AIG Europe Limited

2018 Financial Results

Contents

AIG Looking Forward

AIG began planning for Brexit in 2015, prior to the UK referendum and in 2018 completed its preparations for the future structure to ensure continuity of business and contract certainty. We were the first insurer to outline our plans with clarity and have continued to work at pace to restructure the company and give our customers, partners and colleagues certainty that AIG will be open for business regardless of the UK's future relationship with the European Union.

Back in March 2017, we announced our decisive move to locate a new European insurance company in Luxembourg. Since then we have created a new European insurance company, AIG Europe S.A. (AESA) which will operate out of 19 countries with the ability to cover the entire EEA, and a new UK insurance company, American International Group UK Limited (AIG UK). The two-entity structure allows us to meet the needs of our clients and guarantees contract certainty for AEL policyholders after the UK leaves the European Union.

The restructure was undertaken through a legal process combining an insurance business transfer (known as a Part VII Transfer) of insurance business from AIG Europe Limited (AEL) to AIG UK and AESA, and a cross border merger of AEL into AESA, and was approved by the High Court of England and Wales on 25 October 2018.

The transfers took effect on 1 December 2018, making AIG the only major UK insurer that is undertaking a Brexit restructuring to have both completed the transfer of its existing policies and begun trading on a two-company basis in 2018.

As of today, AIG is now operating effectively from both the UK and Luxembourg and the successful transition has ensured a seamless and efficient transition for our customers and partners throughout Europe.

Although we have new trading names, AIG has a history of over 60 years in the UK and a heritage of nearly 100 years globally, there are few insurers that can offer as broad a proposition as AIG – across industries, across multiple lines, and across geographies. We remain the same dynamic organisation with great cultural diversity, and a leading position across multiple industries and lines of business. Our underwriting and claims expertise, combined with our drive to offer the most innovative solutions for clients, be it through London or our regional operations, is at the heart of our value proposition and provides a strong footprint for growth.

The Directors of AIG Holdings Europe Limited ("AHEL"), the parent company of this legacy entity AEL have reviewed and approved these financial results, which have been prepared on IFRS principles (further detail on the basis of preparation can be found in note 2). These non-statutory financial results have been prepared to inform the Directors of AHEL with the closing position for AEL.

Financial Performance

Overview

During 2018 we reported an improved loss ratio of 73.1% driven primarily by significantly lower large losses, through a careful focus on risk selection and targeted reinsurance cover. Net premiums written saw increases in key financial lines being offset by lower volumes in sectors such as property through strategic initiatives. Overall, underwriting result improved to a loss of £131.3 million (2017: loss of £569.9 million). Together with investment income and foreign exchange gains, this resulted in a profit before tax of £59.5 million (2017: loss before tax £431.5 million). The full results of the Company are on page 8. The total comprehensive loss for the year of £62.3 million (2017: £423.9 million) has been transferred to equity. At 30 November 2018, total equity of the Company, on page 9, totalled £3.2 billion (2017: £3.2 billion).

Key Performance Indicators

The Company has identified the following as being the Key Performance Indicators (KPIs) for the business. These KPIs were reviewed through the quarterly Board meetings.

	2018	**2017**
Net Premiums Written (1)	**£3,787.0m**	£3,919.7m
Profit/(Loss) before tax	**£59.5m**	(£431.5m)
Net Loss Ratio (2)	**73.1%**	82.5%
Combined Ratio COR (3)	**103.4%**	114.6%
Underwriting Result (4)	**(£131.3m)**	(£569.9m)

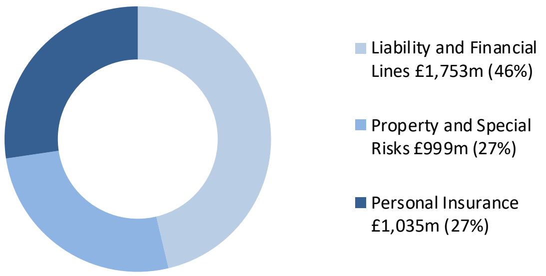
1. Net Premiums Written is derived from the Gross Premium Written in period less premium ceded to reinsurers in period.
2. The Net Loss Ratio is derived from Net insurance claims as a percentage of Net earned insurance premium revenue.
3. The COR is derived from the Net insurance claims, Commissions (which include acquisition costs, change in deferred acquisition costs, reinsurance commissions receivable, change in deferred reinsurance commissions and policy fee income), and Administration expenses as a percentage of Net earned insurance premium revenue.
4. The Underwriting Result is a sum of the Net earned insurance premium revenue, less Net insurance claims, Commissions (as detailed above) and Administration expenses.

Company Profitability

Net Premium Written was slightly lower at £3,787.0 million (2017: £3,919.7 million) through positive increases in financial lines and underlying business growth in our chosen profitable lines being offset by lower sales volumes in those areas of the business with lower strategic focus. Expenses were significantly lower at £1,392.7 million (2017: £1,527.3 million) with this favourable performance driven by increased expense saving discipline across the business and long-term efficiency savings. Positive underwriting performance and strategic risk selection combined with lower catastrophic losses leading to lower net claims of £2,804.2 million (2017: £3,220.3 million) leading to a lower combined ratio and adverse underwriting result, which was a loss of £131.3 million (2017: loss of £569.9 million).

