation Techniques

The Company'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 Operational Risk Management (ORM) Framework.

AIG's Group's 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.

## 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 tests as reported in the Company's 2017 ORSA report.

These tests were performed using business planning data from the Company's 2018 Business Plan and 2018 Capital Plan that were based on 2Q17 actual with 6 months forecast and hereon with defined as the Base Position 2017 for the purpose of this section.

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

A. Synchronised Cyber Attack

This scenario considers the impact of a synchronised cyber-attack similar to the recent Wanacry attack, exploiting a weakness in a commonly used operating system. The attack leads to large scale system outage and data theft. Private information is subsequently published online over the following months. AIG Europe is considered as one of the firms targeted in this attack.

Methods and assumptions used:

This scenario has been designed to test how AIG Europe's business plan would be impacted by the multi period stresses set out above; the key components of the stress are as follows:

*Insurance Risk*

- The insured losses from this scenario (occurring in 2018) are based on a loss equivalent to a **full limit loss** arising from policies with the **top 7 limits**.
- In all years, we see a 50% reduction in GPW in "data privacy sensitive" and cyber lines of business (M&A, Kidnap & Ransom and Cyber) and 10% reduction in GPW in consumer related lines due to the impact to AEL's reputation (Consumer Auto, Liability & Property).

*Operational Risk*

- Systems outages and subsequent remediation results in considerable increases in expenses across 2018.
- Assuming a regulatory investigation/court case in 2018 AIG Europe is fined **£17m** due to weaknesses in data security and loss of sensitive client data.

Outcome

The results of this stress test are given in the table below. 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 2018.

| Stress Test Results | 2018 | 2019 | 2020 |
|---|---|---|---|
| Business Plan SII Ratio (%) | 155% | 162% | 168% |
| Latent Disease Scenario SII Ratio (%) | 145% | 146% | 146% |

B. North American Earthquake Event

This scenario considers the impact of a 1:100 North American Earthquake event to AEL's Lexington Property book that is affected by the event.

Methods and assumptions used:

*Insurance Risk*

- The insured losses from this scenario (occurring from 2018 – 2020) are based on AEL's **1:100 OEP North American Earthquake**. These assumed to spread across 2018.

Outcome of scenario

The results of this sensitivity are as follows. 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 2018.

| Stress Test Results | 2018 | 2019 | 2020 |
|---|---|---|---|
| Business Plan SII Ratio (%) | 155% | 162% | 168% |
| NA Earthquake Scenario SII Ratio (%) | 141% | 148% | 154% |

C. UK Flood Event

This scenario was been designed to test how AIG Europe's business plan would be impacted by the multi period stresses set out above; the key components of the stress are as follows:

*Insurance Risk*

- The insured losses from this scenario (occurring from 2018 – 2020) are based on AEL's **1:100 OEP UK Flood**. These assumed to spread across 2018.

Outcome of scenario

The results of this sensitivity are as follows. The Company manages to keep its SII Ratio above 100% and therefore, its SCR is not breached. The lowest SII Ratio is observed at 2018.

| Stress Test Results | 2018 | 2019 | 2020 |
|---|---|---|---|
| Business Plan SII Ratio (%) | 155% | 162% | 168% |
| UK Flood Scenario SII Ratio (%) | 141% | 148% | 154% |

D.Interest Rate Shock, Credit Spread Shock Scenario

These scenarios assess the impact of investment and macro-economic shocks to AEL's balance sheet and investment returns. All the shocks are instantaneously applied in Q1 2018 and then the curves are assumed to recover from the stress for the remaining of the period.

*Scenario Description & Emergence*

- **Interest Rate Shock Scenario**
  The scenario assesses the impact of a 100 basis point increase in interest rates.
- **Credit Spread Shock Scenario**
  The scenario assesses the impact of a 180 basis point increase in credit spreads.
- **Credit Spread Shock Scenario**
  The scenario assesses the impact of a 100 basis point increase in interest rates and a 180 basis point increase in credit spreads.

Outcome of scenario

The results of this sensitivity are as follows. 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 2018.

| Stress Test Results | 2018 | 2019 | 2020 |
|---|---|---|---|
| Business Plan SII Ratio (%) | 155% | 162% | 168% |
| Interest Rate Shock Scenario | 153% | 161% | 168% |
| Credit Spread Shock Scenario | 148% | 160% | 168% |
| Combined Shock Scenario | 146% | 158% | 168% |

## C.7 OTHER MATERIAL RISKS

### Pension Risk

AIG Europe Pension risk is deemed only to exist for AIG on defined benefit (final salary) schemes. AIG is responsible for both Market and Mortality risk. It is 'defined' in the sense that the benefit formula is defined and known in advance.

## SOLVENCY & FINANCIAL CONDITION REPORT 2017

# D. VALUATION FOR SOLVENCY PURPOSE

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 ARE:**

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

## VALUATION FOR SOLVENCY PURPOSES

### European Group

In accordance with Article 75 of the Solvency II Directive, the European Group's assets and liabilities other than technical provisions are measured in accordance with principles of an arm's length transaction between knowledgeable willing parties using market consistent valuation methods. In the absence of quoted market prices in an active market, the holdings of non-controlling interest in participations are included using the adjusted equity method.

The table below sets out the summarised balance sheet as at 30 November 2017, comparing assets and liabilities reported in the AHEL standalone IFRS accounts and the European Group Solvency II balance sheet. AHEL has taken advantage of the exemption provided by section 401 of Companies Act 2006 from the requirement to produce consolidated IFRS financial statements.

| Solvency II Balance Sheet as at 30 November 2017 | Notes | Unaudited AHEL Management Accounts £'m | Solvency II EBS Consolidated 2017 £'m | Solvency II EBS Consolidated 2016 £'m |
|---|---|---|---|---|
| **Assets** | 8 | | | |
| Deferred acquisition costs | 9 | | | – |
| Intangible assets | 7 | | | – |
| Deferred tax assets | 10 | | 171.1 | 116.6 |
| Pension benefit surplus | 6 | | 31.0 | 21.0 |
| **Property, plant & equipment held for own use** | 1 | | 147.5 | 152.6 |
| **Investments** | | 4,057.6 | 10,429.9 | 10,010.2 |
| Property (other than for own use) | | | 177.5 | 59.9 |
| Participations | | 4,046.9 | 0.3 | 0.3 |
| Equities | | | 6.4 | 7.6 |
| Equities – listed | | | | |
| Equities – unlisted | | | 6.4 | 7.6 |
| **Bonds** | | | 10,071.8 | 9,785.1 |
| Government Bonds | | | 4,104.3 | 3,153.0 |
| Corporate Bonds | | | 5,940.5 | 6,314.7 |
| Structured notes | | | 1.9 | 2.7 |
| Collateralised securities | | | 25.1 | 314.7 |
| Investment Funds | | | 44.6 | 56.8 |
| Deposits other than cash equivalents | | 10.6 | 129.4 | 100.6 |
| Other investments | 2 | | | |
| **Loans and mortgages** | | | 460.0 | 358.6 |
| Loans and mortgages to individuals | | | | |
| Other loans and mortgages | | | 459.6 | 358.6 |
| Loans on policies | D.2 | | | |
| **Reinsurance recoverables from:** | | | 2,581.5 | 2,241.6 |
| Non-life excluding health | | | 2,204.9 | 2,014.5 |
| Health similar to non-life | | | 8.3 | 9.2 |
| Life and Health similar to life, excluding health and index-linked and unit linked | 11 | | 368.3 | 218.0 |
| Insurance and intermediaries receivables | 4 | | 30.6 | 10.0 |
| Reinsurance receivables | 3 | | 227.1 | 223.8 |
| Receivables (trade, not insurance) | 5 | 10.8 | 514.2 | 483.5 |
| Cash and cash equivalents | | 0.4 | 486.2 | 328.0 |
| **Total assets** | | **4,068.8** | **15,079.1** | **13,945.8** |

| Solvency II Balance Sheet as at 30 November 2017 | Notes | Unaudited AHEL Management Accounts £'m | Solvency II EBS Consolidated 2017 £'m | Solvency II EBS Consolidated 2016 £'m |
|---|---|---|---|---|
| **Liabilities** | | | | |
| **Technical Provisions** | D.2 | | | |
| Technical provisions – non-life | | | (10,244.7) | (9,337.5) |
| Non-life excluding health | | | (9,901.3) | (9,006.8) |
| Health Similar to non-life | | | (343.4) | (330.6) |
| Technical Provisions -life | | | (279.4) | (153.8) |
| **Liabilities other than Technical Provisions** | | | | |
| Provisions other than Technical Provisions | 13 | | (89.3) | (72.0) |
| Pension benefit obligations | 14 | | (124.4) | (126.3) |
| Deposits from reinsurers | 17 | | (57.6) | (53.2) |
| Deferred tax liabilities | 16 | | (96.2) | (75.0) |
| Derivatives | | | | |
| Debts owed to credit institutions | | | (53.8) | (0.3) |
| Insurance & intermediaries payables | | | (4.7) | (2.9) |
| Reinsurance payables | 18 | | (49.9) | (12.3) |
| Payables (trade, not insurance) | 12 | (76.1) | (663.7) | (609.1) |
| Subordinated liabilities | 15 | (1,100.0) | (1,150.0) | (1,150.0) |
| Subordinated liabilities not in BOF | | | (12.8) | (12.8) |
| Subordinated liabilities in BOF | | (1,100.0) | (1,137.2) | (1,137.2) |
| **Total liabilities** | | **(1,176.1)** | **(12,813.9)** | **(11,592.5)** |
| **Excess of assets over liabilities** | | **2,892.7** | **2,265.2** | **2,353.3** |

## Method of consolidation

The European Group Solvency II balance sheet has been prepared using the default accounting consolidation method (Method 1).

The European Group and the majority of its subsidiaries have a 30 November year end, however AIG Life, AIG Israel and Laya Healthcare have a 31 December year end. For the YE2017 European Group Solvency II calculations, the latter group of entities are consolidated using their financials as at 30 September 2017.

## AIG Europe Limited

In accordance with Article 75 of the Solvency II Directive, the Company's assets and liabilities are fair valued based on principles of an arm length transaction between knowledgeable willing parties.

| Solvency II Balance Sheet as at 30 November 2017 | Notes | IFRS £'m | Solvency II Reclassification £'m | Solvency II Adjustment £'m | Solvency II EBS 2017 £'m | Solvency II EBS 2016 £'m |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Deferred acquisition costs | 8 | 305.5 | | (305.5) | – | |
| Intangible assets | 9 | 19.6 | | (19.6) | – | |
| Deferred tax assets | 7 | 102.0 | (12.9) | 47.9 | 137.0 | 90.6 |
| Pension benefit surplus | 10 | 31.0 | | | 31.0 | 21.0 |
| **Property, plant & equipment held for own use** | 6 | 136.8 | | | 136.8 | 141.6 |
| **Investments** | 1 | 9,699.5 | 84.0 | 39.5 | 9,822.9 | 9,487.3 |
| Property (other than for own use) | | | | | – | – |
| Participations | | 77.4 | | 41.1 | 118.6 | 60.0 |
| Equities | | 8.2 | | (1.8) | 6.4 | 7.6 |
| Equities – listed | | | | | – | – |
| Equities – unlisted | | 8.2 | | (1.8) | 6.4 | 7.6 |
| **Bonds** | | 9,493.8 | 84.0 | 0.2 | 9.577.9 | 9,336.0 |
| Government Bonds | | 4,216.4 | (353.7) | | 3,862.7 | 2,856.0 |
| Corporate Bonds | | 5,223.1 | 466.5 | | 5,689.6 | 6,164.2 |
| Structured notes | | | 1.9 | | 1.9 | 2.7 |
| Collateralised securities | | 54.3 | (30.8) | 0.2 | 23.7 | 313.2 |
| Investment Funds | | 3.8 | | | 3.8 | 3.6 |
| Deposits other than cash equivalents | | 116.3 | | | 116.3 | 80.2 |
| Other investments | | | | | – | |
| **Loans and mortgages** | 2 | 516.0 | 5.4 | – | 521.3 | 408.9 |
| Loans and mortgages to individuals | | | | | – | |
| Other loans and mortgages | | 516.0 | 5.4 | – | 521.3 | 408.9 |
| Loans on policies | | | | | – | |
| **Reinsurance recoverables from:** | D.2 | 2,811.1 | | (716.8) | 2,094.3 | 1,918.4 |
| Non-life excluding health | | | | (736.8) | 2,074.4 | 1,903.4 |
| Health similar to non-life | | | | 8.3 | 8.3 | 9.2 |
| Life excluding Health and index-linded and unit-linked | | | | 11.6 | 11.6 | 5.8 |
| Insurance and intermediaries receivables | 11 | 1,293.0 | (1,263.1) | | 29.9 | 9.7 |
| Reinsurance receivables | 4 | 222.6 | 1.3 | | 223.9 | 216.9 |
| Receivables (trade, not insurance) | 3 | 506.7 | (89.3) | | 417.4 | 420.8 |
| Cash and cash equivalents | 5 | 329.3 | | | 329.3 | 210.0 |
| **Total assets** | | **15,973.2** | **(1,274.7)** | **(954.5)** | **13,744.0** | **12,925.2** |

| Solvency II Balance Sheet as at 30 November 2017 | Notes | IFRS £'m | Solvency II Reclassification £'m | Solvency II Adjustment £'m | Solvency II EBS 2017 £'m | Solvency II EBS 2016 £'m |
|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | |
| **Technical Provisions** | D.2 | | | | | |
| Technical provisions – non-life | | (11,466.1) | 572.3 | 933.2 | (9,960.6) | (9,083.4) |
| Non-life excluding health | | (11,466.1) | 572.3 | 1,270.3 | (9,623.5) | (8,758.6) |
| Health Similar to non-life | | | | (337.1) | (337.1) | (324.9) |
| Technical Provisions – life | | | | (107.3) | (107.3) | (48.8) |
| **Liabilities other than Technical Provisions** | | | | | | |
| Provisions other than Technical Provisions | 13 | (196.6) | 107.3 | | (89.3) | (72.0) |
| Pension benefit obligations | 14 | (70.2) | | | (70.2) | (70.5) |
| Deposits from reinsurers | 17 | (4.8) | | | (4.8) | (6.8) |
| Deferred tax liabilities | 16 | (44.2) | 12.9 | (13.2) | (44.5) | (37.3) |
| Derivatives | | | | | | |
| Debts owed to credit institutions | | (0.4) | | | (0.4) | |
| Insurance & intermediaries payables | | (93.0) | 93.0 | | – | – |
| Reinsurance payables | 18 | (493.0) | 493.0 | | – | – |
| Payables (trade, not insurance) | 12 | (391.0) | (3.8) | | (394.8) | (450.5) |
| Subordinated liabilities | 15 | (50.0) | | | (50.0) | (50.0) |
| Subordinated liabilities not in BOF | | | (12.8) | | (12.8) | (12.8) |
| Subordinated liabilities in BOF | | (50.0) | 12.8 | | (37.2) | (37.2) |
| **Total liabilities** | | **(12,809.3)** | **1,274.7** | **812.8** | **(10,721.8)** | **(9,819.4)** |
| **Excess of assets over liabilities** | | **3,163.9** | | **(141.7)** | **3,022.2** | **3,105.8** |

## D.1 ASSETS

### Investments (other than assets held for index-linked and unit-linked contracts)

European Group

The European Group's investments are segregated into the following categories:

D. Participations
E. Equities
F. Bonds (including Government Bonds, Corporate Bonds, Structured Products and Collateralised Securities)
G. Collective Investment Undertakings (Investment Funds)
H. Deposits other than cash equivalents

All assets are measured at fair value in accordance with the Solvency II Directive.

The European Group's participations represent non-controlling interest in subsidiaries. Under Solvency II, these participations are accounted for using the adjusted equity method by applying Article 75 valuation principles on their individual assets and liabilities.

The table below shows split of the European Group's total investments between AEL and other component entities.

The consolidation adjustment of £3,593.7m serves to eliminate the net assets of AHEL's and AEL's subsidiaries which are fully consolidated on a line-by-line basis.

| £'m | Bonds | Deposits other than cash equivalents | Property | Investment Funds | Equities | Participations | Total |
|---|---|---|---|---|---|---|---|
| AHEL Solo | – | – | – | – | – | 3,475.2 | 3,475.2 |
| AEL | 9,577.9 | 116.3 | | 3.8 | 6.4 | 118.6 | 9,823.0 |
| Other Subsidiaries | 493.9 | 13.1 | 177.5 | 40.8 | – | 0.2 | 725.5 |
| Consolidation Adjustments | – | – | – | – | – | (3,593.7) | (3,593.7) |
| **AHEL Consolidated** | **10,071.8** | **129.4** | **177.5** | **44.6** | **6.4** | **0.3** | **10,430.0** |

AIG Europe Limited

Under Solvency II, investments excluding participations are measured using fair valuation principles in line with IFRS 13.

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.

Holdings in related undertakings, including participations are held at cost less impairment under IFRS. Under Solvency II, participations are valued using the adjusted equity method by applying the Article 75 valuation principles on the individual assets and liabilities of the Company's subsidiaries.

At 30 November 2017, £84.0m accrued interest was reclassified from other receivables under IFRS to the relevant asset categories under Solvency II.

The table below shows the split of AEL's total investments between the different Solvency II asset categories, as well as the reclassification and valuation adjustments applied at 30 November 2017.

| Note 1: Total Investments, £'m | AEL IFRS | AEL Reclassification Adjustments | AEL Solvency II Valuation Adjustments | AEL SII Value | SII Value European Group Consolidated |
|---|---|---|---|---|---|
| Participations | 77.4 | | 41.1 | 118.6 | 0.3 |
| Equities | 8.2 | | (1.8) | 6.4 | 6.4 |
| Bonds | 9,493.8 | 84.0 | 0.2 | 9,577.9 | 10,071.8 |
| Investment funds | 3.8 | | | 3.8 | 44.6 |
| Deposits other than cash equivalents | 116.3 | | | 116.3 | 129.4 |
| **Balance as at 30 November 2017** | **9,699.5** | **84.0** | **39.5** | **9,823.0** | **10,252.5** |

## Loans and mortgages

### Alternative valuation method

Loans and mortgages are measured at amortised cost under IFRS. Under Solvency II, they are measured at fair value using the Income Approach through the discounted cash flow method.

The 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. Unobservable inputs reflect internal assumptions in regards to 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).

The 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 table below shows the split of the European Group's loans and mortgages between AEL and other component entities.

| Loans and Mortgages | £'m |
|---|---|
| AHEL Solo | 15.0 |
| AEL | 521.3 |
| Other Subsidiaries | 0.8 |
| Consolidation Adjustment | (77.1) |
| **AHEL Consolidated** | **460.0** |

The consolidation adjustment of £77.1m represents the elimination of intragroup loans.

