AIG Europe S.A.

2019 Solvency and Financial Condition Report

35D avenue John F. Kennedy
L-1855 Luxembourg
Luxembourg
R.C.S. B218 806

Executive Summary

AIG Europe SA

AIG Europe S.A. or "AESA" – AIG's new insurance company for Europe is headquartered in Luxembourg. AESA ("the Company"), was created in response to the UK's decision to leave the European Union, and was incorporated on 17 October 2017.

Establishment of AESA

We commenced underwriting as AIG Europe S.A. on 1 December 2018, the start of the 2019 Financial Year and moved into our new offices in Luxembourg at 35D Avenue de John F Kennedy. AESA is growing, with over 2400 people, and we have plans to expand as we forge a European identity.

During 2019, we developed a multiyear strategic ambition, enabling AIG Europe S.A. to return to profitable growth as a result of our portfolio remediation actions enabling the Company to deliver a significant contribution to the AIG International segment.

One of the key enablers to this required enhancements to our governance model so as to minimise layers between region and country, eliminating barriers to decision making. These enhancements culminated in our new Executive Committee which now has representation from all our geographies, our product leadership teams and the control and support functions. This body functions as a versatile decision-making forum, where all ideas and views across our complex landscape can be heard and debated.

Laying the foundation for profitable growth

AIG's profitability challenges in Europe in recent years have led to material re-underwriting of the portfolio, including changing our reinsurance strategy. The quality of our portfolio today is significantly improved, with lower limits, improved terms and conditions, better rates and broader spread of risk. Our re-underwriting efforts have led to material improvements in our profitability, the first signs of which can be seen in 2019 where we have delivered an underwriting profit.

We are confident that the majority of that work has been completed and the Company is embarking on a journey to return to sustainable profitable growth. The changing market pricing dynamics contributes to the opportunities available to us, although we are very thoughtful in our growth plans and not solely reliant on market hardening. Our preliminary growth is fuelled by product led strategies where we have expertise and capabilities giving us a competitive advantage. In the medium term we aim to fuel profitable growth in Europe through careful segmentation of the market and being very clear about our value proposition in each segment.

Underpinning this strategy, are our pipeline and planning activity, with increased collaboration between Distribution and Underwriting, and investment in key areas where we see opportunities in the market. A key focus is the alignment and communication of our risk appetite across product areas, but specifically the clarity we have today on where we choose to operate.

Operational efficiency

Improving the Company's operational efficiency underpins our future strategy. Prior year focus has been on the reduction of absolute cost and while we continue to focus on expense reduction, we are being increasingly thoughtful about how the operating model should evolve to serve different market segments and customers. Our aim is to ensure our operating model is 'future proofed' and that we continue to offer our customers market leading and relevant products and services.

During 2019, AIG launched AIG200, a global initiative aimed to modernise AIG's legacy infrastructure and ensure it supports the Group's strategies for another 100 years. We are an active participant in this initiative with the key transformation activities now sitting under the umbrella of AIG200. Initially the focus was on defining the areas where AIG should focus on in modernising itself, with a series of workshops held in Europe. The standardisation and modernisation of our underwriting platform was one of the top initiatives in Europe, and this is a key focus area for AIG Europe in 2020.

Included in the AIG200 initiatives is the increased use of the Shared Service Centre of Excellence, based in Bulgaria and leveraging this to scale forms a large part of our commitment to operational efficiency and excellence.

Talent

Talent remains one of our differentiators. In 2019, we delivered several key initiatives, including the development of succession planning in the key managerial roles across Europe. While addressing key staff dependency risk, this also supports the identification of high performing individuals which are now part of an in-house development programme for future leadership.

We recommitted ourselves to training and development through the re-launch of our Product University series, starting with Financial Lines. In 2020, we will see this expanding to other product areas.

Strategic Goals

We started laying the foundations in 2019 for a 5 year plan that will return AIG Europe S.A. to a significant contributor to the AIG Group.

