AIG Life Limited

Solvency & Financial Condition Report 2017

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Summary

AIG Life Limited (the "Company") is incorporated in the United Kingdom and registered in England and Wales. The Company is a wholly owned subsidiary of AIG Holdings Europe Limited whose ultimate parent company is American International Group, Inc. ('AIG Inc.'), a company incorporated in the State of Delaware, United States of America with headquarters in New York City.

The Company is authorised and regulated by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) in the UK.

The purpose of the Solvency and Financial Condition Report (SFCR) as set out in Article 51 of the Solvency II Directive is to provide the reader with an understanding of the Company's Business and Performance, System of Governance, Risk Profile, Valuation for Solvency purposes and Capital Management.

Section A to the SFCR provides information on the Company's business, performance and significant events during the year.

AIG Life had an extremely successful year in 2017, writing £52.2m of new business premiums and generating IFRS pre-tax profits of £23.3m, including £4.5m of investment income. In addition, the Company successfully launched a major partnership with Royal Bank of Scotland.

AIG Life continues to apply industry leading measures to enhance its capital deployment and finished the year with a capital ratio of 226%. This follows the turbulent 2016 in which the bond markets registered a significant shock as a result of the outcome of the EU referendum resulted in AIG Life implementing a number of industry first capital management solutions.

Section B provides information on the Company's system of governance. The Company continues to align its management and governance structure to proactively respond to business and regulatory needs.

Section C provides information on the Company's risk profile over its Insurance Risk, Market Risk, Credit Risk, Liquidity Risk and Operational Risk. This section further provides an overview for each of these five risks, outlining their risk components, measures used to assess risks, risk concentration, risk mitigation techniques and the process for monitoring these risk mitigation techniques.

The Company has a strong, effective and embedded risk management framework. This is crucial to maintaining successful business operations and delivering sustainable, long-term profitability. Underpinning this framework is a strong risk culture articulated by senior leadership and embedded by management at multiple levels through the governance structure and risk management processes.

The Company's adherence to its quantified risk parameters is supported by ongoing risk identification. The Company draws together the analysis of its risk profile within its ORSA (Own Risk and Solvency Assessment) documents and in an Annual Risk Review of the Business Plan. This allows management to ensure that the risks accepted by the Company are aligned to its strategic objectives, which include seeking profitable growth opportunities and identifying areas of comparative advantage. It also helps management to avoid outsized risk exposures, relative to the Company's or peers' financial resources and to minimise the exposure to legal, regulatory and accounting risk.

Section D provides information on the valuation of assets and liabilities on the Company's Solvency II balance sheet and details of material differences from valuations in the financial statements. Key areas of valuation differences include technical provisions, deferred acquisitions costs and deferred tax.

Section E provides information on the composition and quality of the Company's own funds and material changes in own funds composition during the year, as well as its capital management policy. The Company maintains robust and sufficient capital to ensure the safety and stability of the Company whilst meeting regulatory and other business needs. In order for the Company's capital base to provide security against material shocks, the Company would normally expect to hold sufficient capital to maintain a significant economic surplus. Available capital comprises total equity, and eligible Tier 2 and Tier 3 capital under Solvency II.

The Solvency II surplus represents the excess of the Company's total eligible own funds over the SCR. The Solvency II coverage is calculated as the ratio of the Company's total eligible own funds to the SCR. Both metrics are defined by the regulations. During the year, the company ensured compliance with Solvency II requirements including maintaining capital resources above the solvency capital requirements and the minimum capital requirements. As at 31 December 2017, the Standard Formula SCR is £103.5m covered by £234.0m of capital resources thus providing a healthy 226% coverage ratio (both with and without transitionals).

The Company has been fully compliant with the requirements of Solvency II since its commencement and it remains so.

Chief Executive Officer
Adam Winslow

Solvency & Financial Condition Report 2017

A. Business and Performance

This section of the report sets out the details regarding the Company'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. BUSINESS AND PERFORMANCE

A.1. BUSINESS

The ‘Business’ sub-section of the report provides an overview of the Company, and its legal position within the AIG Group, major lines of business and strategy and objectives.

A.1.1. COMPANY INFORMATION

AIG Life Limited (the “Company”) is incorporated in the United Kingdom and registered in England and Wales. The Company is a wholly owned subsidiary of AIG Holdings Europe Limited whose ultimate parent company is American International Group, Inc. ('AIG Inc.'), a company incorporated in the State of Delaware, United States of America with headquarters in New York City.

AIG Life Limited was established in 2008 as Fortis Life, an innovative provider of long term life insurance, critical illness and income protection products sold through Independent Financial Advisers (“IFAs”), intermediaries and distribution partners. The Company was purchased by AIG Europe Holdings Limited (“AEHL”, later AIG Holdings Europe Limited “AHEL”), part of American International Group (“AIG”), on 31st December 2014.

Products are sold to residents of the UK, Channel Islands, the Isle of Man and Gibraltar. The company is PRA authorised and regulated by the PRA and the FCA.

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

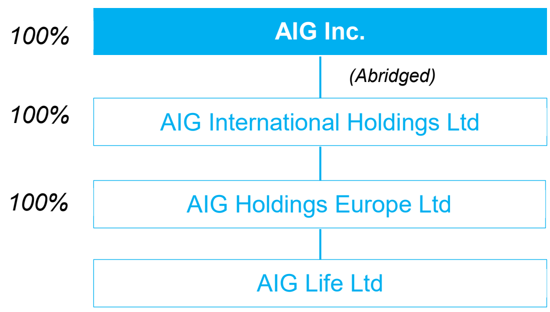
External Auditors
PricewaterhouseCoopers LLP
7 More London Riverside
London SE1 2RT
+44 (0) 20 7583 5000

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

Supervisory Authority (Conduct)
Financial Conduct Authority (FCA)
25 The North Colonnade
London E14 5HS
+44 (0) 20 7066 1000

A.1.2. POSITION WITHIN THE GROUP LEGAL STRUCTURE

As stated above, AIG Life Limited is a wholly owned subsidiary of AHEL, domiciled in the UK with its head office at 58 Fenchurch Street London. AHEL is a wholly owned subsidiary of AIG International Holdings Limited, a Swiss incorporated company. Its ultimate parent company AIG Inc. is headquartered in New York City. The following chart shows, in simplified form, a structure chart of the Company and its ultimate parent as at 31 December 2017.



A.1.3. MATERIAL PARTICIPATING UNDERTAKINGS

The Company has no subsidiaries or material undertakings.

A.1.4. MATERIAL LINES OF BUSINESS BY OPERATING SEGMENT AND SOLVENCY II

From an operating company perspective, AIG Life forms part of the Life module within the Life & Retirement division of AIG Inc.

AIG Life's products fall under two of the Solvency II Lines of Business (LOB), which are Life (69%) and Health (31%), measured by gross premium income 2017. AIG Life's Term Assurance products are categorised under Life, with Critical Illness and Income Protection categorised under Health.

A.1.5. MATERIAL GEOGRAPHICAL LOCATIONS

AIG Life Limited operates within the United Kingdom, Channel Islands, Isle of Man and Gibraltar.

A.1.6. SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

A.1.6.1. BREXIT

Subsequent to the 2016 EU referendum, Article 50 was executed on 29th March 2017 initiating the start of exit negotiations with the rest of Europe. The result of the UK referendum on EU membership has created uncertainty in the financial markets, which may continue until the terms of the UK leaving the EU are agreed.

Whilst uncertainty will remain over the short term, the company is planning on the assumption that the PRA will maintain the Solvency II regulations (or broadly equivalent) that were implemented on 1st January 2016 across the European Union. However, as noted in section 1.5 AIG Life Limited only operates within the United Kingdom, Channel Islands, Isle of Man and Gibraltar. Overall, therefore, Brexit is not expected to have a material impact on the business model.

A.1.6.2. OTHER BUSINESS EVENTS

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.

A.1.7. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

No events have occurred after the reporting period which are material for AIG Life.

A.2. UNDERWRITING PERFORMANCE

The ‘Underwriting Performance’ subsection of the report aims to provide quantitative and qualitative information of the Company’s underwriting performance for the financial year 2017, and has been prepared on an IFRS basis which is the basis that the company prepares its financial statements in the UK.

A.2.1. UNDERWRITING PERFORMANCE BY MATERIAL LINES OF BUSINESS

AIG Life uses reinsurance to limit its exposure to underwriting risk and to reduce the volatility of its claims and underwriting performance. This is typical within the UK Life insurance market.

Currently AIG Life has arrangements with five different reinsurers in the UK market in addition to arrangements with the internal AIG reinsurer, AIRCO. During 2017, coinsurance arrangements were put in place for the first time. Under this arrangement, AIG Life pays the coinsurer a percentage of the office premium on a specified tranche of policies and in return the coinsurer pays a percentage of the claims and a commission to AIG Life. These arrangements are monitored on an ongoing basis with a full review and retender process at regular intervals.

The following table summarises the total premiums, claims and expenses for AIG Life as at the 31 December 2017 split by Solvency II Line of Business and the geographical location of the sale.

£'000	Home Country	Top countries (by amount of gross premiums written)				By Line of Business		Total
		Jersey	Guernsey	Isle of Man	Gibraltar	Life	Health SLT	
Premiums written								
Gross	185,457	1,635	1,209	494	248	130,571	58,472	189,044
Reinsurers' share	79,997	705	521	213	107	56,322	25,222	81,544
Net	105,460	930	687	281	141	74,249	33,250	107,499
Premiums earned								
Gross	185,457	1,635	1,209	494	248	130,571	58,472	189,044
Reinsurers' share	79,997	705	521	213	107	56,322	25,222	81,544
Net	105,460	930	687	281	141	74,249	33,250	107,499
Claims incurred								
Gross	84,451	286	1,424	65	0	61,856	24,371	86,226
Reinsurers' share	79,532	269	1,341	62	0	58,253	22,951	81,204
Net	4,919	17	83	4	0	3,603	1,420	5,023
Expenses Incurred	**104,248**	**919**	**679**	**278**	**140**	**73,396**	**32,868**	**106,264**

Net claims and expenses exceed net premiums by £3,788k. Once coinsurance commission and investment income are includes there is an IFRS pre-tax profit of £23,280k for 2017 as shown below.

Period ended 31/12/2017	Total £'000
Gross Premiums	189,044
Reinsurers’ share of premiums	(81,544)
Gross Claims	(86,226)
Reinsurers’ share of claims	81,204
Increase in Reserves	-
Coinsurance Cashflows	24,592
Expenses	(106,264)
Income from Direct Holdings Investments	2,410
Interest earned from Cash & Liquidity Fund	65
Pre-tax IFRS profit	**23,280**

The below table compares underwriting performance against 2016. The comparison is done at an aggregate level, at a line of business level and in the UK geographical area (the only material geographic area where AIG Life carries out business). The increase in gross premiums and expenses incurred reflect the continued growth of the business. Net claims incurred remain stable at a low level due to the high proportion of reinsurance used. The reinsurers’ share of premiums is growing faster than gross premiums due to the risk premium reinsurance structure used.

Increase in 2017 vs. 2016	Home Country	By Line of Business		Total
		Life	Health SLT	
Premiums written				
Gross	18%	19%	16%	18%
Reinsurers' share	26%	27%	24%	26%
Net	12%	13%	11%	12%
Premiums earned				
Gross	18%	19%	16%	18%
Reinsurers' share	26%	27%	24%	26%
Net	12%	13%	11%	12%
Claims incurred				
Gross	10%	17%	0.2%	12%
Reinsurers' share	11%	18%	1%	12%
Net	0.4%	7%	-9%	2%
Expenses Incurred	**27%**	**27%**	**24%**	**26%**

A.3. INVESTMENT PERFORMANCE

The 'Investment Performance' subsection of the report provides qualitative and quantitative information of the Company's investment performance for the financial year 2017.

A.3.1. NET INVESTMENT INCOME

Net investment income for AIG Life principally arises from high quality fixed income assets including corporate and government bonds.

Net investment return includes investment income, realised gains and losses and movement in unrealised gains and losses on financial assets held at fair value through profit. This amount is net of interest payable, investment expenses and impairment losses on financial assets. Interest income is recognised as accrued based using the effective interest method.

Net investment income

	2017 £'000	2016 £'000
Interest income from debt securities	4,541	3,927
Realised and Unrealised Gains/(Losses)	2,046	(867)
Net Investment Return	**6,587**	**3,060**

Investment income in 2017 is higher, principally due to a higher level of unrealised gains compared to 2016.

A.3.2. INVESTMENT ACTIVITIES BY ASSET CLASS AND CHANGES DURING THE REPORTING PERIOD

A.3.2.1. INCOME AND EXPENSES ARISING FROM INVESTMENTS BY ASSET CLASS

The assets invested by the Company fall into the following asset classes:

1. **Direct Bond Holdings** £170,018k

The Company has invested in high-quality government and corporate bonds. Over 2017, £4,474k of income was earned and £2,046k of realised and unrealised gains were incurred.

2. **Collective Investment undertakings** £17,910k

The Company has invested in short-term money market funds, which provide access to a diversified pool of high credit quality assets. In the period ended 31st December 2017 the Company received interest on these assets of £68k. The fund management fees per annum range from 0.05% - 0.1% of funds under management.

3. **Cash and cash equivalents: Bank deposits** £2,019k

No material income or expenses were incurred in respect of these assets in the year ending 31st December 2017.

A.4. PERFORMANCE FROM OTHER ACTIVITIES

The ‘Performance from other activities’ subsection of the report aims to provide an overview of the qualitative and quantitative information regarding income from other activities, other expenses and lease arrangements. For AIG Life there was no other material income or expenses.

A.5. ANY OTHER MATERIAL INFORMATION

As at 31 December 2017, there is no other material information regarding Business and Performance of the Company.

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 Company. The section also outlines the process of risk management and the fit and proper and outsourcing arrangements put in place.

Key elements of the sections are:

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

B. SYSTEM OF GOVERNANCE

B.1. GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE

The ‘Overview of the System of Governance’ subsection of the report aims to provide details of the Company’s management structure along with roles and responsibilities and key functions of various committees and working groups.

B.1.1. MANAGEMENT AND GOVERNANCE STRUCTURE

AIG Life Limited adopts a robust approach to corporate governance; the governance framework is based upon the standards set out within the AIG Life Governance Map which has been developed from the original corporate governance manual following the implementation of the Senior Insurance Managers Regime (SIMR) in 2016. In addition, AIG Life, as a minimum, adopts corporate governance principles contained in the FCA and PRA Handbooks, together with the UK Corporate Governance Code, where relevant.

The objective of the Governance Map is to clarify and formalise governance responsibilities within AIG Life by establishing a clear and comprehensive governance framework with appropriate procedures, systems and controls. The document sets out the governance arrangements and standards that exist to ensure that AIG Life is being managed in accordance with the relevant legislative and regulatory requirements and the policies and standards of the wider Group. Compliance with these standards and requirements will ensure that AIG Life meets not only the expectations of shareholders but also other key stakeholders in the businesses such as customers, employees, business partners and regulators.

Included in the governance framework is the AIG Life Enterprise Risk Management (ERM) framework which supports the Company’s risk culture, and sets out the risk committees, risk reporting and risk controls. The ERM governance structure provides an oversight and decision-making framework within which material risks are regularly identified, assessed, monitored and managed together with utilising the outputs from the Solvency II Capital models where appropriate.

The AIG Life governance structure includes the following 4 levels:

1. The Board;
2. Statutory Committees;
3. Management Committees; and
4. Management Sub-Committees.

It is designed to support the Company 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 the committees has a distinct role to play within the Company’s governance framework.

B.1.1.1. BOARD OF DIRECTORS

The role of the AIG Life Board is to exercise effective control and oversight over the business, setting the tone from the top, to ensure the direction and performance of the business is aligned to the strategic objectives of the Company and its shareholders, and is managed in accordance with legislative and regulatory requirements.

The responsibilities of the AIG Life Board are contained within its Terms of Reference, including: guarding the interests of stakeholders; setting and maintaining a culture that has customers at the heart of how AIG Life business is conducted; formulating the strategy; approving business plans, policies and investment and divestment proposals; setting risk appetite; and reviewing business performance.