### AIG EUROPE LIMITED

AEL's loans and mortgages are measured at amortised cost under IFRS. Under Solvency II, they are measured at fair value using the discounted cash flow method as described above.

The table below shows the reclassification and valuation adjustments made to loans and mortgages at 30 November 2017.

At 30 November 2017, £5.4m accrued interest was reclassified from other receivables.

| Note 2: Loans and Mortgages, £'m | AEL IFRS | AEL Reclassification Adjustments | AEL Solvency II Valuation Adjustments | AEL SII Value | SII Value European Group Consolidated |
|---|---|---|---|---|---|
| **Balance as at 30 November 2017** | **516.0** | **5.4** | | **521.3** | **460.0** |

## RECEIVABLES (TRADE, NOT INSURANCE)

### European Group

Receivables (trade, not insurance) relate to prepayments and other receivables which are due within 1 year. Owing to their short term nature, the amortised cost valuation under IFRS is taken to approximate fair valuation.

The table below shows the split of the European Group's trade receivables between AEL and other component entities.

| Receivables (Trade, Not Insurance) | £'m |
|---|---|
| AHEL Solo | 10.8 |
| AEL | 417.4 |
| Other Subsidiaries | 191.5 |
| Consolidation Adjustment | (105.5) |
| **AHEL Consolidated** | **514.2** |

The consolidation adjustment of £105.5m represents the elimination of intragroup trade balances.

### AIG EUROPE LIMITED

The table below shows the reclassification and valuation adjustments made to trade receivables at 30 November 2017.

At 30 November 2017, £89.3m of accrued interest was reclassified from trade receivables to the relevant asset categories within Total Investments.

| Note 3: Receivables (trade, not insurance), £'m | AEL IFRS | AEL Reclassification Adjustments | AEL Solvency II Valuation Adjustments | AEL SII Value | SII Value European Group Consolidated |
|---|---|---|---|---|---|
| **Balance as at 30 November 2017** | **506.7** | **(89.3)** | | **417.4** | **514.2** |

## REINSURANCE RECEIVABLES

### European Group

(Re)insurance receivables comprise amounts past due by (re)insurers and linked to (re)insurance business, including:

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

The European Group's (re)insurance receivables are all due within 12 months. Owing to their short term nature, the amortised cost valuation under IFRS is taken to approximate fair valuation. Under Solvency II, insurance receivables form part of the future premium cash flows which make up the "gross premium provisions" component of the Solvency II technical provisions.

The table below shows the split of the European Group's (re)insurance receivables between AEL and other component entities.

| Insurance and Intermediaries Receivables | £'m |
|---|---|
| AEL | 29.9 |
| Other Subsidiaries | 0.9 |
| Consolidation Adjustment | (0.2) |
| **AHEL Consolidated** | **30.6** |

| Reinsurance Receivables | £m |
|---|---|
| AEL | 223.9 |
| Other Subsidiaries | 3.2 |
| **AHEL Consolidated** | **227.1** |

### AIG EUROPE LIMITED

The table below shows the reclassification and valuation adjustments made to (re)insurance receivables at 30 November 2017.

At 30 November 2017, there was a £1,263.1m reclassification adjustment as insurance receivables which are "not past due" under IFRS are treated as future cash flows and reclassified to technical provisions under Solvency II.

| Note 4: Insurance and Intermediaries Receivables, £'m | AEL IFRS | AEL Reclassification Adjustments | AEL Solvency II Valuation Adjustments | AEL SII Value | SII Value European Group Consolidated |
|---|---|---|---|---|---|
| **Balance as at 30 November 2017** | **1,293** | **(1,263.1)** | | **29.9** | **30.6** |

At 30 November 2017, there were no differences between IFRS and Solvency II for reinsurance receivables.

| Note 4: Reinsurance Receivables, £'m | AEL IFRS | AEL Reclassification Adjustments | AEL Solvency II Valuation Adjustments | AEL SII Value | SII Value European Group Consolidated |
|---|---|---|---|---|---|
| **Balance as at 30 November 2017** | **222.6** | **1.3** | | **223.9** | **227.1** |

## CASH AND CASH EQUIVALENTS

### European Group

Cash and cash equivalents comprise cash in 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. Owing to their short term nature, their face value is taken to approximate fair value.

The table below shows the split of the European Group's cash and cash equivalents between AEL and other component entities.

| Cash and Cash Equivalents | £'m |
|---|---|
| AHEL Solo | 0.4 |
| AEL | 329.3 |
| Other Subsidiaries | 156.5 |
| **AHEL Consolidated** | **486.2** |

### AIG EUROPE LIMITED

At 30 November 2017, there were no differences between IFRS and Solvency II for cash and cash equivalents.

| Note 5: Cash and Cash Equivalents, £'m | AEL IFRS | AEL Reclassification Adjustments | AEL Solvency II Valuation Adjustments | AEL SII Value | SII Value European Group Consolidated |
|---|---|---|---|---|---|
| **Balance as at 30 November 2017** | **329.3** | | | **329.3** | **486.2** |

## PROPERTY, PLANT & EQUIPMENT HELD FOR OWN USE

### European Group

*Alternative valuation method*

The IAS 16 Revaluation model is applied to the measurement of property both under IFRS and Solvency II.

Under the IAS 16 Revaluation model, property is held at the revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The European Group's property portfolio is 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 Committeet, IAS 16 and IFRS 13 '*Fair Value Measurement*'.

Other items of property and equipment (e.g. leasehold improvements, fixtures and fittings) are stated at historical cost less subsequent accumulated depreciation and subsequent accumulated impairment losses. Owing to immateriality, they are not restated to fair value for Solvency II purposes.

The table below shows the split of the European Group's property, plant and equipment between AEL and other component entities.

| Property, Plant and Equipment Held for Own Use | £'m |
|---|---|
| AEL | 136.8 |
| Other Subsidiaries | 10.7 |
| **AHEL Consolidated** | **147.5** |

## AIG EUROPE LIMITED

At 30 November 2017, there were no differences between IFRS and Solvency II for property, plant and equipment "held for own use" and "other than for own use".

| Note 6: Property, Plant & Equipment, £'m | AEL IFRS | AEL Reclassification Adjustments | AEL Solvency II Valuation Adjustments | AEL SII Value | SII Value European Group Consolidated |
|---|---|---|---|---|---|
| **Balance as at 30 November 2017** | **136.8** | | | **136.8** | **147.5** |

## DEFERRED TAX ASSET

The Solvency II measurement principles for deferred taxes are consistent with IAS12.

Deferred tax is provided in full on all temporary differences arising between the Solvency II valuation and the tax bases of assets and liabilities.

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

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.

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 at the level of each subsidiary.

### European Group

The table below shows the split of the European Group's deferred tax assets between AEL and other component entities.

| Deferred Tax Assets | £'m |
|---|---|
| AEL | 137.0 |
| Other Subsidiaries | 34.1 |
| **AHEL Consolidated** | **171.1** |

## AIG EUROPE LIMITED

The table below shows the reclassification and valuation adjustments made to deferred tax assets at 30 November 2017.

At 30 November 2017, £12.9m reclassification adjustment was made to net down the deferred tax position within each country.

In addition there was a £49.7m valuation adjustment in respect of the temporary valuation differences between IFRS and Solvency II.

| Note 7: Deferred Tax Asset, £'m | AEL IFRS | AEL Reclassification Adjustments | AEL Solvency II Valuation Adjustments | AEL SII Value | SII Value European Group Consolidated |
|---|---|---|---|---|---|
| **Balance as at 30 November 2017** | **100.2** | **(12.9)** | **49.7** | **137.0** | **171.1** |

## DEFERRED ACQUISITION COST

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

Under Solvency II, deferred acquisitions are written off. All cash flows arising from expenses that will be incurred in servicing all recognised insurance and reinsurance obligations over the lifetime are instead considered in determining the best estimate technical provisions (see Section D.2).

### AIG EUROPE LIMITED

The table below shows the reclassification and valuation adjustments made to deferred acquisition costs at 30 November 2017.

| Note 8: Deferred Acquisition Costs, £'m | AEL IFRS | AEL Reclassification Adjustments | AEL Solvency II Valuation Adjustments | AEL SII Value | SII Value European Group Consolidated |
|---|---|---|---|---|---|
| **Balance as at 30 November 2017** | **305.5** | | **(305.5)** | | **0.0** |

At 30 November 2017, £305.5m of deferred acquisition costs were written off under Solvency II.

## INTANGIBLE ASSETS

### European Group

The European Group's intangible assets include capitalised software costs and acquired brands. Under IFRS, intangible assets are measured at historical cost less accumulated amortisation and impairment.

Under Solvency II, intangible assets are valued at zero unless they can be sold separately and their values can be derived using quoted prices in active markets. At 30 November 2017, none of the European Group's intangible assets met this criteria therefore the whole amount was written off.

### AIG EUROPE LIMITED

The table below shows the reclassification and valuation adjustments made to intangible assets at 30 November 2017.

| Note 9: Intangible Assets, £'m | AEL IFRS | AEL Reclassification Adjustments | AEL Solvency II Valuation Adjustments | AEL SII Value | SII Value European Group Consolidated |
|---|---|---|---|---|---|
| **Balance as at 30 November 2017** | **19.6** | | **(19.6)** | | **0.0** |

At 30 November 2017, £19.6m of intangible assets were written off under Solvency II.

## PENSION BENEFIT SURPLUS

### European Group

The European Group's subsidiaries operate a number of pension schemes, whose members receive benefits on either a defined benefit or defined contribution basis. Under IFRS, the defined benefit obligation and associated surplus or deficit are calculated by independent actuaries using the projected unit credit method in accordance with IAS 19.

The Solvency II measurement of pension assets and liabilities is consistent with IAS 19 measurement.

At 30 November 2017, the pension benefit surplus reported by the European Group related to AEL.

| Pension Benefit Surplus | £'m |
|---|---|
| AEL | 31.0 |
| **AHEL Consolidated** | **31.0** |

### AIG EUROPE LIMITED

At 30 November 2017, there were no differences between IFRS and Solvency II for pension benefit surplus.

| Note 10: Pension Benefit Surplus, £'m | AEL IFRS | AEL Reclassification Adjustments | AEL Solvency II Valuation Adjustments | AEL SII Value | SII Value European Group Consolidated |
|---|---|---|---|---|---|
| **Balance as at 30 November 2017** | **31.0** | | | **31.0** | **31.0** |

## D.2 TECHNICAL PROVISIONS

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 by 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.

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 provide by EIOPA to get Technical Provisions by reserving classes.

Technical Provisions by reserving classess 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

Currently the European regulations do not apply to AIG Israel and therefore it is not required to produce an annual SFCR. However, the Israeli regulator has been moving steadily towards implementing a prudential regime similar to Solvency II. The technical provisions valuation methodology for AIG Israel is in line with Solvency II regulations.

At the European Group level, the consolidated Best Estimate of technical provisions is calculated as the sum of Solvency II Best Estimates of AEL, AIG Life and AIG Israel. Where there are intra-group reinsurance contracts, the following adjustments will be made:

- The best estimate of the undertaking that accepts risks shall not include the cash flows arising from the obligations of the intra-group reinsurance contracts; and
- The undertaking that cedes the risk will not recognize the amounts recoverable from the intra-group reinsurance contracts.

There were no material intra-group reinsurance contracts at 30 November 2017.

The European Group's Risk Margin is the sum of solo Risk Margins for AEL, AIG Life and AIG Israel.

### AIG Europe Limited

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.

### Notes to economic balance sheet

### European Group

In comparison to 2016, there has been no material changes in assumptions used to calculate Solvency II technical provisions. The European Group's Technical Provisions are categorised as:

- Non-life Excluding Health is the largest category of technical provisions (c. 94% of gross technical provisions) and it relates to the following SII LoBs:

  D. General Liability (AEL and AIG Israel)
  E. Motor Vehicle Liability (AEL and AIG Israel)
  F. Fire and Other Damage to Property (AEL and AIG Israel)
  G. Other Motor Insurance (AEL and AIG Israel)
  H. Marine, Aviation and Transport (AEL)
  I. Credit and Suretyship (AEL)
  J. Miscellaneous Financial Loss (AEL)

- Health Similar to Non-life Techniques (Health NSLT) is the second largest category of technical provisions of the European Group and it relates to the following SII LoBs:
  - Medical Expense (AEL and AIG Israel)
  - Income Protection (AEL and AIG Israel)
  - Workers' Compensation (AEL)
- Life excluding health, unit-linked and index-linked relates to following SII LoBs:
  - Other Life Insurance that represents life protection products (AIG Israel and AIG Life)
  - Annuities stemming from non-life insurance contracts and relating to health insurance obligations namely Periodic Payment Orders or PPOs that arise from General Liability and Motor Vehicle Liability lines of AEL.
- Health Similar to Life Techniques (Health SLT) relates to critical illness and income protection products of AIG Life and AIG Israel.

The sum of technical provisions of Non-life Excluding Health and Health NSLT represents the total non-life technical provisions. Similarly, the sum of Life excluding health, unit-linked and index-linked and Health SLT represents the Total Life Technical Provisions.

| £'m | Non-life excluding health | Health Similar to Non-life Techniques (Health NSLT) | Non-life Total | Life excluding health, index-linked and unit-linked | Health Similar to Life Techniques (HSLT) | Life Total |
|---|---|---|---|---|---|---|
| Best Estimate | (9,391.4) | (317.0) | (9,708.4) | (247.0) | 85,2 | (161.8) |
| Risk Margin (unaudited) | (509.9) | (26.4) | (536.3) | (68.5) | (49.0) | (117.5) |
| **Gross Technical Provision** | **(9,901.3)** | **(343.4)** | **(10,244.7)** | **(315.5)** | **36.2** | **(279.3)** |
| Reinsurance Recoverable | 2,204.9 | 8.3 | 2,213.2 | 287.4 | 80.8 | 368.2 |
| **Net Technical Provision** | **(7,696.4)** | **(335.1)** | **(8,031.5)** | **(28.1)** | **117.0** | **88.9** |

## AIG EUROPE LIMITED

### 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 AEL's IFRS reserves to get Best Estimates of Technical Provisions are as follows:

### 1. 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.

### 2. 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.

### 3. 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.

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.

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 | ✓ | |

### 4. 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.

### 5. 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.

### 6. 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).

### 7. 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 (UNAUDITED)

Methodology 1, prescribed by EIOPA, is used to calculate the future Solvency Capital Requirement ('SCR') relating to current obligations. The calculation is done in the Internal Model using loss distributions of Non-Catastrophic Insurance Risk (excluding New Business risk), Counterparty Default Risk, Operational Risk and Catastrophic Risk. The losses by risk type and by Solvency II line of business are run off individually, taking into account the duration of each line of business.

The future loss distributions are then aggregated and the future SCRs are calculated as the 99.5th percentile of the total loss distribution for each future time. These future SCRs are discounted with the appropriate GBP yield curve as prescribed by EIOPA. The sum of the discounted SCRs is multiplied by the Cost of Capital of 6% as prescribed by EIOPA to obtain an initial Risk Margin. The initial Risk

Margin is then adjusted to account for any differences between the actual Technical Provisions on the Economic Balance Sheet and the modelled Technical Provisions in the Internal Model to obtain the final Risk Margin for the Company.

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 line of business is also produced using a simplified risk margin by line of business as allocation key.

## 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 net 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).

The composition of the European Group's Technical Provisions by material SII LoBs is consistent with that of AEL and it is unchanged since last year. General Liability, Fire & other Damage to Property, Motor Vehicle Liability and Marine, aviation and transport represent the most material SII LoBs by Technical Provisions for the European Group.

### AIG EUROPE LIMITED

| £'m | General Liability | Fire & Other Damage to Property | Motor Vehicle Liability | Marine, Aviation and Transport |
|---|---|---|---|---|
| Best Estimate | (5,710.9) | (1,591.0) | (778.2) | (649.2) |
| Risk Margin (unaudited) | (312.4) | (77.3) | (40.6) | (35.8) |
| **Gross Technical Provision** | **(6,023.3)** | **(1,668.3)** | **(818.8)** | **(685.0)** |
| Reinsurance Recoverable | 1,019.4 | 573.7 | 213.0 | 205.0 |
| **Net Technical Provision** | **(5,003.9)** | **(1,094.6)** | **(605.8)** | **(480.0)** |

### GENERAL LIABILITY INSURANCE

General Liability lines made up 63% 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 £256.0m and future premium (receivables and payables) of £251.1m.

### FIRE AND OTHER DAMAGE TO PROPERTY INSURANCE

Fire and Other Damage lines represents 14% 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 £175.3m and future premium (receivables and payables) of £149.6m.

### MARINE, AVIATION AND TRANSPORT INSURANCE

Marine, Aviation and Transport represents 6% 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 £52.1m and future premium (receivables and payables) of £82.5m.

### 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 £41.1m and future premium (receivables and payables) of £41.4m.

### PERIODIC PAYMENT ORDERS

Life technical provisions arise from non-life claims of Motor Vehicle Liability and General Laibility 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 | Estimate 2017 £'m | Risk Margin 2017 £'m | SII Value 2017 £'m |
|---|---|---|---|
| **Total** | **(89.8)** | **(5.8)** | **(95.6)** |

*BE – Best Estimate

**RM – Risk Margin (unaudited)

## D.3 OTHER LIABILITIES

### PAYABLES (TRADE, NOT INSURANCE)

#### European Group

Payables (trade, not insurance) include accruals and creditor balances which do not arise from insurance operations. Owing to their short term nature, the amortised cost valuation under IFRS is taken to approximate fair valuation.

The table below shows the split of the European Group's trade payables between AEL and other component entities.

| Payables (Trade, Not Insurance) | £'m |
|---|---|
| AHEL Solo | (76.1) |
| AEL | (394.8) |
| Other Subsidiaries | (299.3) |
| Consolidation Adjustment | 106.5 |
| **AHEL Consolidated** | **(663.7)** |

The consolidation adjustment of £106.5m represents the elimination of intragroup trade balances.

#### AIG EUROPE LIMITED

The table below shows the reclassification and valuation adjustments made to trade payables at 30 November 2017.

At 30 November 2017, £3.8m of reclassification adjustments related to insurance taxes and were reclassified into the "gross premium provisions" component of the Solvency II technical provisions.

| Note 12: Payables (Trade, Not Insurance), £'m | AEL IFRS | AEL Reclassification Adjustments | AEL Solvency II Valuation Adjustments | AEL SII Value | SII Value European Group Consolidated |
|---|---|---|---|---|---|
| **Balance as at 30 November 2017** | **(391.0)** | **(3.8)** | | **(394.8)** | **(663.7)** |

### PROVISIONS OTHER THAN TECHNICAL PROVISIONS

#### European Group

Provisions are recognised when there exists a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resource embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Under IFRS, a provision is measured in accordance with IAS 37, which is at the best estimate of the amount the entity would pay to settle the obligation or transfer it to a third party.