Our four key areas are aligned with AIG General Insurance and include:

- Operational Excellence – Service excellence, standardisation and digitalisation lies at the heart of initiatives that deliver operational excellence.
- Profitable Growth – The rapid evolution of the risk environment creates opportunities and being thoughtful about where we grow, acting fast and decisively in underperforming segments and managing volatility are key focus areas in our Profitable Growth plans.
- Differentiated Proposition – We are investing in Broker and Client distribution, with a focus to evaluate and understand our value proposition through our customers' perspectives, as we lay further foundations for future growth and relevance. In the more immediate term, we are focussed on pipeline management and planning.
- Talent Plan – Development of our staff, increasing diversity of our perspectives and improving engagement are ambitions we are delivering through our One Europe culture, Product Expertise, Training and Development, and increased focus on Succession Planning.

Underpinning this in a European context is "One Europe", Growth in Europe and Operating Model.

T. Lillelund
Chief Executive Officer

AIG Europe SA Solvency II Capital Performance at a Glance

YE 2019	AIG Europe SA
Own Funds	€1,940.3m
Solvency Capital Requirement	€1,369.7m
Surplus	€570.6m
Solvency Ratio	141.7%

2019 Solvency and Financial Condition

This document sets out the Solvency and Financial Condition Report for AIG Europe SA (“AESA”) in accordance with Solvency II Regulations.

Capital Management

Since September 2018 AESA received approval by the Commissariat aux Assurances (CAA) to use its Solo Internal Model for the calculation of its Solo SCR. AESA’s Internal Model Solvency Capital Requirement (IM-SCR) at 30 November 2019 is €1,369.7m which is the SCR used at the time of the Major Model Change Submission triggered in September 2019. In line with the Solvency II Regulations and in agreement with the CAA, AESA’s SCR was frozen until the approval of the Major Change Application. This is covered by €1,940.3m of eligible capital resources, providing a Solvency II surplus of €570.6m and a Solvency II coverage ratio of 141.7%. Both metrics are defined by the regulations to mean the excess of the Company’s total eligible own funds over its Solvency Capital Requirement.

AIG Europe SA Directors' Report

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

Statement of Directors' Responsibilities

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

Compliance with SCR

The Company has complied with all material respects with Solvency II requirements throughout the financial year 2019. The Company reasonably believes that it will continue to comply with the Solvency II requirements for the foreseeable future.

Statement of disclosure of information to auditors

Each of the persons, who are a director in office at the date this report is approved, confirms that:

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

Independent Auditors

PricewaterhouseCoopers LLP have indicated their willingness to be reappointed for another term and appropriate measures have been put in place for them to be reappointed as auditors of the Company.