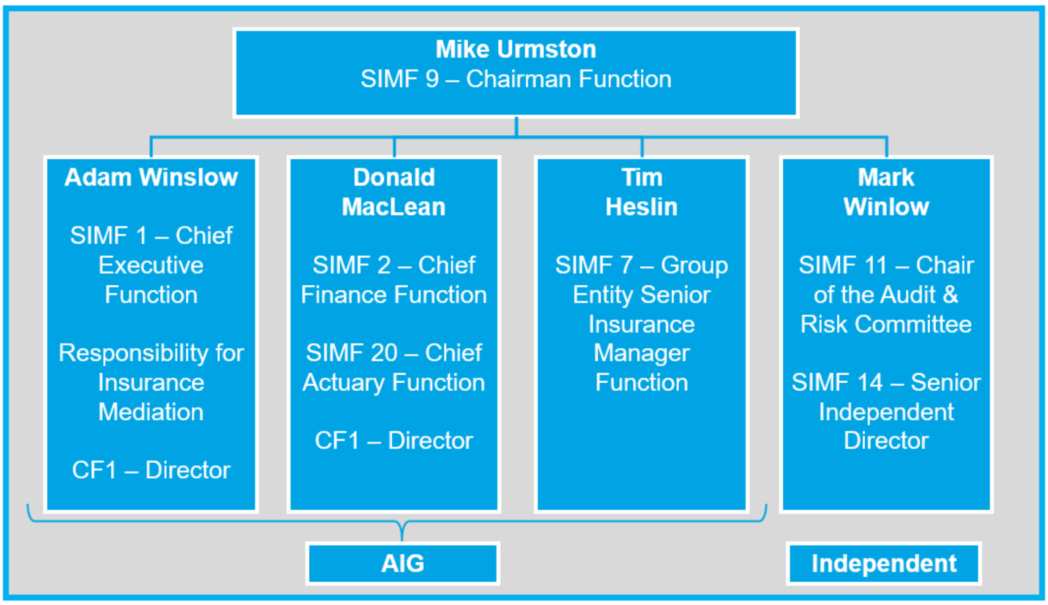
The AIG Life Board:

- Is regarded by all stakeholders as the champion of the Company’s integrity, accountability, responsibility, ethics and behavioural values;

- Will meet regularly to exercise and discharge its obligations;
- Is responsible for controlling and directing the company in line with the expectations and requirements of its parent company and ultimate shareholder (AHEL);
- Is responsible for ensuring the business is compliant with all applicable legislative and regulatory requirements, including but not limited to, the PRA Fundamental Rules and the FCA Principles for Businesses;
- Has the authority and the duty to use adequate, necessary and proportional means in order to fulfil its responsibilities. The AIG Life Board as a whole is collectively accountable to the Company for adequately exercising its authority, powers and duties. The Company is duly represented by any Director or the Company Secretary for all matters within the limits set by the Board. The Boards may sub-delegate authority where appropriate;
- Is responsible for establishing the desired culture, and setting the policies and standards within which the company will operate, and directors are expected to demonstrate and to promote they remain appropriate; and

Retains sufficient powers to enable the Directors to carry out their duties effectively and appropriately and to ensure the company is not exposed to undue risk of regulatory censure. In deciding which powers to retain, the AIG Life Board has given due consideration to industry best practice and relevant legislation, and has chosen to retain control over items with significant impact upon the company.The Board is composed of a mix of executive directors, independent non-executive directors and a Group non-executive director, so as to achieve a balance of skills, experience, challenge and debate and so that no individual or small group of individuals can dominate its decision-making. Any major changes to the Company's business activities must receive Board approval prior to implementation.

The diagram below shows the AIG Life Board members as at 31 December 2017:

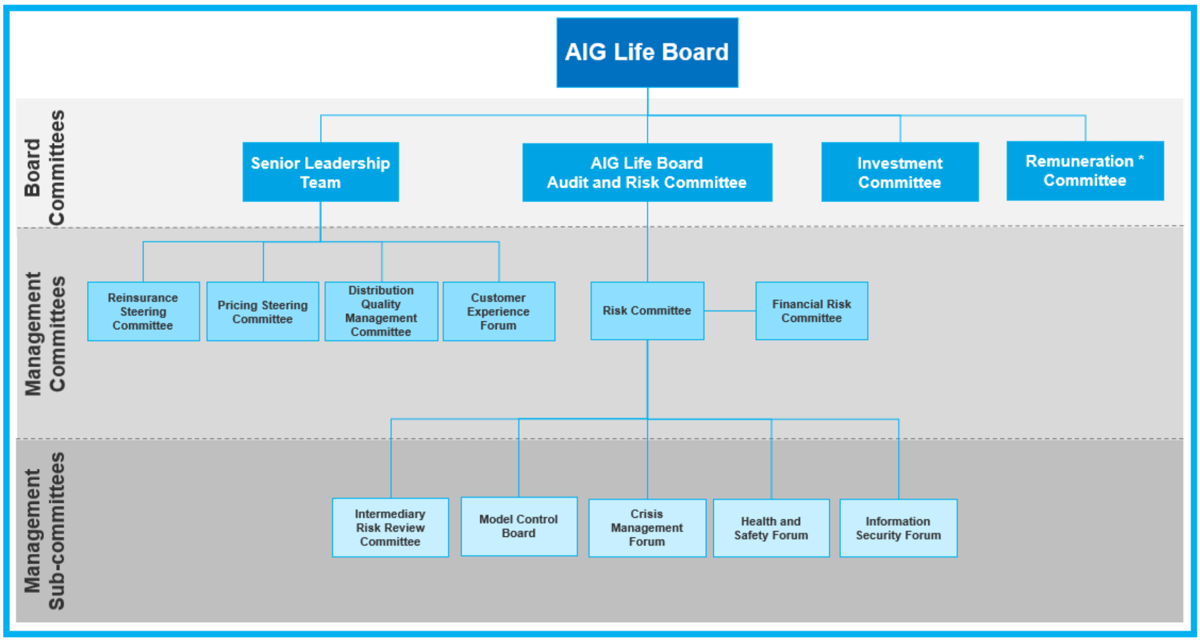


The Chief Actuary and Chief Finance Officer roles are intended to be separated in 2018.

B.1.1.2. STATUTORY COMMITTEES

There are a number of key governance committees within AIG Life which include the Audit and Risk Committee, Senior Leadership Team and Investment Committee. The structure is shown in the diagram below.

Structure of Boards and Committees within AIG Life



* Came into existence in February 2018 after being formally separated from the Board after 31/12/17.

The AIG Life Audit and Risk Committee - assists the Board in fulfilling its responsibilities for oversight of the effectiveness of risk management systems and internal controls, both financial and non-financial within the company.

The role of the Audit and Risk Committee (ARC) 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;
- Monitoring the Company's compliance with legal and regulatory requirements;
- Providing oversight of the qualifications, independence and performance of External Audit;
- Reviewing solvency capital adherence to risk appetite;
- Overseeing risk management processes on behalf of the Board;
- Ensuring that risks are evaluated and plans for the management of such risks are effective; and
- Oversight of model development and changes, data quality and governance and the overall risk and control environment.

The ARC is part of the second and third lines of defence. The Committee is composed of the Independent Non-executive Directors, the Chief Executive Officer, and the Chief Financial Officer, with the Chief Actuary, the Chief Risk Officer, the Chief Compliance Officer (CCO), the Head of Internal Audit, and the lead partner of the external auditors as standing invitees.

The ARC is a sub-committee of the Board, reporting directly to the Board on 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 ARC prior to being put before the Board.

The Senior Leadership Team - the purpose of the Senior Leadership Team (SLT) is to develop the

AIG Life strategy (for example through the annual business and capital plans), and following Board approval implement it and effectively manage the business of the Company, ensuring its direction and performance is aligned to AIG Life's Business objectives and those of the Group whilst ensuring that it is managed in accordance with regulatory and legislative requirements, that all actions agreed with the Board are delivered to agreed standards and timescales, and that any actions from the agreed plans are proactively managed.

The SLT is composed of the CEO and senior management. The independent non-executive directors may interview proposed candidates for positions prior to their appointment.

The SLT monitors progress against the strategic plan, and where applicable develops and proposes material adjustments to the Board. It also maintains an oversight of the various strategic initiatives. The SLT reports into the Board via the CEO.

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

The Remuneration Committee - Previously the Board has assumed responsibility for oversight of remuneration which has historically been appropriate given the nature, scale and complexity of the business. However as the business continues to grow and in recognition of regulatory expectations it was deemed appropriate to introduce a new committee, with authority delegated from the Board, to oversee remuneration arrangements. The committee considers and advises the Board in relation to the remuneration of management specifically ensuring avoidance of incentive programmes that encourage employees to take unnecessary or excessive risk.

B.1.1.3. KEY FUNCTIONS, ROLES AND RESPONSIBILITIES

Persons who effectively run the Company or have other key functions are required to meet the fit and proper requirements. The system of governance includes the risk management function, compliance function, actuarial function and internal audit function. Solvency II sets out specific responsibilities for each of these key functions. The responsibilities and reporting lines for each of these functions are set out in turn below:

Actuarial Function

The Actuarial Function is led by the Chief Actuary. The Chief Actuary works closely with the Company's CEO and is a member of the Senior Leadership Team. The Chief Actuary also has a second reporting line to the AIG Chief Finance Actuary, Life Insurance. Under Solvency II, the Actuarial Function's responsibilities include the following tasks:

- Coordinating the calculation of technical provisions;
- Ensuring the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions;
- Assessing the sufficiency and quality of the data used in the calculation of technical provisions;
- Comparing best estimates against experience.

The Actuarial Function is ultimately responsible for informing the Board of the reliability and adequacy of the calculation of technical provisions, the underwriting (pricing) policy of the company and the reinsurance policy of the company, which it does formally through the annual Actuarial Function Report.

Risk Function

AIG Life's ERM function oversees the delivery of the risk management framework. The function is led by the Chief Risk Officer (CRO) delivering entity-wide risk management. The CRO reports to the CEO, is a member of the Senior Leadership Team and has a reporting line to the AIG Life and Retirement CRO.

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;
- Liquidity Risk;
- Credit Risk (including risks associated with utilisation of reinsurance and intermediary default risk);
- Operational Risk; and
- Business and Strategic Risk.

The ERM function implements the Company's risk management framework through a suite of risk policies and processes. The results and findings from these processes are reviewed, challenged and escalated through the Company's governance framework. The risk function supports the Business in the identification, assessment, management and monitoring of all risks across the risk taxonomy and provides reporting to the Risk Committee, Risk and Audit Committee and Board.

Compliance Function

The Compliance function provides compliance support to the Company, including a framework for Compliance risks to be identified, measured, managed, monitored and reported. Compliance works closely with the business to ensure that good customer outcomes and the right market behaviours are demonstrated. The Compliance function is led by the CCO who is a member of the Senior Leadership Team, reporting to the CEO and is supported by a team of compliance personnel providing compliance expertise in areas including conduct risk regulation, governance and monitoring and testing. Areas that are supported by the work of the Compliance team include:

- Advice to the business: Ensures the business complies with internal and regulatory requirements by providing pragmatic and customer centric advice;
- Training: Providing induction and refresher training on Compliance policies and procedures;
- Monitoring & Testing: To ensure that the business meets the requirements of the Compliance policies and procedures and assists the business to closes any identified gaps;
- Product Development: Compliance reviews all new and existing products to ensure that the customer is at the heart of everything the Company does and complies with regulatory requirements;
- Business oversight: Overseeing areas such as the sales process and financial promotions;
- Outsource and shared service providers: Ensuring its regulatory obligations are being adhered to.
- Regulatory developments: Ensuring that proposed and finalised applicable rules and policies published by regulatory bodies are examined, risk-assessed and distributed to the business.

Internal Audit Function

The Internal Audit function, is a 3rd line Group function which 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 reports on the audit program, its status, and the condition of the control environment directly to the Board through the ARC.

B.1.1.4. THE "THREE LINES OF DEFENCE" MODEL

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

Three Lines of Defence	
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.
Second Line of Defence	The oversight functions (ERM and Compliance) are responsible for defining the risk framework and for monitoring the effectiveness of risk controls and for reporting their weaknesses or failures to the ARC. In this context, these functions are the "Second Line of Defence" against failure. Both functions also partner with the business in providing advice, guidance and challenge in managing their risks.
Third Line of Defence	The Internal Audit function delivers the "Third Line of Defence" by providing independent assurance to the Board, through the ARC, regarding the effectiveness of the First and Second Lines of Defence.

B.1.2. MATERIAL CHANGES IN THE SYSTEM OF GOVERNANCE DURING THE PERIOD

The following changes have taken place in relation to the systems of governance during 2017.

Board Membership

During the year, Gavin Lock resigned from the Company effective from April 1st. Donald MacLean is the new Chief Financial Officer. This appointment was formally approved on June 7th.

The Senior Insurance Managers Regime

The Senior Insurance Mangers' 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. Under the new SIMR the following table shows the Key Function Holders for AIG Life Limited and the positions held at 31 December 2017. The table also includes non-SIMF holders in key positions.

Name	Position
Mike Urmston	Chairman of the Board (SIMF 9)
Tim Heslin	Group Entity Senior Insurance Manager Function (SIMF 7)
Mark Winlow	Chair of Audit Committee (SIMF 11) Senior Independent Director (SIMF 14)
Adam Winslow	Chief Executive Officer Function (SIMF 1) Responsibility for Insurance Mediation
Donald MacLean	Chief Finance Function (SIMF 2) Chief Actuary Function (SIMF 20)
Chantal Bond	Deputy Chief Actuary
Ruth Middleton	Chief Risk Officer (subject to regulatory approval)
Paul Pennant	Head of Internal Audit Function (SIMF 5)

Name	Position
Kerry Barber	Compliance Oversight (CF 10) Money Laundering Reporting Officer (CF 11)
Nicola Dryden	Partnerships Director
Debbie Bolton	Head of Development Underwriting
Martin Windle	Head of Strategy & Innovation
Vicky Churcher	Intermediary Director
Laura Young	Head of Human Resources
Kathryn Hundleby	Head of Customer Services
Kev Klamm	Head of I.T.

B.1.3. REMUNERATION POLICY

The AIG Group compensation programme is structured so as to make enterprise-wide compensation decisions consistent with the Company's compensation philosophy. The implementation of the policy is overseen at AIG Life by the Remuneration Committee.

B.1.3.1. 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 (TDC consists of base salary plus annual incentive plus long-term incentive as appropriate);
- 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.

B.1.3.2. PERFORMANCE CRITERIA

To ensure fair, compelling, competitive and consistent compensation opportunities throughout the firm, employees are assigned to job grades based on their job responsibilities and compensation is administered under a structure that is anchored on competitive market data. Each job grade has a salary range and ranges for target annual incentives and long-term incentives.

The Company values differentiated incentive compensation. Managers have discretion in determining short term incentives (STI), so long as they stay within STI 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.

B.1.3.3. COMPENSATION

The total Direct Compensation consists of the following elements: fixed basic salary, variable annual incentives and in some circumstances long-term incentives.

B.1.3.4. COMPENSATION AND RISK

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 Board regularly monitors the Company's compensation programs to ensure they align with sound risk management principles. Since February 2018 this has been the responsibility of the Remuneration Committee.

B.1.4. MATERIAL TRANSACTIONS DURING THE PERIOD

No material transactions took place during the reporting period with shareholders, with persons who exercise a significant influence on the undertaking or with 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.

B.2.1. 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 SIMR. We are considering the impact of the Senior Managers & Certification Regime (SM&CR), and will implement the new regulations in good time before they come into force on 10 December 2018. The current process comprises of two stages:

B.2.1.1. 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).
- **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.

B.2.1.2. 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, the proposed appointee is also interviewed by one or more independent 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 SIMFs with an annual training programme of legal and regulatory briefings.