Underwriting Performance by Business

The Company's operations were organised into three key segments, with a diverse product offering sold via a multitude of sales channels. The chart below illustrates the mix of Net Premiums Written in 2018.



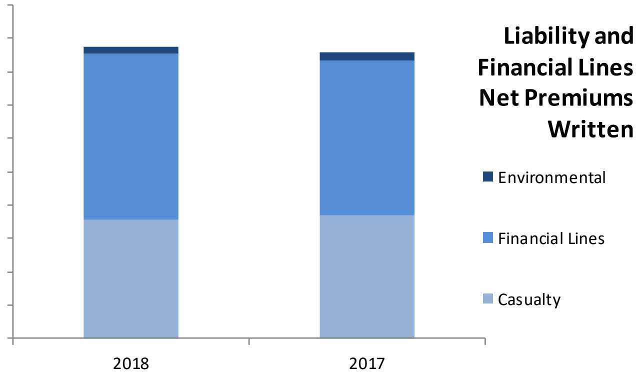
	2018 £'m	2017 £'m
Liability and financial lines	1,753.0	1,715.9
Property and special risks	998.7	1,148.9
Personal insurance	1,035.3	1,054.9
Total	**3,787.0**	**3,919.7**

Liability and Financial Lines

The Liability and Financial Lines business provided insurance solutions to the full spectrum of enterprises, from large multinational and mid-sized companies to small businesses, entrepreneurs and non-profit organisations.

The product and service offerings encompass both traditional product types such as general liability and financial lines and highly specialised ones for cyber security, M&A, healthcare, and crisis management.

The product mix during 2018 was as follows:



	2018 £'m	2017 £'m
Casualty	717.6	742.6
Financial Lines	992.0	926.6
Environmental	43.4	46.7
Total	**1,753.0**	**1,715.9**

Casualty:

Casualty provides both traditional and complex insurance solutions on a primary and/or excess basis for diverse businesses with local or global risk exposures.

Dedicated Casualty underwriting, Risk Consultant and claims teams operate in all key regional insurance markets, as well as at Lloyd's.

Casualty is a worldwide leader in Primary and Excess liability markets, offering public and production, motor fleet and employer's liability cover, with market-leading capacity.

Casualty also includes Crisis Management insurance for Product Contamination/Recall, providing both asset and liability protection following a product recall, malicious product tamper or extortion event.

Financial Lines:

Financial Lines provides protection for a diverse range of organisations worldwide.

Management liability products include Director's and Officer's Liability, Employment Practices Liability, Pension Trustee Liability and Crime insurance, offering protection for claims brought against directors, officers and senior employees for actual or alleged breach of duty, neglect, misstatements, errors or omissions, as well as protection for losses suffered by organisations due to crime.

Cyber insurance provides protection against liability arising from computer hacking, viruses, and data breaches in addition to covering income loss, cyber extortion, and forensic/notification/public relations costs after a cyber incident.

M&A insurance includes Warranties & Indemnities Insurance, which offers buyers and sellers involved in mergers, acquisitions, divestitures or other business transactions protection from financial loss due to inaccuracies in representations and warranties, as well as Tax Insurance and Contingent Liability Insurance.

Kidnap & Ransom protection aims to support our clients against threats that may impact a business or person anywhere in the world. These include various forms of extortion, detention, hijack, and evacuation. We offer a range of solutions including preventative advice, financial reimbursement and access to leading crisis consultants.

Professional Liability protects professionals in the event of claims arising from errors and omissions while providing professional services to others. Professionals include architects, engineers, accountants, lawyers, media, technology and insurance brokers.

Financial Institutions includes Professional Liability, Directors' and Officer's liability and Crime cover provided to banks, insurance companies and other financial institutions to cover claims alleging failure to render professional services and commitment of errors and omissions in the execution of professional services, claims brought against directors, officers and senior employees for actual or alleged breach of duty, neglect, misstatements, errors or omissions as well as protection for losses suffered by financial institutions due to crime.

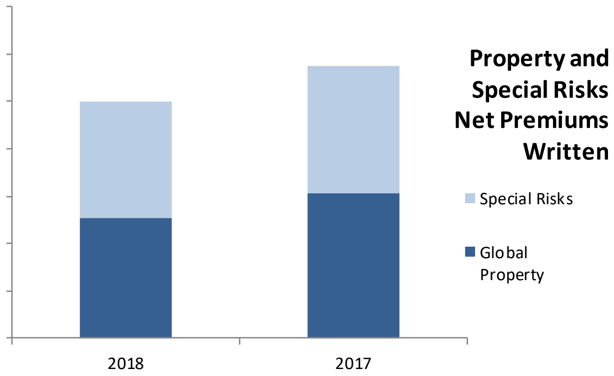
Environmental:

Includes third-party liability and first party on and off-site clean-up costs, biodiversity damage plus defence and mitigation costs.

Property and Special Risks

The Property and Special Risks business provided comprehensive cover for a range of businesses across a multitude of industries for both commercial property, energy and engineered risks together with targeted solutions for specific insurance risks.