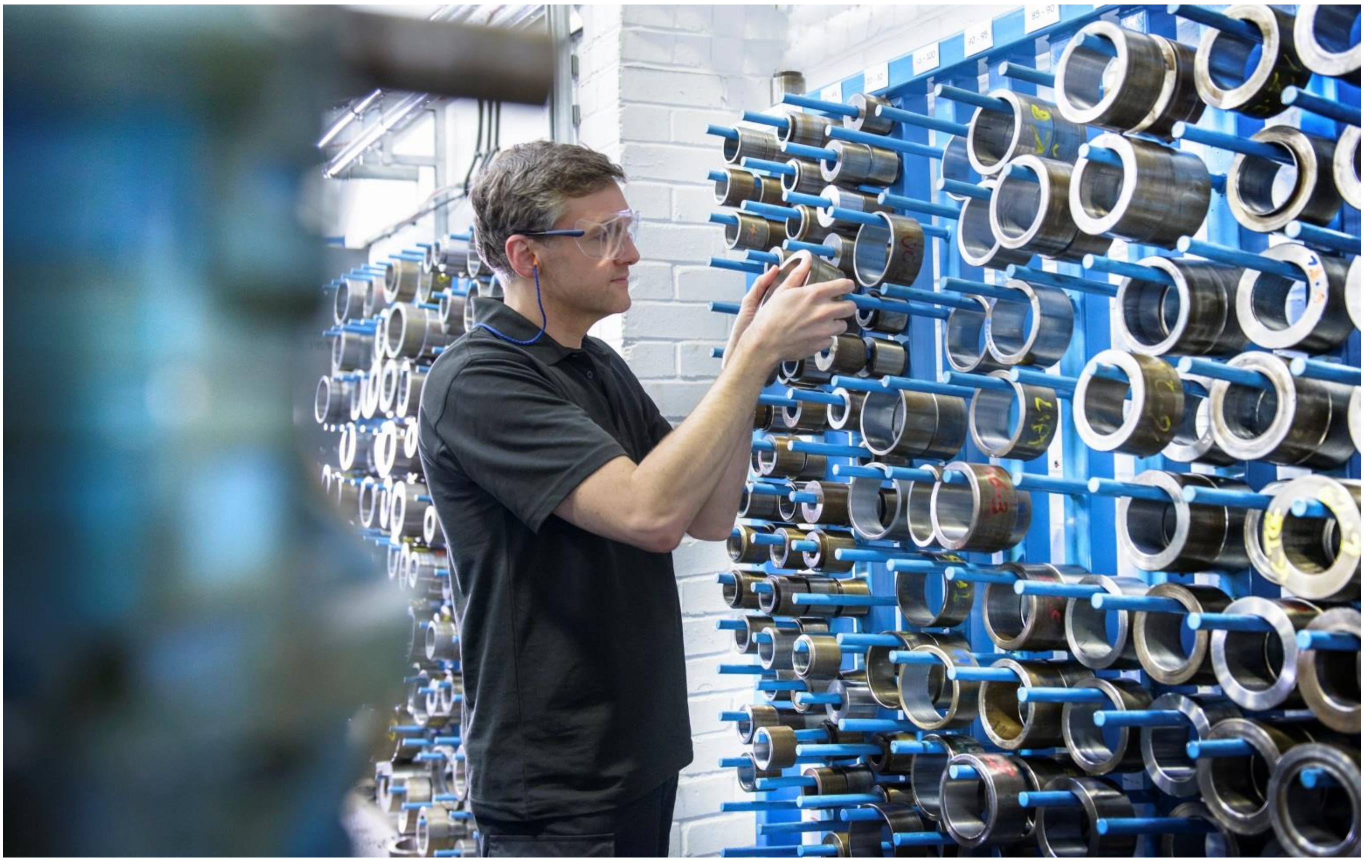
On behalf of the Board,

Thomas Lillelund
Chief Executive Officer

Directors

The listing of Directors as 30th November 2019 is as follows:

Chairman and Independent Non-Executive Director	**J Presber**
Independent Non-Executive Director	**C. Feipel**
Independent Non-Executive Director	**C Kampmann**
Independent Non-Executive Director	**J.M Nessi**
Chief Executive Officer	**T Lillelund**



Solvency & Financial Condition Report 2019

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 2019.

KEY ELEMENTS OF THE SECTION ARE:

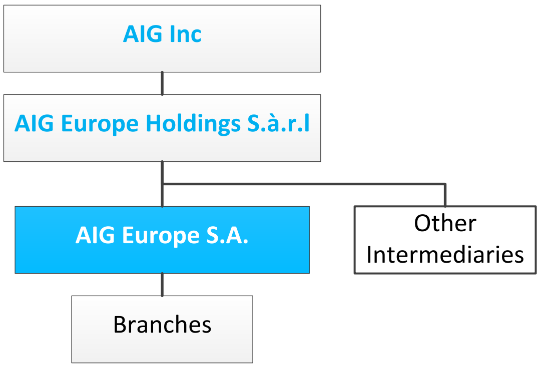
- Business information;
- Underwriting Performance;
- Investment Performance; and
- Performance from other activities.