B.2.1.3. TRAINING OF THE BOARD MEMBERS

The Chairperson is responsible for taking the lead in addressing the development needs of the Board as a whole with a view to enhancing its overall effectiveness as a team, and in identifying and meeting the development needs of individual directors. The directors undergo regular development and training programmes, including briefings on legislative and regulatory changes and on corporate governance issues. Under the direction of the Chairperson, the Company Secretary facilitates induction training and assisting with professional development as required. In addition individual Board members may identify further training needs.

B.3. RISK MANAGEMENT SYSTEM

B.3.1. 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.

AIG Life operates an ERM Framework. The framework outlines the various risk management elements and each section has associated risk management processes to support it, including:

- The regular risk identification, assessment, management and monitoring which is undertaken by each functional Head supported by the Risk Management team, this provides input to the quarterly key risk report for the ARC and ultimately Board.
- Risk Policies; including Risk Appetite and limits and minimum standards.
- Capital management including model governance, stress testing.
- The annual Strategy and Business planning cycle which includes the forward looking assessments of risk and solvency capital requirements, stress and scenario testing and reverse stress testing with the production of the Own Risk Solvency Assessment Report.
- Data management, IT and Information security.
- The regular monitoring of the control environment with risk and control assessments, and the monitoring of key risk indicators.

The AIG Life enterprise risk management framework is underpinned by the AIG Life risk policy framework which in turn is aligned to the various AIG Group risk policies. A quarterly self-assessment and breach reporting process is in place to confirm adherence to the respective policies.

AIG Life utilises the “Three Lines of Defence” model for risk management, as described in Section B.1.1 “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’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 AIG Life Board 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 AIG Life Audit and Risk Committee and Risk Committee. These Committees in turn escalate matters of importance to the Board as needed.

B.3.2. 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 company level.

The risk governance structure has four distinct levels of committees (i.e. the Board, Statutory Committees, Management Committees and Management Sub-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.

B.3.3. AIG LIFE ENTERPRISE RISK POLICY FRAMEWORK

As mentioned above, supporting these governance arrangements is an ERM Policy Framework which incorporates the key principles and standards in place. AIG Life has a suite of risk policies that align with AIG Group policy requirements as well as addressing local regulatory and business requirements.

The policies in place set out the high level principles and approach, supported by guidance documents and any other supporting materials as may be considered helpful to ensure consistent interpretation and application of each policy. Processes are specific to the Company reflecting the individual needs of the business but must respect the minimum standards set out within the relevant policies and guidance.

A master list of all risk policies in place is maintained by Risk Management and all policies and guidance documentation is reviewed on an annual cycle and/or updated on an ad hoc basis as circumstances demand.

Model and Risk Methodology Framework

AIG Life models use the Standard Formula to calculate the solvency capital requirement for the company. The methodologies to calculate these, and the models to do so, are documented to ensure consistent application and use. All AIG Life models are managed under the AIG Life model governance framework and changes to the models are reviewed and approved by the Model Control Board, whilst also complying with the Group model governance requirements.

Risk Reporting

The Company monitors all risks through a combination of reports. This includes the Own Risk and Solvency Assessment and Key Risk Reports.

Risk Management also present a quarterly risk report to the Audit and Risk Committee that provides an overview of the risk profile of the company and risk opinion which is based on ERM's oversight of the company's risk framework and risk exposures.

B.3.4. RISK MANAGEMENT WITHIN AIG LIFE

The Risk Management function sits as an independent second line function alongside Compliance. The CRO is a standing attendee of the Board and ARC, a member of the Senior Leadership Team and either a member or attendee at Company governance meetings. As such the Company's strategy and day to day activities are subject to risk oversight and challenge. On an at least quarterly basis Risk Management prepares and presents a risk report to the Audit and Risk Committee providing a risk opinion and highlighting the company's key risks to its strategy and operations.

B.3.5. OWN RISK AND SOLVENCY ASSESSMENT

The Own Risk and Solvency Assessment (ORSA) is a set of processes undertaken throughout the year to define, assess and manage the risk and solvency capital position of the Company's strategy and business plans. The ORSA process draws together the results and analysis delivered through each of the risk processes and provides a current and forward-looking assessment of the Company's risk profile and assesses the level of solvency capital required over the period of the plan.

The risk management processes that feed into the ORSA process include:

- Regular data quality and model assessments;
- The strategic and business planning cycle;
- Emerging risks assessment;
- Identification and assessment of key risks associated with the strategy;
- Capital management assessment and planning;
- Stress and scenario testing, and reverse stress testing, of the business model;
- Review of the risk management framework; and
- Review of the Actuarial Function Holder report.

The ORSA report is co-ordinated and produced by Risk Management with inputs from the Business and in particular quantitative results, model assessments and capital assessments from the Actuarial Function, on behalf of the Board. A full review of the Company's ORSA is performed and compared to the regulatory solvency assessment and the company's solvency capital risk appetite to assess whether additional capital may be required over the period of the plan. The Board provides inputs at various stages throughout the process including agreeing the strategy, business plan and stress tests to be applied.

B.3.6. ORSA GOVERNANCE

The ORSA process forms an element of the AIG Life Risk Management Plan each year and this is reviewed and approved by the AIG Life Risk and Audit Committee. There is also an AIG Life ORSA Policy which is owned by the CRO and approved by the Board.

The ORSA report is usually produced in Q3/Q4 each year alongside the development of the strategy, annual business plan, and multi-year budget. The report is reviewed at ARC and submitted to the Board for review and approval. The ORSA is submitted to the PRA within 2 weeks of approval by the Board.

An interim ORSA or ORSA update would be prepared if there are any material changes in the Business or to the company's risk profile that could impact the solvency capital requirement over the remaining period of the plan and prior to the next full assessment being due. The interim ORSA would be provided to the Board for review and approval prior to submission to the regulator.

B.4. INTERNAL CONTROL SYSTEM

B.4.1. DESCRIPTION OF THE INTERNAL CONTROL SYSTEM

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 Standard Formula Solvency Capital Requirement (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 being complete, accurate and of appropriate quality to use in the SF-SCR calculation;
- Provide reasonable assurance that the Solvency II reporting tool is producing expected results; and
- Provide reasonable assurance regarding prevention or timely detection of errors & omissions that could have a material effect on the Solvency II reporting.

The internal control framework is embedded within the overall enterprise risk management framework and is outlined in the Internal Control Policy that is owned by the Chief Risk Officer and approved by the Risk Committee and Board. It is made up of a number of continuous processes and which are carried out by the Board members, Management, and all members of staff to provide reasonable assurance of:

- The effectiveness and efficiency of the operations;
- Reliability of financial and non-financial information;
- An adequate control of risks; and
- Compliance with regulation, legislation and the internal policies and procedures of the business.

In relation to information security management AIG Life Limited has been ISO27001 certified since 2012 at the 2005 version of the standard and has achieved the 2013 (and most recent) version of the ISO 27001 standard.

B.5. INTERNAL AUDIT FUNCTION

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 ARC in executing their oversight responsibilities and,
- Provide 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.

There is an annual Audit Plan that is developed in conjunction with the AIG Life ARC, CRO and CCO. Progress updates and copies of all Audit Reports are provided to the AIG Life ARC quarterly and as each Audit is completed.

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 AIG Inc. and, more specifically, AIG Life;
- 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;
- Supporting the assurance needs of the Board and the Audit and Risk Committee by developing tailored planning, reporting and advice to meet local corporate governance and regulatory requirements; and
- Managing the regulators requirements and taking on the approved person's role in respect of the Company.

B.5.1. 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 ARC. 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 ARC 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.6. ACTUARIAL FUNCTION

The Actuarial function is led by the Chief Actuary. The Chief Actuary works closely with the Company's CEO and has a second reporting line to the Chief Finance Actuary of Life Insurance.

Under Solvency II, the Actuarial Function's responsibilities include the following tasks:

- Coordinating the calculation of technical provisions;
- Ensuring the appropriateness of the methodologies and underlying models used as well as the Assumptions made in the calculation of technical provisions;
- Assessing the sufficiency and quality of the data used in the calculation of technical provisions;
- Comparing best estimates against experience.

The Actuarial Function should also inform the Board of the reliability and adequacy of the calculation of technical provisions.

Technical provisions are calculated as part of regular quarterly Solvency II reporting.

In respect of the reliability and adequacy of the calculation of technical provisions, the Actuarial Function forms an opinion on whether the technical provisions are (in all material respects):

- Compliant with the requirements of the rules relating to technical provisions (Articles 76 to 84 of the Solvency II Directive) and the methodologies to calculate technical provisions (Articles 22 to 36 of the Delegated Acts);
- Sufficient on the best estimate assumptions to meet the liabilities;
- Reliably calculated in accordance with the methodology and assumptions.

In forming this opinion, consideration is given to the:

- Governance and control environment around the models;
- Appropriateness of assumptions and their relation to past experience;
- Expert judgments assumed in the models;
- Appropriateness of any management actions assumed in the models; and
- Quality of data used in the model.

The Actuarial Function contributes to the effective implementation of the undertaking's risk management system by performing the calculation of capital requirements required by Solvency II, as reported quarterly in the case of the Solvency Capital Requirement, and by performing the investigations required as part of the forward looking assessment of own risks. This includes an assessment of the significance with which the risk profile deviates from the assumptions underlying the Solvency Capital Requirement.

B.7. OUTSOURCING ARRANGEMENTS

AIG Life is committed to high standards of business conduct and the policies and guidelines in place define the way in which AIG Life wants to do business and the standards of conduct required. Where AIG Life entrusts a third party with undertaking core business activities on its behalf, AIG Life retains responsibility for such activities and requires that they be carried out in line with AIG Life's standards.

AIG Life has an Outsourcing Policy in place which provides definitions as to the type of arrangement that would be classified as an Outsourcing arrangement or a Service Provider. The Policy also provides guidance regarding the general principles to consider and the approach to due diligence and ongoing monitoring of performance.

As such AIG Life remains responsible for any activities that are outsourced and requires that robust governance arrangements are in place in relation to the selection and management and oversight of all outsourced arrangements.

AIG Life will only enter into an outsourced arrangement where there is an agreed sound business rationale for doing so and with a provider that is competent and financially sound, and has good relevant knowledge and experience of the service it is required to supply.

B.7.1. CRITICAL OUTSOURCE ARRANGEMENTS

There are a small number of service provider/outsourced functions that support the day-to-day business within AIG Life. All of the following arrangements are with firms operating within the UK jurisdiction. The key arrangements are listed below:

- **Investment Management:** Carry out investment management activity including the purchase and sale of assets following instruction from the Investment Committee and in line with the AIG Life investment mandate and investment strategy as approved by the AIG Life Board and on an instruction basis from members of the Investment Committee. This activity was brought within AIG Group in February 2018.
- **Medical Screening:** The provision of medical screening services related to underwriting requirements.
- **Postal services/Document Imaging:** Provide postal services and document scanning and imaging for AIG Life.
- **Orphan customer support:** Where it is identified that a policyholder no longer has an independent advisor available to them their details are provided to Future Proof (another independent advisor) who will contact them and offer their services for independent financial advice.
- **Medical support:** Access to a second opinion and medical advice for policyholders and members of staff.

Each arrangement has a relationship manager who is responsible for the day to day activities and relationship between AIG Life and the outsourced function although the overall responsibility remains with a member of the Senior Leadership Team. Regular service review meetings are in place to review performance against agreed standards, complaints, risks, significant changes in processes or procedures, new developments that may impact on the services provided and particular concerns or changes in the outsourced operation. An annual review takes place looking at all elements of the arrangement.

B.8. ADEQUACY AND APPROPRIATENESS OF THE SYSTEM OF GOVERNANCE

AIG Life has a governance structure in place. The Board and the various sub-committees have clearly defined responsibilities and terms of reference approved by the delegating committee or Board. The members and attendees have specific experience and expertise, allowing them to provide appropriate coverage of the various Business and SIMR functions.

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

As with all functions there is a desire for AIG Life to continuously improve its risk, compliance and governance systems by ensuring that they are reviewed, evaluated, and recommendations are made to the Board regarding enhancing and developing the systems, including the outcomes from compliance monitoring programmes, root cause analysis from complaints, breaches and risk events. Changes in regulation and legislation are monitored and actions taken to implement the new requirements. Finally, AIG Life uses internal audits and external audits to provide independent evaluation of the company's system of governance. Recommendations from these audits are considered by the Senior Leadership Team and implemented in a manner proportionate to the business' risks.

B.9. ANY OTHER MATERIAL INFORMATION

As at 31st December 2017, there was no other material information regarding AIG Life's System of Governance.

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 Company, taking into account all the material risks to which the Company is exposed. For each major risk grouping, this section provides a description of:

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

C. RISK PROFILE

AIG Life writes long term protection business providing life cover, critical illness and income protection products to its policyholders, through both the intermediary market and partnership distribution channel.

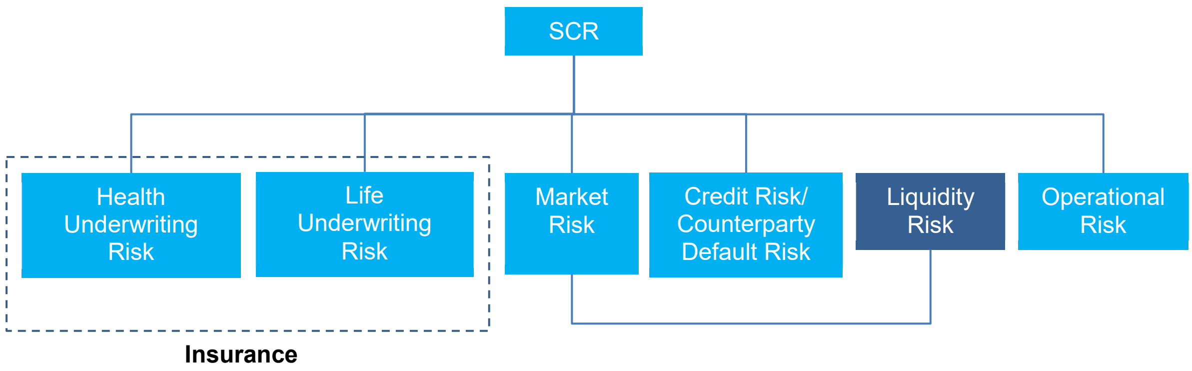
The Company believes that a strong, effective and embedded risk management framework is crucial to maintaining successful business operations and delivering sustainable, long-term profitability. The Company's goal is to achieve this through a risk culture and embodied by management at all levels through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

AIG Life calculates its SCR using the Standard Formula. On an annual basis an assessment is carried out to review the appropriateness of AIG Life using the Standard Formula and the outcome of this is presented in a report for the ARC review and summarised in the latest ORSA. The conclusion for 2017 was that the standard formula was considered to be appropriate and to reflect the risk profile of the company.

Risk Profile, Measurement and Assessment

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

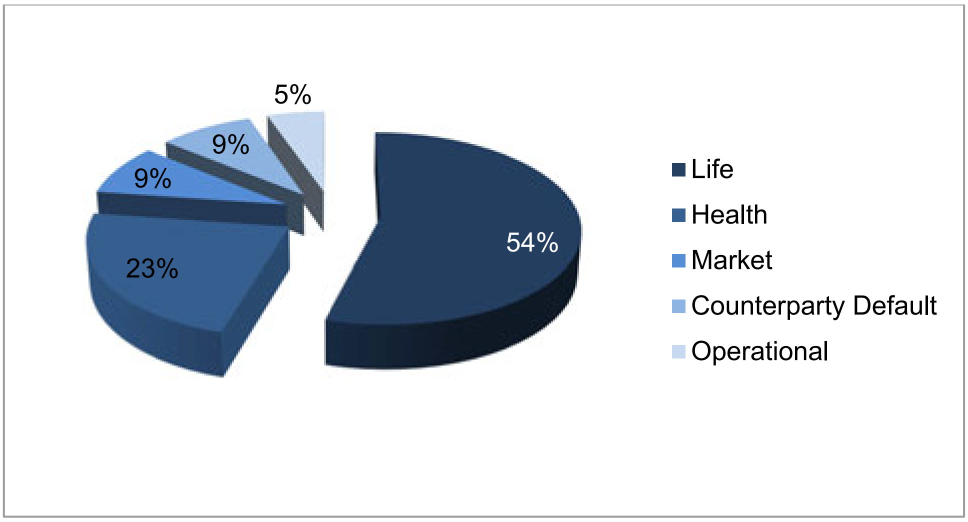
- Insurance risk (Underwriting Risk – Life & Health);
- Market Risk;
- Credit Risk (Counterparty default);
- Liquidity Risk; and
- Operational Risk.