The product mix during 2018 was as follows:



	2018 £'m	2017 £'m
Global Property	506.9	613.6
Special Risks	491.8	535.3
Total	**998.7**	**1,148.9**

Global Property:

Includes commercial property, energy and engineered risks. Commercial property offers insurance cover for material damage and business interruption on an all risks and specific perils basis. The business insures some of the world's largest and most complex organisations. The Energy and Engineered Risk segment provides comprehensive property insurance cover for offshore and onshore oil exploration, power generation, oil and petrochemical, chemicals and pharmaceuticals, mining and construction.

Special Risks:

Comprised of the following businesses:

Aerospace – insurance solutions for the global aviation and space industry, encompassing the spectrum of coverage required by aircraft operators, manufacturers and ground service providers.

Marine – cargo transportation products and handling services worldwide, policies include cargo, hull and marine liability.

Package – products are designed for the SME market and provide an extensive ranges of covers, the most purchased being property and casualty.

Political Risk – risk transfer solutions to enable companies to manage the risk of disruption/loss after a political event that may be associated with their international business operations.

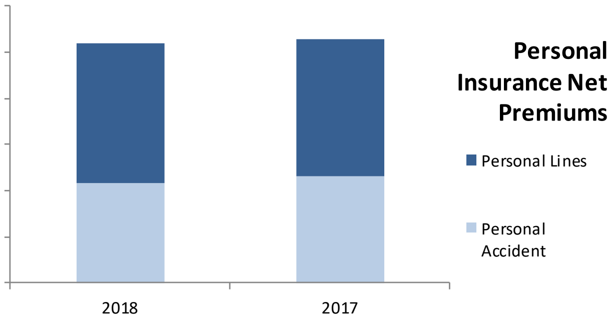
Surety – provides protection by way of guarantee to public and private sector clients against the inability of contractors and service providers to fulfil their contractual obligations.

Trade Credit – is a leading Excess of Loss Credit Insurer protecting corporates and trade finance funders against non-payment of trade receivable for goods and services supplied on credit due to buyer default.

Personal Insurance

The Personal Insurance business comprised Group Accident & Health, Voluntary Employee Benefits, Individual Personal Accident, Individual Travel, and Direct Marketing which is in run-off in some markets / countries, Personal Auto, Service Programmes, and Private Client Group. Today AIG is a specific segment player with the majority of business sold via corporates or sponsors. As such, AIG principally provides a 'wholesale proposition', retail broker or direct to customer in select markets. The value proposition and distribution models vary across lines and countries.

The product mix during 2018 was as follows:



	2018 £'m	2017 £'m
Personal accident	429.3	463.6
Personal lines	606.0	591.3
Total	**1,035.3**	**1,054.9**

Personal Accident:

Includes voluntary and sponsor-paid personal accidental and supplemental health products for individuals, employees, associations and other organisations. It also includes travel insurance products and services for leisure and business travellers.

Personal Lines:

Comprises the following Pillars:

Personal Property: Offers a very wide suite of products for individual consumers – ranging from 'simple contents' policies for renters to high-net-worth solutions for the wealthiest of clients. Cover is provided for buildings, contents, personal possessions, art and jewellery collections, as well as marine insurance for personally owned boats of any size.

Personal Auto: Consists of a mixture of personal insurance offerings for private passenger autos, small commercial vehicles, motorcycles and a limited amount of fleet business. In all the countries personal auto operates, auto is the subject of compulsory insurance in respect of third party liability. In addition to third party liability we offer cover for damages to the vehicles and additional services such as roadside assistance.

Service Programmes: Includes a diverse range of personal 'value added' insurances. This includes extended warranty (for both electronics and furniture), mobile phone insurance, spectacle and hearing aid insurance, crash damage waiver excess, tyre damage cover, lost keys, wallet guard, handbag cover, identity theft and others.

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 November 2018

	2018 £'m	2017 £'m
Income		
Insurance premium revenue	5,371.9	5,315.2
Insurance premium ceded to reinsurers	(1,536.0)	(1,411.0)
Net earned insurance premium revenue	**3,835.9**	**3,904.2**
Net investment income	129.3	168.3
Net realised gains on financial assets	18.1	59.0
Other income	273.1	184.6
Total income	**4,256.4**	**4,316.1**
Expenses		
Insurance claims	(4,262.7)	(4,365.6)
Insurance claims recoverable from reinsurers	1,458.5	1,145.3
Net insurance claims	**(2,804.2)**	**(3,220.3)**
Net operating expenses	(1,392.7)	(1,527.3)
Total expenses	**(4,196.9)**	**(4,747.6)**
Profit/(Loss) before tax	**59.5**	**(431.5)**
Income tax (credit)/expense	(31.7)	5.7
Profit/(Loss) for the year	**27.8**	**(425.8)**
Other comprehensive income/(expense)		
Items that will not be reclassified subsequently to profit or loss		
Actuarial gains on defined benefit pension plans	16.5	10.2
	16.5	**10.2**
Tax on actuarial gains on defined benefit pension schemes	(1.1)	(6.1)
Items that will not be reclassified subsequently to profit or loss after tax	**15.4**	**4.1**
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	32.0	36.0
Net fair value losses on available-for-sale investments	(134.8)	(78.9)
	(102.8)	**(42.9)**
Tax on fair value (losses)/gains on available-for-sale investments	(2.7)	40.7
Items that may be reclassified subsequently to profit or loss after tax	**(105.5)**	**(2.2)**
Other comprehensive (loss)/income for the year	**(90.1)**	**1.9**
Total comprehensive loss for the year	**(62.3)**	**(423.9)**

Prepared in accordance with the Basis of Preparation and Accounting Policies as set out on page 10.