A.1 Business

AIG EUROPE SA INFORMATION

AESA is the principal AIG non-life insurance company within the AIG Europe Holdings S.à.r.l. group and is ultimately wholly-owned by AIG Inc. For the purposes of Solvency II AIG Europe Holdings S.à.r.l. heads a European “sub-group”, principally made up of AESA, with other registered intermediaries such as Avondhu (Laya Healthcare) and AssiB s.r.l also in place.

A simplified group structure as at 30th November 2019 is shown in the diagram below:



AESA is a multi-line insurance company writing substantially all lines of property and casualty insurance. Major lines of insurance written include commercial, consumer, accident and health and specialty coverage. AESA has established a management team in Luxembourg. This management team uses the expertise from the Continental European operations as well as from some UK based structure. A non-insurance UK branch of AESA has been established, which is the employer of the London-based staff supporting AESA. Where staff also supports AESA, they have an employment contract with AESA (i.e. dual employment) and their costs are divided between American International Group UK Limited and AESA based on an annual assessment of time spent on each entity.

AESA is in scope of Solvency II.

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

AESA’s registered office address and the contract details of its external auditors and supervisory authorities are shown below:

Registered Office

Grand Duchy of Luxembourg
35D Avenue J.F. Kennedy
Luxembourg L-1855
+352 27 00 72 01

External Auditors

PricewaterhouseCoopers
2 Rue Gerhard Mercator
Luxembourg L-1014
+352 49 48 48 1

Supervisory Authority

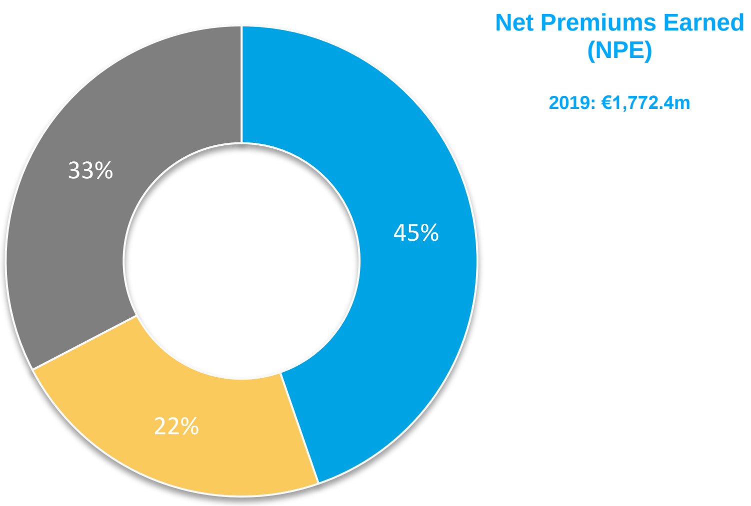
Commissariat aux Assurances (CAA)
7 Boulevard Joseph II
1840 Luxembourg
+352 22 69 11 1

The SFCR has been authorised for issue by the Board of Directors on 5th March 2020.

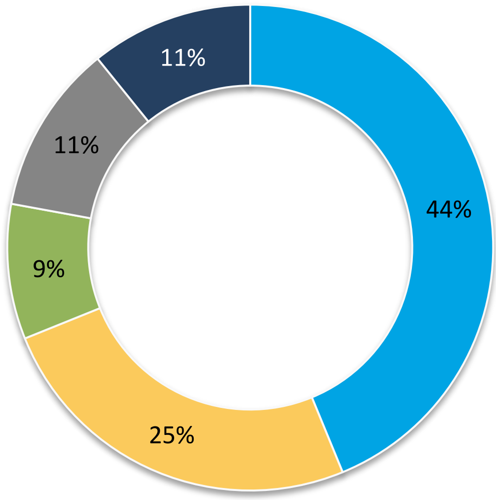
MATERIAL LINES OF BUSINESS BY OPERATING SEGMENT AND SOLVENCY II

AESA's business segments are organised into Commercial and Consumer lines. Commercial lines refer to products and services for the commercial and institutional customers. This line represents around 67% of the AESA's net premiums earned. Product lines include traditional types such as general liability, property and financial lines; and highly specialised such as political risk, cyber security and aviation. Consumer lines focus on customer-centric services, innovating product offerings and developing strong distribution relationships. Main product types in this segment are personal accident, income protection and medical expense cover.