Liquidity risk is not a risk module in the Standard Formula but is considered under Solvency II Pillar 2 capital assessments. For AIG Life, liquidity risk is monitored and managed by Finance and reported to the Investment Committee where market risk is discussed.

AIG LIFE 2017 SOLVENCY CAPITAL REQUIREMENT BY MODULE

The Solvency Capital Requirement for AIG Life as at 31st December 2017 was analysed into the key components shown in the chart below. As can be seen in the chart below which shows SCR by Risk Module, Life and Health (Insurance) risks are the dominant risks of the solvency capital requirement with Life Risk accounting for 54% of the SF-SCR at 31st December 2017 with Health Risk accounting for 23%.



Risk Sensitivities

AIG Life carries out various types of Stress and Scenario Testing (SST) in order to inform the Board about any changes in its risk appetite, to assist the management in efficient use of the Company's capital resources and to make recommendations to the Board regarding dividend payments. Various tests are conducted 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. AIG Life also conducts reverse stress tests on an annual basis that examine the conditions that would render the Company business model unviable. The stress tests and specific parameters used are reviewed and approved by the Board prior to execution with the outcomes included in the ORSA report. The impact of the stress tests used during the 2017 ORSA process is provided under each risk type.

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 3 years planning period	
Reverse Stress Testing (RST)	Solvency/Capital RSTs	Performed annually
	Reputational & Strategic RSTs	
Risk Specific SST	Interest rate risk	Performed quarterly
	Liquidity risk	Performed quarterly
Regulatory SST	PRA Life Insurance Data Requests	Performed on an ad hoc basis as requested by the PRA
	EIOPA	Performed every two years (even years)

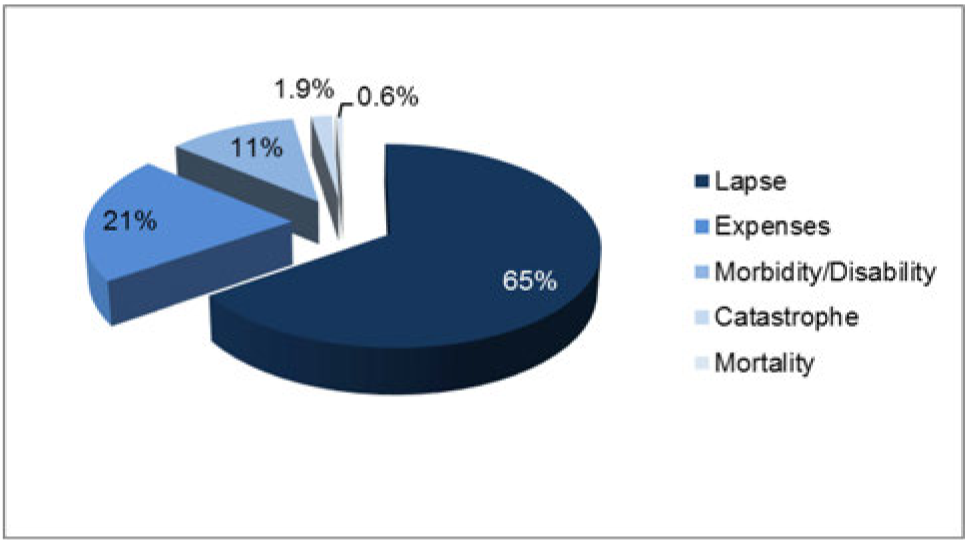
Types of SSTs	Risks covered	Timeline
Strategic planning SSTs	All Risks	Performed annually
Emerging Risks SSTs	All Risks	Performed annually

C.1. INSURANCE RISK (UNDERWRITING RISK)

Insurance Risk combines Life and Health risks which the Company is exposed to arising from its insurance underwriting operations and is broadly split and assessed between the sub risk categories of mortality, morbidity, and lapse and expense risk. Lapse risk is the material risk for AIG Life.

C.1.1. INSURANCE RISK EXPOSURE FOR AIG LIFE

As can be seen from the chart below, the most material of the Life & Health sub-risks for AIG Life is lapse risk which accounts for 65% of the combined Life and Health SCR. Expense risk is 21% and morbidity/disability is 11%.



1. LAPSE RISK

AIG Life is exposed to lapse risk which relates to policies being in-force for either longer or shorter than expected. It is also exposed to the potential of mass lapse risk where there is a one-off instantaneous shock lapse event.

There is a risk of there being high numbers of lapses during the early years of a policy before the acquisition costs are being recouped. Lower levels of lapses result in a more policies in-force and therefore higher claims and reinsurance premiums than expected. A mass lapse scenario would result in less in-force policies and lower claims but also lower profits than expected for those policies.

2. EXPENSE RISK

The Expense risk relates to how the company's expenses are attributed to policies and whether they are attributed appropriate to the acquisition costs, maintenance or claims period of the policy. The Expense risk is that expenses could be higher than planned due to inflationary pressures, lower volumes of business than expected, expense overruns or a change in the mix of business.

3. MORBIDITY/DISABILITY RISK

Morbidity/disability risk relates to the number and value of claims from terminal illness and income protection policies. It is similar to mortality risk in that a proportion of the risk is transferred to the reinsurers to mitigate the risk.

4. CATASTROPHE RISK

Catastrophe risk relates to a single event, or series of events of major magnitude usually over a short period (often 72 hours) that lead to a significant deviation in actual claims from the total expected claims.

5. MORTALITY RISK

On a gross of reinsurance basis, AIG Life is exposed to the risk that the actual claims experience is worse than that included within its assumptions i.e. that there are a higher number or value of death claims than predicted. Higher mortality experience could be due to a number of factors e.g. misestimations, concentration risk (either geographical or occupational), underwriting philosophy issues, pandemic risks. However, mortality risk is low for AIG Life due to the level of reinsurance undertaken.

C.1.2. CHANGES IN INSURANCE RISK OVER THE REPORTING PERIOD

The SCR for Insurance risk has decreased over the year from £120,480k to £77,623k for Life and £35,408k to £32,503k for Health risk. This is due to reinsurance initiatives, including restructuring existing arrangements to move from risk to level premiums, and implementing a second tranche of lapse reinsurance, as well as refinements to the expense assumptions to disaggregate fixed and variable expenses.

C.1.3. MEASURES USED TO MITIGATE INSURANCE RISKS

There are a number of ways that Insurance risk is mitigated by AIG Life including the following:

- Reinsurance is used as the key mitigant to reduce the exposure to mortality, morbidity and Lapse risks.
- Regular underwriting philosophy reviews to ensure that only insurance risks are accepted by the business or are priced appropriately.
- Performance monitoring to review actual versus expected results
- Auditing of underwriting decisions to ensure the underwriting philosophy is being maintained and produces decisions which are consistent
- Experience analysis conducted regularly for mortality, morbidity and lapse risk
- Expenses are reviewed regularly against budget
- Product development and pricing takes account of the various risk factors associated to ensure appropriate customer outcomes
- Regular product reviews analyse the performance of the product and identify areas of improvement.

C.1.4. INSURANCE RISK MITIGATION TECHNIQUES

AIG Life manages insurance risks primarily by the use of reinsurance. In 2017, AIG Life had reinsurance arrangements to mitigate mortality, morbidity and lapse risks with six different reinsurers, thus also reducing the concentration risk with any one reinsurer. Reinsurance is based on a quota share with maximum retention limits per life and is spread across the different reinsurers depending upon the type of cover.

Regular monitoring of underwriting decisions is carried out through checking and monthly audits internally and the reinsurers undertaking case audits at least on an annual basis. Results are reviewed and fed back to individuals where appropriate. Various workshops are held with reinsurers to consider enhancements to products through improved underwriting rules, post issue sampling and the pricing of the associated risks being taken.

Risk Category	Type of risk	Risk mitigation techniques
Premium Risk - Failure of pricing	Pricing guidelines	AIG Life seeks to manage pricing risk through the setting and review of pricing guidelines relevant to each product type and the application of a strict hierarchy of underwriting authorities to ensure that policies are underwritten with management oversight.
	Purchase of reinsurance	The Company mitigates exposure to pricing risk through the purchase of reinsurance.
	Review of large transactions	Large transactions are referred to the Senior Underwriters and in some cases to the specific Reinsurer to confirm the risk is assessed appropriately, and as required to the Pricing team to ensure it is priced appropriately, before the Company becomes committed.
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.
Assumption Risk - Adverse reserve development	Monitoring of mortality, morbidity, lapse and expenses experience	AIG Life seeks to manage this risk through monitoring of actual claims experience, lapse activity and expenses compared to the assumptions in place. Specific governance committees are in place to review findings, and where appropriate, take remedial actions.

C.1.5. MONITORING THE EFFECTIVENESS OF INSURANCE RISK MITIGATION TECHNIQUES

There is regular monitoring of the effectiveness of the various risk mitigation actions provided above at the various governance committees. Underwriting performance is monitored via the underwriting audits carried out both internally and by the reinsurers. Reinsurance activity is monitored and managed via the Reinsurance Steering Committee and a review of reinsurer effectiveness is performed annually. The monthly Senior Leadership Team reviews business performance including underwriting activity and results, general business performance and project benefit realisation. The Risk Committee also actively monitors the continued effectiveness of the above risk mitigation techniques through processes and deliverables including the Risk Register, Risk Appetite Framework, Stress and Scenario Testing and Key Risk Indicator reporting. The outputs of these risk processes are fundamental to the delivery of the Own Risk and Solvency Assessment (ORSA) and, any interim updates that are required if the risk profile materially changes.

C.1.6. STRESS SENSITIVITIES FOR INSURANCE RISK

A number of stress and scenario tests are undertaken covering the different sub risks under insurance risk. The impact of each test on the company's required capital resources is assessed as specified in the 2017 ORSA over the planning period.

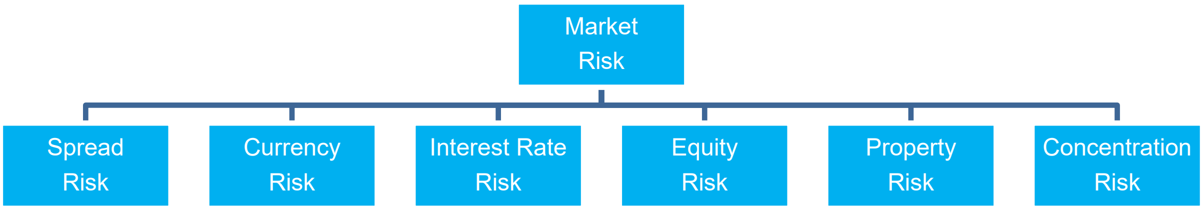
Lapse risk: This is the most material component of AIG Life's SCR calculated using the standard formula approach. A twisted lapse scenario test where lapse rates are higher at earlier durations and lower at later durations was performed as this is the lapse scenario that is most detrimental to capital resources. The outcome revealed an increase of 8% in capital requirements in 2020. Despite this increase in SCR, the capital coverage would remain above the Company's current risk appetite range.

Mortality and Morbidity risk: AIG Life considered an increase in claims and the impact that would have on the capital resources required. The outcome was that no additional capital resources would be required over the planning period.

Expenses: A 20% increase in the expense base was used as a stress for expense risk and whilst the SCR ratio decreased the company remained within current risk appetite limits with no additional capital being required over the planning period.

C.2. MARKET RISK

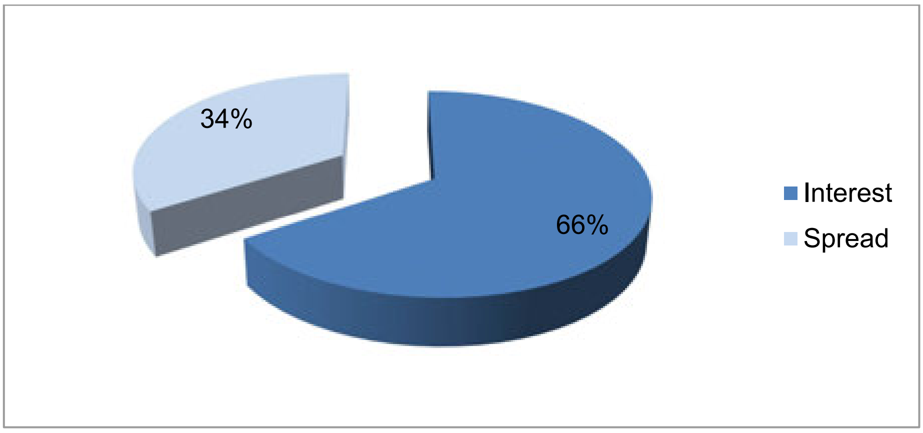
Market risk is the risk that the Company is adversely affected by movements in the fair value of its liabilities and financial assets arising from market movements, for example due to credit spreads, interest rates and foreign exchange rates or other price risks. AIG Life is exposed to Market Risk on both the asset and the liability sides of its balance sheet. Market risk accounted for 12% of the SF-SCR for AIG Life as at 31st December 2017. The sub risks associated with Market risk are shown below:



C.2.1. MARKET RISK EXPOSURE

AIG Life has no material exposure to currency risk, property or equities. As shown in the below chart, the most material element of SF-SCR market risk for AIG Life is interest rate risk making up 66% of the total market risk. The remaining element of market risk is spread risk at 34% associated with the investment assets held as at December 2017. There is no exposure to concentration risk.

Investment assets are held in low risk and highly-liquid bonds, principally UK government bonds and corporate bonds. For liquidity purposes a proportion of assets are also held in a short-term liquidity fund.



C.2.2. MARKET RISK AND CHANGES OVER THE REPORTING PERIOD

Market risk is driven by risks inherent within the Company's assets and liabilities portfolio. During the reporting period the market risk SF-SCR has reduced from £12,563k to £12,363k. Over the year the average duration of the assets and liabilities of the Company have remained close to each other.

C.2.3. MARKET RISK CONCENTRATION

AIG Life has no exposure to market risk concentration due to the use of UK government bonds and limits within the investment mandate which strictly limits exposure to the type of assets held.

C.2.4. MARKET RISK MITIGATION TECHNIQUES

AIG Life manages its market risk primarily through the Investment Committee which monitors and manages the impacts of external economic factors, AIG Life's investment portfolio and the company's liquidity position and forecasts. The investment portfolio is managed with respect to the market risk profile of its liabilities in order to minimise the impact on its solvency position due to adverse market movements. Risk mitigation of market risk is executed through the combined use of investment limits, guidelines and principles detailed below.

- AIG Life monitors market risk via reviewing the regular management information at the AIG Life Investment Committee which meets at least quarterly and oversees the investment activity within the Investment mandate and investment strategy as approved by the Board.
- The investment managers provide a quarterly overview of the economic markets and performance of the assets held.
- Assets of a similar duration to the liabilities are held to mitigate interest rate risk.
- Stress and scenario testing is carried out as part of the ORSA process.

C.2.5. 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. Through execution of permissible asset classes and investment limits, the Company is able to ensure that it:

1. Only invests in those assets whose risks it can properly identify, measure, monitor, control and report.
2. Invests the assets covering Minimum Capital Requirement (MCR) and SCR in such a manner that ensures the security, quality, liquidity and profitability of the portfolio.
3. Invests assets held to cover the Technical Provisions (TPs) in a manner appropriate to the nature and duration of the insurance liabilities and in the best interest of policy holders and beneficiaries.
4. Uses derivatives for risk management and to facilitate efficient portfolio management.
5. Keeps to prudent levels the investment in assets which are not admitted to trading on a regulated market.
6. Properly diversifies its investments so that it can avoid excessive reliance on any particular asset, issuer or group of undertakings, or geographical area and excessive accumulation of risk in the portfolio as a whole.
7. Does not expose itself to excessive risk concentration that arises from investments in assets issued by the same issuer or by issuers belonging to the same group.