The recognition and measurement of provisions under Solvency II are consistent with IFRS.

At 30 November 2017, the amount reported by the European Group for other provisions related to AEL.

| Provisions Other Than Technical Provisions | £'m |
|---|---|
| AEL | (89.3) |
| **AHEL Consolidated** | **(89.3)** |

#### AIG EUROPE LIMITED

The table below shows the reclassification and valuation adjustments made to other provisions at 30 November 2017.

At 30 November 2017, £107.3m was reclassified from other provisions to trade payables.

| Note 13: Provisions Other Than Technical Provisions, £'m | AEL IFRS | AEL Reclassification Adjustments | AEL Solvency II Valuation Adjustments | AEL SII Value | SII Value European Group Consolidated |
|---|---|---|---|---|---|
| **Balance as at 30 November 2017** | **(196.6)** | **107.3** | | **(89.3)** | **(89.3)** |

### PENSION BENEFIT OBLIGATIONS

#### European Group

Refer to Note 10 for the IFRS and Solvency II valuation principles in respect of pension benefit obligations.
The table below shows the split of the European Group's pension benefit obligations between AEL and other component entities.

| Pension Benefit Obligations | £'m |
|---|---|
| AEL | (70.2) |
| Other Subsidiaries | (54.2) |
| **AHEL Consolidated** | **(124.4)** |

### AIG EUROPE LIMITED

At 30 November 2017, there were no differences between IFRS and Solvency II for pension benefit obligations.

| Note 14: Pension Benefit Obligations, £'m | AEL IFRS | AEL Reclassification Adjustments | AEL Solvency II Valuation Adjustments | AEL SII Value | SII Value European Group Consolidated |
|---|---|---|---|---|---|
| **Balance as at 30 November 2017** | **(70.2)** | | | **(70.2)** | **(124.4)** |

## SUBORDINATED LIABILITIES

### European Group

Under IFRS, subordinated liabilities are initially recognised at issue proceeds and subsequently measured at amortised cost. Under Solvency II, subordinated debt is valued on a fair value basis, with changes in own credit standing removed for subsequent measurement.

The European Group has the following subordinated debt notes in issue at 30 November 2017:

- £1,100.0m subordinated debt issued by AHEL to AIG International Holdings Gmbh (AIGIH);
- £50.0m subordinated debt issued by AEL to AIGIH;
- £15.0m subordinated debt issued by AIG Life to AHEL.

| Subordinated Liabilities | £'m |
|---|---|
| AHEL Solo | (1,100.0) |
| AEL | (50.0) |
| Other Subsidiaries | (15.0) |
| Consolidation Adjustment | 15.0 |
| **AHEL Consolidated** | **(1,150.0)** |

The consolidation adjustment of £15.0m represents the elimination of intragroup subordinated liabilities.

### AIG EUROPE LIMITED

At 30 November 2017, AEL had in issue a £50.0m subordinated debt note with AIGIH. This subordinated debt falls under the transitional provisions to be included within AEL's Tier 2 basic own funds at the amortised cost valuation as at 1 January 2016.

| Note 15: Subordinated Liabilities, £'m | AEL IFRS | AEL Reclassification Adjustments | AEL Solvency II Valuation Adjustments | AEL SII Value | SII Value European Group Consolidated |
|---|---|---|---|---|---|
| **Balance as at 30 November 2017** | **(50.0)** | | | **(50.0)** | **(1,150.0)** |

## DEFERRED TAX LIABILITIES

### European Group

Refer to Note 7 for the IFRS and Solvency II valuation principles in respect of deferred taxes.

The table below shows the split of the European Group's deferred tax liabilities between AEL and other component entities.

| Deferred Tax Liabilities | £'m |
|---|---|
| AEL | (44.5) |
| Other Subsidiaries | (51.7) |
| **AHEL Consolidated** | **(96.2)** |

### AIG EUROPE LIMITED

The table below shows the reclassification and valuation adjustments made to deferred tax liabilities at 30 November 2017.

At 30 November 2017, £12.9m reclassification adjustment was made to net down the deferred tax position within each country.

In addition there was a £13.2m valuation adjustment in respect of the temporary valuation differences between IFRS and Solvency II.

| Note 16: Deferred Tax Liabilities, £'m | AEL IFRS | AEL Reclassification Adjustments | AEL Solvency II Valuation Adjustments | AEL SII Value | SII Value European Group Consolidated |
|---|---|---|---|---|---|
| **Balance as at 30 November 2017** | **(44.2)** | **12.9** | **(13.2)** | **(44.5)** | **(96.2)** |

## DEPOSIT FROM REINSURERS

### European Group

Deposits from reinsurers are measured at amortised cost under IFRS. The amortised cost valuation is taken to approximate fair value for Solvency II purposes.

The table below shows the split of the European Group's deposits from reinsurers between AEL and other component entities.

| Deposits from Reinsurers | £'m |
|---|---|
| AEL | (4.8) |
| Other Subsidiaries | (52.8) |
| **AHEL Consolidated** | **(57.6)** |

### AIG EUROPE LIMITED

At 30 November 2017, there were no differences between IFRS and Solvency II for deposits from reinsurers.

| Note 17: Deposit From Reinsurers, £'m | AEL IFRS | AEL Reclassification Adjustments | AEL Solvency II Valuation Adjustments | AEL SII Value | SII Value European Group Consolidated |
|---|---|---|---|---|---|
| **Balance as at 30 November 2017** | **(4.8)** | | | **(4.8)** | **(57.6)** |

## REINSURANCE PAYABLE

### European Group

(Re)insurance payables represent the sum of creditors arising out of direct insurance and reinsurance operations. The European Group's (re)insurance payables are all due within 12 months. Owing to their short term nature, the amortised cost valuation under IFRS is taken to approximate fair valuation. Under Solvency II, (re)insurance payables form part of the future premium cash flows which make up the "gross premium provisions" component of the Solvency II technical provisions.

The table below shows the split of the European Group's (re)insurance payables between AEL and other component entities.

| Insurance and Intermediaries Payables | £'m |
|---|---|
| AEL | – |
| Other Subsidiaries | (4.8) |
| **AHEL Consolidated** | **(4.8)** |

At 30 November 2017, the amount reported by the European Group for (re)insurance payables related to AIG Life.

| Note 18: Reinsurance Payable, £'m | AEL IFRS | AEL Reclassification Adjustments | AEL Solvency II Valuation Adjustments | AEL SII Value | SII Value European Group Consolidated |
|---|---|---|---|---|---|
| **Balance as at 30 November 2017** | **(493.0)** | **493.0** | | | **(49.9)** |

The table below shows the reclassification and valuation adjustments made to (re)insurance payables at 30 November 2017.

| £'m | IFRS | Reclassification Adjustments | Solvency II Valuation Adjustments | Solvency II |
|---|---|---|---|---|
| Insurance and Intermediaries Payables | (93.0) | (93.9) | | |

At 30 November 2017, £93.9m of net insurance payables counted towards future cash flows and were reclassified to technical provisions under Solvency II.

| £'m | IFRS | Reclassification Adjustments | Solvency II Valuation Adjustments | Solvency II |
|---|---|---|---|---|
| Reinsurance Payable | (493.0) | 493.0 | | |

At 30 November 2017, £493.0m was reclassified from reinsurance payables to Solvency II technical provisions.

## D.4 ALTERNATIVE VALUATION METHODS

Alternative valuation methods, as defined in the Solvency II regulations, are applied in the fair valuation of the following assets of the European Group and AEL:

- Loans and mortgages;
- Property, plant and equipment.

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

## D.5 OTHER MATERIAL INFORMATION

No other information to report.

## SOLVENCY & FINANCIAL CONDITION REPORT 2017

# E. CAPITAL MANAGEMENT

The 'Capital Management' section of the report describes the internal operational structures/procedures underlying capital management within the European Group 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 European Group's risk or capital profile, business strategy, the macro-economic outlook or if regulatory feedback warrants a change.

**KEY ELEMENTS OF THE SECTION ARE:**

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

## E. CAPITAL MANAGEMENT

### E.1 Own funds

The European Group uses a combination of basic and ancillary own funds to meet its Solvency II capital requirements:

- Basic own funds – net assets on the balance sheet and subordinated debt.
- Ancillary own funds – off balance sheet items that may be called up to absorb losses (e.g. letters of credit).

#### COMPOSITION AND QUALITY OF OWN FUNDS

The European Group's own funds are divided into three tiers based on set criteria relating to permanence and loss absorbency, with Tier 1 being of the highest quality.

The composition and total available own funds for the European Group as at 30 November 2017 is provided below:

| £'m | Tier 1 Unrestricted | Tier 1 Restricted | Tier 2 | Tier 3 | Total |
|---|---|---|---|---|---|
| Ordinary Share Capital | 59.4 | – | | | 59.4 |
| Share Premium Account related to Ordinary Share Capital | 4,099.8 | – | | | 4,099.8 |
| Reconciliation Reserve | (1,996.3) | – | | | (1,996.3) |
| Subordinated Liabilities | – | – | 1,137.2 | | 1,137.2 |
| Letters of Credit (Ancillary Own Funds) | – | – | 642.6 | | 642.6 |
| Net Deferred Tax Assets | – | – | – | 74.9 | 74.9 |
| **Total Available Own Funds** | **2,162.9** | **–** | **1,779.8** | **74.9** | **4,017.6** |

| 2016 Comparative – £m | Tier 1 Unrestricted | Tier 1 Restricted | Tier 2 | Tier 3 | Total |
|---|---|---|---|---|---|
| Ordinary Share Capital | 59.3 | – | | | 59.3 |
| Share Premium Account related to Ordinary Share Capital | 3,899.8 | – | | | 3,899.8 |
| Reconciliation Reserve | 1,647.5 | – | | | 1,647.5 |
| Subordinated Liabilities | – | – | 1,137.2 | | 1,137.2 |
| Letters of Credit (Ancillary Own Funds) | – | – | 529.4 | | 529.4 |
| Net Deferred Tax Assets | – | – | – | 41.6 | 41.6 |
| **Total Own Funds** | **2,311.8** | **–** | **1,666.6** | **41.6** | **4,019.9** |

#### AIG EUROPE LIMITED

The composition and total available own funds for the Company as at 30 November 2017 is provided below:

| £'m | Tier 1 Unrestricted | Tier 1 Restricted | Tier 2 | Tier 3 | Total |
|---|---|---|---|---|---|
| Ordinary Share Capital | 197.1 | – | | | 197.1 |
| Share Premium Account related to Ordinary Share Capital | 1,460.3 | – | | | 1,460.3 |
| Reconciliation Reserve | 1,272.2 | – | | | 1,272.2 |
| Subordinated Liabilities | | – | 37.2 | | 37.2 |
| Letters of Credit (Ancillary Own Funds) | | – | 616.7 | | 616.7 |
| Net Deferred Tax Assets | | – | | 92.5 | 92.5 |
| **Total Available Own Funds** | **2,929.6** | **–** | **653.9** | **92.5** | **3,676.0** |

| £'m | Tier 1 Unrestricted | Tier 1 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 |
| **Total Own Funds** | **3,052.5** | | **537.2** | **53.3** | **3,642.9** |

### *Tier 1 basic own funds*

At 30 November 2017, the European Group's Tier 1 Basic Own Funds were made up of the following items:

- Ordinary share capital and related share premium.
- Solvency II reconciliation reserve.

AHEL's ordinary share capital and related share premium are classified as Tier 1 unrestricted capital as its Articles of Association do not prohibit the cancellation of dividends after they have been declared.

During the year, a total of 200 ordinary shares of £1 each were allotted and and issued by AHEL totalling £200m.

The European Group's reconciliation reserve is made up of the remainder of the excess of assets over liabilities and is classified as Tier 1 capital in accordance with the Solvency II regulations. The table below sets out the components of the reconciliation reserve:

| Reconciliation Reserve | £'m |
|---|---|
| Excess of assets over liabilities | 2,265.1 |
| Less: | |
| Ordinary Share Capital | 59.4 |
| Share Premium Account | 4,099.8 |
| Net Deferred Tax Assets | 74.9 |
| Other non available own funds | 27.3 |
| **Reconciliation Reserve** | **(1,996.3)** |

### AIG EUROPE LIMITED

AEL's ordinary share capital and related share premium are classified as Tier 1 unrestricted capital as its Articles of Association do not prohibit the cancellation of dividends after they have been declared.

During the year, a total of 200 ordinary shares of £1 each were allotted and and issued by AEL totalling £200m.

AEL's reconciliation reserve is classified as Tier 1 capital in accordance with the Solvency II regulations. The table below sets out the components of the reconciliation reserve:

| Reconciliation Reserve | £'m |
|---|---|
| Excess of assets over liabilities | 3,022.2 |
| Less: | |
| Ordinary Share Capital | (197.1) |
| Share Premium Account | (1,460.3) |
| Net Deferred Tax Assets | (92.5) |
| **Reconciliation Reserve** | **1,272.2** |

### *Tier 2 basic own funds*

At 30 November 2017, the European Group's Tier 2 basic own funds were made up of the following subordinated debt:

| Subordinated Debt | Maturity | £'m |
|---|---|---|
| Subordinated Debt of £50m issued by AEL to AIGIH | 17 August 2019 | 37.2 |
| Subordinated Debt of £1,100m issued by AHEL to AIGIH | 2 June 2026 | 1,100.0 |
| **Tier 2 Basic Own Funds** | | **1,137.2** |

There have been no issuances or redemptions of Tier 2 subordinated debt during 2017.

### AIG EUROPE LIMITED

At 30 November 2017, AEL's Tier 2 basic own funds were made up of the following subordinated debt:

| Subordinated Debt | Maturity | £'m |
|---|---|---|
| Subordinated Debt of £50m issued by AEL to AIGIH | 17 August 2019 | 37.2 |
| **Tier 2 Basic Own Funds** | | **37.2** |

The £50m subordinated debt falls under the transitional provisions to be classified as Tier 2 basic own funds under Solvency II. The transitional provisions allow for £37m of the subordinated debt to be treated as Tier 2 basic own funds, this being the amortised cost valuation ascribed to it when Solvency II came into effect on 1 January 2016.

There have been no issuances or redemptions of Tier 2 subordinated debt during 2017.

*Tier 2 ancillary own funds*

Own funds that do not fall within the definition of basic own funds are known as ancillary own funds.

These are off balance sheet items, e.g. letters of credit or commitments to provide funds to an insurer, which if called upon, would increase basic own funds. Such items can only be used to cover the SCR and are not eligible to cover the MCR.

At 30 November 2017, the European Group had the following Letters of Credit (LOCs) in place:

| Letters of Credit | PRA approval period | £'m |
|---|---|---|
| £300m of LOCs issued to AEL (£100m each) | 19 October 2015-1 January 2020 | 300.0 |
| €360m of LOCs issued to AEL (€180m each) | 15 May 2017-28 February 2018 | 316.7 |
| £45m of LOCs issued to AIG Life | 14 June 2016-1 January 2020 | 45.0 |
| £35m of LOCs issued to AIG Life | 15 November 2016-1 January 2020 | 35.0 |
| **Total Letters of Credit** | | **696.7** |

All the LOCs are provided by external banks ;BNP Paribas, Barclays Bank plc, Standard Chartered, ING Bank NV and Sumitomo Mitsui Banking Corporation. The terms of the LOCs enable AEL and AIG Life to call in up to the agreed guarantee amounts on demand. The banks in turn recover funds from AIG, Inc. in its capacity as applicant and guarantor.

The sum of Tier 2 and Tier 3 own funds can only cover up to 50% of the SCR of a Solo or Group undertaking. At 30 November 2017, £54.1m of AIG Life's £80.0m of LOCs were not eligible to cover its Solo SCR as they exceeded the 50% threshold. Consequently, only £642.6m of the £696.7m of LOCs counted towards the European Group's available Tier 2 ancillary own funds.

### AIG EUROPE LIMITED

At 30 November 2017, AEL had the following LOCs in place:

| Letters of Credit | PRA approval period | £'m |
|---|---|---|
| £300m of LOCs issued to AEL (£100m each) | 19 October 2015-1 January 2020 | 300.0 |
| €360m of LOCs issued to AEL (€180m each) | 15 May 2017-28 February 2018 | 316.7 |
| **Total Letters of Credit** | | **616.7** |

During 2017, PRA approval for the £200m of Brexit LOCs to be included within AEL's ancillary own funds expired. These were replaced by €360m of LOCs, for which PRA approval was obtained on 15 May 2017.

The LOCs are provided by BNP Paribas, Standard Chartered, Sumitomo Mitsui Banking Corporation and ING Bank NV.

*Tier 3 basic own funds*

At 30 November 2017, the European Group had net deferred tax assets of £74.9m on its Economic Balance Sheet, all of which counted towards its Tier 3 basic own funds.

### AIG EUROPE LIMITED

At 30 November 2017, AEL had net deferred tax assets of £92.5m on its Economic Balance Sheet, all of which counted towards its Tier 3 basic own funds.

## ELIGIBLE OWN FUNDS

At 30 November 2017, the European Group's total eligible own funds to cover the Group SCR was less than the total available own funds due to tiering limit restrictions.

£459.0m of the European Group's Tiers 2 and 3 own funds were not eligible to cover the Group SCR as they exceeded 50% of the SCR.

| £'m | Total | Tier 1 (unrestricted) | Tier 1 (restricted) | Tier 2 | Tier 3 |
|---|---|---|---|---|---|
| Total eligible own funds to meet the SCR | 3,558.6 | 2,162.9 | | 1,395.7 | |
| Total available own funds to meet the SCR | 4,017.6 | 2,162.9 | | 1,779.8 | 74.9 |

### AIG EUROPE LIMITED

At 30 November 2017, all of AEL's available own funds were eligible to cover its SCR.

| £'m | Total | Tier 1 (unrestricted) | Tier 1 (restricted) | Tier 2 | Tier 3 |
|---|---|---|---|---|---|
| Total eligible own funds to meet the SCR | 3,676.0 | 2,929.6 | – | 653.8 | 92.5 |
| Total available own funds to meet the SCR | 3,676.0 | 2,929.6 | – | 653.8 | 92.5 |

### FUNGIBILITY AND TRANSFERABILITY OF OWN FUNDS

At 30 November 2017, the European Group recognised £27.3m of restriction in respect of the fungibility and transferability of the group own funds. This is in respect of the portion of AIG Israel's own funds which were effectively not available to cover the Group SCR (unaudited) due to local regulations.

### AIG EUROPE LIMITED

At 30 November 2017, the Company did not have any restrictions in respect of the fungibility and transferability of its own funds.