Statement of Financial Position

As at 30 November 2018

	30 November 2018 £'m	30 November 2017 £'m
ASSETS		
Intangible assets	13.0	19.7
Investments in group undertakings	47.0	46.6
Investments in joint ventures	-	30.8
Property and equipment	131.3	136.8
Financial investments	10,179.5	10,021.8
Insurance contracts:		
Reinsurance assets	3,387.8	2,811.1
Deferred acquisition costs	313.5	305.5
Deferred tax assets	85.1	102.0
Current tax assets	22.6	79.6
Other receivables, including insurance receivables	2,088.1	1,973.7
Cash and cash equivalents	647.8	445.6
Total assets	**16,915.7**	**15,973.2**
EQUITY		
Share capital	199.3	197.1
Share premium	-	1,460.3
Other reserves	183.9	289.3
Retained earnings	2,775.4	1,217.2
Total equity	**3,158.6**	**3,163.9**
LIABILITIES		
Insurance liabilities	12,458.9	11,466.1
Borrowings	-	50.4
Pension obligations	60.5	70.2
Deferred tax liabilities	37.0	44.2
Current tax liabilities	12.3	14.5
Other payables, including insurance payables	1,188.4	1,163.9
Total liabilities	**13,757.1**	**12,809.3**
Total equity and liabilities	**16,915.7**	**15,973.2**

Prepared in accordance with the Basis of Preparation and Accounting Policies as set out on page 10.

Basis of Preparation and Accounting Policies

1. General Information

AIG Europe Limited (the "Company") was incorporated in the United Kingdom and registered in England and Wales. The financial results are presented in millions of pounds sterling, which was the Company's presentational currency. The functional currency of the UK operation was pounds sterling. The registered office and principal place of business is: The AIG Building, 58 Fenchurch Street, London EC3M 4AB. On 1 December 2018, all of the UK business of the Company transferred to American International Group UK Limited ("AIG UK") pursuant to an insurance business transfer under Part VII of the Financial Services and Markets Act 2000 ("FSMA 2000"). On the same date, and immediately following the UK transfer, all of the European related business of the Company transferred to AIG Europe Holdings S.A.("AESA"), in accordance with Part VII of FSMA and a cross-border merger under the European Cross-Border Merger Directive. These transfers were sanctioned by the High Court of England and Wales on 25 October 2018. Following this, the Company was liquidated and dissolved.

2. Basis of Preparation

The financial results reported – the Statement of Profit or Loss and Other Comprehensive Income and the Statement of Financial Position – have been prepared on measurement principles based on International Financial Reporting Standards (IFRS) as adopted in the European Union (EU). These financial results are not fully compliant with IFRS as the required note disclosures and other primary statements have not been prepared.

Following the Brexit related legal entity discussed above, the Company's assets and liabilities were transferred to AIG UK and AESA, fellow group companies. As a result the Company was dissolved on 1 December 2018. Accordingly, the going concern basis of preparation is no longer appropriate and these financial statements have been prepared on a basis other than going concern. There were no necessary adjustments in these financial results to reduce assets to their realisable values, to provide for liabilities arising from the decision or to reclassify fixed assets and long-term liabilities as current assets and liabilities. In the context of the 1 December 2018 restructuring transaction, the business of AEL has not been treated as discontinued, nor disclosed as a disposal group held for sale under IFRS 5. The financial results have been prepared under the historical cost basis except that certain assets and liabilities are measured at revalued amounts or fair values, as described in the accounting policies below. These policies have been applied on a consistent basis for all years presented.

3. Accounting Policies

The significant accounting policies adopted in the preparation of these financial results are set out below.

3.1 COMBINATIONS OF ENTITIES OR BUSINESSES UNDER COMMON CONTROL

A combination of entities or businesses under common control is a combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. Combinations of entities or businesses under common control are not included in the scope of IFRS 3, '*Business Combinations*', and, as such and in accordance with the requirements of IAS 8, '*Accounting Policies, Changes in Accounting Estimates and Errors'*, the Company has opted to use the 'carry-over' ('predecessor accounting') method to account for combinations of entities or businesses under common control. The values that the transferee ascribes to the assets and liabilities transferred are determined based on the carrying values of those assets and liabilities in the financial results of the transferor immediately prior to the combination, amended where applicable to comply with the transferee's accounting policies.

3.2 FOREIGN CURRENCIES

3.2.1 Functional Currencies

The Company operated with a number of overseas branches. Each overseas branch determined its own functional currency based on factors specific to its operations and is the currency of the primary economic environment in which it operated. Transactions and balances in currencies other than the functional currency are treated as foreign currency items.