As detailed in the Investment Performance section above, the Company's investment management framework sets out its processes and procedures to manage its investment portfolio. This includes the investment strategy which is approved by the Board and implemented via the investment mandate by AIG Life's investment managers.

Assets categories that are included in the investment mandate are those that are suitable for the nature, term and currency of the Company's liabilities profile and for which the investment manager could assess, monitor and control risks. The Company does not invest in any asset category that is not included in the Investment mandate.

Tactical deviations from the limits imposed by the mandate to maximise investment returns are only permitted on prior approval by the Directors and are limited to changes in allocation of asset categories covered by the mandate. The investment strategy implemented by the investment manager sets out limits in order to avoid concentration of risks in a particular sector, issuer, currency, credit rating or country.

C.2.6. 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 AIG Life Board, either as a whole or through its committees, oversees market risk, and

- Approves annually the Company's Risk Appetite Framework and the specific Market Risk limits and minimum standards which reflect the Board approved investment mandate;
- Receives reports on the investment performance and breakdown of assets; and
- Receives reports on the adherence to AIG Life's Market Risk policy.

The AIG Life Board discharges its responsibility for oversight of the Risk Policies and Procedures through the Risk Committee and ARC. The Risk Committee is chaired by the CRO and the ARC by one of the Independent Non-Executive Directors.

The Investment Committee is chaired by the Company's CFO; the primary purpose of the Investment Committee is to monitor and manage the Market Risk profile of the Company against the Board approved Investment Strategy and mandate. The Investment Committee regularly reviews the latest market risk developments and requests more detailed market information when needed.

C.2.7. RISK SENSITIVITIES FOR MARKET RISK

During 2017, AIG Life performed regular stress testing of interest rates to assess the impact on the AIG Life solvency position. This ensured that the Company maintained sufficient solvency capital to withstand shocks within the market.

During the ORSA process, a severe yield curve scenario was considered that represented a more onerous scenario than the 1 in 200 level events considered in setting the SCR. The reduction in yields allowed for negative interest rates and produced an outcome showing a significant reduction in net assets. However, the modelled scenario did not allow for any management actions in response to the stress – in particular, any pricing activity in this low yield environment, the purchase of derivatives to hedge against downward interest rate movements and the implementation of TMTP within the Solvency II balance sheet. Some of these actions were already in progress in 2017 but were not taken into account in the modelled projections. Subsequent stresses undertaken for the Risk Appetite show that the application of TMTP in the Solvency II balance sheet reduces capital ratio volatility in extreme interest rate scenarios.

C.3. CREDIT RISK

Credit Risk (Counterparty Default 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. At 31st December 2017, credit risk or counterparty default risk was 9% of the SF-SCR.

C.3.1. CREDIT RISK EXPOSURE FOR AIG LIFE

The scope of credit risk exposures for AIG Life currently includes the following business activities:

- **Unexpected Credit Loss as a result of Intermediary failures**: the provision of up-front commission as standard to intermediaries on an indemnity basis where the commission will be clawed back if the policy lapses within the first 2 or 4 years (known as the 'earning period'). This is a specific feature of the way the UK protection market developed and all providers offer this facility.

- **Reinsurance arrangements**: AIG Life makes significant use of reinsurance and, as of 2017, coinsurance contracts. The credit risk relates to the failure of the reinsurance companies and hence the inability to recover claims and associated expenses. AIG Life limits the levels of exposure to any one individual reinsurer in line with both AIG Group limits and local AIG Life limits as stated in the AIG Life Counterparty Default Risk Policy.

- **Suppliers**: where payment is made in advance of the receipt of the goods or services in the normal course of running the business. AIG Life usually pays suppliers after goods and services have been received and the risk of material default due to supplier failure is deemed very low.

- **Policyholder debtors**: all policyholders are individual consumers and pay monthly premiums by direct debit; the risk of material default is therefore very low.

These risks are managed by two sub-committees within AIG Life. Reinsurer default falls within the remit of the Reinsurance Steering Committee (RSC) chaired by the CFO. Credit risk related to intermediaries is monitored and managed by the Intermediary Risk Review Committee (IRRC) and is chaired by the CRO.

C.3.2. CREDIT RISKS AND CHANGES OVER THE REPORTING PERIOD

Credit risk comprises circa 9% of the Company's SF-SCR as at 2017. The SCR has decreased from £14,394k at Q4 2016 to £12,516k at Q4 2017. The increase in reinsurance exposure due to the growth in the inforce portfolio caused an underlying growth in Counterparty Default Risk SF-SCR. However this has been offset by a reduction in default probability of two reinsurers due to an updated process for using external credit ratings. The impact of coinsurance on Type 1 receivables and recoverables has been allowed for in the SF-SCR.

C.3.3. MEASURES USED TO ASSESS CREDIT RISK

To assess the credit risk associated with the reinsurers, the firms are assessed both locally by AIG Life and at a global level by the parent company. AIG Life monitors the Solvency II Credit Quality Step (CQS) of each reinsurer; the scores can have values from 0 to 6, with 0 being the CQS given to the most creditworthy (AAA rated entities). The CQS of a reinsurer is based on credit ratings from the credit rating agencies. All of the reinsurers that AIG Life works with have scores of 2 or less. The RSC monitors any changes in reinsurer's credit ratings together with concentration exposure.

At Group level, the Reinsurance Credit Department conducts the following principal control activities to assess Credit Risk associated with them globally:

- Periodic detailed assessments of the financial strength and condition of current and potential reinsurers, both foreign and domestic.
- Monitoring the financial condition of reinsurers as well as the total reinsurance recoverable and set limits with regard to the amount and type or exposure the Company is willing to take with reinsurers.
- Reviews the nature of the risks ceded and the need.

AIG Life is also exposed to credit risk from the commission paid to intermediaries in advance of the earnings period. As a result there are a number of factors that are assessed prior to and once an agency is agreed with a firm:

- Due diligence on the intermediary firm being undertaken prior to an agency being given to sell AIG Life products.
- Monitoring of any debts associated with the agency and escalation if debts are not settled in a timely manner using standard industry process i.e. the use of the Elixir system.
- Regular reviews of firms and the associated key risk indicators leading to direct actions agreed with firms to reduce potential debt.

C.3.4. 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.

AIG Life’s most material Credit Risk concentration relates to exposure caused by reinsurance arrangements (reinsurance recoverables and receivables). There is relatively low concentration risk in relation to intermediary credit risk.

C.3.5. CREDIT RISK MITIGATION TECHNIQUES

AIG Life has established an effective Credit Risk management framework that includes guidelines and processes to govern day-to-day credit risk-taking activities. The Chief Finance Officer and the Senior Leadership Team are primarily responsible for implementing and maintaining a risk management framework consistent with the AIG Life Counterparty Default Risk Policy.

The Company monitors and controls its Credit Risk through the RSC and IRRC. To minimize the level of Credit Risk in some circumstances, the Company may require personal or third-party guarantees, or specific arrangements through the individual reinsurance treaties. AIG Life also identifies its aggregate credit exposures to its underlying counterparty risks.

Credit risks are managed and controlled through techniques listed below:

- Aggregating the Company’s credit exposure data by counterparty, regularly reporting and reviewing risk concentrations at the RSC and the IRRC;
- Reviewing the outcome of Reinsurance tenders and approving the concentration risk associated with the outcome;
- Overseeing the submission of individual transactions which result in high value commission payments and credit exposures to the Company; and
- Overseeing the Watch List process within the Company portfolios.

C.3.6. PROCESS FOR MONITORING THE EFFECTIVENESS’ OF CREDIT RISK MITIGATION TECHNIQUES

Both the RSC and IRRC meet monthly to monitor, manage and report the credit risks within the Company. The committees adhere to their terms of reference with respect to their membership, chair, the frequency of meetings, and record keeping. Reviews of the terms of reference take place on at least an annual basis.

For reinsurance exposure, AIG Life monitors the Solvency II CQS of each reinsurer and compares the exposure, expressed as a percentage of own funds to internal limits. In addition, the Risk Appetite includes an assessment of the impact of the default of AIG Life’s largest reinsurance counterparty and this is monitored quarterly by the A&RC.

Intermediary default credit risk is monitored at the IRRC where various key risk indicators are monitored and reported, together with an update on specific actions being taken with the respective firms that are of concern. Updates are also provided regarding those firms that have had agencies cancelled due to credit risk concerns or where debts have occurred and credit control activity is being progressed.

C.3.7. STRESS TEST SENSITIVITIES FOR CREDIT RISK

Reinsurer default: AIG Life uses reinsurance arrangements to mitigate mortality, morbidity and lapse risk. Whilst there is a risk that a reinsurer could default on their arrangement with the company this is considered to be extremely low. AIG Life spreads the risk over six different reinsurers and in Solvency II terms each has a CQS of 2 or less.

Intermediary default: The risk of intermediaries suffering business failure and being unable to repay commission due from lapsed or cancelled policies. An increase in the level of default commission was assessed as part of a combined scenario test within the ORSA.

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 or other financial obligations. The failure to appropriately manage liquidity risk can result in reduced operating flexibility, increased costs, and reputational harm.

For AIG Life the risk is that it will have insufficient liquid funds to support new business via the payment of commission to intermediaries and other business expenses. This risk will reduce over time as the company matures and grows as the proportion of existing business becomes larger compared to new business levels.

As mentioned at the start of the Risk Profile section, liquidity risk is not assessed within the Standard Formula. Therefore, no equivalent liquidity risk sub-module under Standard Formula is disclosed.

C.4.1. MEASURES USED TO ASSESS LIQUIDITY RISK

Liquidity is assessed and monitored on a monthly basis by the Finance function and the Senior Leadership team and is reviewed in detail at the Investment Committee quarterly.

C.4.2. LIQUIDITY RISK MITIGATION TECHNIQUES AND THE PROCESSES FOR MONITORING THE EFFECTIVENESS OF THESE TECHNIQUES

AIG Life has a Liquidity Risk Policy which outlines the principles and guidelines for the company to adhere to. 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 managed by Finance with quarterly reporting to the Investment Committee. Liquidity risk is mitigated through investment in predominately liquid financial assets and constant monitoring of expected asset and liability maturities.

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

C.4.3. STRESS SENSITIVITIES FOR LIQUIDITY RISK

AIG Life undertakes liquidity stress testing on a forward looking basis over the planning period, in order to identify any future liquidity needs. This includes a range of sensitivities, such as to the level of new business assumed and the future use of coinsurance.

C.4.4. EXPECTED PROFIT IN FUTURE PREMIUMS (EPIFP)

The Solvency II Delegated Acts (Article 260 numbers 2-4) define EPIFP as:

1. The expected profit included in future premiums shall be calculated as the difference between the technical provisions without a risk margin and a calculation of the technical provisions without a risk margin under the assumption that the premiums relating to existing insurance and reinsurance contracts that are expected to be received in the future are not received for any reason other than the insured event having occurred, regardless of the legal or contractual rights of the policyholder to discontinue the policy.

2. The calculation of the expected profit included in future premiums shall be carried out separately for the homogeneous risk groups used in the calculation of the technical provisions, provided that the insurance and reinsurance obligations are also homogeneous in relation to the expected profit included in future premiums.

3. Loss-making policies may only be offset against profit-making policies within a homogeneous risk group.

As a mono-line protection provider, none of AIG Life's policies currently carry a surrender value, so the technical provisions in the case of the cessation of all future premiums would be zero and the EPIFP is equal to the technical provisions without a risk margin offset by the commission we expect to claw back.

The EPIFP as calculated in accordance with Article 260(2) for 2017 is £141.8m.

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 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.

C.5.1. OPERATIONAL RISK EXPOSURE FOR AIG LIFE

We identify eight major sources of operational risk which are described below:

Operational Risk Components	Description
Execution, Delivery and 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 and 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.
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.
External Fraud	Risks associated with acts intended to defraud, misappropriate property or circumvent regulations or the law by one or more third party.
Employment Practices and Workplace Safety	Risks associated with acts inconsistent with laws or agreements related to employee relations, health, safety or discrimination.
Financial Integrity and 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.
Business Disruption and 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.
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.

C.5.2. OPERATIONAL RISK AND CHANGES OVER THE REPORTING PERIOD

The Company calculates its SCR using the Standard Formula. The Operational Risk SCR of the Company is driven by the level of earned premiums. Operational Risk comprises 5% of the Company's SF-SCR. As the company grows in size, the Operational Risk SCR will also increase (as has been the case over the last year).

C.5.3. MEASURES USED TO ASSESS OPERATIONAL RISK

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

Operational Risk Component	Description	Metrics
Execution, Delivery & Process Management	Risk of process errors as a result of migration and other transformation projects	• Credible MI on SLA management • Risk Events Complaints
Clients, Products & Business Practices	Risk of inadequate management of Conduct Risk - Conduct risk Management Information (including complaints, ombudsman actions, claims and new business SLA measurement, product development, post-implementation reviews). Program execution risk, as a result of change fatigue	• Risk Events • Operational MI
	The risk of inadequate management of operational risk of services provided by third parties including broker facility management	• Risk rating of third parties Number of Audits and Findings
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.	• Risk Events
External Fraud	Cyber-attack risk, either through information theft or denial of service (DoS)	• Risk Events • Results of Vulnerability Testing
Employment Practices & Workplace Safety	Risk of not attracting, retaining and developing key staff to achieve business plan	• Staff turnover, staff surveys and exit interviews • Risk Events
Financial Integrity & Reporting	Risk from increased market conduct rules and regulations across the Company	• Number and severity of emerging requirements • Regulatory fines or s166 reviews
Business Disruption & Systems Failure	Business Continuity risk	• Business continuity plan status and testing results • System incident reviews
Damage to Physical Assets	The damage or unavailability of physical assets (e.g. offices, laptops, archives, key staff members) as a result of a natural disaster or other traumatic event can affect company's operation.	• Risk Events

C.5.4. OPERATIONAL RISK MITIGATION TECHNIQUES

AIG Life's Risk Management Framework facilitates the identification, assessment, monitoring, and measurement of operational risk and promotes a culture where each employee has responsibility for managing operational risk. There is a robust internal controls system in place across all functions and sample audits are undertaken. System controls are in place and the company is certified under ISO27001. Controls are reviewed regularly with reporting to the ARC. Internal Audit undertakes reviews to assess the internal control framework and whether it is operating effectively.

C.5.5. PROCESS FOR MONITORING THE EFFECTIVENESS OF OPERATIONAL RISK MITIGATION TECHNIQUES

AIG Life has a fully embedded risk management framework. Quarterly risk reviews are carried out between the functional Heads and Enterprise Risk Management (ERM) to review risks and identify and asses any new and emerging risks for the area/company. Controls are regularly reviewed and improvements implemented as appropriate.

The Risk Event reporting process for the Company is well established and ERM supports the business in the logging and the rectification processes.

A monthly report is presented at the AIG Life Senior Leadership Team meeting and more detailed analysis including root cause analysis is provided to the quarterly ARC committees.

During 2016 additional “tone from the top” messages were initiated from senior management, including a “raise your hand” campaign by AIG Inc. as well as locally within AIG Life to again confirm the need for all employees to raise risk events.

Quarterly Risk and Control self-assessments are completed by each Function head with a summary reported to the quarterly Risk Committee. A refresh in the scoring methodology has been delivered in Q1 2018 to enhance the quality and effectiveness of risk assessments.

C.5.6. STRESS SENSITIVITIES FOR OPERATIONAL RISK

Stress testing for operational risk is undertaken for the ORSA using a range of management derived scenarios. In 2017 the scenarios assessed included a substantial system failure and a loss of sensitive data, as well as other scenarios motivated by political uncertainty and strategic risk. The impact was highly dependent on the nature of the stress, but the results did not cause AIG Life to consider that any of its residual operational risks were outside of appetite.

C.6. OTHER MATERIAL RISKS

There are no other risks that are material to the Company for the year ending 31 December 2017.

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D. Valuation for Solvency Purposes

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

Key elements of the section include:

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

D. VALUATION FOR SOLVENCY PURPOSES

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.