Insurance LoB and operating segments



Solvency II LoB



LIABILITY AND FINANCIAL LINES (LFL)

Constitutes the largest section of the Commercial insurance segment of the Company at 45% of Net Premiums Written in 2019. AESA is a market leader in multiple Financial Lines products including Directors and Officers liability, Cyber insurance, M&A insurance, Kidnap & Ransom insurance and Professional liability insurance.

PERSONAL INSURANCE (PI)

Amounts to 33% of Net Premiums Written in 2019 for the Company and includes Personal Accident and Health, Personal Property, Personal Auto and Service Programmes.

PROPERTY AND SPECIAL RISKS (PSR)

Represents the Company's second largest Commercial insurance segment at 22% of Net Premiums Written in 2019 and Includes Property Insurance products for Commercial Properties, Upstream and Downstream Energy, Power Generation, Oil Rig, Chemicals, Mining and Construction and Speciality Insurance products.

Under Solvency II, insurance products and offerings are categorised into 16 standardised Solvency II lines of business (LoB). The Group's top 5 material Solvency II LoBs by Net Premiums Written in 2019 are:

- **GENERAL LIABILITY (44%)**
- **FIRE AND OTHER DAMAGE TO PROPERTY (25%)**
- **MARINE, AVIATION AND TRANSPORT (9%)**
- **INCOME PROTECTION (11%)**
- **MOTOR VEHICLE LIABILITY (11%)**

Source QRT S.05.01

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

Luxembourg Headquarters

2019 has been a good year for AESA. This year the Company officially opened the Luxembourg Headquarters. The Company's focus to successfully position the business across most lines of business to strengthen ties with brokers and clients. The Company continues to collectively drive a culture of Alignment, Accountability and Action in line with General Insurance strategic goals.

Internal Model Major Model Change Approval

On 28th February 2019, AESA applied for a Major Model Change to the CAA to approve a series of major model changes implemented in AESA's Internal Model. The CAA approved the request on 6th August 2019.

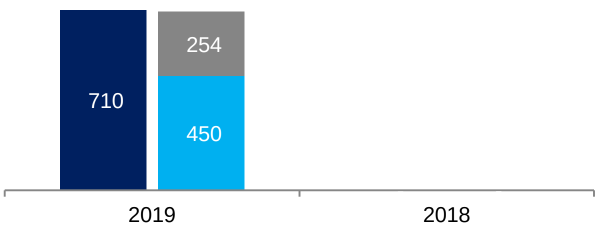
A.2 Underwriting Performance

UNDERWRITING PERFORMANCE BY MATERIAL LINES OF BUSINESS AND GEOGRAPHICAL AREAS

A.2.1 UNDERWRITING PERFORMANCE BY SOLVENCY II LINES OF BUSINESS

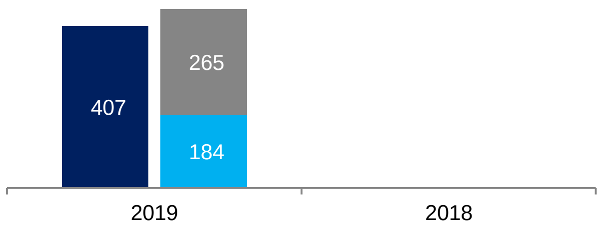
The diagrams below provide key performance indicators (Net Premium Earned, Claims Incurred and Expenses) for major Solvency II lines of business as per AESA's QRT S.05.01. The Company did not underwrite any insurance business prior to November End 2018.