3.2.2 Foreign Currency Transactions and Balances

Foreign currency transactions during the year are translated into the functional currency using the rates of exchange prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rates of exchange ruling at the reporting date. Non-monetary assets and liabilities are translated into functional currency at the rates of exchange prevailing at the date of the transaction or most recent date of valuation where they are held at fair value. 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 statement of profit or loss, except as noted below.

For foreign currency denominated monetary assets designated as available-for-sale, such as debt securities, translation differences calculated with reference to the asset's amortised cost are recognised in the statement of profit or loss, whereas foreign exchange differences arising on the cumulative fair value gains and losses are recognised in other comprehensive income and included within the fair value reserve within equity. Translation differences on non-monetary available-for-sale financial assets, such as equity securities, are recognised within other comprehensive income as part of the fair value gains and losses in the year.

3.2.3 Translation to Presentational Currency

The operating results and financial position of each non-sterling functional currency branch are translated into sterling as follows:

- assets and liabilities for each Statement of Financial Position presented are translated at the exchange rate at the date of each Statement of Financial Position;
- income and expenses for each statement of profit or loss and other comprehensive income presented are translated at the average exchange rates for each year; and
- all resulting exchange differences are recognised in other comprehensive income and accumulated as a separate component of equity.

For large, one-off transactions, such as branch acquisitions, the transactions are recorded at the exchange rates prevailing at the date of the transaction.

3.3 INSURANCE CONTRACTS

In accordance with IFRS 4 'Insurance Contracts', insurance contracts continue to be recognised and measured in accordance with existing accounting policies as extant at the date of transition to IFRS. For UK companies and their overseas branches, the accounting policy for insurance contracts was grandfathered at the date of transition to IFRS from the provisions of the Association of British Insurers' Statement of Recommended Practice on Accounting for Insurance Business issued in December 2005 and amended in December 2006 (ABI SORP). The ABI SORP was subsequently withdrawn by the ABI in 2015.

3.3.1 Product Classification

A contract is recognised as an insurance contract if it involves the assumption by the Company of significant insurance risk. Insurance risk is transferred to the Company where it agrees to compensate a policyholder if a specified uncertain event, other than those caused by changes in a financial variable, such as interest and foreign exchange rates, adversely affects the policyholder. Once a contract has been classified as an insurance contract, it remains an insurance contract until derecognised, even if the insurance risk becomes insignificant during this period.

Any contract that does not involve the transfer of significant insurance risk is accounted for as an investment contract. Transactions under investment contracts are not recognised through the statement of profit or loss, with the exception of any fee income and related claims handling costs associated with these contracts, but are included within other receivables or payables as appropriate.

3.3.2 Premiums Written

Premiums written relate to business incepted during the year, together with any difference between premiums booked for prior years and those previously accrued. Premiums are stated net of insurance premium taxes and duties levied. As premium refunds become payable, they are accounted for as adjustments to gross premiums written in the year in which the refund is payable. Premiums collected by intermediaries but not remitted to the Company are determined based on estimates from underwriting or prior experience and are included in premiums written during the year.

3.3.3 Unearned Premiums

Unearned premiums represent the proportion of premiums written that relate to periods of insurance coverage to be provided in periods subsequent to the reporting date. Unearned premiums are earned as revenue over the period of the contract and are principally calculated on a daily pro rata basis, unless there is a marked unevenness in the incidence of risk over the coverage period. In these cases, premiums are recognised based on the assessed incidence of risk.

3.3.4 Insurance Claims

Insurance claims recognised in the year comprise claims paid in the year, changes in the provisions for outstanding claims, whether reported or not, any related loss adjustment expenses less, where applicable, an allowance for salvage and other recoveries, together with any adjustments to claims outstanding from previous years.

3.3.5 Acquisition Costs

Acquisition costs, which represent commissions and other related costs, are deferred and amortised over the period in which the related premiums are earned. Related reinsurance commissions receivable are not netted against deferred acquisition costs and, instead, included within accruals and deferred income.

3.3.6 Claims Provisions and Related Reinsurance Recoveries

Provision is made at the year end for the estimated cost of claims incurred but not settled at the reporting date, including the cost of claims incurred but not yet reported to the Company. Although the Company takes all reasonable steps to ensure that it has appropriate information regarding its claim exposures, given the uncertainty in establishing claims provisions, it is likely that the final outcome will be different from the original liability established.

Claims provision is made for the full cost of settling outstanding claims at the Statement of Financial Position date, including claims incurred but not yet reported at that date, net of salvage and subrogation recoveries. Outstanding claims provisions are not discounted for the time value of money except for claims to be settled by Periodical Payment Orders (PPOs) established under the UK Courts Act 2003 and Future Policy Benefits relating to long-duration contracts.

The Incurred But Not Reported (IBNR) reserve is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available. It includes an allowance for any consistent under or over-estimation in the case reserves. The IBNR review is conducted on a class of business basis. The in-house actuarial team conducts the assessment which is subject to an internal peer review process. Standard actuarial methodologies are used to evaluate and determine the IBNR reserves for all areas of the business including loss development methods and the analysis of individual cases in more volatile lines as appropriate. The Company's actuaries determine and select the most appropriate actuarial method to adopt for each business class. They also determine the appropriate segmentation of data from which the adequacy of the reserve can be established. A point estimate is determined from these detailed reviews and the sum of these point estimates for each class of business provides the overall actuarial point estimate for the IBNR reserve for the Company.