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

AHEL has taken advantage of the exemption available under Section 401 of Companies Act 2006 from the requirement to produce consolidated financial statements. Therefore, the requirement to disclose material differences between equity in financial statements and the excess of assets over liabilities is not applicable to the European Group.

### AIG EUROPE LIMITED

The table below sets out the material differences between equity in the financial statements and the excess of assets and liabilities calculated under Solvency II.

| Difference between IFRS and SII net assets | £'m |
|---|---|
| Difference arising from SII valuation of assets | (954.5) |
| Difference arising from SII valuation of technical provisions | 825.9 |
| Difference arising from SII valuation of other liabilities | (13.2) |
| Total of reserves and retained earnings from financial statements | 1,506.5 |
| **Reserves from financial statements adjusted for Solvency II valuation differences** | **1,364.7** |
| Ordinary share capital | 197.1 |
| Share premium account related to ordinary share capital | 1,460.3 |
| **Excess of assets over liabilities** | **3,022.2** |

The difference arising from SII valuation of assets include the elimination of intangible assets and deferred acquisition costs.

The difference arising from SII valuation of technical provisions is due to the remeasurement of technical provisions on a discounted best estimate basis and the inclusion of risk margin on the SII balance sheet.

The difference arising from SII valuation of other liabilities includes the impact on deferred tax of the valuation adjustments described above.

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

On 18 July 2017, AIG Holding Europe Limited received approval from the PRA to calculate its Solvency Capital Requirement using the Partial Internal Model whilst the AIG Europe Limited received approval from the PRA to calculate its Solvency Capital Requirement using the Internal Model in place of the Standard Formula.

The European Group's SCR at 30 November 2017 was £2,791m. The table below shows a breakdown of the European Group's SCR by risk and diversification benefit. The European Group's Partial Internal Model applies to AHEL, AEL and their non insurance subsidiaries, whilst AIG Life and AIG Israel are consolidated on a Standard Formula basis. The European Group uses Integration Technique 1 to integrate its Partial Internal Model SCR into its Standard Formula SCR.

A detailed analysis of the Group SCR (unaudited) and its components are diclosed in the Risk Profile section.

| European Group SCR (unaudited) £'m | AHEL Partial Internal Model | AIG Life | AIG Israel | Standard Formula Consolidated | Group SCR (unaudited) |
|---|---|---|---|---|---|
| Insurance risk | 2,012 | 128 | 176 | 265 | 2,277 |
| Market risk | 680 | 13 | 51 | 91 | 771 |
| Credit risk | 214 | 12 | 23 | 30 | 244 |
| Operational risk | 281 | 7 | 8 | 15 | 296 |
| Pension risk | 83 | 0 | 0 | 0 | 83 |
| Loss Absorbing capacity of deferred taxed | (17) | (2) | (40) | (39) | (56) |
| Diversification | (799) | (37) | (97) | (145) | (944) |
| Planned UW Profit | 120 | | | | 120 |
| **Total SCR** | **2,575** | **121** | **121** | **217** | **2,791** |

## E.2.2 MINIMUM CAPITAL REQUIREMENT (MCR)

The Group MCR represents a minimum level below which the amount of resources should not fall. The Group MCR is the sum of the Solo MCRs of AEL, AIG Life and AIG Israel. The Solo MCR for each of the entities are subject to a defined floor and cap based on their respective risk-based Solvency Capital Requirements.

The European Group MCR at 30 November 2017 was £1,301.6m. Total eligible own funds to meet the minimum consolidated group MCR is £2,423.2m.

### AIG EUROPE LIMITED

The Company uses the Internal Model SCR to define the cap on its Minimum Capital Requirement (MCR). The MCR as at 30 November 2017 was £1,135.6m.

The following table shows the MCR calculation:

| Overall MCR calculation | £'m |
|---|---|
| Linear MCR | 1,192.8 |
| SCR | 2,523.6 |
| MCR cap | 1,135.6 |
| MCR floor | 631.0 |
| Combined MCR | 1,135.6 |
| Absolute floor of the MCR | 3,254.8 |
| **Minimum Capital Requirement** | **1,135.6** |

| Calculation of MCR (inputs) (£'m) | Net (of reinsurance) best estimate provisions | Net (of reinsurance written premiums in the last 12 months) |
|---|---|---|
| Medical expense insurance and proportional reinsurance | 24.0 | 81.3 |
| Income protection insurance and proportional reinsurance | 232.1 | 352.2 |
| Workers' compensation insurance and proportional reinsurance | 47.6 | 1.1 |
| Motor vehicle liability insurance and proportional reinsurance | 572.6 | 321.8 |
| Other motor insurance and proportional reinsurance | 15.0 | 39.6 |
| Marine, aviation and transport insurance and proportional reinsurance | 445.3 | 379.0 |
| Fire and other damage to property insurance and proportional reinsurance | 1019.0 | 1042.6 |
| General liability insurance and proportional reinsurance | 4701.2 | 1421.4 |
| Credit and suretyship insurance and proportional reinsurance | 76.7 | 62.9 |
| Legal expenses insurance and proportional reinsurance | 0.0 | 0.0 |
| Assistance and proportional reinsurance | 8.6 | 37.6 |
| Miscellaneous financial loss insurance and proportional reinsurance | 148.8 | 100.8 |
| Non-proportional health reinsurance | 0.0 | 0.0 |
| Non-proportional casualty reinsurance | 29.8 | 54.8 |
| Non-proportional marine, aviation and transport reinsurance | 9.0 | 7.4 |
| Non-proportional property reinsurance | 33.3 | 33.8 |

### APPROACH TO CAPITAL MANAGEMENT

The European Group recognises the SCR as the minimum capital level. It aims to hold a target capital buffer over and above this minimum capital level to limit the possibility of breaching the minimum capital level.

### AIG EUROPE LIMITED

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 European Group's insurance subsidiaries are regulated and capitalised individually in order to meet their respective regulatory and other capital needs. Each insurance subsidiary produces an Individual Capital Plan at least annually, on which the European Group Capital Plan is built.

The European Group Capital Plan covers the following:

- Regulatory and target minimum capital levels.
- Capital structure.
- Capital projections under baseline and stressed scenarios.
- Stress and scenario analysis.

The European Group Capital Plan is updated and approved by the Board annually, or more frequently if there are material changes in circumstances.

The Capital Plan covers a three-year planning horizon that takes into consideration:

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

### AIG EUROPE LIMITED

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 European Group has an active capital management process which aims to ensure it meets regulatory capital requirements while optimising capital efficiency.

The Capital Management Policy document establishes a formal capital assessment and management framework encompassing the following aspects of capital management:

- Ensuring adequate capital is maintained within the European Group to meet regulatory requirements and ensuring capital is available to support strategic plans.
- Optimising the European Group's sources and usage of capital.
- Ensuring any excess capital is returned to AIG Group on a timely basis without compromising the other objectives, as above.

### AIG EUROPE LIMITED

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 £617m 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.

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

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

### AIG Europe Limited

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 European Group uses a Partial Internal Model in the calculation of its Solvency Capital Requirement.

On 18 July 2017, AIG Holding Europe Limited received approval from the PRA to calculate its Solvency Capital Requirement using Partial Internal Model whilst the AIG Europe Limited received approval from the PRA to calculate its Solvency Capital Requirement using the Internal Model in place of the Standard Formula.

Whilst the Standard Formula SCR is a good fit for most insurance firms with relatively low variety of insurance product offerings and straightforward investment strategy, it has inherent limitations. The Standard Formula SCR is more rigidly defined, formulaic and not calibrated to accurately reflect the complexities of a diverse multinational insurance firm such as AIG Europe.

The Company's internal model and partial internal model is a better reflection of its capital requirements on a true economic basis and better aligned to its business model. The model approvals demonstrates the regulator's confidence in its technical modelling capabilities and in the Board and Management's understanding of the model and the effectiveness of the governance supporting the model and its use in the business.

### AIG Europe Limited

The Company uses Internal Model to calculate the SCR.

The key drivers of the differences between the Standard Formula SCR and Internal Model SCR are as follows:

- Different Calculation Basis: The most basic difference between the Standard Formula and AIG Europe's Internal Model is that the former is a general approach taken to calculating the Solvency Capital Requirement. The standard formula broadly takes a deterministic, shock based approach (e.g. shocks to asset values, premiums and reserves) to reach an aggregate 99.5% loss.

The Internal Model however takes a stochastic simulation based approach, which delivers a full P&L distribution (probability distribution forecast) from which a 99.5% loss can be derived. At lower return periods of loss, like for like comparisons, can be difficult as the Standard Formula is only focused at the 99.5th percentile.

- Dependency Structure – Correlation & Diversification: The Standard Formula has been developed to reflect the risk profile of an average European-centric insurer; as a result it does not provide full recognition of risk diversification available to a firm such as AIG Europe. For example when modelling Insurance Risk the Standard Formula does not fully allow for the level of line of business and geographical diversification inherent within AIG Europe insurance risk profile.

The Standard Formula SCR is a one size fits all capital calculation model which provides standardised risk modules calculated using a number of pre-determined factors called helper tabs and aggregated through EIOPA-specified correlation matrices.

Whilst the Standard Formula SCR is a good fit for most small to medium insurance firms with relatively low variety of insurance product offerings and straightforward investment strategy, it has inherent limitations. The Standard Formula SCR is more rigidly defined, formulaic and not calibrated to accurately reflect the complexities of a diverse multinational insurance firm such as AIG Europe.

AIG Europe ensure all risk types are appropriately modelled and calibrated to meet the potential outcomes from their own risk profile.

#### Premium Risk (Non-Cat)

The modelling of separate capped and excess losses allows AEL to model reinsurance explicitly based on treaties that are in place. Facultative and captive reinsurance are modelled using a factor/proportional based approach. Excess of Loss reinsurance is modelled on a claim by claim basis.

Using historical loss data split by line of business into homogeneous groups (claims with the same underlying behaviour), loss ratio data is adjusted for changes in rates and inflation.

The process is calibrated by Corporate Actuarial and reviewed by Pricing Actuaries and their profit centres, with guidance on techniques and tools from the Economic Capital Modelling team. This ensures alignment with the pricing and reserving process

### Premium Risk (Natural Catastrophes)

AIG Europe predominantly utilises a third party Catastrophe Model to model the occurrence and severity of events for windstorm/hurricane, earthquake and flood.

The model uses actual exposure sets of individual in-force policies as a proxy for future exposures. Premium is used as a proxy for exposure and so for changing books the Nat CAT is scaled by change in on-levelled premium.

By modelling individual policies we are able to model more granularly, model facultative reinsurance explicitly and also deliver average cat loss by policy to aid premium setting.

### Premium Risk (Man made catstrophes)

Scenarios are developed for each threat based on a 1 in 40, 1 in 100 and 1 in 250 year return period.

Insurance claims arising from scenarios such as latent disease, terrorism, systemic financial markets events, products recall, pandemic, aircraft collision and other sources are all considered. These scenarios are usually based on events not experienced in our loss data, but some non-zero probability potential loss exists.

Multiple lines of business being impacted by one event is included within the derived scenarios.

Workshops with profit centre managers, risk officers and actuaries used to identify and determine scenario inputs.

The scenarios are calculated on a gross, gross less facultative and net basis.

An Expert Panel reviews and signs off on the scenarios

### Reserve Risk

The Reserve variability method is to re-project the reserve outcome thousands of times such that a range of reserve outcomes is produced.

The method that we use looks to mimic a re-reserving exercise following further development and payments modelled in each simulation.

Consistency of reserve risk calibration is discussed with other parts of AIG in particular the difference in outcome from using other available techniques.

A factor based approach is used to estimate risk on a one year time horizon vs. an ultimate time horizon perspective. A one year time horizon is used to calculate the Solvency II SCR.

The process is calibrated by Corporate Actuarial with guidance on techniques and tools from ECM. The reserve risk calibration process is done at the same time as that for premium risk ensuring consistency both in terms of data and approach.

Statistical distributions of reserve volatility are selected for each of the lines of business calibrated using historical data and expert judgement regarding the best fit going forward.

### Market Risk

Systematic movements in market factors are produced by an external Economic Scenario Generator (ESG). As well as simulating systemic movements in individual market risk factors, the ESG also generates co-movements in market risk factors. These are an important component of the internal model dependency structure. The dependency between economic factors such as GDP and inflation are used for dependencies with other risk types.

The internal model provides several mechanisms by which by which movements in market risk factor can impact the Company:

- Valuation of invested assets
- Valuation of derivative instruments
- Discounting of liabilities
- Insurance risk outcomes (i.e. inflation driving larger claims)
- Foreign exchange translations applied in the simulations of financial statements during SCR computations.

In addition to Interest Rate, Credit Spread, Equity and exchange rate risk, asset credit risk is included within the market risk sub-module. This also helps from a governance perspective since representatives from AIG investments are an integral part of market risk framework. Moreover, through co-ordination with AIG investment, AEL can influence both their market risk and invested asset credit risk profiles.

### Credit Risk

Credit risk is the risk that the value of a portfolio of assets and liabilities changes due to unexpected changes in the credit quality of issuers of assets, of a trading partner or a default of a third party in a credit insurance product.

For Solvency II within the credit risk category we are focusing on only reinsurer default credit risk and broker receivables. Reinsurer default credit risk includes risk from facultative, captive and treaty reinsurance.

Explicit modelling of probability of default and exposure to each reinsurance and broker counterparty is made. AIG assigns to each reinsurer in its reinsurance program a rating based on an internal credit risk assessment. Each counterparty is modelled separately within the model with groups grouped where appropriate.

### Operational Risk

Operational Risk is modelled through the development of a representative set of adverse scenarios, which are then used to model AIG Europe's Operational Risk Profile.

The scenarios are created and developed in Subject Matter Expert workshops with representatives from both the first line (Underwriting, Claims, Operations) and Second Line of Defence (ERM).

Three data points are defined for each scenario, setting out a frequency (return period) and expected impact. These data points are then used to create loss distributions for each scenario and in turn are used to calibrate the internal model operational risk module.

### Dependencies

Structural links are present where there is a cause-and-effect relationship between two modelled elements. For example gross claims and net claims have a structural dependency, as well as losses to different lines of business from the same catastrophic event.

Statistical dependencies are used to impose dependency between two items where similar joint behaviour of modelled items is expected, e.g. due to the economic environment.

Dependencies for Insurance Risk (Premium and Reserve Risk) are calibrated with reference to historical experience and external benchmarks, supplemented with an element of expert judgement.

Dependencies calibration for other risk modules (Operational Risk, Credit Risk and Market Risk) is normally a part of these modules' calibration process.

## E.5 NON-COMPLIANCE

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

### AIG Europe Limited

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.

## E.6 ANY OTHER INFORMATION

No other information to report.

# F. APPENDICES TO THE SOLVENCY AND FINANCIAL CONDITION REPORT

**KEY ELEMENTS OF THE SECTION ARE:**
- Glossary
- Public QRTs
- AHEL QRTS
- AEL QRTs

## F.1 GLOSSARY

### A

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

### B

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

### C

| | |
|---|---|
| **CAT** | Catastrophe |
| **CCAR** | Comprehensive Capital Analysis and Review |
| **CCO** | Chief Credit Officer |
| **CCY** | Currency |
| **CDO** | Collateralised Debt Obligation |
| **CEE** | Central and Eastern Europe |
| **CEO** | Chief Executive Officer |
| **CFO** | Chief Financial Officer |
| **CMA** | Capital Maintenance Agreement |
| **CMBS** | Commercial Mortgage Backed Security |
| **CML** | Council of Mortgage Lenders |
| **CMRC** | Compensation and Management Resources Committee |
| **COO** | Chief Operating Officer |
| **CoR** | Combined Operating Ratio |
| **CoSec** | Company Secretary |
| **CP** | Commercial Property |
| **CPL** | Compulsory Personal Liability |
| **CPR** | Constant Prepayment Rates |
| **CRO** | Chief Risk Officer |
| **CTOM** | Commercial Target Operating Model |
| **CYY** | Currency |

### D

| | |
|---|---|
| **D&O** | Directors and Officers |
| **DAC** | Deferred Acquisition Costs |
| **DGC** | Data Governance Council |
| **DM** | Direct Marketing |
| **DTA** | Deferred Tax Asset |
| **DTL** | Deferred Tax Liability |

### E

| | |
|---|---|
| **EBS** | Economic Balance Sheet |
| **ECB** | European Central Bank |
| **ECG** | European Compliance Group |
| **ECM** | Economic Capital Model |
| **ECR** | Enhanced Capital Requirement |
| **EDGC** | European Data Governance Council |
| **EEA** | European Economic Area |
| **EFTA** | European Free Trade Association |
| **EIOPA** | European Insurance and Occupational Pensions Authority |
| **EL** | Employer's Liability |
| **EMEA** | Europe, Middle East and Africa |
| **ENID** | Events not in Data |
| **ERM** | Enterprise Risk Management |
| **EPIFP** | Expected Profit in Future Premiums |
| **EU** | European Union |
| **EUT** | End User Tools |
| **ExCo** | Executive Committee |

### F

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

### G

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

### H

| | |
|---|---|
| **HR** | Human Resources |
| **HSBC** | Hongkong and Shanghai Banking Corporation |

### I

| | |
|---|---|
| **IAG** | Internal Audit Group |
| **IBNR** | Incurred but not Reported |
| **ICAS** | Individual Capital Adequacy Standards |
| **ICG** | Individual Capital Guidance |
| **IFRS** | International Financial Reporting Standards |
| **IHG** | International Holding Company |
| **ILS** | Insurance Linked Securities |
| **IM** | Internal Model |
| **IMA** | Investment Management Agreement |
| **IMAP** | Internal Model Approval Process |
| **ING** | Internationale Nederlanden Groep |
| **IOT** | Internet of Things |

### K

| | |
|---|---|
| **KRI** | Key Risk Indicator |

### L

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

### M

| | |
|---|---|
| **M&A** | Mergers & Acquisitions |
| **M&T** | Monitoring and Testing Group |
| **MCR** | Minimum Capital Requirement |
| **MGA** | Managing General Agent |
| **MI** | Management Information |
| **MMC** | Man-made Catastrophe |

### N

| | |
|---|---|
| **NB** | New Business |
| **NII** | Net Investment Income |
| **NLC&LG** | Non-Life Capital and Liquidity Group |
| **NPE** | Net Premiums Earned |
| **NPW** | Net Premiums Written |

### O

| | |
|---|---|
| **ORM** | Operational Risk Management |
| **ORR** | Obligor Risk Rating |
| **ORSA** | Own Risk Solvency Assessment |
| **OSP** | Outsourcing Service Provider |