General Liability



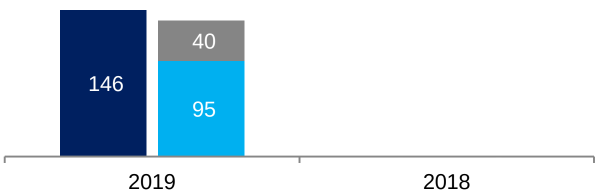
Top line for AESA in terms of Premiums Earned over the reporting period. Loss Ratio was above expectations due to strengthening of reserves due to adverse prior year experience.

Fire and Other Damage to Property



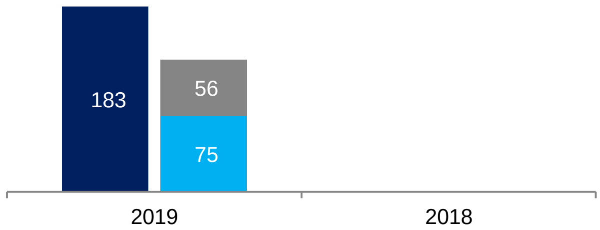
Portfolio underwriting performance received a favourable catastrophe experience as there was minimal catastrophe activity. Work continues to improve the Fire and Other Damage to Property portfolio for future years' combined ratios.

Marine, Aviation and Transport



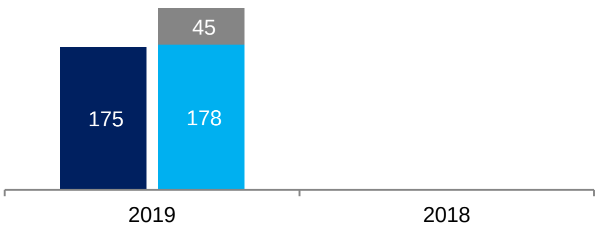
Benign claims experience across Marine and Aviation over the reporting year.

Income Protection



Portfolio underwriting performance is favourable due to run-off of the largest account.

Motor Vehicle Liability

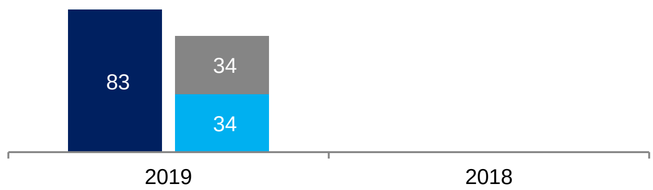


Loss ratio impacted by adverse prior year experience

A.2.2 UNDERWRITING PERFORMANCE BY MATERIAL GEOGRAPHICAL AREA

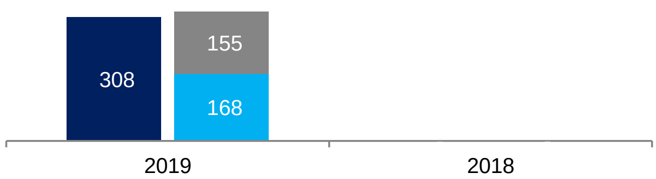
For AESA, the material geographical areas are France (25%), Germany (24%), Italy (21%), Ireland (14%), Netherlands (9%) and Luxembourg (7%) of AESA's Net Premiums Earned in FY 2019. The underwriting performance of each geographic region, as shown in table below, takes into account life and non-life business that relates to that country as per AESA's QRT S.05.02.

Luxembourg



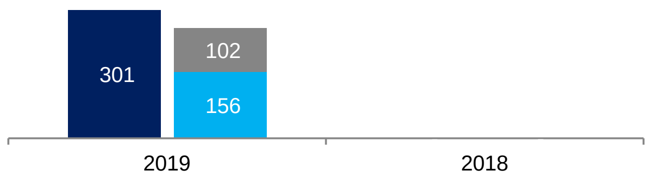
Low loss ratio is driven by Freedom of Service earnings relating to European business previously underwritten from the UK entity.