The ultimate process by which the actual carried reserves are determined takes into account both the actuarial point estimate and numerous other internal and external factors such as claims initiatives and economic conditions in the respective country. The majority of the IBNR reserve relates to the longer-tail classes of business and the actuaries conduct sensitivity analysis so that senior management understand the key areas of uncertainties which could potentially lead to the final actual outcome being materially different. The Company's actuaries determine their best estimate of the undiscounted IBNR reserve and report to the Reserves Committee.

The general insurance loss reserves can generally be categorised into two distinct groups. One group is short-tail classes of business consisting mainly of property, consumer lines, marine and energy. The other group is long-tail commercial lines of business which includes excess and primary liability, Directors and Officers (D&O), professional liability, employers' liability, general liability and related classes.

Short-tail classes do not have a significant delay from the date of accident to date of report to the Company and then settled by the Company. The estimates for these classes are more reliant on the case estimate on individual claims and utilises loss development methodologies in the projection of the future development of these case estimates.

Long-tail classes generally relate to claims where liability has to be established or where there is an element of bodily injury. For these classes it may take some time from the date of accident for the claim to emerge and for claims to be settled from notification date due to the time taken to establish liability. Estimation of ultimate net indemnity losses and loss expenses for long-tail lines of business is a complex process and depends on a number of factors, including the class and volume of business involved as well as premium rate changes, changes in exposure and claim inflation. The actuarial methods used by the Company for most long-tail commercial lines include loss development methods and expected loss ratio methods, including the Bornhuetter-Ferguson method. Exceptional large claims or events, to the extent that these distort the historical development, are removed from the analysis and considered separately.

3.3.7 Liability Adequacy

At each reporting date, the Company reviews its unexpired risks and performs a liability adequacy test. Provision is made for any unexpired risks arising where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the reporting date exceeds the unearned premium provision in relation to such policies after the deduction of any deferred acquisition costs. The expected value is determined by reference to recent experience and allowing for changes to the premium rates. The provision for unexpired risks is calculated separately by reference to classes of business that are managed together and after taking account of relevant investment returns.

3.3.8 Reinsurance

The Company cedes reinsurance in the normal course of business, with retention limits set for each line of business. The contracts entered into by the Company with reinsurers, under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts, are classified as reinsurance contracts. Onwards reinsurance premiums are recognised in the same accounting year as the related premium income. Reinsurance claims recoveries are recognised in the same accounting year as the related insurance claims are accounted for.

The amounts recoverable from reinsurers are estimated based upon the gross provisions, having due regard to their collectability. The reinsurance recoveries in respect of estimated claims incurred but not reported are assumed to be consistent with the historical pattern of such recoveries, adjusted to reflect changes in the nature and extent of the reinsurance programme over time. The recoverability of reinsurance recoveries is assessed having regard to market data on the financial strength of each of the reinsurers. The reinsurers' share of claims incurred in the statement of profit or loss reflects the amounts received or receivable from reinsurers in respect of those claims incurred during the year.

The reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised in the statement of profit or loss as outward reinsurance premiums when due.

Reinsurance contracts that principally transfer financial risk are accounted for directly through the Statement of Financial Position and are not included in reinsurance assets or liabilities. A deposit asset or liability is recognised, based on the consideration paid or received less any explicitly identified premiums or fees to be retained by the reinsured.

3.4 PROPERTY AND EQUIPMENT

Owner occupied properties are held at revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Other items of property and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Owner occupied properties are revalued on a regular basis at open market valuation by independent, professionally qualified valuers. These valuations are in accordance with the requirements of the International Valuation Standards Committee, the revaluation model within IAS 16, *'Property, Plant and Equipment'* and IFRS 13, *'Fair Value Measurement'*.

Any revaluation increase arising on revaluation is recognised in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in the statement of profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on a revaluation is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

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

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

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

3.5 INTANGIBLE ASSETS

Intangible assets include capitalised software costs and acquired brands.

Capitalised software costs represent costs directly related to obtaining, developing or upgrading internal use software. Such costs are capitalised and amortised on a straight line basis over the software's useful life which is a period not exceeding five years. Acquired brands are classified with an indefinite useful life and are shown at historical cost. Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

3.6 INVESTMENTS IN GROUP UNDERTAKINGS

Investments in group undertakings are stated at cost less impairment. An impairment review is carried out whenever there is an indication of impairment. Where the carrying amount is more than the recoverable amount, an impairment charge is recognised in the Statement of Profit or Loss and Other Comprehensive Income.

3.7 INVESTMENTS IN JOINT VENTURES

Joint arrangements are arrangements of which the Company has joint control, established by contracts requiring unanimous consent for decisions about the activities that significantly affect the arrangements' returns. They are classified as joint operations when the Company has rights to the assets, and obligations for the liabilities, relating to an arrangement or as joint ventures when the Company has rights only to the net assets of the arrangements. For joint ventures, the Company accounts for its interest at cost less impairment.