### P

| | |
|---|---|
| **P&L** | Profit and Loss |
| **PBT** | Profit before tax |
| **PI** | Personal Insurance |
| **PIM** | Partial Internal Model |
| **PP** | Personal Property |
| **PPI** | Payment Protection Insurance |
| **PPO** | Periodic Payment Orders |
| **PPP** | Prudent Person Principle |
| **PRA** | Prudential Regulatory Authority |
| **PSR** | Property & Special Risks |
| **PWC** | Pricewaterhousecoopers |
| **PYD** | Prior Year Development |

### Q

| | |
|---|---|
| **QE** | Quantitative Easing |
| **QRT** | Quantitative Reporting Template |

### R

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

### S

| | |
|---|---|
| **S&P** | Standard and Poor's |
| **SAA** | Strategic Asset Allocation |
| **SCB** | Standard Chartered Bank |
| **SCR** | Solvency Capital Requirement |
| **SFCR** | Solvency Financial Condition Report |
| **SF-SCR** | Standard Formula – Solvency Capital Requirement |
| **SII** | Solvency II |
| **SIMR** | Senior Insurance Managers Regime |
| **SMBC** | Sumitomo Mitsui Banking Corporation |
| **SME** | Small Medium Enterprise |
| **SST** | Stress and Scenario Testing |

### T

| | |
|---|---|
| **TDC** | Total Direct Compensation |
| **TOM** | Target Operating Model |

### U

| | |
|---|---|
| **UEPR** | Unearned Premium Reserve |
| **UK** | United Kingdom |
| **ULAE** | Unallocated Loss Adjustment Expenses |
| **UW** | Underwriting |
| **UWP** | Underwriting Profit |

## V

| | |
|---|---|
| **VAT** | Value Added Tax |
| **VBG** | Value Based Geographies |
| **VBM** | Value Based Management |

## W

| | |
|---|---|
| **WAM** | Willis/AON/Marsh |

## X

| | |
|---|---|
| **XoL** | Excess of Loss |
| **XS** | Excess |

## F.2A Public QRTs – AIG Holdings Europe Limited

S.02.01.02

Balance sheet

| | | Solvency II value |
|---|---|---|
| **Assets** | | **C0010** |
| Intangible assets | **R0030** | - |
| Deferred tax assets | **R0040** | 171,099 |
| Pension benefit surplus | **R0050** | 31,034 |
| Property, plant & equipment held for own use | **R0060** | 147,500 |
| Investments (other than assets held for index-linked and unit-linked contracts) | **R0070** | 10,429,893 |
| Property (other than for own use) | **R0080** | 177,478 |
| Holdings in related undertakings, including participations | **R0090** | 284 |
| Equities | **R0100** | 6,374 |
| Equities - listed | **R0110** | - |
| Equities - unlisted | **R0120** | 6,374 |
| Bonds | **R0130** | 10,071,848 |
| Government Bonds | **R0140** | 4,104,318 |
| Corporate Bonds | **R0150** | 5,940,519 |
| Structured notes | **R0160** | 1,875 |
| Collateralised securities | **R0170** | 25,136 |
| Collective Investments Undertakings | **R0180** | 44,556 |
| Derivatives | **R0190** | - |
| Deposits other than cash equivalents | **R0200** | 129,354 |
| Other investments | **R0210** | - |
| Assets held for index-linked and unit-linked contracts | **R0220** | - |
| Loans and mortgages | **R0230** | 460,005 |
| Loans on policies | **R0240** | - |
| Loans and mortgages to individuals | **R0250** | 383 |
| Other loans and mortgages | **R0260** | 459,622 |
| Reinsurance recoverables from: | **R0270** | 2,581,537 |
| Non-life and health similar to non-life | **R0280** | 2,213,257 |
| Non-life excluding health | **R0290** | 2,204,911 |
| Health similar to non-life | **R0300** | 8,346 |
| Life and health similar to life, excluding health and index-linked and unit-linked | **R0310** | 368,280 |
| Health similar to life | **R0320** | 80,838 |
| Life excluding health and index-linked and unit-linked | **R0330** | 287,441 |
| Life index-linked and unit-linked | **R0340** | - |
| Deposits to cedants | **R0350** | - |
| Insurance and intermediaries receivables | **R0360** | 30,585 |
| Reinsurance receivables | **R0370** | 227,052 |
| Receivables (trade, not insurance) | **R0380** | 514,187 |
| 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** | 486,163 |
| Any other assets, not elsewhere shown | **R0420** | - |
| **Total assets** | **R0500** | 15,079,056 |

| | | Solvency II value |
|---|---|---|
| **Liabilities** | | **C0010** |
| Technical provisions – non-life | **R0510** | 10,244,705 |
| Technical provisions – non-life (excluding health) | **R0520** | 9,901,262 |
| TP calculated as a whole | **R0530** | - |
| Best Estimate | **R0540** | 9,391,377 |
| Risk margin | **R0550** | 509,885 |
| Technical provisions - health (similar to non-life) | **R0560** | 343,443 |
| TP calculated as a whole | **R0570** | - |
| Best Estimate | **R0580** | 317,010 |
| Risk margin | **R0590** | 26,433 |
| Technical provisions - life (excluding index-linked and unit-linked) | **R0600** | 279,386 |
| Technical provisions - health (similar to life) | **R0610** | (36,135) |
| TP calculated as a whole | **R0620** | - |
| Best Estimate | **R0630** | (85,166) |
| Risk margin | **R0640** | 49,032 |
| Technical provisions – life (excluding health and index-linked and unit-linked) | **R0650** | 315,521 |
| TP calculated as a whole | **R0660** | - |
| Best Estimate | **R0670** | 247,036 |
| Risk margin | **R0680** | 68,485 |
| Technical provisions – index-linked and unit-linked | **R0690** | |
| TP calculated as a whole | **R0700** | - |
| Best Estimate | **R0710** | - |
| Risk margin | **R0720** | - |
| Contingent liabilities | **R0740** | - |
| Provisions other than technical provisions | **R0750** | 89,300 |
| Pension benefit obligations | **R0760** | 124,385 |
| Deposits from reinsurers | **R0770** | 57,599 |
| Deferred tax liabilities | **R0780** | 96,172 |
| Derivatives | **R0790** | 169 |
| Debts owed to credit institutions | **R0800** | 53,802 |
| Financial liabilities other than debts owed to credit institutions | **R0810** | |
| Insurance & intermediaries payables | **R0820** | 4,743 |
| Reinsurance payables | **R0830** | 49,907 |
| Payables (trade, not insurance) | **R0840** | 663,710 |
| Subordinated liabilities | **R0850** | 1,150,000 |
| Subordinated liabilities not in BOF | **R0860** | 12,849 |
| Subordinated liabilities in BOF | **R0870** | 1,137,151 |
| Any other liabilities, not elsewhere shown | **R0880** | - |
| **Total liabilities** | **R0900** | 12,813,878 |
| **Excess of assets over liabilities** | **R1000** | 2,265,177 |

## S.05.01.02

## Premiums, claims and expenses by line of business

|  |  | Line of Business for: **non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)** |  |  |  |  |  |  |  |  |
|---|---|---|---|---|---|---|---|---|---|---|
|  |  | Medical expense insurance | Income protection insurance | Workers' compensation insurance | Motor vehicle liability insurance | Other motor insurance | Marine, aviation and transport insurance | Fire and other damage to property insurance | General liability insurance | Credit and suretyship insurance |
|  |  | **C0010** | **C0020** | **C0030** | **C0040** | **C0050** | **C0060** | **C0070** | **C0080** | **C0090** |
| **Premiums written** |  |  |  |  |  |  |  |  |  |  |
| Gross - Direct Business | **R0110** | 88,662 | 383,119 | 1,148 | 410,519 | 113,138 | 426,693 | 1,491,328 | 1,699,075 | 102,184 |
| Gross - Proportional reinsurance accepted | **R0120** | 4,769 | 9,949 |  | 9,756 |  | 120,710 | 286,480 | 45,146 | 236 |
| Gross - Non-proportional reinsurance accepted | **R0130** | - | - | - | - | - | - | - | - | - |
| Reinsurers' share | **R0140** | 4,381 | 40,802 | 1 | 65,746 | 329 | 168,433 | 714,768 | 320,571 | 39,470 |
| Net | **R0200** | 89,050 | 352,266 | 1,147 | 354,530 | 112,809 | 378,970 | 1,063,040 | 1,423,650 | 62,949 |
| **Premiums earned** |  |  |  |  |  |  |  |  |  |  |
| Gross - Direct Business | **R0210** | 87,496 | 385,803 | 1,066 | 406,491 | 110,966 | 434,465 | 1,473,742 | 1,677,221 | 102,089 |
| Gross - Proportional reinsurance accepted | **R0220** | 4,762 | 9,654 |  | 8,844 | 3 | 126,013 | 294,879 | 44,407 | 114 |
| Gross - Non-proportional reinsurance accepted | **R0230** |  |  |  |  |  |  |  |  |  |
| Reinsurers' share | **R0240** | 4,031 | 41,980 |  | 68,291 | 452 | 183,731 | 739,694 | 319,785 | 42,813 |
| Net | **R0300** | 88,227 | 353,476 | 1,066 | 347,044 | 110,517 | 376,746 | 1,028,928 | 1,401,843 | 59,390 |
| **Claims incurred** |  |  |  |  |  |  |  |  |  |  |
| Gross - Direct Business | **R0310** | 39,558 | 183,593 | 7,530 | 496,149 | 62,587 | 235,193 | 1,200,525 | 1,429,469 | 75,432 |
| Gross - Proportional reinsurance accepted | **R0320** | 252 | 1,354 |  | 6,561 | 0 | 88,760 | 216,649 | 20,880 | (0) |
| Gross - Non-proportional reinsurance accepted | **R0330** |  |  |  |  |  |  |  |  |  |
| Reinsurers' share | **R0340** | 854 | 8,686 | 90 | 170,474 | 139 | 102,264 | 571,755 | 262,610 | 23,452 |
| Net | **R0400** | 38,956 | 176,262 | 7,440 | 332,236 | 62,449 | 221,689 | 845,419 | 1,187,740 | 51,980 |
| **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** | 37,224 | 140,942 | 39 | 113,155 | 34,991 | 108,618 | 463,627 | 540,832 | 27,819 |
| **Other expenses** | **R1200** |  |  |  |  |  |  |  |  |  |
| **Total expenses** | **R1300** |  |  |  |  |  |  |  |  |  |

| | | Line of Business for: **non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)** | | | Line of business for:<br>**accepted non-proportional reinsurance** | | | | Total |
|---|---|---|---|---|---|---|---|---|---|
| | | Legal expenses insurance | Assistance | Miscellaneous financial loss | Health | Casualty | Marine, aviation, transport | Property | |
| | | **C0100** | **C0110** | **C0120** | **C0130** | **C0140** | **C0150** | **C0160** | **C0200** |
| **Premiums written** | | | | | | | | | |
| Gross - Direct Business | **R0110** | | 35,984 | 128,047 | | | | | 4,879,897 |
| Gross - Proportional reinsurance accepted | **R0120** | | 39 | 7,393 | | | | | 484,479 |
| Gross - Non-proportional reinsurance accepted | **R0130** | | | | | 55,286 | 7,453 | 37,162 | 99,902 |
| Reinsurers' share | **R0140** | | (1,578) | 34,599 | | 512 | 30 | 3,345 | 1,391,409 |
| Net | **R0200** | | 37,601 | 100,841 | | 54,775 | 7,423 | 33,817 | 4,072,869 |
| **Premiums earned** | | | | | | | | | |
| Gross - Direct Business | **R0210** | | 36,480 | 165,752 | | | | | 4,881,570 |
| Gross - Proportional reinsurance accepted | **R0220** | | 40 | 6,993 | | | | | 495,710 |
| Gross - Non-proportional reinsurance accepted | **R0230** | | | | | 55,993 | 7,668 | 37,571 | 101,232 |
| Reinsurers' share | **R0240** | | (1,477) | 38,783 | | 573 | 29 | 3,002 | 1,441,686 |
| Net | **R0300** | | 37,998 | 133,962 | | 55,420 | 7,639 | 34,569 | 4,036,825 |
| **Claims incurred** | | | | | | | | | |
| Gross - Direct Business | **R0310** | | 12,191 | 32,304 | | | | | 3,774,533 |
| Gross - Proportional reinsurance accepted | **R0320** | | 159 | 2,226 | | | | | 336,840 |
| Gross - Non-proportional reinsurance accepted | **R0330** | | | | | (5) | 6,464 | 24,753 | 31,212 |
| Reinsurers' share | **R0340** | | 242 | (10,803) | | 787 | (29) | 1,860 | 1,132,380 |
| Net | **R0400** | | 12,108 | 45,333 | | (792) | 6,492 | 22,893 | 3,010,205 |
| **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** | | 17,228 | 90,258 | | 8,977 | 1,648 | 4,842 | 1,590,200 |
| **Other expenses** | **R1200** | | | | | | | | 176 |
| **Total expenses** | **R1300** | | | | | | | | 1,590,376 |

|  |  | Line of Business for: **life insurance obligations** |  |  |  |  |  | **Life reinsurance obligations** |  | Total |
|---|---|---|---|---|---|---|---|---|---|---|
|  |  | Health insurance | Insurance with profit participation | Index-linked and unit-linked insurance | Other life insurance | Annuities stemming from non-life insurance contracts and relating to health insurance obligations | Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations | Health reinsurance | Life reinsurance |  |
|  |  | **C0210** | **C0220** | **C0230** | **C0240** | **C0250** | **C0260** | **C0270** | **C0280** | **C0300** |
| **Premiums written** |  |  |  |  |  |  |  |  |  |  |
| Gross | **R1410** | 98,392 |  |  | 151,951 |  |  |  |  | 250,343 |
| Reinsurers' share | **R1420** | 24,272 |  |  | 57,399 |  |  |  |  | 81,671 |
| Net | **R1500** | 74,119 |  |  | 94,553 |  |  |  |  | 168,672 |
| **Premiums earned** |  |  |  |  |  |  |  |  |  |  |
| Gross | **R1510** | 98,392 |  |  | 151,965 |  |  |  |  | 250,356 |
| Reinsurers' share | **R1520** | 24,272 |  |  | 57,399 |  |  |  |  | 81,672 |
| Net | **R1600** | 74,119 |  |  | 94,565 |  |  |  |  | 168,685 |
| **Claims incurred** |  |  |  |  |  |  |  |  |  |  |
| Gross | **R1610** | 39,258 |  |  | 69,131 | 3,421 |  |  |  | 111,810 |
| Reinsurers' share | **R1620** | 22,027 |  |  | 58,133 | 236 |  |  |  | 80,396 |
| Net | **R1700** | 17,231 |  |  | 10,998 | 3,185 |  |  |  | 31,414 |
| **Changes in other technical provisions** |  |  |  |  |  |  |  |  |  |  |
| Gross | **R1710** |  |  |  |  |  |  |  |  |  |
| Reinsurers' share | **R1720** |  |  |  |  |  |  |  |  |  |
| Net | **R1800** |  |  |  |  |  |  |  |  |  |
| **Expenses incurred** | **R1900** | 46,493 |  |  | 76,224 | 264 |  |  |  | 122,980 |
| **Other expenses** | **R2500** |  |  |  |  |  |  |  |  |  |
| **Total expenses** | **R2600** |  |  |  |  |  |  |  |  | 122,980 |

## S.05.02.01
Premiums, claims and expenses by country

| | | Home Country | Top 5 countries (by amount of gross premiums written) - non-life obligations | | | | | Total Top 5 and home country |
|---|---|---|---|---|---|---|---|---|
| | | C0010 | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 |
| | **R0010** | | | | | | | |
| | | **C0080** | **C0090** | **C0100** | **C0110** | **C0120** | **C0130** | **C0140** |
| **Premiums written** | | | | | | | | |
| Gross - Direct Business | **R0110** | 1,493,111 | 573,692 | 453,638 | 270,467 | 408,709 | 175,886 | 4,879,897 |
| Gross - Proportional reinsurance accepted | **R0120** | 176,944 | 21,943 | 36,517 | 870 | 2,065 | 21,236 | 484,479 |
| Gross - Non-proportional reinsurance accepted | **R0130** | 51,493 | 2,901 | 8,186 | 97 | 458 | 3,782 | 99,902 |
| Reinsurers' share | **R0140** | 487,976 | 74,270 | 112,531 | 30,211 | 69,676 | 31,297 | 1,391,409 |
| Net | **R0200** | 1,233,572 | 524,267 | 385,811 | 241,222 | 341,556 | 169,607 | 4,072,869 |
| **Premiums earned** | | | | | | | | |
| Gross - Direct Business | **R0210** | 1,610,761 | 577,168 | 454,414 | 269,053 | 406,896 | 169,011 | 4,881,570 |
| Gross - Proportional reinsurance accepted | **R0220** | 254,422 | 22,774 | 33,839 | 796 | 4,080 | 24,363 | 495,710 |
| Gross - Non-proportional reinsurance accepted | **R0230** | 60,427 | 3,020 | 7,826 | 88 | 762 | 4,266 | 101,232 |
| Reinsurers' share | **R0240** | 621,928 | 77,053 | 108,625 | 31,591 | 70,909 | 31,013 | 1,441,686 |
| Net | **R0300** | 1,303,682 | 525,909 | 387,454 | 238,346 | 340,829 | 166,626 | 4,036,825 |
| **Claims incurred** | | | | | | | | |
| Gross - Direct Business | **R0310** | 1,596,110 | 392,198 | 419,374 | 166,674 | 250,191 | 172,467 | 3,774,533 |
| Gross - Proportional reinsurance accepted | **R0320** | 255,346 | 9,506 | 33,356 | | 3,270 | 8,810 | 336,840 |
| Gross - Non-proportional reinsurance accepted | **R0330** | 30,075 | 634 | 2,919 | | 157 | 1,140 | 31,212 |
| Reinsurers' share | **R0340** | 687,706 | 78,624 | 133,868 | 11,496 | 15,584 | 15,477 | 1,132,380 |
| Net | **R0400** | 1,193,825 | 323,714 | 321,782 | 155,178 | 238,035 | 166,940 | 3,010,205 |
| **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** | 435,769 | 237,981 | 172,269 | 82,303 | 133,740 | 67,526 | 1,590,200 |
| **Other expenses** | **R1200** | | | | | | | 176 |
| **Total expenses** | **R1300** | | | | | | | 1,590,376 |

| | | Home Country | Top 5 countries (by amount of gross premiums written) - life obligations | | | | | Total Top 5 and home country |
|---|---|---|---|---|---|---|---|---|
| | | C0150 | C0160 | C0170 | C0180 | C0190 | C0200 | C0210 |
| | R1400 | | | | | | | |
| | | C0220 | C0230 | C0240 | C0250 | C0260 | C0270 | C0280 |
| **Premiums written** | | | | | | | | |
| Gross | **R1410** | 177,359 | 223 | 1,605 | 1,509 | 69,647 | | 250,343 |
| Reinsurers' share | **R1420** | 74,779 | 94 | 677 | 636 | 5,485 | | 81,671 |
| Net | **R1500** | 102,580 | 129 | 928 | 873 | 64,162 | | 168,672 |
| **Premiums earned** | | | | | | | | |
| Gross | **R1510** | 177,359 | 223 | 1,605 | 1,509 | 69,660 | | 250,356 |
| Reinsurers' share | **R1520** | 74,779 | 94 | 677 | 636 | 5,485 | | 81,672 |
| Net | **R1600** | 102,580 | 129 | 928 | 873 | 64,175 | | 168,685 |
| **Claims incurred** | | | | | | | | |
| Gross | **R1610** | 84,963 | | 434 | 326 | 26,088 | | 111,810 |
| Reinsurers' share | **R1620** | 77,094 | | 409 | 307 | 2,586 | | 80,396 |
| Net | **R1700** | 7,869 | | 25 | 19 | 23,502 | | 31,414 |
| **Changes in other technical provisions** | | | | | | | | |
| Gross | **R1710** | | | | | | | |
| Reinsurers' share | **R1720** | | | | | | | |
| Net | **R1800** | | | | | | | |
| **Expenses incurred** | **R1900** | 93,786 | 118 | 846 | 796 | 27,435 | | 122,980 |
| **Other expenses** | **R2500** | | | | | | | 0 |
| **Total expenses** | **R2600** | | | | | | | 122,980 |