D.1. ASSETS

The 'Assets' subsection of the report aims to provide information regarding the valuation of assets held by the Company under the Solvency II regime, including information on the basis, methods and assumptions utilised.

AIG Life holds predominantly UK gilts, as well as other EU government or supranational bonds and highly rated corporate bonds. These asset classes are traded in deep and liquid markets and have been in high demand throughout 2017.

The assets table below shows the Solvency II Balance Sheet line items, their corresponding IFRS values, and the Solvency II adjustments and reclassifications applied.

Assets – Solvency II Balance Sheet	Notes	IFRS	Solvency II Adjustment	Solvency II Valuation
		£ '000	£ '000	£ '000
Deferred acquisition costs	6	151,420	- 151,420	-
Intangible assets		80	- 80	-
Deferred tax assets	5	-	22,599	22,599
Pension benefit surplus		-	-	-
Property, plant & equipment held for own use	4	221	- 221	-
Investments (other than assets held for index-linked and unit-linked contracts)	1	188,068	- 140	187,928
Holdings in related undertakings, including participations				
Equities		-	-	-
Deposits other than cash equivalents		-	-	-
Loans and mortgages		-	-	-
Reinsurance recoverables	7	1,234,763	- 743,002	491,760
Insurance & intermediaries receivables	8	12,954	- 12,517	437
Reinsurance receivables		-	-	-
Receivables (trade, not insurance)	2	11,697	- 10,345	1,352
Cash and cash equivalents	3	- 1,747	3,766	2,019
Any other assets, not elsewhere shown	9	1,864	- 1,864	-
Total Assets		**1,599,319**	**- 893,225**	**706,094**

1. INVESTMENTS (OTHER THAN ASSETS HELD FOR INDEX-LINKED AND UNIT-LINKED CONTRACTS)

Investments are measured and carried at fair value in accordance with IAS 39.

The valuation difference between IFRS and Solvency II relates to the reclassification of accrued interest netted and cash at the custodian. The accrued interest is reclassified from 'Any other assets, not elsewhere shown' under IFRS to the value of the underlying investment under Solvency II. Cash at custodian is reclassified into cash and cash equivalents. This results in a change in the value of investment on the Solvency II Balance Sheet.

2. RECEIVABLES (TRADE, NOT INSURANCE)

The receivables (trade, not insurance balances) relate to prepayments and other receivables which are due within one year, hence the carrying values are taken to approximate fair values under Solvency II.

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

The accrued interest on investments and pension surplus disclosed as Receivables (trade, not insurance) under IFRS is reclassified to the appropriate lines of investments under Solvency II.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprises cash on hand and demand deposits with banks together with short-term highly liquid investments that are readily convertible into known amounts of cash and that are not subject to a significant risk of a change in value. Such investments are classified as cash equivalents where they have maturity dates of three months or less from the date of acquisition.

Cash and cash equivalents are considered to be held at fair value under IFRS. The difference of between IFRS and Solvency II relates to the reclassification of the bank account balance and cash held by the custodian, as stated in note 1 above.

4. PROPERTY, PLANT & EQUIPMENT HELD FOR OWN USE

Under IFRS, plant and equipment are stated at cost less accumulated depreciation. For Solvency II purposes (Market Consistent Balance Sheet) property, plant and equipment is valued at nil because the IFRS valuation of cost less depreciation is not permissible under Solvency II rules.

5. DEFERRED TAX

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

Deferred tax comprises the amounts of income taxes recoverable in future periods (AIG Life uses a planning period of 7 years in this context) in respect of:

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

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

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

Deferred tax asset or liability is calculated by jurisdiction such that applicable national tax rates are used for these calculations. The deferred tax assets and liabilities are only netted off if the counterparty is the same tax authority and there is an ability to settle net. Deferred tax assets are further tested for recoverability from brought-forward losses or expected future taxable profits of the company. There is no expiry date on the deferred tax asset held.

6. DEFERRED ACQUISITION COST

Deferred acquisition costs are defined as acquisition costs relating to contracts in force at the balance sheet date which are carried forward from one reporting period to subsequent reporting periods, relating to the unexpired periods of risks.

These are permitted assets under IFRS subject to impairment testing and are deferred when it is probable that they will be recovered.

In accordance with Article 12 of the Solvency II Delegated Acts, deferred acquisition costs are valued at nil for Solvency II purposes since these cannot be sold separately and no quoted active market exists for the same or similar assets.

7. REINSURANCE RECOVERABLES

Reinsurance recoverables are calculated as the expected present value of future reinsurance cashflows, comprising reinsurance premium outflows and the inflow for the reinsurer's share of future claim payments. As for the gross BEL calculation, assumptions on decrements, yields and lapse rates are made. At 2017 year-end, the recoverables total £491.8m.

8. INSURANCE AND INTERMEDIARY RECEIVABLES

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

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

9. OTHER ASSETS, NOT SHOWN ELSEWHERE

This consists of accrued interest which is reclassified to Investments under Solvency II.

D.2. TECHNICAL PROVISIONS

The below technical provisions table has been extracted from Solvency II Balance Sheet which summarises the calculation of Technical Provisions using aggregated IFRS reserves as the starting point. The below table should be viewed in conjunction with the explanatory notes.

Technical Provisions – Solvency II Balance Sheet	IFRS	Solvency II Adjustment	Solvency II Valuation
	£ '000	£ '000	£ '000
Technical provisions - health (similar to life)	-	38,956	38,956
Technical provisions - life	1,168,883	- 769,241	399,643
Total Technical Provisions	1,168,883	- 730,284	438,599

D.2.1. VALUATION BASIS, METHODS AND MAIN ASSUMPTIONS

The best estimate liabilities 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. Policy cashflows are modelled at a granular level (per policy basis in monthly increments). Uncertainty in the net cashflows to the Company is mitigated via the extensive use of reinsurance.

The key changes in moving from the financial statements balance sheet to the Solvency II balance sheet to are:

- Removal of prudence margins and zeroisation in technical provisions, the most material of which are margins on lapse, expense and claims assumptions. (Total £93.6m reduction in technical provisions, net of reinsurance.)
- Introduction of the Solvency II Risk Margin (a £61.4m increase in technical provisions).
- A Transitional Measure on Technical Provisions (TMTP) has been used and has a value of £0 at 31 December 2017. The TMTP has not been subject to audit.

Technical provisions are grouped into the following key components:

- Best Estimate
  - Best Estimate Liability (BEL)
  - Other Best Estimate components
- Risk Margin: Additional provision to bring the Best Estimate to the level required to transfer the obligations to a third party undertaking.

During 2017, a refinement was made to the expense assumptions to disaggregate fixed and variable expenses. This change has no effect on the BEL but did impact the SCR and hence the Risk Margin. There have been no other methodology changes in the BEL calculation during 2017. The run-off of the 2016 year-end in force book and the sale of new business in 2017 created cash inflows during the year and caused a corresponding increase in BEL.

Assumptions Changes since 2016

The below list summarises the key findings of the annual basis refresh:

- Expected mortality improvement rates were reduced – this causes an increase in BEL.
- The mortality and morbidity bases were reviewed using actual experience and the overall level of both the mortality and morbidity basis was still deemed to be appropriate.
- Lapse Assumptions: The first year lapse experience for underwritten whole of life has become more credible and resulted in an increase in the assumed first year lapse rate. Some critical illness lapse rates have increased in the medium term.

D.2.2. BEST ESTIMATE LIABILITY

In line with Article 77(2), the BEL is determined as a present value of the probability weighted future cash flows using the relevant risk-free interest rate term structure. Neither the Matching Adjustment nor Volatility Adjustment is currently used in the discounting of liabilities. Furthermore, no use is made of transitional measures on risk-free rates.

AIG Life does not perform a stochastic calculation using simulation techniques; BEL is assessed deterministically. This involves determining a fixed set of assumptions (i.e. best estimate assumptions) which are used to project cash flows and calculate the BEL.

This approach is considered appropriate because the nature of the liabilities is simple in that there are no embedded options and guarantees (so no complicated policyholder behaviours to model) and associated management actions. There are no participating products where simulation techniques are more appropriate to use to ensure all likely scenarios are captured. With regard to contract boundaries all fixed term AIG Life products are projected to the end of their term. Whole of Life contracts are projected until age 120 (assumed death).

The projected cash flows are associated with existing contracts and obligations with uncertainty incorporated through an expected lapse rate. Lapse rates have been estimated based on company experience combined with industry data. They vary principally by duration of policy and type of contract to reflect the anticipated experience of the business. The assumptions have been set based on a combination of the Company's own and other partners experience and other related industry experience.

Expected cashflows are also influenced by mortality, morbidity and expense assumptions. These are updated each year and reviewed and approved by the AIG Life Board. Mortality and morbidity assumptions are set for each product based on the anticipated future experience of the business. The rates are based on published industry tables adjusted to take account of the AIG Life specific product features, distribution channels and socio-economic profile. The Company's principal mortality rates are based on TM00/F00 and the morbidity rates are based on ACL04 for Critical Illness and CMIR12 for income protection. These tables are public data tables set by the Continuous Mortality Investigation supported by the Institute and Faculty of Actuaries. Mortality improvements are allowed for based on standard industry (Continuous Mortality Investigation) models and other related expertise from the industry. The contracts are valued using our long term expense assumptions which reflect the projected expense cost of the Company. To the extent expenses in the short term are projected to exceed the long term assumptions, this is accounted for in the calculation of the best estimate liability.

Assumptions are considered to be best estimate when they represent the "mean" or probability weighted average of possible outcomes to an uncertain event, i.e. actual experience could be equally likely to be better or worse than the assumption.

Article 77(2) also states that the best estimate liability shall be calculated gross, without deduction of the amounts recoverable from reinsurance contracts. The cash flows are therefore calculated gross of reinsurance recoveries expected from the reinsurance arrangement.

D.2.3. OTHER BEST ESTIMATE COMPONENTS

The Best Estimate line of the Solvency II Balance Sheet also contains some other items not traditionally considered part of the BEL. These are held under the Best Estimate. The details of are as follows:

A. Expense Overruns

The BEL calculation assumes that AIG Life expenses have reached their long-term steady state level over the business planning period (i.e. by 2019). As this is not currently the case, the Best Estimate holds an Expense Overrun liability to the extent that planned expenses in 2018 exceed those modelled based on the long term expense assumption.

B. IBNS (Incurred but not settled)

IBNS is a combination of IBNR (Incurred but not reported) and RBNS (reported but not settled).

- IBNR is a liability for unreported claims which AIG Life expects to pay but are not aware yet that the claim incident has occurred. Its value determined using assumptions on the time to report claims, average claims and decrement rates.

- For death and critical illness business, once a claim is reported, investigations are generally carried out to collect all the required documents or in a small number of cases to probe further into the causes that led to the insured event. An allowance is made for claims that have been reported but not settled at the Solvency II balance sheet reporting date. This comprises of the face value of the claims payable without any adjustment for a level of claim rejection.

C. Policyholder Premiums Due

Premiums which have not yet been paid to the Company also need to be taken into account. Typically policyholders pay their premiums on a monthly basis and this balance sheet line reflects premiums due in the last month of the reporting period (December 2017 in this case) which have not been paid in the period.

D.2.4. RISK MARGIN

AIG Life's approach to calculating the Risk Margin is in line with Method 1 in EIOPA's hierarchy of simplifications for the risk margin.

The AIG Life Risk Margin is produced as follows:

- determine the SCR relating to current obligations at the balance sheet reporting date (time zero)
- project it for each future time period until the existing business run-off
- calculate the cost of holding this capital to support the business for each future year
- discount it using the risk discount rate to determine risk margin.

The Standard Formula SCR for Underwriting Risk, Counterparty Default Risk, Operational Risk and Catastrophic Risks are taken into account in Risk Margin calculation. The major component of Market Risk SCR is Interest Rate Risk which is considered hedgeable and therefore not required to be included in the Risk Margin calculation. This methodology breaks down the SCR by risk component and by line of business in order to run them off individually. It allows consideration of individual duration for each line of business.

The individual future SCRs are then aggregated using the correlation matrix in the Standard Formula and the future SCR is discounted with the appropriate GBP yield curve as prescribed by EIOPA (consistent with the yield curve applied for discounting the Technical Provisions). It is then multiplied by the Cost of Capital to obtain the final Company Risk Margin. The Cost of Capital used is 6% as required by EIOPA.

An allocation of the Risk Margin by Solvency II lines of business is also produced using the allocation of the non-hedgeable SCR by lines as a proxy.

The risk drivers used to run off the SCR for each risk are shown below.

Risk type	Sub-risk type	Risk Driver
Default	n/a	PV of Reinsurance Claims
Life	Mortality	Sum Assured
	Longevity	n/a
	Disability	Sum Assured
	Lapse	Number of in-force policies
	Expenses	PV of expenses
	Revision	n/a
	CAT	Sum Assured
Health	Mortality	Sum Assured
	Longevity	PV of total outgo
	Disability	Sum Assured
	Lapse	Number of in-force policies
	Expenses	PV of expenses
	Health CAT	Sum Assured
Operational	n/a	Number of in-force policies

D.2.5. VALUE OF TECHNICAL PROVISIONS FOR EACH MATERIAL LINE OF BUSINESS

Line of Business Technical Provisions	Best Estimate		Risk Margin		Reinsurance Recoverable		Net technical provisions	
	2017	2016	2017	2016	2017	2016	2017	2016
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
Life	355,361	188,066	44,282	64,164	403,144	222,706	**- 3,501**	**29,524**
Health	21,806	5,689	17,150	21,935	88,617	63,738	**- 49,660**	**- 36,114**
Total	**377,167**	**193,755**	**61,432**	**86,099**	**491,760**	**286,443**	**- 53,161**	**- 6,590**

Life insurance makes up over 90% of Gross Solvency II Technical Provisions. After Solvency II adjustments the gross best estimate for the period is £377m. The Gross Technical Provisions after inclusion of Risk Margin of £61m is £439m.The Net (of reinsurance) Technical Provisions have reduced from -£2m to -£53m over 2017.

In the above table, the 2016 Best Estimate and Reinsurance Recoverables for the Health Line of Business have been restated and have reduced by £33m and £29m respectively. This is due to the removal of an element of prudence in the morbidity rate used to model future claims.

D.3. OTHER LIABILITIES

The below liabilities table has been extracted from the Economic Balance Sheet (EBS) which details the calculation of Solvency II values from IFRS to Solvency II. The below table should be viewed in conjunction with the explanatory notes.

Liabilities (excluding technical provisions) – Solvency II Balance Sheet	Notes	IFRS	Solvency II Adjustment	Solvency II Valuation
		£ '000	£ '000	£ '000
Provisions other than technical provisions	1	130	8,309	8,439
Pension benefit obligations		-	-	-
Deposits from reinsurers		-	-	-
Deferred tax liabilities	2	- 1,066	1,066	-
Insurance & Intermediaries payable	3	48,874	- 47,818	1,055
Reinsurance payables	4	39,116	- 10,171	28,945
Payables(trade, not insurance)	5	- 572	5,670	5,098
Subordinated liabilities not in Basic Own Funds		-	-	-
Subordinated liabilities in Basic Own Funds	6	-	15,000	15,000
Any other liabilities, not elsewhere shown	7	16,313	- 12,232	4,082
Total Technical Provisions		1,168,883	- 730,284	438,599
Total Liabilities (including technical provisions)		1,271,679	- 770,461	501,218

D.3.1. VALUATION BASIS, METHODS AND MAIN ASSUMPTIONS

The valuation of liabilities other than technical provisions is recognised in accordance with market consistent valuation methods as set out in the Solvency II Directive and the Technical Specifications for Solvency II. There have been no changes to the recognition and valuation bases used or estimations during the period. The applicable areas where differences were identified for the Company are set out as below:

1. PROVISIONS OTHER THAN TECHNICAL PROVISIONS

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

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

2. DEFERRED TAX LIABILITIES

A net deferred tax asset has been calculated under Solvency 2. (See section D1.5 Deferred Tax Assets). Hence when moving from the IFRS balance sheet to the Solvency II balance sheet, the IFRS DTL is first removed and the balance of the SII DTA is shown as a SII asset.