3.8 FINANCIAL ASSETS AND LIABILITIES

A financial asset is initially recognised on the date the Company becomes committed to purchase the asset at its fair value plus directly related acquisition costs, except for those assets classified as fair value through income where acquisition costs are recognised immediately in the statement of profit or loss. A financial asset is derecognised when the rights to receive cash flows have been transferred and the risks and rewards of ownership have been substantially transferred by the Company.

On initial recognition, the Company classifies its financial assets into one of the following categories: financial assets at fair value through income; loans and receivables; or available-for-sale financial assets. For financial instruments classified in categories that require them to be measured at their fair value at the reporting date, fair value is determined with reference to the quoted market bid prices, or by using an appropriate valuation model.

Financial Assets at Fair Value Through Income

Financial assets may be classified on initial recognition as being at fair value through profit or loss if such designation: (a) eliminates or significantly reduces a measurement or recognition inconsistency; (b) applies to a group of financial assets, financial liabilities or both that the Company manages and evaluates on a fair value basis; or (c) relates to an instrument that contains an embedded derivative which is not closely related to the host contract.

Gains and losses on financial assets designated at fair value through income are recognised directly in the Statement of Profit or Loss and Other Comprehensive Income.

Loans and Receivables

Non-derivative financial assets with fixed or determinable repayments that are not quoted in an active market are classified as loans and receivables, except for those that are classified as available-for-sale or designated as at fair value through income. They are subsequently measured at amortised cost using the effective interest method less any impairment losses.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Available-For-Sale

Non-derivative financial assets that are not classified as designated at fair value through income or loans and receivables are classified as available-for-sale. Financial assets can be designated as available-for-sale on initial recognition. They are subsequently measured at fair value with changes in fair value reported in a separate component of shareholders' equity until disposal, when the cumulative gain or loss is recognised in the statement of profit or loss. Impairment losses and exchange differences resulting from the retranslation of the amortised cost of foreign currency monetary available-for-sale financial assets are recognised in income together with interest calculated using the effective interest method.

Financial Liabilities
A financial liability is initially recognised on the date the Company becomes a party to the contractual provisions of the instrument. Financial liabilities are initially recognised at fair value including, other than for financial liabilities at fair value through profit or loss, transaction costs directly attributable to the issue of the instrument. Other than derivatives which are subsequently measured at fair value, all other financial liabilities are subsequently measured at amortised cost using the effective interest method.

A financial liability is derecognised from the Statement of Financial Position when the obligation is discharged, cancelled, or expires.

3.9 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments include forward currency swaps that derive their value from movements in underlying foreign exchange rates. Derivatives are initially recognised and subsequently measured at fair value with movements in fair value recognised in income. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. Derivatives are carried as assets where their fair value is positive and as liabilities where the fair value is negative.

The Company had collateral agreements in place with the counterparties of derivative financial instruments held. The accounting policy for collateral received and paid is as set out in accounting policy 3.16 below.

3.10 OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

3.11 NET INVESTMENT RETURN

Net investment income recognised in the Statement of Profit or Loss and Other Comprehensive Income includes investment income (comprising of interest, dividends and the amortisation of any discount or premium on available-for-sale debt securities). The Net Investment Return also includes realised gains and losses and movements in unrealised gains and losses on financial assets held at fair value through profit or loss, net of interest payable, investment expenses and impairment losses on financial assets.

Interest income is recognised as accrued based on the effective interest method. Dividend income is recognised as the Company's right to those dividends becomes unconditional. Rental income is recognised on a straight-line basis.

3.12 IMPAIRMENT OF FINANCIAL ASSETS

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets classified as either loans and receivables or available-for-sale is impaired. A financial asset or group of financial assets is impaired, and an impairment loss recognised, if there is objective evidence that an event, or events has occurred subsequent to the initial recognition of the financial asset or group of financial assets that has adversely affected the amount or timing of future cash flows from the asset.

Loans and Receivables
Where there is evidence that the contractual cash flows of a financial asset classified as loans and receivables will not be received in full, an impairment charge is recognised in income to reduce the carrying value of the financial asset to its recoverable amount.

Available-For-Sale Financial Assets
Where a decline in the fair value of a financial asset classified as available-for-sale has been recognised in the fair value reserve and there is objective evidence that the asset is impaired, the cumulative loss is transferred out of the fair value reserve in equity and recognised in the income statement. The cumulative impairment loss recognised is the difference between the acquisition cost (net of principal repayments and amortisation for debt securities) and its current fair value, less any impairment loss previously recognised in profit or loss. Impairment losses previously recognised for debt securities are reversed if there is a subsequent increase in their fair value and that this increase can be objectively linked to an event subsequent to the recognition of the impairment. Impairment losses on available-for-sale equity instruments are not reversed.

3.13 BORROWINGS

Borrowings are initially recognised at their issue proceeds and are subsequently measured at amortised cost. Borrowing costs are recognised using the effective rate method in the Statement of Profit or Loss as incurred.

3.14 COLLATERAL

The Company receives and pays collateral in the form of both cash and non-cash assets in respect of certain derivative contracts and reinsurance assets in order to reduce the credit risk attaching to these transactions.