## S.23.01.22
## Own funds

| | | Total | Tier 1 - unrestricted | Tier 1 - restricted | Tier 2 | Tier 3 |
|---|---|---|---|---|---|---|
| | | C0010 | C0020 | C0030 | C0040 | C0050 |
| **Basic own funds before deduction for participations in other financial sector** | | | | | | |
| 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** | 4,099,825 | 4,099,825 | | | |
| Iinitial 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** | | | | | |
| Reconciliation reserve | **R0130** | (1,996,310) | (1,996,310) | | | |
| 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** | 74,927 | | | | 74,927 |
| 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** | | | | | |
| **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** | | | | | | |
| 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** | | | | | |
| **Deductions** | | | | | | |
| 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** | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Total deductions** | **R0280** | | | | | |
| **Total basic own funds after deductions** | **R0290** | 3,374,985 | 2,162,908 | | 1,137,151 | 74,927 |
| **Ancillary own funds** | | | | | | |
| 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** | | | | | |
| Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC | **R0350** | | | | | |
| Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC | **R0340** | 642,649 | | | 642,649 | |
| 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** | | | | | |
| **Total ancillary own funds** | **R0400** | 642,649 | | | 642,649 | |
| **Own funds of other financial sectors** | | | | | | |
| **Reconciliation reserve** | **R0410** | | | | | |
| Institutions for occupational retirement provision | **R0420** | | | | | |
| Non regulated entities carrying out financial activities | **R0430** | | | | | |
| Total own funds of other financial sectors | **R0440** | | | | | |
| **Own funds when using the D&A, exclusively or in combination of method 1** | | | | | | |
| Own funds aggregated when using the D&A and combination of method | **R0450** | | | | | |
| Own funds aggregated when using the D&A and combination of method net of IGT | **R0460** | | | | | |
| Total available own funds to meet the consolidated group SCR  (excluding own funds from other financial sector and from the undertakings included via D&A ) | **R0520** | 4,017,634 | 2,162,908 | | 1,779,799 | 74,927 |
| Total available own funds to meet the minimum consolidated group SCR | **R0530** | 3,300,058 | 2,162,908 | | 1,137,151 | |
| Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A ) | **R0560** | 3,558,632 | 2,162,908 | | 1,395,724 | |
| Total-eligible own funds to meet the minimum consolidated group SCR | **R0570** | 2,423,242 | 2,162,908 | | 260,335 | |
| **Minimum consolidated Group SCR** | **R0610** | 1,301,673 | | | | |
| **Ratio of Eligible own funds to Minimum Consolidated Group SCR** | **R0650** | 186.16% | | | | |
| **Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A )** | **R0660** | 3,558,632 | 2,162,908 | | 1,395,724 | |
| **Group SCR** | **R0680** | 2,791,448 | | | | |
| **Ratio of Eligible own funds to  group SCR including other financial sectors and the undertakings included via D&A** | **R0690** | 127.48% | | | | |

|  |  | C0060 |  |  |  |  |
|---|---|---|---|---|---|---|
| **Reconciliation reserve** |  |  |  |  |  |  |
| Excess of assets over liabilities | **R0700** | 2,265,177 |  |  |  |  |
| Own shares (held directly and indirectly) | **R0710** |  |  |  |  |  |
| Foreseeable dividends, distributions and charges | **R0720** |  |  |  |  |  |
| Other basic own fund items | **R0730** | 4,234,145 |  |  |  |  |
| Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds | **R0740** |  |  |  |  |  |
| Other non available own funds | **R0750** | 27,343 |  |  |  |  |
| **Reconciliation reserve before deduction for participations in other financial sector** | **R0760** | (1,996,310) |  |  |  |  |
| **Expected profits** |  |  |  |  |  |  |
| Expected profits included in future premiums (EPIFP) - Life business | **R0770** | 345,580 | - |  |  |  |
| Expected profits included in future premiums (EPIFP) - Non- life business | **R0780** | 253,895 | - |  |  |  |
| **Total Expected profits included in future premiums (EPIFP)** | **R0790** | 599,475 | - |  |  |  |

**S.25.02.22**

**Solvency Capital Requirement - for groups using the standard formula and partial internal model**

| Unique number of component | Components description | Calculation of the Solvency Capital Requirement | Amount modelled | USP | Simplifications |
|---|---|---|---|---|---|
| C0010 | C0020 | C0030 | C0070 | C0080 | C0090 |
| 1 | Insurance Risk | 2,276,635 | | | |
| 2 | Market Risk | 770,404 | | | |
| 3 | Credit risk | 244,370 | | | |
| 4 | Operational risk | 296,016 | | | |
| 5 | Pension Risk | 82,926 | | | |
| 6 | Deferred Tax Benefit | - 55,302 | | | |
| 804 | Other Adjustments | 119,816 | | | |

| **Calculation of Solvency Capital Requirement** | | C0100 |
|---|---|---|
| Total undiversified components | R0110 | 3,734,864 |
| Diversification | R0060 | - 943,416 |
| Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC | R0160 | |
| **Solvency capital requirement excluding capital add-on** | R0200 | 2,791,448 |
| Capital add-ons already set | R0210 | |
| **Solvency capital requirement for undertakings under consolidated method** | R0220 | 2,791,448 |
| **Other information on SCR** | | |
| Amount/estimate of the overall loss-absorbing capacity of technical provisions | R0300 | |
| Amount/estimate of the overall loss-absorbing capacity ot deferred taxes | R0310 | |
| Capital requirement for duration-based equity risk sub-module | R0400 | |
| Total amount of Notional Solvency Capital Requirements for remaining part | R0410 | |
| Total amount of Notional Solvency Capital Requirements for ring fenced funds (other than those related to business operated in accordance with Art. 4 of Directive 2003/41/EC (transitional)) | R0420 | |
| Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios | R0430 | |
| Diversification effects due to RFF nSCR aggregation for article 304 | R0440 | |
| Minimum consolidated group solvency capital requirement | R0470 | 1,301,673 |
| **Information on other entities** | | |
| Capital requirement for other financial sectors (Non-insurance capital requirements) | R0500 | |
| Capital requirement for other financial sectors (Non-insurance capital requirements) - Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies | R0510 | |
| Capital requirement for other financial sectors (Non-insurance capital requirements) - Institutions for occupational retirement provisions | R0520 | |
| Capital requirement for other financial sectors (Non-insurance capital requirements) - Capital requirement for non_-regulated entities carrying out financial activities | R0530 | |
| Capital requirement for non-controlled participation requirements | R0540 | |
| Capital requirement for residual undertakings | R0550 | |

| | | C0100 |
|---|---|---|
| **Overall SCR** | | |
| SCR for undertakings included via D and A | R0560 | |
| **Solvency capital requirement** | R0570 | 2,791,448 |

## S.32.01.22
## Undertakings in the scope of the group

| Country | Identification code of the undertaking | Type of code of the ID of the undertaking | Legal name of the undertaking | Type of undertaking | Legal form | Category (mutual/non mutual) | Supervisory Authority |
|---|---|---|---|---|---|---|---|
| **C0010** | **C0020** | **C0030** | **C0040** | **C0050** | **C0060** | **C0070** | **C0080** |
| IT | 213800O2FDYYBZDQD444 | 1 - LEI | AIG ADVISORS S.R.L. | 10 - Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35 | Company limited by shares | 2 - Non-mutual | |
| JE | 2138002A16KNCV1SJ138 | 1 - LEI | AVONDHU LIMITED | 10 - Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35 | Company limited by shares | 2 - Non-mutual | |
| IE | 213800M34RBQ4MWQ5262 | 1 - LEI | LAYA HEALTHCARE LIMITED | 10 - Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35 | Company limited by shares | 2 - Non-mutual | |
| LU | 222100FLEPQ30YWX4720 | 1 - LEI | Habitus Holdings Sarl | 10 - Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35 | Company limited by shares | 2 - Non-mutual | |
| GB | 213800QOW312BVT1VA98 | 1 - LEI | AIG LIFE LIMITED | 1 - Life insurance undertaking | Company limited by shares | 2 - Non-mutual | The Prudential Regulation Authority |
| GB | 2138009EFBD5FYGFGB20 | 1 - LEI | AIG Holdings Europe Ltd (Stand alone) | 5 - Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC | Company limited by shares | 2 - Non-mutual | |
| LU | 222100DTH57SEH3TUO19 | 1 - LEI | Privilege Southampton Holding Sarl | 10 - Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35 | Company limited by shares | 2 - Non-mutual | |
| DE | 213800VBMGDOCR41WD18 | 1 - LEI | HANSA GRUNDSTUCK-VERWALTUNGS GMBH & CO KG | 10 - Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35 | Company limited by shares | 2 - Non-mutual | |
| DE | 213800QSEAOAJ3CHSA28 | 1 - LEI | HANSA GMBH | 10 - Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35 | Company limited by shares | 2 - Non-mutual | |
| LU | 222100P21M88QRDWSY06 | 1 - LEI | Privilege Holdings Sarl | 10 - Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35 | Company limited by shares | 2 - Non-mutual | |

| Country | Identification code of the undertaking | Type of code of the ID of the undertaking | Legal name of the undertaking | Type of undertaking | Legal form | Category (mutual/non mutual) | Supervisory Authority |
|---|---|---|---|---|---|---|---|
| C0010 | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 | C0080 |
| GB | 213800QX9RASDO6GIF38 | 1 - LEI | AIG MEDICAL MANAGEMENT SERVICES (UK) LIMITED | 10 - Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35 | Company limited by shares | 2 - Non-mutual | |
| GB | 213800UHTS5BFWPQVQ02 | 1 - LEI | AIG TRADE FINANCE LIMITED | 10 - Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35 | Company limited by shares | 2 - Non-mutual | |
| GB | 2138009M8A3W8LNMRK07 | 1 - LEI | AIG RECEIVABLES MANAGEMENT LIMITED | 10 - Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35 | Company limited by shares | 2 - Non-mutual | |
| LU | 222100GZ406KHTGHNN97 | 1 - LEI | Privilege Cardiff Holdings Sarl | 10 - Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35 | Company limited by shares | 2 - Non-mutual | |
| LU | 222100EHR7IZRF3B2C76 | 1 - LEI | Trivium Lozorno S.a.r.l | 10 - Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35 | Company limited by shares | 2 - Non-mutual | |
| LU | 549300B96TGT0MOPG834 | 1 - LEI | Trivium Urban Logistics Limited | 10 - Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35 | Company limited by shares | 2 - Non-mutual | |
| BE | 2138003C7C74UEACHH37 | 1 - LEI | AIG GLOBAL REINSURANCE OPERATIONS | 10 - Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35 | Company limited by shares | 2 - Non-mutual | |
| GB | 213800NUVVGD1YYLI181 | 1 - LEI | AIG EUROPE (SERVICES) LIMITED | 10 - Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35 | Company limited by shares | 2 - Non-mutual | |
| DE | 213800MB7KXDDAR1AN15 | 1 - LEI | AIG GERMANY HOLDING GMBH | 10 - Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35 | Company limited by shares | 2 - Non-mutual | |
| IL | 213800YIPBN5ZRMBRV45 | 1 - LEI | AIG ISRAEL INSURANCE COMPANY LTD. | 4 - Composite undertaking | Company limited by shares | 2 - Non-mutual | Bank of Israel |
| DE | 213800CE35MC328R5J39 | 1 - LEI | WYNONA 1837 GMBH | 10 - Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35 | Company limited by shares | 2 - Non-mutual | |
| GB | XWPHK4S1M3QRJ1MIR482 | 1 - LEI | AIG EUROPE LIMITED | 4 - Composite undertaking | Company limited by shares | 2 - Non-mutual | The Prudential Regulation Authority |
| GB | XWPHK4S1M3QRJ1MIR482 00049 | 2 - Specific code | CI Group | 99 - Other | Company limited by shares | 2 - Non-mutual | |

| Criteria of influence | | | | | | Inclusion in the scope of group supervision | | Group solvency calculation |
|---|---|---|---|---|---|---|---|---|
| % capital share | % used for the establishment of consolidated accounts | % voting rights | Other criteria | Level of influence | Proportional share used for group solvency calculation | YES/NO | Date of decision if art. 214 is applied | Method used and under method 1, treatment of the undertaking |
| **C0180** | **C0190** | **C0200** | **C0210** | **C0220** | **C0230** | **C0240** | **C0250** | **C0260** |
| 100.00% | 100.00% | 100.00% | | 1 - Dominant | 100.00% | 1 - Included in the scope | | 1 - Method 1: Full consolidation |
| 100.00% | 100.00% | 100.00% | | 1 - Dominant | 100.00% | 1 - Included in the scope | | 1 - Method 1: Full consolidation |
| 100.00% | 100.00% | 100.00% | | 1 - Dominant | 100.00% | 1 - Included in the scope | | 1 - Method 1: Full consolidation |
| 50.00% | 50.00% | 50.00% | | 2 - Significant | 50.00% | 1 - Included in the scope | | 2 - Method 1: Proportional consolidation |
| 100.00% | 100.00% | 100.00% | | 1 - Dominant | 100.00% | 1 - Included in the scope | | 1 - Method 1: Full consolidation |
| 100.00% | 100.00% | 100.00% | | 1 - Dominant | 100.00% | 1 - Included in the scope | | 1 - Method 1: Full consolidation |
| 50.00% | 50.00% | 50.00% | | 2 - Significant | 50.00% | 1 - Included in the scope | | 2 - Method 1: Proportional consolidation |
| 94.50% | 94.50% | 94.50% | | 1 - Dominant | 94.50% | 1 - Included in the scope | | 1 - Method 1: Full consolidation |
| 100.00% | 100.00% | 100.00% | | 1 - Dominant | 100.00% | 1 - Included in the scope | | 1 - Method 1: Full consolidation |
| 50.00% | 50.00% | 50.00% | | 2 - Significant | 50.00% | 1 - Included in the scope | | 2 - Method 1: Proportional consolidation |
| 100.00% | 100.00% | 100.00% | | 1 - Dominant | 100.00% | 1 - Included in the scope | | 1 - Method 1: Full consolidation |

| Criteria of influence | | | | | | Inclusion in the scope of group supervision | | Group solvency calculation |
|---|---|---|---|---|---|---|---|---|
| % capital share | % used for the establishment of consolidated accounts | % voting rights | Other criteria | Level of influence | Proportional share used for group solvency calculation | YES/NO | Date of decision if art. 214 is applied | Method used and under method 1, treatment of the undertaking |
| **C0180** | **C0190** | **C0200** | **C0180** | **C0190** | **C0200** | **C0180** | **C0190** | **C0200** |
| 100.00% | 100.00% | 100.00% | | 1 - Dominant | 100.00% | 1 - Included in the scope | | 1 - Method 1: Full consolidation |
| 100.00% | 100.00% | 100.00% | | 1 - Dominant | 100.00% | 1 - Included in the scope | | 1 - Method 1: Full consolidation |
| 50.00% | 50.00% | 50.00% | | 2 - Significant | 50.00% | 1 - Included in the scope | | 2 - Method 1: Proportional consolidation |
| 50.00% | 50.00% | 50.00% | | 2 - Significant | 50.00% | 1 - Included in the scope | | 2 - Method 1: Proportional consolidation |
| 50.00% | 50.00% | 50.00% | | 2 - Significant | 50.00% | 1 - Included in the scope | | 2 - Method 1: Proportional consolidation |
| 100.00% | 100.00% | 100.00% | | 1 - Dominant | 100.00% | 1 - Included in the scope | | 1 - Method 1: Full consolidation |
| 100.00% | 100.00% | 100.00% | | 1 - Dominant | 100.00% | 1 - Included in the scope | | 1 - Method 1: Full consolidation |
| 100.00% | 100.00% | 100.00% | | 1 - Dominant | 100.00% | 1 - Included in the scope | | 1 - Method 1: Full consolidation |
| 100.00% | 100.00% | 100.00% | | 1 - Dominant | 100.00% | 1 - Included in the scope | | 1 - Method 1: Full consolidation |
| 100.00% | 100.00% | 100.00% | | 1 - Dominant | 100.00% | 1 - Included in the scope | | 1 - Method 1: Full consolidation |
| 100.00% | 100.00% | 100.00% | | 1 - Dominant | 100.00% | 1 - Included in the scope | | 1 - Method 1: Full consolidation |

| Criteria of influence | | | | | | Inclusion in the scope of group supervision | | Group solvency calculation |
|---|---|---|---|---|---|---|---|---|
| % capital share | % used for the establishment of consolidated accounts | % voting rights | % capital share | % used for the establishment of consolidated accounts | % voting rights | % capital share | % used for the establishment of consolidated accounts | % voting rights |
| **C0180** | **C0190** | **C0200** | **C0180** | **C0190** | **C0200** | **C0180** | **C0190** | **C0200** |
| 20.00% | 20.00% | 20.00% | | 2 - Significant | 20.00% | 1 - Included in the scope | | 3 - Method 1: Adjusted equity method |