3. INSURANCE & INTERMEDIARIES PAYABLE

Insurance and Intermediaries payables comprise the following:

- Commission due to Intermediaries
- Amounts due to customers

Commission due to intermediaries represent commission payments that have fallen due by the balance sheet date but not yet settled. Amounts due to customers represent refunds or other adjustments outstanding and are valued at the face value.

4. REINSURANCE PAYABLE

Reinsurance payable represents the sum of “creditors arising out of direct insurance operations” and “creditors arising out of reinsurance operations”. These liabilities are measured as the amount due, which represents the amount expected to be paid. This is considered a fair market value of this liability and no allowance is made for “own credit risk”.

Adjustments to Reinsurance payables adjustments comprise of payables which are not past-due and therefore formed part of the Solvency II technical provisions calculation.

5. PAYABLES (TRADE, NOT INSURANCE)

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

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

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

6. SUBORDINATED LIABILITIES

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

7. ANY OTHER LIABILITIES, NOT ELSEWHERE SHOWN

This consists predominantly of accrued charges, most of which is reclassified into the Technical Provisions under Solvency II.

D.4. ALTERNATIVE METHODS FOR VALUATION

AIG Life Limited does not use any alternative methods of Valuation.

D.5. OTHER MATERIAL INFORMATION

D.5.1. FUTURE MANAGEMENT ACTIONS

The calculation does not explicitly consider any other future management actions that may be taken to reduce the Company's risk exposure following certain events (e.g. following a large loss, or underperforming line of business).

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E. Capital Management

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

Key elements include:

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

E. CAPITAL MANAGEMENT

E.1. OWN FUNDS

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

E.1.1. APPROACH TO CAPITAL MANAGEMENT

The Company's Actuarial Function is responsible for its capital management. Capital planning is considered pivotal in decision making and for the production of the Board approved annual business and capital plan.

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.
- Optimisation of the quality of available Own Funds, in respect of the capital position of the wider organisation.

The Actuarial function provides the Board and ARC with information on the Company's capital position and monitors the surplus over internal, regulatory and rating agency capital requirements. The Chief Actuary leads the internal and regulatory stress and scenario testing.

E.1.2. CAPITAL MANAGEMENT PLAN

AIG Life 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 and internal capital requirements whilst also optimising capital efficiency.

The AIG Life Capital Plan aims to:

- Document the regulatory and internal minimum capital levels and show capital projections under baseline and stressed scenarios.
- 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.
- The Company's liquidity position

It presents the key facts with respect to the Company's assessment of capital adequacy, and analyses the impact of the proposed future strategic initiatives where relevant.

The Capital Plan is owned by the Actuarial Function and is annually reviewed by the AIG Life Board. Any changes need to be approved by the Board, and communicated to the AIG Life Risk Committee.

E.1.3. CAPITAL MANAGEMENT PROCESS AND POLICY

AIG Life 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.
- 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 has regard to the level and structure of capital. It aims to ensure the Company's capital resources:

- Cover the PRA's requested amount above Minimum Capital Level, where relevant.
- Ensure the risk appetite approved by the Board as part of the Risk Appetite Framework is not breached.

The Company has an active capital management process to ensure it meets regulatory capital requirements.

E.1.4. COMPOSITION AND QUALITY OF OWN FUNDS

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

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

E.1.4.1. BASIC OWN FUNDS TIER 1

The BOF tier 1 criteria are met by:

- Ordinary share capital.
- Share premium account related to ordinary share capital.
- Solvency II Reconciliation reserve (IFRS to EBS adjustments).

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

The reconciliation reserve comprises the remainder of the excess of assets over liabilities, after deductions for any net deferred tax assets classified under Tier 3 and any foreseeable dividends.

E.1.4.2. BASIC OWN FUNDS TIER 2

The maximum eligible Tier 2 own funds, as at 31/12/17, is £51.7m. The Tier 2 basic own funds have been classified and tiered in accordance with the Company Own Funds Policy document.

E.1.4.3. ANCILLARY OWN FUNDS

Subordination

Tier 2 and 3 ancillary own funds rank after all other claims in the event of winding-up proceedings regarding the company. Ancillary Own Funds must satisfy the following conditions i.e. they:

- Do not include any features which may cause or accelerate the insolvency of the Company.
- Are immediately available to absorb losses.
- Are undated and non-redeemable.
- Allow the cancellation of dividends (since the Articles of Association do not prohibit such cancellation).
- Allow the Company full flexibility over the payment of dividends.
- Are free of encumbrances and are not connected with any other transaction which when considered with the shares (and related share premium) could result in the shares not satisfying the other Tier 1 requirements.

Ancillary Own Funds

The Ancillary Own Funds held by the Company amount to a total £80m across two Letters of Credit.

E.1.4.4. RECONCILIATION RESERVE

The reconciliation reserve is classified as Tier 1 capital in accordance with the Solvency II regulations. It is calculated as per the table below. Movements in the reconciliation reserve will be largely driven by movements in the excess of assets over liabilities. This excess has sensitivity to the level of interest rates however this is monitored and mitigated by asset-liability management.

Reconciliation Reserve	
	£ '000
Excess of assets over liabilities	204,876
Less:	
Ordinary share capital	301,110
Share premium	10,000
Net deferred tax assets (Tier 3)	22,599
Foreseeable dividend	-
Reconciliation Reserve	- 128,833

E.1.4.5. SUBORDINATED LIABILITIES

Subordinated liabilities qualify as Tier 2 capital under the transitional measures for Solvency II.

E.1.4.6. NET DEFERRED TAX ASSETS

This comprises the deferred tax assets on the Solvency II balance sheet. This is classified as Tier 3 capital in accordance with the Solvency II regulations.

E.1.4.7. ELIGIBLE OWN FUNDS

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

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

Available funds	Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
	£ '000	£ '000		£ '000	£ '000
Total eligible own funds to meet the **SCR**	234,025	182,277	-	51,748	-
Total eligible own funds to meet the **MCR**	187,452	182,277	-	5,175	-

Movements over the Reporting Period

The AIG Life ordinary share capital is unchanged over 2017 at £301,110k.

The share premium account related to ordinary share capital was also unchanged over 2017 and remained at £10,000k.

Tier 2 basic own funds remained at £15,000k throughout 2017. This consisted of one tranche of subordinated debt where AIG Group is the counterparty.

E.1.4.8. ELIGIBLE OWN FUNDS TO COVER CAPITAL REQUIREMENTS

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

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

The table below presents the ratio of eligible own funds that the Company holds to cover the SCR and MCR:

Eligible Own Funds	
	£ '000
SCR	103,496
MCR	25,874
Ratio of Eligible own funds to SCR	226%
Ratio of Eligible own funds to MCR	724%

E.1.4.9. STRUCTURE, AMOUNT AND QUALITY OF BASIC ANCILLARY OWN FUNDS

Own funds that do not fall within the definition of basic own funds are known as ancillary own funds. The Company currently has two Letters of Credit which are classified as Tier 2 Capital which count toward the capital buffer under the current regulatory regime as permitted by the PRA.

The first Letter of Credit for £45m was approved on the 14/06/2016 and executed on the 17/06/2016 with a 4-year duration until 01/01/2020. The second Letter of Credit approved on the 15/11/2016 and executed on the 16/11/2016 was for £35m and also has a 4-year duration until 01/01/2020. Both Letters of Credit are provided by Barclays Bank Plc.

E.1.5. TRANSITIONAL ARRANGEMENTS

AIG Life received approval to use a Transitional Measure on Technical Provisions during 2017. This had a £0 as at 31st December 2017 however it will have a positive value in the event of a sufficiently large yield fall. No other transitional measures are in place.

E.1.6. MATERIAL DIFFERENCES BETWEEN EQUITY IN THE FINANCIAL STATEMENTS AND THE EXCESS OF ASSETS OVER LIABILITIES

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

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

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

The following table reconciles the equity in the financial statements to the excess of assets over liabilities under Solvency II. Further details regarding reconciling items are set out in the respective notes identified below:

Excess of Assets over Liabilities – Attribution of Valuation Difference	£ '000
Difference in the valuation of assets	- 893,225
Difference in the valuation of technical provisions	730,284
Difference in the valuation of other liabilities	25,176
Total of reserves and retained earnings from financial statements	16,530
Reserves from financial statements adjusted for Solvency II valuation differences	- 121,234
Ordinary share capital	301,110
Share premium account related to ordinary share capital	10,000
Excess of assets over liabilities	189,876
Add: Subordinated liabilities	15,000
Less: Foreseeable dividends	-
Basic own funds	204,876

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

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

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

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

E.1.7. CAPITAL INSTRUMENTS AND RING FENCED FUNDS

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

E.1.8. ANY MATERIAL CHANGES TO THE SOLVENCY CAPITAL REQUIREMENT AND TO THE MINIMUM CAPITAL REQUIREMENT OVER THE REPORTING PERIOD.

The SCR reduced over 2017 due to reinsurance initiatives, including restructuring existing arrangements to move from risk to level premiums, and implementing a second tranche of lapse reinsurance, as well as refinements to the expense assumptions to disaggregate fixed and variable expenses. This has moved the SCR from £146,563k at Q4 16 to £103,496k at Q4 17. The MCR has moved from £36,900k at Q416 to £25,874k at Q4 17.

E.2. SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

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

E.2.1. SOLVENCY CAPITAL REQUIREMENT (SCR)

The SCR is the amount of funds that the Company is required to hold in line with the Solvency II Directive issued by the European Union (EU) in 2009. SCR is a formula based figure calibrated to ensure that all quantifiable risks are taken into account, including life and heath underwriting, market, credit, operational, and counterparty risk.

The Company uses the Standard Formula to calculate its Solvency Capital Requirement. The amount of the SCR at the end of the period is £103.5m.

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

Hence, the Solvency Capital Requirement (SCR) is calculated as follows:

$SCR = BSCR + SCR_{op} - Adj$

Where

- SCR = The Overall Standard Formula Capital Charge.
- BSCR = Basic Solvency Capital Requirement.
- Adj = Adjustment for Risk Absorbing Effect of Deferred Taxes.
- SCR_{op} = The Capital Charge for Operational Risk.

Here, the "delta-BoF" (∆BoF where BoF means Basic Own Funds) approach is used for capturing the impact of the underlying risk module. Note that the expression ∆BoF has a sign convention whereby positive values signify a loss.

In order to calculate ∆BoF, the base scenario as well as the stressed assets and liabilities will need to be calculated. The cashflows for each of these scenarios is then discounted to determine the corresponding present value of assets and liabilities. The difference between the base and the stressed assets and liabilities is the ∆BoF.

The ∆BoF is based on the Solvency II balance sheet that excludes the risk margin component of the technical provisions (i.e. uses only the best estimate liability component of the technical provisions). Furthermore when calculating ∆BoF the following need to be allowed for:

- Where risk mitigation techniques are used in the calculation of the SCR, the scenarios required for the calculation of the life, health, market and default risk modules incorporate its effect;
- The impact of hedging instruments where a financial risk mitigation instrument has been utilised; and
- The revaluation of technical provisions allowing for any relevant adverse changes in the option take-up behaviour of policyholders in the scenario.

AIG Life does not take account of any financial risk mitigation techniques.

AIG Life does not use any undertaking specific parameters. The only simplification used is in the Life Catastrophe sub-module, where the simplification laid out in Article 96 of the Delegated Acts is used i.e. SCR is a fixed percentage of the capital at risk. The use of TMTP has no impact on the SCR.

The stress scenarios for underwriting risks in life insurance and SLT health insurance are instantaneous, and do not allow for future new business.

The table below highlights the capital requirements for each risk module. Diversification is calculated using the standard formula correlation matrices and largely arises from diversification between modules (£34,506k) and diversification within the Health module between Lapse and Disability Risk (£12,942k in total for the Health module):

Capital Requirement for each risk module	Net solvency capital requirement
	£'000
Total Capital Requirement For Market Risk	12,363
Total capital requirement for counterparty default risk	12,516
Total capital requirement for life underwriting risk	77,623
Total capital requirement for health underwriting risk (Net)	32,503
Total capital requirement for non-life underwriting risk	-
Diversification	- 34,506
Intangible asset risk	-
Basic Solvency Capital Requirement	100,499
Capital requirement for operational risk	7,562
Loss-absorbing capacity of technical provisions	
Loss-absorbing capacity of deferred taxes	- 4,565
Diversification within ring fenced funds and between ring fenced funds and remaining part	
Net Solvency Capital Requirements calculated using standard formula	103,496

The operational risk capital is calculated based on factors applied to the technical provisions and premiums for each line of business underwritten. This is subject to regulatory minimum capital holdings.

E.2.2. MINIMUM CAPITAL REQUIREMENT (MCR)

The Company uses the Standard Formula to calculate its Minimum Capital Requirement (MCR). The amount of the MCR for the reporting period is £25.9m. As at 2016 year-end, the MCR floor of 25% of SCR is the biting element of the MCR formula.

The following table shows the MCR calculation:

MCR Calculation	MCR
	£ '000
Linear MCR	1,854
SCR	103,496
MCR cap	46,573
MCR floor	25,874
Absolute floor of the MCR	3,248
Minimum Capital Requirement	**25,874**

Information on the Inputs used to calculate the MCR

The MCR calculation uses inputs as required by the standard formula. In particular, the SCR, Capital At Risk, BEL and Sum Assured are required. This data is provided at the same granularity and accuracy as for the SCR calculation itself. The use of TMTP has no impact on the MCR.

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

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

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

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

E.5. NON-COMPLIANCE WITH THE MCR AND NON-COMPLIANCE WITH THE SCR

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

E.6. ANY OTHER INFORMATION

There is no other material informaiton.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE SOLVENCY AND FINANCIAL CONDITION REPORT (SFCR)

We acknowledge our responsibility for preparing the SFCR in all material respects in accordance with the PRA Rules and the Solvency II Regulations.

We are satisfied that:

a) throughout the financial year in question, the insurer has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable to the insurer; and

b) it is reasonable to believe that the insurer has continued so to comply subsequently and will continue so to comply in future.

The SFCR was approved by the Board of Directors on 1st May 2018 and was signed on its behalf by:

Donald MacLean
Chief Financial Officer
The AIG Building, 58 Fenchurch Street, London, EC3M 4AB

REPORT OF THE EXTERNAL INDEPENDENT AUDITORS TO THE DIRECTORS OF AIG LIFE LIMITED ('the Company') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

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

Opinion

Except as stated below, we have audited the following documents prepared by the Company as at 31 December 2017:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2017, ('**the Narrative Disclosures subject to audit**'); and

- Company templates S.02.01.02, S.12.01.02, S.22.01.21, S.23.01.01, S.25.01.21 and S.28.01.01 ('**the Templates subject to audit'**).

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

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

- The 'Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;

- Company templates S.05.01.02, S.05.02.01 and S.19.01.21;

- Information calculated in accordance with the previous regime used in the calculation of the transitional measure on technical provisions, and as a consequence all information relating to the transitional measure on technical provisions as set out in the Appendix to this report;

- The written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('**the Responsibility Statement**').

To the extent the information subject to audit in the relevant elements of the 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 Solvency and Financial Condition Report of the Company as at 31 December 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 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 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 Solvency and Financial Condition Report is not appropriate; or
- the directors have not disclosed in the 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 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' sections of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Other Information

The Directors are responsible for the Other Information.

Our opinion on the relevant elements of the 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 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 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 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 Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations, which have been supplemented by the approvals made by the PRA under the PRA Rules and Solvency II regulations on which they are based, as detailed below:

Approval to use transitional measure on technical provisions

Approval of items of ancillary own funds

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

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

It is our responsibility to form an independent opinion as to whether the information subject to audit in the relevant elements of the Solvency and Financial Condition Report is prepared, in all material respects, in accordance with 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 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 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.