Cash collateral received is recognised as an asset in the Statement of Financial Position with a corresponding liability for the ultimate repayment of the financial liability, unless the Company has a legally enforceable right of set off in which case the collateral liability and the related asset are shown net. Non-cash collateral received is not recognised in the Statement of Financial Position unless the Company obtains substantially all the risks and rewards from ownership of the collateral pledged, such as in cases where the counterparty defaults on their obligations under the contract.

Non-cash collateral pledged is not derecognised in the Statement of Financial Position where the Company retains substantially all of the risks and rewards of ownership of the pledged non-cash assets. These assets continue to be recognised in the relevant asset classification. The Company receives and pays collateral in the form of both cash and non-cash assets in respect of certain derivative contracts and reinsurance assets in order to reduce the credit risk attaching to these transactions.

3.15 EMPLOYEE BENEFITS AND SHARE-BASED PAYMENTS

Short-term employee benefits

Short-term employee benefits, including compensated absences, are benefits to be paid within one year after the end of the reporting year in which the related services are rendered. A liability and expense are recognised for the undiscounted amount expected to be paid for short-term employee benefits in the year in which the employee renders services in exchange for the benefits.

Other long-term employee benefits

Other long-term employee benefits are accounted for similarly to short-term employee benefits. However, unlike short-term employee benefits, the amounts are discounted in the measurement of the liability.

Termination benefits

A liability for termination benefit is recognised at the earlier of when the Company can no longer withdraw from the offer of the termination benefit and when the entity recognises any related restructuring costs.

Employee share-based payments

Equity-settled plans are measured at fair value of the equity instruments on the grant date and recognised as an expense, with a corresponding increase to shareholders' equity, on a straight line basis over the vesting period. In determining the expense, the Company estimates the number of equity instruments that are expected to eventually vest. Such estimates are revised at the end of each reporting year, with the impact of any revisions recognised in profit or loss, with a corresponding adjustment to the equity-settled employee benefits reserve.

3.16 LEASES

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Operating lease payments, where the lessors effectively retain substantially all of the risk and benefits of ownership of the leased items, are recognised as an expense in the Statement of Profit or Loss in accordance with the patterns and benefits derived from the leased items. Payments made relating to operating leases are charged to the Statement of Profit or Loss on a straight line basis over the lease term. Any lease incentives, such as rent free periods, are amortised on a straight line basis over the lease term.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease, not exceeding 7 years.

3.17 TAXATION

The charge for tax is based on the results for the year determined in accordance with the relevant tax laws and regulations in each jurisdiction, together with adjustments to provisions for prior years.

Deferred tax is provided in full on all temporary differences arising between the carrying amounts in the financial results and the tax bases of the assets and liabilities. Deferred tax assets are recognised to the extent that it is regarded as probable that they will be recovered. Deferred tax is calculated based on the tax rates that have been enacted or substantially enacted at the end of the reporting period and which are expected to be in force when the relevant deferred tax asset is realised or the relevant deferred tax liability is settled. Deferred tax balances are not discounted.

Current and deferred tax assets and liabilities are shown gross to reflect the fact that they can only be offset where there is a legally enforceable right to do so, particularly in respect of taxes relating to the same fiscal authority.

3.18 PENSION COSTS

The Company operated a number of pension benefit plans. These plans included both defined benefit and defined contribution plans.

Payments to defined contribution plans and state-managed retirement benefit plans, where the Company's obligations under the plans are equivalent to a defined contribution plan, are charged as an expense as the employees render service. The defined benefit pension costs and the present value of defined benefit obligations are calculated at the reporting date by the plans' actuaries using the Projected Unit Credit Method.

Amounts charged (or credited) in the Statement of Profit or Loss and Other Comprehensive Income for post retirement benefits in respect of defined benefit plans include:

- **The current service cost** – representing the present value of additional benefits accruing in relation to employee services provided during the year;
- **Past service costs** – arising from plan amendments and curtailments. Such costs are recognised in the statement of profit or loss at the earlier of the effective date of the plan amendment or curtailment, or when the Group recognises the related restructuring costs or termination benefits;
- **Administration costs** of operating the pension plans; and
- **Net interest** on the net deferred pension obligation liability (asset) – determined by applying the discount rate to the net defined benefit liability (asset) at the start of the reporting year and any movements in the net defined benefit liability (asset) during the year from contributions made and benefits paid.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred), as well as the effects of changes in actuarial assumptions. Actuarial gains and losses are recognised in other comprehensive income in the year in which they arise.

The defined benefit liability recognised in the Statement of Financial Position represents the present value of defined benefit obligations adjusted for unrecognised past service costs and reduced by the fair value of plan assets. Any net defined benefit surplus is limited to unrecognised past service costs plus the present value of available refunds and reductions in future contributions to the plan.

3.19 PROVISIONS AND CONTINGENT LIABILITIES

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. A provision is measured at the best estimate that the Company would pay to settle the obligation or transfer it to a third party.

A contingent liability is an obligation where it is not more likely than not that an outflow of resources will be required or the amount of the obligation cannot be reasonably estimated. Contingent liabilities are disclosed if there is more than a remote possibility that an outflow of resources will be required to settle the obligation.

In many cases, it is not possible to determine whether a liability has been incurred or to estimate the ultimate or minimum amount of that liability until years after the contingency arises, in which case no accrual is made until that time.