## F.2B Public QRTs – AIG Europe Limited

S.02.01.02

Balance sheet

| Assets | | Solvency II value |
|---|---|---|
| | | **C0010** |
| Intangible assets | **R0030** | |
| Deferred tax assets | **R0040** | 137,023 |
| Pension benefit surplus | **R0050** | 31,034 |
| Property, plant & equipment held for own use | **R0060** | 136,823 |
| Investments (other than assets held for index-linked and unit-linked contracts) | **R0070** | 9,822,944 |
| Property (other than for own use) | **R0080** | |
| Holdings in related undertakings, including participations | **R0090** | 118,556 |
| Equities | **R0100** | 6,374 |
| Equities - listed | **R0110** | |
| Equities - unlisted | **R0120** | 6,374 |
| Bonds | **R0130** | 9,577,930 |
| Government Bonds | **R0140** | 3,862,712 |
| Corporate Bonds | **R0150** | 5,689,645 |
| Structured notes | **R0160** | 1,875 |
| Collateralised securities | **R0170** | 23,698 |
| Collective Investments Undertakings | **R0180** | 3,809 |
| Derivatives | **R0190** | |
| Deposits other than cash equivalents | **R0200** | 116,275 |
| Other investments | **R0210** | |
| Assets held for index-linked and unit-linked contracts | **R0220** | |
| Loans and mortgages | **R0230** | 521,334 |
| Loans on policies | **R0240** | |
| Loans and mortgages to individuals | **R0250** | |
| Other loans and mortgages | **R0260** | 521,334 |
| Reinsurance recoverables from: | **R0270** | 2,094,335 |
| Non-life and health similar to non-life | **R0280** | 2,082,698 |
| Non-life excluding health | **R0290** | 2,074,353 |
| Health similar to non-life | **R0300** | 8,345 |
| Life and health similar to life, excluding health and index-linked and unit-linked | **R0310** | 11,637 |
| Health similar to life | **R0320** | |
| Life excluding health and index-linked and unit-linked | **R0330** | 11,637 |
| Life index-linked and unit-linked | **R0340** | |
| Deposits to cedants | **R0350** | |
| Insurance and intermediaries receivables | **R0360** | 29,905 |
| Reinsurance receivables | **R0370** | 223,925 |
| Receivables (trade, not insurance) | **R0380** | 417,379 |
| 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** | 329,288 |
| Any other assets, not elsewhere shown | **R0420** | |
| **Total assets** | **R0500** | 13,743,990 |

| | | Solvency II value |
|---|---|---|
| **Liabilities** | | **C0010** |
| Technical provisions – non-life | **R0510** | 9,960,579 |
| Technical provisions – non-life (excluding health) | **R0520** | 9,623,466 |
| TP calculated as a whole | **R0530** | |
| Best Estimate | **R0540** | 9,133,596 |
| Risk margin | **R0550** | 489,870 |
| Technical provisions - health (similar to non-life) | **R0560** | 337,113 |
| TP calculated as a whole | **R0570** | |
| Best Estimate | **R0580** | 312,055 |
| Risk margin | **R0590** | 25,059 |
| Technical provisions - life (excluding index-linked and unit-linked) | **R0600** | 107,265 |
| Technical provisions - health (similar to life) | **R0610** | |
| TP calculated as a whole | **R0620** | |
| Best Estimate | **R0630** | |
| Risk margin | **R0640** | |
| Technical provisions – life (excluding health and index-linked and unit-linked) | **R0650** | 107,265 |
| TP calculated as a whole | **R0660** | |
| Best Estimate | **R0670** | 101,481 |
| Risk margin | **R0680** | 5,785 |
| Technical provisions – index-linked and unit-linked | **R0690** | |
| TP calculated as a whole | **R0700** | |
| Best Estimate | **R0710** | |
| Risk margin | **R0720** | |
| Contingent liabilities | **R0740** | |
| Provisions other than technical provisions | **R0750** | 89,300 |
| Pension benefit obligations | **R0760** | 70,184 |
| Deposits from reinsurers | **R0770** | 4,774 |
| Deferred tax liabilities | **R0780** | 44,483 |
| Derivatives | **R0790** | |
| Debts owed to credit institutions | **R0800** | 446 |
| Financial liabilities other than debts owed to credit institutions | **R0810** | |
| Insurance & intermediaries payables | **R0820** | |
| Reinsurance payables | **R0830** | |
| Payables (trade, not insurance) | **R0840** | 394,794 |
| Subordinated liabilities | **R0850** | 50,000 |
| Subordinated liabilities not in BOF | **R0860** | 12,849 |
| Subordinated liabilities in BOF | **R0870** | 37,151 |
| Any other liabilities, not elsewhere shown | **R0880** | |
| **Total liabilities** | **R0900** | 10,721,826 |
| **Excess of assets over liabilities** | **R1000** | 3,022,164 |

## S.05.01.02
Premiums, claims and expenses by line of business

| | | Line of Business for: **non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Medical expense insurance | Income protection insurance | Workers' compensation insurance | Motor vehicle liability insurance | Other motor insurance | Marine, aviation and transport insurance | Fire and other damage to property insurance | General liability insurance | Credit and suretyship insurance |
| | | **C0010** | **C0020** | **C0030** | **C0040** | **C0050** | **C0060** | **C0070** | **C0080** | **C0090** |
| **Premiums written** | | | | | | | | | | |
| Gross - Direct Business | **R0110** | 80,840 | 383,020 | 1,148 | 377,294 | 39,899 | 426,693 | 1,459,361 | 1,677,644 | 102,184 |
| Gross - Proportional reinsurance accepted | **R0120** | 4,769 | 9,949 | 0 | 9,756 | 0 | 120,710 | 286,480 | 45,146 | 236 |
| Gross - Non-proportional reinsurance accepted | **R0130** | | | | | | | | | |
| Reinsurers' share | **R0140** | 4,348 | 40,802 | 1 | 65,288 | 305 | 168,433 | 703,237 | 301,386 | 39,470 |
| Net | **R0200** | | | | | | | | | |
| **Premiums earned** | | | | | | | | | | |
| Gross - Direct Business | **R0210** | 80,133 | 385,650 | 1,066 | 374,463 | 40,866 | 434,465 | 1,442,788 | 1,655,431 | 102,089 |
| Gross - Proportional reinsurance accepted | **R0220** | 4,762 | 9,654 | 0 | 8,844 | 3 | 126,013 | 294,879 | 44,407 | 114 |
| Gross - Non-proportional reinsurance accepted | **R0230** | | | | | | | | | |
| Reinsurers' share | **R0240** | 3,998 | 41,980 | 0 | 67,832 | 428 | 183,731 | 728,518 | 300,795 | 42,813 |
| Net | **R0300** | 80,897 | 353,324 | 1,066 | 315,475 | 40,441 | 376,746 | 1,009,150 | 1,399,043 | 59,390 |
| **Claims incurred** | | | | | | | | | | |
| Gross - Direct Business | **R0310** | 35,645 | 183,958 | 7,530 | 462,866 | 15,877 | 235,193 | 1,186,447 | 1,407,733 | 75,432 |
| Gross - Proportional reinsurance accepted | **R0320** | 252 | 1,354 | 0 | 6,561 | 0 | 88,760 | 216,649 | 20,880 | (0) |
| Gross - Non-proportional reinsurance accepted | **R0330** | | | | | | | | | |
| Reinsurers' share | **R0340** | 854 | 8,686 | 90 | 164,269 | 139 | 102,264 | 565,630 | 244,753 | 23,452 |
| Net | **R0400** | 35,043 | 176,627 | 7,440 | 305,158 | 15,739 | 221,689 | 837,466 | 1,183,860 | 51,980 |
| **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** | 35,489 | 140,789 | 39 | 105,892 | 16,658 | 108,618 | 455,799 | 539,818 | 27,819 |
| **Other expenses** | **R1200** | | | | | | | | | |
| **Total expenses** | **R1300** | | | | | | | | | |

| | | 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 |
|---|---|---|---|---|---|---|---|---|---|
| | | Legal expenses insurance | Assistance | Miscellaneous financial loss | Health | Casualty | Marine, aviation, transport | Property | |
| | | **C0100** | **C0110** | **C0120** | **C0130** | **C0140** | **C0150** | **C0160** | **C0200** |
| **Premiums written** | | | | | | | | | |
| Gross - Direct Business | **R0110** | 0 | 35,984 | 128,047 | - | - | - | - | 4,712,113 |
| Gross - Proportional reinsurance accepted | **R0120** | 0 | 39 | 7,393 | - | - | - | - | 484,479 |
| Gross - Non-proportional reinsurance accepted | **R0130** | - | - | - | 0 | 55,286 | 7,453 | 37,162 | 99,902 |
| Reinsurers' share | **R0140** | 0 | (1,578) | 34,599 | 0 | 512 | 30 | 3,345 | 1,360,178 |
| Net | **R0200** | | 37,601 | 100,841 | | 54,775 | 7,423 | 33,817 | 3,936,316 |
| **Premiums earned** | | | | | | | | | |
| Gross - Direct Business | **R0210** | 0 | 36,480 | 165,752 | | | | | 4,719,183 |
| Gross - Proportional reinsurance accepted | **R0220** | 0 | 40 | 6,993 | | | | | 495,710 |
| Gross - Non-proportional reinsurance accepted | **R0230** | | | | 0 | 55,993 | 7,668 | 37,571 | 101,232 |
| Reinsurers' share | **R0240** | 0 | (1,477) | 38,783 | 0 | 573 | 29 | 3,002 | 1,411,004 |
| Net | **R0300** | | 37,998 | 133,962 | | 55,420 | 7,639 | 34,569 | 3,905,120 |
| **Claims incurred** | | | | | | | | | |
| Gross - Direct Business | **R0310** | 0 | 12,191 | 32,304 | | | | | 3,655,177 |
| Gross - Proportional reinsurance accepted | **R0320** | 0 | 159 | 2,226 | | | | | 336,840 |
| Gross - Non-proportional reinsurance accepted | **R0330** | - | - | - | 0 | (5) | 6,464 | 24,753 | 31,212 |
| Reinsurers' share | **R0340** | 0 | 242 | (10,803) | 0 | 787 | (29) | 1,860 | 1,102,194 |
| Net | **R0400** | | 12,108 | 45,333 | | (792) | 6,492 | 22,893 | 2,921,035 |
| **Changes in other technical provisions** | | | | | | | | | - |
| Gross - Direct Business | **R0410** | 0 | 0 | 0 | | | | | 0 |
| Gross - Proportional reinsurance accepted | **R0420** | 0 | 0 | 0 | | | | | 0 |
| Gross - Non- proportional reinsurance accepted | **R0430** | | | | 0 | 0 | 0 | 0 | 0 |
| Reinsurers'share | **R0440** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net | **R0500** | | | | | | | | |
| **Expenses incurred** | **R0550** | | 17,228 | 90,258 | | 8,977 | 1,648 | 4,842 | 1,553,874 |
| **Other expenses** | **R1200** | | | | | | | | |
| **Total expenses** | **R1300** | | | | | | | | |

| | | Line of Business for: **life insurance obligations** | | | | | | **Life reinsurance obligations** | | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Health insurance | Insurance with profit participation | Index-linked and unit-linked insurance | Other life insurance | Annuities stemming from non-life insurance contracts and relating to health insurance obligations | Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations | Health reinsurance | Life reinsurance | |
| | | **C0210** | **C0220** | **C0230** | **C0240** | **C0250** | **C0260** | **C0270** | **C0280** | **C0300** |
| **Premiums written** | | | | | | | | | | |
| Gross | **R1410** | | | | | | | | | |
| Reinsurers' share | **R1420** | | | | | | | | | |
| Net | **R1500** | | | | | | | | | |
| **Premiums earned** | | | | | | | | | | |
| Gross | **R1510** | | | | | | | | | |
| Reinsurers' share | **R1520** | | | | | | | | | |
| Net | **R1600** | | | | | | | | | |
| **Claims incurred** | | | | | | | | | | |
| Gross | **R1610** | | | | | 3,421 | | | | 3,421 |
| Reinsurers' share | **R1620** | | | | | 236 | | | | 236 |
| Net | **R1700** | | | | | 3,185 | | | | 3,185 |
| **Changes in other technical provisions** | | | | | | | | | | |
| Gross | **R1710** | | | | | | | | | |
| Reinsurers' share | **R1720** | | | | | | | | | |
| Net | **R1800** | | | | | | | | | |
| **Expenses incurred** | **R1900** | | | | | 264 | | | | 264 |
| **Other expenses** | **R2500** | | | | | | | | | |
| **Total expenses** | **R2600** | | | | | | | | | |

# Annex I

S.05.02.01

Premiums, claims and expenses by country

| | | Home Country | Top 5 countries (by amount of gross premiums written) - non-life obligations | | | | | Total Top 5 and home country |
|---|---|---|---|---|---|---|---|---|
| | | C0010 | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 |
| | R0010 | | | | | | | |
| | | C0080 | C0090 | C0100 | C0110 | C0120 | C0130 | C0140 |
| **Premiums written** | | | | | | | | |
| Gross - Direct Business | **R0110** | 1,493,111 | 573,692 | 453,638 | 270,467 | 408,709 | 175,886 | 4,712,113 |
| Gross - Proportional reinsurance accepted | **R0120** | 176,944 | 21,943 | 36,517 | 870 | 2,065 | 21,236 | 484,479 |
| Gross - Non-proportional reinsurance accepted | **R0130** | 51,493 | 2,901 | 8,186 | 97 | 458 | 3,782 | 99,902 |
| Reinsurers' share | **R0140** | 487,976 | 74,270 | 112,531 | 30,211 | 69,676 | 31,297 | 1,360,178 |
| Net | **R0200** | 1,233,572 | 524,267 | 385,811 | 241,222 | 341,556 | 169,607 | 3,936,316 |
| **Premiums earned** | | | | | | | | |
| Gross - Direct Business | **R0210** | 1,610,761 | 577,168 | 454,414 | 269,053 | 406,896 | 169,011 | 4,719,183 |
| Gross - Proportional reinsurance accepted | **R0220** | 254,422 | 22,774 | 33,839 | 796 | 4,080 | 24,363 | 495,710 |
| Gross - Non-proportional reinsurance accepted | **R0230** | 60,427 | 3,020 | 7,826 | 88 | 762 | 4,266 | 101,232 |
| Reinsurers' share | **R0240** | 621,928 | 77,053 | 108,625 | 31,591 | 70,909 | 31,013 | 1,411,004 |
| Net | **R0300** | 1,303,682 | 525,909 | 387,454 | 238,346 | 340,829 | 166,626 | 3,905,120 |
| **Claims incurred** | | | | | | | | |
| Gross - Direct Business | **R0310** | 1,596,110 | 392,198 | 419,374 | 166,674 | 250,191 | 172,467 | 3,655,177 |
| Gross - Proportional reinsurance accepted | **R0320** | 255,346 | 9,506 | 33,356 | 0 | 3,270 | 8,810 | 336,840 |
| Gross - Non-proportional reinsurance accepted | **R0330** | 30,075 | 634 | 2,919 | 0 | 157 | 1,140 | 31,212 |
| Reinsurers' share | **R0340** | 687,706 | 78,624 | 133,868 | 11,496 | 15,584 | 15,477 | 1,102,194 |
| Net | **R0400** | 1,193,825 | 323,714 | 321,782 | 155,178 | 238,035 | 166,940 | 2,921,035 |
| **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** | 435,769 | 237,981 | 172,269 | 82,303 | 133,740 | 67,526 | 1,553,874 |
| **Other expenses** | **R1200** | | | | | | | |
| **Total expenses** | **R1300** | | | | | | | 1,553,874 |

|  |  | Home Country | Top 5 countries (by amount of gross premiums written) - life obligations |  |  |  |  | Total Top 5 and home country |
|---|---|---|---|---|---|---|---|---|
|  |  | C0150 | C0160 | C0170 | C0180 | C0190 | C0200 | C0210 |
|  | **R1400** |  |  |  |  |  |  |  |
|  |  | C0220 | C0230 | C0240 | C0250 | C0260 | C0270 | C0280 |
| **Premiums written** |  |  |  |  |  |  |  |  |
| Gross | **R1410** |  |  |  |  |  |  |  |
| Reinsurers' share | **R1420** |  |  |  |  |  |  |  |
| Net | **R1500** |  |  |  |  |  |  |  |
| **Premiums earned** |  |  |  |  |  |  |  |  |
| Gross | **R1510** |  |  |  |  |  |  |  |
| Reinsurers' share | **R1520** |  |  |  |  |  |  |  |
| Net | **R1600** |  |  |  |  |  |  |  |
| **Claims incurred** |  |  |  |  |  |  |  |  |
| Gross | **R1610** | 3,421 |  |  |  |  |  |  |
| Reinsurers' share | **R1620** | 236 |  |  |  |  |  |  |
| Net | **R1700** | 3,185 |  |  |  |  |  |  |
| **Changes in other technical provisions** |  |  |  |  |  |  |  |  |
| Gross | **R1710** |  |  |  |  |  |  |  |
| Reinsurers' share | **R1720** |  |  |  |  |  |  |  |
| Net | **R1800** |  |  |  |  |  |  |  |
| **Expenses incurred** | **R1900** |  |  |  |  |  |  |  |
| **Other expenses** | **R2500** |  |  |  |  |  |  |  |
| **Total expenses** | **R2600** |  |  |  |  |  |  |  |

## S.12.01.02
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)** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Contracts without options and guarantees | Contracts with options or guarantees | | Contracts without options and guarantees | Contracts with options or guarantees | | | |
| | | **C0020** | **C0030** | **C0040** | **C0050** | **C0060** | **C0070** | **C0080** | **C0090** | **C0100** | **C0150** |
| **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 calculated as a whole | **R0020** | | | | | | | | | | |
| **Technical provisions calculated as a sum of BE and RM** | | | | | | | | | | | |
| **Best Estimate** | | | | | | | | | | | |
| **Gross Best Estimate** | **R0030** | | | | | | | | 101,481 | | |
| Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | **R0080** | | | | | | | | 11,637 | | |
| Best estimate minus recoverables from reinsurance/SPV and Finite Re - total | **R0090** | | | | | | | | 5,785 | | |
| **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** | | | | | | | | | | |

|  |  | 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)** |
|---|---|---|---|---|---|---|---|
|  |  |  | Contracts without options and guarantees | Contracts with options or guarantees |  |  |  |
|  |  | **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 calculated 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 - total | **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** |  |  |  |  |  |  |