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

3 May 2018

Appendix – relevant elements of the Solvency and Financial Condition Report that are not subject to audit

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

- The following elements of template S.12.01.02
  - Rows R0110 to R0130 – Amount of transitional measure on technical provisions

- The following elements of template S.22.01.21
  - Column C0030 – Impact of transitional on technical provisions

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

F. APPENDICES TO THE SOLVENCY AND FINANCIAL CONDITION REPORT

F.1. GLOSSARY

A

AIG	American Insurance Group
AHEL	AIG Holdings Europe Limited
AOF	Ancillary Own Funds
ARC	Audit & Risk Committee

B

BAU	Business as Usual
BCM	Business Continuity Management
BoE	Bank of England

C

CAT	Catastrophe
CCO	Chief Compliance Officer
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CRO	Chief Risk Officer

D

D&O	Directors and Officers
DAC	Deferred Acquisition Costs
DM	Direct Marketing
DTA	Deferred Tax Asset
DTL	Deferred Tax Liability

E

EBS	Economic Balance Sheet
ECB	European Central Bank
ECR	Enhanced Capital Requirement
EIOPA	European Insurance and Occupational Pensions Authority
ENID	Events not in Data
ERM	Enterprise Risk Management
EU	European Union
ExCo	Executive Committee

F

FCA	Financial Conduct Authority
FOS	Financial Ombudsman Service
FSR	Financial Strength Ratings
FX	Foreign Exchange

G

GAAP	Generally Accepted Accounting Principles
GAVM	Global Actuarial and Value Management
GDP	Gross Domestic Profit
GOE	Gross Operating Expenses
GPE	Gross Premiums Earned
GPW	Gross Premium Written

H

HSBC	Hong Kong Shanghai Banking Corporation

I

IAG	Internal Audit Group
ICAS	Individual Capital Adequacy Standards
ICG	Individual Capital Guidance
IFRS	International Financial Reporting Standards

K

KRI	Key Risk Indicator

L

LAC - DT	Loss Absorbing Capacity of Deferred Taxes
LoC	Letters of Credit
LTA	Long-term Average

M

M&A	Mergers & Acquisitions
MCR	Minimum Capital Requirement

N

NB	New Business
NII	Net Investment Income
NPE	Net Premiums Earned
NPW	Net Premiums Written

O

ORR	Obligor Risk Rating
ORSA	Own Risk Solvency Assessment

P

P&L	Profit and Loss
PBT	Profit before tax
PRA	Prudential Regulatory Authority
PWC	Pricewaterhousecoopers

Q

QE	Quantitative Easing

R

RCC	Risk and Capital Committee
RF	Risk Free
RI	Reinsurance
RM	Risk Management
ROE	Return on Equity
RT	Risk transfer

S

S&P	Standard and Poor's
SAA	Strategic Asset Allocation
SCR	Solvency Capital Requirement
SF-SCR	Standard Formula - Solvency Capital Requirement
SII	Solvency II
SIMR	Senior Insurance Managers Regime
STI	Short Term Incentive

T

TDC	Total Direct Compensation
TOM	Target Operating Model

U

UK	United Kingdom
UW	Underwriting

V

VAT	Value Added Tax

Y

YTD	Year to Date

F.2. PUBLIC QRTS

MONETARY AMOUNTS IN GBP £000'S

S.02.01.02
Balance sheet

		Solvency II value
	Assets	C0010
R0010	Goodwill	
R0020	Deferred acquisition costs	
R0030	Intangible assets	
R0040	Deferred tax assets	22,598.97
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	0.00
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	187,928.20
R0080	*Property (other than for own use)*	0.00
R0090	*Holdings in related undertakings, including participations*	0.00
R0100	*Equities*	0.00
R0110	*Equities - listed*	
R0120	*Equities - unlisted*	
R0130	*Bonds*	170,017.99
R0140	*Government Bonds*	128,559.11
R0150	*Corporate Bonds*	41,458.88
R0160	*Structured notes*	0.00
R0170	*Collateralised securities*	0.00
R0180	*Collective Investments Undertakings*	17,910.21
R0190	*Derivatives*	
R0200	*Deposits other than cash equivalents*	0.00
R0210	*Other investments*	0.00
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0.00
R0240	*Loans on policies*	0.00
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	491,760.18
R0280	*Non-life and health similar to non-life*	0.00
R0290	*Non-life excluding health*	
R0300	*Health similar to non-life*	
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	491,760.18
R0320	*Health similar to life*	88,616.60
R0330	*Life excluding health and index-linked and unit-linked*	403,143.59
R0340	*Life index-linked and unit-linked*	0.00
R0350	Deposits to cedants	0.00
R0360	Insurance and intermediaries receivables	436.77
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	1,351.55
R0390	Own shares (held directly)	0.00
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0.00
R0410	Cash and cash equivalents	2,018.52
R0420	Any other assets, not elsewhere shown	
R0500	**Total assets**	706,094.19

S.02.01.02
Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	0.00
R0520	*Technical provisions - non-life (excluding health)*	0.00
R0530	*TP calculated as a whole*	
R0540	*Best Estimate*	
R0550	*Risk margin*	
R0560	*Technical provisions - health (similar to non-life)*	0.00
R0570	*TP calculated as a whole*	
R0580	*Best Estimate*	
R0590	*Risk margin*	
R0600	Technical provisions - life (excluding index-linked and unit-linked)	438,599.03
R0610	*Technical provisions - health (similar to life)*	38,956.39
R0620	*TP calculated as a whole*	0.00
R0630	*Best Estimate*	21,806.30
R0640	*Risk margin*	17,150.08
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	399,642.64
R0660	*TP calculated as a whole*	0.00
R0670	*Best Estimate*	355,360.63
R0680	*Risk margin*	44,282.01
R0690	Technical provisions - index-linked and unit-linked	0.00
R0700	*TP calculated as a whole*	0.00
R0710	*Best Estimate*	0.00
R0720	*Risk margin*	0.00
R0730	Other technical provisions	
R0740	Contingent liabilities	0.00
R0750	Provisions other than technical provisions	8,439.29
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	
R0800	Debts owed to credit institutions	0.00
R0810	Financial liabilities other than debts owed to credit institutions	0.00
R0820	Insurance & intermediaries payables	1,055.41
R0830	Reinsurance payables	28,944.60
R0840	Payables (trade, not insurance)	5,098.20
R0850	Subordinated liabilities	15,000.00
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	15,000.00
R0880	Any other liabilities, not elsewhere shown	4,081.55
R0900	**Total liabilities**	501,218.08
R1000	**Excess of assets over liabilities**	204,876.11

S.05.01.02

Premiums, claims and expenses by line of business

Life

		Line of Business for: life insurance obligations		Total
		Health insurance	Other life insurance	
		C0210	C0240	C0300
	Premiums written			
R1410	*Gross*	58,472.14	130,571.41	189,043.55
R1420	*Reinsurers' share*	25,222.11	56,322.33	81,544.44
R1500	*Net*	33,250.02	74,249.08	107,499.11
	Premiums earned			
R1510	*Gross*	58,472.14	130,571.41	189,043.55
R1520	*Reinsurers' share*	25,222.11	56,322.33	81,544.44
R1600	*Net*	33,250.02	74,249.08	107,499.11
	Claims incurred			
R1610	*Gross*	24,370.70	61,855.69	86,226.39
R1620	*Reinsurers' share*	22,951.08	58,252.54	81,203.63
R1700	*Net*	1,419.61	3,603.15	5,022.76
	Changes in other technical provisions			
R1710	*Gross*			0.00
R1720	*Reinsurers' share*			0.00
R1800	*Net*	0.00	0.00	0.00
R1900	**Expenses incurred**	32,867.96	73,395.93	106,263.89
R2500	**Other expenses**			
R2600	**Total expenses**			106,263.89

S.05.02.01
Premiums, claims and expenses by country

		C0150	C0160	C0170	C0180	C0190	C0200	C0210
	Life	**Home Country**	**Top 5 countries (by amount of gross premiums written) - life obligations**					**Total Top 5 and home country**
R1400			**JE**	**GG**	**IM**	**GI**		
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
	Premiums written							
R1410	*Gross*	185,456.99	1,635.35	1,208.66	494.17	248.37		189,043.55
R1420	*Reinsurers' share*	79,997.37	705.41	521.36	213.16	107.13		81,544.44
R1500	*Net*	105,459.62	929.94	687.30	281.01	141.23	0.00	107,499.11
	Premiums earned							
R1510	*Gross*	185,456.99	1,635.35	1,208.66	494.17	248.37		189,043.55
R1520	*Reinsurers' share*	79,997.37	705.41	521.36	213.16	107.13		81,544.44
R1600	*Net*	105,459.62	929.94	687.30	281.01	141.23	0.00	107,499.11
	Claims incurred							
R1610	*Gross*	84,450.96	285.70	1,424.29	65.44	0.00		86,226.39
R1620	*Reinsurers' share*	79,531.61	269.06	1,341.32	61.63	0.00		81,203.63
R1700	*Net*	4,919.34	16.64	82.97	3.81	0.00	0.00	5,022.76
	Changes in other technical provisions							
R1710	*Gross*	0.00	0.00	0.00	0.00			0.00
R1720	*Reinsurers' share*	0.00	0.00	0.00	0.00			0.00
R1800	*Net*	0.00	0.00	0.00	0.00	0.00	0.00	0.00
R1900	**Expenses incurred**	104,247.84	919.25	679.41	277.78	139.61		106,263.89
R2500	**Other expenses**							
R2600	**Total expenses**							106,263.89

S.12.01.02
Life and Health SLT Technical Provisions

		Other life insurance			Total (Life other than health insurance, incl Unit-linked)	Health insurance (direct business)			Total (Health similar to life insurance)
			Contracts without options and guarantees	Contracts with options or guarantees			Contracts without options and guarantees	Contracts with options or guarantees	
		C0060	C0070	C0080	C0150	C0160	C0170	C0180	C0210
R0010	**Technical provisions calculated as a whole**				0.00				0.00
R0020	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				0.00				0.00
	Technical provisions calculated as a sum of BE and RM								
	Best estimate								
R0030	**Gross Best Estimate**		355,360.63		355,360.63		21,806.30		21,806.30
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default		403,143.59		403,143.59		88,616.60		88,616.60
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re		-47,782.96	0.00	-47,782.96		-66,810.30	0.00	-66,810.30
R0100	**Risk margin**	44,282.01			44,282.01	17,150.08			17,150.08
	Amount of the transitional on Technical Provisions								
R0110	Technical Provisions calculated as a whole	0.00			0.00	0.00			0.00
R0120	Best estimate		0.00	0.00	0.00		0.00	0.00	0.00
R0130	Risk margin	0.00			0.00	0.00			0.00
R0200	**Technical provisions - total**	399,642.64			399,642.64	38,956.39			38,956.39

S.22.01.21

Impact of long term guarantees measures and transitionals

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
R0010	**Technical provisions**	438,599.03	0.00	0.00	0.00	0.00
R0020	**Basic own funds**	219,876.11	0.00	0.00	0.00	0.00
R0050	**Eligible own funds to meet Solvency Capital Requirement**	234,025.02	0.00	0.00	0.00	0.00
R0090	**Solvency Capital Requirement**	103,495.76	0.00	0.00	0.00	0.00
R0100	**Eligible own funds to meet Minimum Capital Requirement**	187,451.93	0.00	0.00	0.00	0.00
R0110	**Minimum Capital Requirement**	25,873.94	0.00	0.00	0.00	0.00

S.23.01.01
Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	**Total**	**Tier 1 unrestricted**	**Tier 1 restricted**	**Tier 2**	**Tier 3**
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	301,110.00	301,110.00		0.00	
R0030	Share premium account related to ordinary share capital	10,000.00	10,000.00		0.00	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0.00	0.00		0.00	
R0050	Subordinated mutual member accounts	0.00		0.00	0.00	0.00
R0070	Surplus funds	0.00	0.00			
R0090	Preference shares	0.00		0.00	0.00	0.00
R0110	Share premium account related to preference shares	0.00		0.00	0.00	0.00
R0130	Reconciliation reserve	-128,832.86	-128,832.86			
R0140	Subordinated liabilities	15,000.00		0.00	15,000.00	0.00
R0160	An amount equal to the value of net deferred tax assets	22,598.97				22,598.97
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0.00	0.00	0.00	0.00	0.00
	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	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	0.00				
	Deductions					
R0230	Deductions for participations in financial and credit institutions	0.00				
R0290	**Total basic own funds after deductions**	219,876.11	182,277.14	0.00	15,000.00	22,598.97
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0.00				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0.00				
R0320	Unpaid and uncalled preference shares callable on demand	0.00				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0.00				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0.00				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	80,000.00			80,000.00	
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0.00				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0.00				
R0390	Other ancillary own funds	0.00				
R0400	**Total ancillary own funds**	80,000.00			80,000.00	0.00
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	299,876.11	182,277.14	0.00	95,000.00	22,598.97
R0510	Total available own funds to meet the MCR	197,277.14	182,277.14	0.00	15,000.00	
R0540	Total eligible own funds to meet the SCR	234,025.02	182,277.14	0.00	51,747.88	0.00
R0550	Total eligible own funds to meet the MCR	187,451.93	182,277.14	0.00	5,174.79	
R0580	**SCR**	103,495.76				
R0600	**MCR**	25,873.94				
R0620	**Ratio of Eligible own funds to SCR**	226.12%				
R0640	**Ratio of Eligible own funds to MCR**	724.48%				

	Reconciliation reserve	C0060
R0700	Excess of assets over liabilities	204,876.11
R0710	Own shares (held directly and indirectly)	0.00
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	333,708.97
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0.00
R0760	**Reconciliation reserve**	-128,832.86
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	141,763.63
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	
R0790	**Total Expected profits included in future premiums (EPIFP)**	141,763.63

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0080	C0090
R0010	Market risk	12,363.06		
R0020	Counterparty default risk	12,515.62		
R0030	Life underwriting risk	77,622.97		
R0040	Health underwriting risk	32,503.25		
R0050	Non-life underwriting risk	0.00		
R0060	Diversification	-34,505.97		
R0070	Intangible asset risk	0.00		
R0100	**Basic Solvency Capital Requirement**	100,498.93		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	7,561.74
R0140	Loss-absorbing capacity of technical provisions	0.00
R0150	Loss-absorbing capacity of deferred taxes	-4,564.92
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0.00
R0200	**Solvency Capital Requirement excluding capital add-on**	103,495.76
R0210	Capital add-ons already set	0.00
R0220	**Solvency capital requirement**	103,495.76

	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0.00
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0.00
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0.00
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0.00
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0.00

S.28.01.01

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

		C0010
	Linear formula component for non-life insurance and reinsurance obligations	
R0010	MCR_{NL} Result	0.00

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0020	Medical expense insurance and proportional reinsurance		
R0030	Income protection insurance and proportional reinsurance		
R0040	Workers' compensation insurance and proportional reinsurance		
R0050	Motor vehicle liability insurance and proportional reinsurance		
R0060	Other motor insurance and proportional reinsurance		
R0070	Marine, aviation and transport insurance and proportional reinsurance		
R0080	Fire and other damage to property insurance and proportional reinsurance		
R0090	General liability insurance and proportional reinsurance		
R0100	Credit and suretyship insurance and proportional reinsurance		
R0110	Legal expenses insurance and proportional reinsurance		
R0120	Assistance and proportional reinsurance		
R0130	Miscellaneous financial loss insurance and proportional reinsurance		
R0140	Non-proportional health reinsurance		
R0150	Non-proportional casualty reinsurance		
R0160	Non-proportional marine, aviation and transport reinsurance		
R0170	Non-proportional property reinsurance		

		C0040
	Linear formula component for life insurance and reinsurance obligations	
R0200	MCR_{L} Result	1,853.89

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits		
R0220	Obligations with profit participation - future discretionary benefits		
R0230	Index-linked and unit-linked insurance obligations		
R0240	Other life (re)insurance and health (re)insurance obligations		
R0250	Total capital at risk for all life (re)insurance obligations		2,648,417,472.34

		C0070
	Overall MCR calculation	
R0300	Linear MCR	1,853.89
R0310	SCR	103,495.76
R0320	MCR cap	46,573.09
R0330	MCR floor	25,873.94
R0340	Combined MCR	25,873.94
R0350	Absolute floor of the MCR	3,250.56
R0400	**Minimum Capital Requirement**	25,873.94