## S.17.01.02
## Non-life Technical Provisions

| | | Direct business and accepted proportional reinsurance | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Medical expense insurance | Income protection insurance | Workers' compensation insurance | Motor vehicle liability insurance | Other motor insurance | Marine, aviation and transport insurance | Fire and other damage to property insurance | General liability insurance | Credit and suretyship insurance |
| | | **C0020** | **C0030** | **C0040** | **C0050** | **C0060** | **C0070** | **C0080** | **C0090** | **C0100** |
| **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 calculated as a whole | **R0050** | | | | | | | | | |
| **Technical provisions calculated as a sum of BE and RM** | | | | | | | | | | |
| **Best estimate** | | | | | | | | | | |
| Premium provisions | | | | | | | | | | |
| Gross | **R0060** | (16,983) | (37,443) | 134 | 80,246 | (1,290) | 6,245 | 64,282 | 107,732 | 599 |
| Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | **R0140** | (1,020) | (7,182) | 12 | 27,996 | (113) | (15,186) | (88,671) | (20,289) | (5,520) |
| Net Best Estimate of Premium Provisions | **R0150** | (15,963) | (30,261) | 123 | 52,250 | (1,176) | 21,431 | 152,954 | 128,021 | 6,118 |
| **Claims provisions** | | | | | | | | | | |
| Gross | **R0160** | 41,527 | 276,214 | 48,605 | 697,935 | 19,337 | 642,999 | 1,526,726 | 5,603,205 | 101,097 |
| Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | **R0240** | 1,565 | 13,889 | 1,082 | 177,561 | 3,209 | 219,114 | 660,659 | 1,030,010 | 30,490 |
| Net Best Estimate of Claims Provisions | **R0250** | 39,962 | 262,325 | 47,524 | 520,374 | 16,129 | 423,885 | 866,068 | 4,573,195 | 70,608 |
| **Total Best estimate - gross** | **R0260** | 24,544 | 238,771 | 48,740 | 778,181 | 18,047 | 649,244 | 1,591,009 | 5,710,937 | 101,697 |
| **Total Best estimate - net** | **R0270** | 23,999 | 232,064 | 47,647 | 572,624 | 14,952 | 445,315 | 1,019,021 | 4,701,215 | 76,726 |
| **Risk margin** | **R0280** | 2,534 | 19,409 | 3,116 | 40,591 | 965 | 35,841 | 77,347 | 312,424 | 5,817 |
| **Amount of the transitional on Technical Provisions** | | | | | | | | | | |
| Technical Provisions calculated as a whole | **R0290** | | | | | | | | | |
| Best estimate | **R0300** | | | | | | | | | |
| Risk margin | **R0310** | | | | | | | | | |

|  |  | Direct business and accepted proportional reinsurance |  |  |  |  |  |  |  |  |
|---|---|---|---|---|---|---|---|---|---|---|
|  |  | Medical expense insurance | Income protection insurance | Workers' compensation insurance | Motor vehicle liability insurance | Other motor insurance | Marine, aviation and transport insurance | Fire and other damage to property insurance | General liability insurance | Credit and suretyship insurance |
|  |  | **C0020** | **C0030** | **C0040** | **C0050** | **C0060** | **C0070** | **C0080** | **C0090** | **C0100** |
| **Technical provisions - total** |  |  |  |  |  |  |  |  |  |  |
| Technical provisions - total | **R0320** | 27,077 | 258,180 | 51,856 | 818,772 | 19,013 | 685,085 | 1,668,356 | 6,023,361 | 107,514 |
| Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total | **R0330** | 544 | 6,707 | 1,093 | 205,557 | 3,095 | 203,929 | 571,988 | 1,009,721 | 24,971 |
| Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total | **R0340** | 26,533 | 251,472 | 50,763 | 613,215 | 15,918 | 481,156 | 1,096,368 | 5,013,640 | 82,543 |

| | | Direct business and accepted proportional reinsurance | | | Accepted non-proportional reinsurance | | | | Total Non-Life obligation |
|---|---|---|---|---|---|---|---|---|---|
| | | 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 | |
| | | **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 due to counterparty default associated to TP calculated as a whole | **R0050** | | | | | | | | |
| **Technical provisions calculated as a sum of BE and RM** | | | | | | | | | |
| **Best estimate** | | | | | | | | | |
| Premium provisions | | | | | | | | | |
| Gross | **R0060** | | (2,385) | 2,419 | | 5,306 | 77 | 1,551 | 210,491 |
| Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | **R0140** | | 389 | (9,016) | | (141) | (4) | (463) | (119,209) |
| Net Best Estimate of Premium Provisions | **R0150** | | (2,774) | 11,436 | | 5,447 | 81 | 2,015 | 329,700 |
| **Claims provisions** | | | | | | | | | |
| Gross | **R0160** | | 11,645 | 197,882 | | 25,520 | 8,921 | 33,544 | |
| Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | **R0240** | | 296 | 60,524 | | 1,198 | 33 | 2,278 | 2,201,907 |
| Net Best Estimate of Claims Provisions | **R0250** | | 11,349 | 137,359 | | 24,322 | 8,888 | 31,267 | 7,033,253 |
| **Total Best estimate - gross** | **R0260** | | 9,260 | 200,301 | | 30,826 | 8,998 | 35,096 | 9,445,651 |
| **Total Best estimate - net** | **R0270** | | 8,575 | 148,794 | | 29,770 | 8,969 | 33,281 | 7,362,953 |
| **Risk margin** | **R0280** | | 971 | 10,950 | | 1,523 | 791 | 2,649 | 514,928 |
| **Amount of the transitional on Technical Provisions** | | | | | | | | | |
| Technical Provisions calculated as a whole | **R0290** | | | | | | | | |
| Best estimate | **R0300** | | | | | | | | |
| Risk margin | **R0310** | | | | | | | | |

|  |  | Direct business and accepted proportional reinsurance |  |  | Accepted non-proportional reinsurance |  |  |  |  |
|---|---|---|---|---|---|---|---|---|---|
|  |  | Legal expenses insurance | Assistance | Miscellaneous financial loss | Non-proportional health reinsurance | Non-proportional casualty reinsurance | Non-proportional marine, aviation and transport reinsurance | Non-proportional property reinsurance | Total Non-Life obligation |
|  |  | **C0110** | **C0120** | **C0130** | **C0140** | **C0150** | **C0160** | **C0170** | **C0180** |
| **Technical provisions - total** |  | ☒ | ☒ | ☒ | ☒ | ☒ | ☒ | ☒ | ☒ |
| Technical provisions - total | **R0320** |  | 10,232 | 211,251 |  | 32,348 | 9,789 | 37,744 | 9,960,579 |
| Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total | **R0330** |  | 685 | 51,507 |  | 1,056 | 29 | 1,814 | 2,082,698 |
| Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total | **R0340** |  | 9,546 | 159,744 |  | 31,293 | 9,760 | 35,930 | 7,877,881 |

# S.19.01.21
## Non-life insurance claims

**Total Non-Life Business**

| Accident year / Underwriting year | **Z0010** | |
|---|---|---|

**Gross Claims Paid (non-cumulative)**
(absolute amount)

| | | Development year | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Year** | **0** | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** | **10 & +** |
| | | **C0010** | **C0020** | **C0030** | **C0040** | **C0050** | **C0060** | **C0070** | **C0080** | **C0090** | **C0100** | **C0110** |
| **Prior** | **R0100** | | | | | | | | | | | 81,057 |
| **N-9** | **R0160** | 618,216 | 987,011 | 487,911 | 297,208 | 199,810 | 124,189 | 72,243 | 37,710 | 56,895 | 12,375 | |
| **N-8** | **R0170** | 626,922 | 777,139 | 496,516 | 366,591 | 181,183 | 157,470 | 296,560 | 103,383 | 57,649 | | |
| **N-7** | **R0180** | 692,852 | 993,995 | 460,826 | 233,588 | 178,584 | 114,195 | 59,744 | 48,011 | | | |
| **N-6** | **R0190** | 731,604 | 919,842 | 348,146 | 277,569 | 141,620 | 109,606 | 96,401 | | | | |
| **N-5** | **R0200** | 573,854 | 703,318 | 317,280 | 233,784 | 170,364 | 99,125 | | | | | |
| **N-4** | **R0210** | 642,893 | 766,236 | 331,489 | 202,716 | 140,083 | | | | | | |
| **N-3** | **R0220** | 538,411 | 834,182 | 411,712 | 164,731 | | | | | | | |
| **N-2** | **R0230** | 615,349 | 772,168 | 398,838 | | | | | | | | |
| **N-1** | **R0240** | 802,442 | 1,154,504 | | | | | | | | | |
| **N** | **R0250** | 631,351 | | | | | | | | | | |

| | | In Current year | Sum of years (cumulative) |
|---|---|---|---|
| | | **C0170** | **C0180** |
| | **R0100** | 81,057 | 81,057 |
| | **R0160** | 12,375 | 2,893,569 |
| | **R0170** | 57,649 | 3,063,412 |
| | **R0180** | 48,011 | 2,781,794 |
| | **R0190** | 96,401 | 2,624,787 |
| | **R0200** | 99,125 | 2,097,725 |
| | **R0210** | 140,083 | 2,083,416 |
| | **R0220** | 164,731 | 1,949,035 |
| | **R0230** | 398,838 | 1,786,355 |
| | **R0240** | 1,154,504 | 1,956,946 |
| | **R0250** | 631,351 | 631,351 |
| **Total** | **R0260** | 2,884,126 | 21,949,449 |

**Gross undiscounted Best Estimate Claims Provisions**
(absolute amount)

|  |  | Development year |  |  |  |  |  |  |  |  |  |  |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
|  | **Year** | **0** | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** | **10 & +** |
|  |  | **C0200** | **C0210** | **C0220** | **C0230** | **C0240** | **C0250** | **C0260** | **C0270** | **C0280** | **C0290** | **C0300** |
| **Prior** | **R0100** |  |  |  |  |  |  |  |  |  |  | 659,301 |
| **N-9** | **R0160** |  |  |  |  |  |  |  |  | 156,370 | 142,144 |  |
| **N-8** | **R0170** |  |  |  |  |  |  |  | 401,709 | 363,558 |  |  |
| **N-7** | **R0180** |  |  |  |  |  |  | 284,816 | 272,881 |  |  |  |
| **N-6** | **R0190** |  |  |  |  |  | 552,323 | 333,973 |  |  |  |  |
| **N-5** | **R0200** |  |  |  |  | 520,963 | 406,990 |  |  |  |  |  |
| **N-4** | **R0210** |  |  |  | 635,703 | 496,731 |  |  |  |  |  |  |
| **N-3** | **R0220** |  |  | 933,842 | 719,773 |  |  |  |  |  |  |  |
| **N-2** | **R0230** |  | 1,687,995 | 1,149,515 |  |  |  |  |  |  |  |  |
| **N-1** | **R0240** | 3,003,431 | 1,792,247 |  |  |  |  |  |  |  |  |  |
| **N** | **R0250** | 3,161,864 |  |  |  |  |  |  |  |  |  |  |

|  |  | **Year end (discounted data)** |
|---|---|---|
|  |  | **C0360** |
|  | **R0100** | 636,703 |
|  | **R0160** | 137,699 |
|  | **R0170** | 351,950 |
|  | **R0180** | 264,022 |
|  | **R0190** | 323,903 |
|  | **R0200** | 394,355 |
|  | **R0210** | 479,946 |
|  | **R0220** | 695,843 |
|  | **R0230** | 1,116,004 |
|  | **R0240** | 1,743,262 |
|  | **R0250** | 3,091,473 |
| **Total** | **R0260** | 9,235,160 |

## S.23.01.01
## Own funds

| | | Total | Tier 1 - unrestricted | Tier 1 - restricted | Tier 2 | Tier 3 |
|---|---|---|---|---|---|---|
| | | C0010 | C0020 | C0030 | C0040 | C0050 |
| **Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35** | | | | | | |
| Ordinary share capital (gross of own shares) | R0010 | 197,119 | 197,119 | | | |
| Share premium account related to ordinary share capital | R0030 | 1,460,275 | 1,460,275 | | | |
| 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 | 1,272,230 | 1,272,230 | | | |
| Subordinated liabilities | R0140 | 37,151 | | | 37,151 | |
| An amount equal to the value of net deferred tax assets | R0160 | 92,540 | | | | 92,540 |
| Other own fund items approved by the supervisory authority as basic own funds not specified above | R0180 | | | | | |
| **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** | | | | | | |
| 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 | | | | | |
| **Deductions** | | | | | | |
| Deductions for participations in financial and credit institutions | R0230 | | | | | |
| **Total basic own funds after deductions** | R0290 | 3,059,315 | 2,929,624 | | 37,151 | 92,540 |
| **Ancillary own funds** | | | | | | |
| 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 | 616,684 | | | 616,684 | |
| 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 | | | | | |
| **Total ancillary own funds** | R0400 | 616,684 | | | 616,684 | |
| **Available and eligible own funds** | | | | | | |
| Total available own funds to meet the SCR | R0500 | 3,675,999 | 2,929,624 | | 653,835 | 92,540 |
| Total available own funds to meet the MCR | R0510 | 2,966,774 | 2,929,624 | | 37,151 | |
| Total eligible own funds to meet the SCR | R0540 | 3,675,999 | 2,929,624 | | 653,835 | 92,540 |
| Total eligible own funds to meet the MCR | R0550 | 2,966,774 | 2,929,624 | | 37,151 | |
| **SCR** | R0580 | 2,523,557 | | | | |
| **MCR** | R0600 | 1,135,601 | | | | |
| **Ratio of Eligible own funds to SCR** | R0620 | 145.67% | | | | |
| **Ratio of Eligible own funds to MCR** | R0640 | 261.25% | | | | |

|  |  | C0060 |  |
|---|---|---|---|
| **Reconciliation reserve** |  |  |  |
| Excess of assets over liabilities | **R0700** | 3,022,164 |  |
| Own shares (held directly and indirectly) | **R0710** |  |  |
| Foreseeable dividends, distributions and charges | **R0720** |  |  |
| Other basic own fund items | **R0730** | 1,749,934 |  |
| Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds | **R0740** |  |  |
| **Reconciliation reserve** | **R0760** | 1,272,230 |  |
| **Expected profits** |  |  |  |
| Expected profits included in future premiums (EPIFP) - Life business | **R0770** |  |  |
| Expected profits included in future premiums (EPIFP) - Non- life business | **R0780** | 253,895 |  |
| **Total Expected profits included in future premiums (EPIFP)** | **R0790** | 253,895 |  |

## S.25.03.21
## Solvency Capital Requirement – for undertakings on Full Internal Models

| Unique number of component | Components description | Calculation of the Solvency Capital Requirement |
|---|---|---|
| **C0010** | **C0020** | **C0030** |
| | | |
| | | |

| | | |
|---|---|---|
| **Calculation of Solvency Capital Requirement** | | **C0100** |
| Total undiversified components | **R0110** | 3,189,354 |
| Diversification | **R0060** | (785,612) |
| Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC (transitional) | **R0160** | |
| **Solvency capital requirement excluding capital add-on** | **R0200** | 2,403,741 |
| Capital add-ons already set | **R0210** | 119,816 |
| **Solvency capital requirement** | **R0220** | 2,523,557 |
| **Other information on SCR** | | |
| Amount/estimate of the overall loss-absorbing capacity of technical provisions | **R0300** | |
| Amount/estimate of the overall loss-absorbing capacity ot deferred taxes | **R0310** | 16,587 |
| Total amount of Notional Solvency Capital Requirements for remaining part | **R0410** | |
| Total amount of Notional Solvency Capital Requirements for ring fenced funds (other than those related to business operated in accordance with Art. 4 of Directive 2003/41/EC (transitional)) | **R0420** | |
| Total amount of Notional Solvency Capital Requirement 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 |
|---|---|---|---|
| | | $MCR_{(NL,NL)}$ Result | $MCR_{(NL,L)}$Result |
| | | **C0010** | **C0020** |
| **Linear formula component for non-life insurance and reinsurance obligations** | **R0010** | 1,190,937 | |

| | | 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** |
| Medical expense insurance and proportional reinsurance | **R0020** | 23,999 | 81,261 | | |
| Income protection insurance and proportional reinsurance | **R0030** | 232,064 | 352,168 | | |
| Workers' compensation insurance and proportional reinsurance | **R0040** | 47,647 | 1,147 | | |
| Motor vehicle liability insurance and proportional reinsurance | **R0050** | 572,624 | 321,763 | | |
| Other motor insurance and proportional reinsurance | **R0060** | 14,952 | 39,593 | | |
| Marine, aviation and transport insurance and proportional reinsurance | **R0070** | 445,315 | 378,970 | | |
| Fire and other damage to property insurance and proportional reinsurance | **R0080** | 1,019,021 | 1,042,603 | | |
| General liability insurance and proportional reinsurance | **R0090** | 4,701,215 | 1,421,404 | | |
| Credit and suretyship insurance and proportional reinsurance | **R0100** | 76,726 | 62,949 | | |
| Legal expenses insurance and proportional reinsurance | **R0110** | | | | |
| Assistance and proportional reinsurance | **R0120** | 8,575 | 37,601 | | |
| Miscellaneous financial loss insurance and proportional reinsurance | **R0130** | 148,794 | 100,841 | | |
| Non-proportional health reinsurance | **R0140** | | | | |
| Non-proportional casualty reinsurance | **R0150** | 29,770 | 54,775 | | |
| Non-proportional marine, aviation and transport reinsurance | **R0160** | 8,969 | 7,423 | | |
| Non-proportional property reinsurance | **R0170** | 33,281 | 33,817 | | |

| | | Non-life activities | Life activities |
|---|---|---|---|
| | | MCR$_{(L,NL)}$ Result | MCR$_{(L,L)}$ Result |
| | | **C0070** | **C0080** |
| **Linear formula component for life insurance and reinsurance obligations** | **R0200** | | 1,887 |

| | | 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** |
| Obligations with profit participation - guaranteed benefits | **R0210** | | | | |
| Obligations with profit participation - future discretionary benefits | **R0220** | | | | |
| Index-linked and unit-linked insurance obligations | **R0230** | | | | |
| Other life (re)insurance and health (re)insurance obligations | **R0240** | | | 89,843 | |
| Total capital at risk for all life (re)insurance obligations | **R0250** | | | | |

**Overall MCR calculation**

| | | |
|---|---|---|
| | | **C0130** |
| Linear MCR | **R0300** | 1,192,823 |
| SCR | **R0310** | 2,523,557 |
| MCR cap | **R0320** | 1,135,601 |
| MCR floor | **R0330** | 630,889 |
| Combined MCR | **R0340** | 1,135,601 |
| Absolute floor of the MCR | **R0350** | 3,255 |
| | | **C0130** |
| **Minimum Capital Requirement** | **R0400** | 1,135,601 |

| **Notional non-life and life MCR calculation** | | Non-life activities | Life activities |
|---|---|---|---|
| | | **C0140** | **C0150** |
| Notional linear MCR | **R0500** | 1,190,937 | 1,887 |
| Notional SCR excluding add-on (annual or latest calculation) | **R0510** | 2,519,566 | 3,992 |
| Notional MCR cap | **R0520** | 1,133,805 | 1,796 |
| Notional MCR floor | **R0530** | 629,891 | 998 |
| Notional Combined MCR | **R0540** | 1,133,805 | 1,796 |
| Absolute floor of the notional MCR | **R0550** | | |
| Notional MCR | **R0560** | 1,133,805 | 1,796 |