France



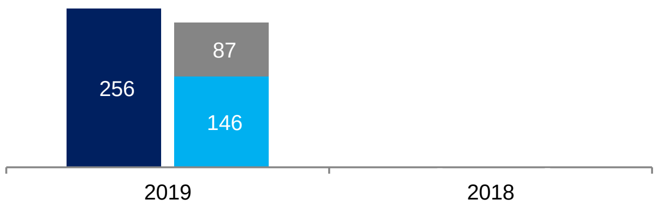
The loss ratio is driven by one severe loss.

Germany



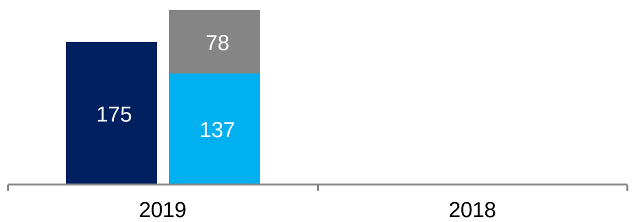
Favourable underwriting experience driven by primarily by low frequency of catastrophe events over the reporting period.

Italy



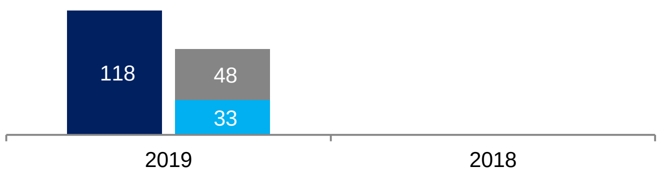
The loss ratio is driven by one severe claim.

Ireland



The business performance was overall favourable over the reporting period but one large claim in Q4 impacted the results.

Netherlands



Overall profitable business performance over the reporting period.

Premiums Claims Expenses

A.3 Investment Performance

The Company's investment management framework sets out its Strategic Asset Allocation (SAA) that is approved by the Board and is reviewed annually. Assets categories that are included in the SAA are those that are suitable for the Company's liabilities profile by nature, term and currency and for which the investment manager could assess, monitor and control risks. In order to achieve this objective, the Company holds a diversified investment portfolio that is invested in government bonds, corporate bonds, securitised assets, loans, investments in group undertakings and cash.

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

Asset Classes €	Gross Investment Income	Investment Expenses	Net Investment Income (NII)	Realised Gains and Losses	Forex gains and losses	Total Investment Return
	2019	2019	2019	2019	2019	2019
Corporate Bonds	45,467,511	4,736,111	40,731,400	17,233,861	169,271	58,134,532
Government Bonds	9,319,844	3,155,371	6,164,473	2,681,691	(1,093,682)	7,752,482
Securitised Assets	94,115	-	94,115	-		94,115
Mutual Funds		-	-	-		-
Equity Instruments		-	-	-		-
Loan Participations	1,890,519	78,936	1,811,583	-		1,811,583
Short Term Deposits	1,067,013	15,035	1,051,978	-		1,051,978
Other	(192,266)	-	(192,266)	1,214,128		1,021,862
Total	57,646,737	7,985,453	49,661,284	21,129,680	(924,412)	69,866,552

Total Investment Return of €69.9m is mainly driven by the corporate bond returns.

A.4 Performance from Other Activities

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

OTHER MATERIAL INCOME AND EXPENSES

Other material income and expenses, €m	2019
Acquisition Costs	755.4
Administrative expenses	260.2

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

Administrative expenses specifically consist of costs arising from premium colletion, portfolio administration, holding bonuses and rebates and inward and outward reinsurance. In particualr they include staff costs and depreciation provisions in repsect of office furniture and equipment in far as these need not be shown under acquisition costs, claims incurred or investment charges.

A.5 Any other Material Information

As at 30th November 2019, there is no other material information regarding Business and Performance of the Company.

Solvency & Financial Condition Report 2019

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 SECTION ARE:

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

B.1 General Information on the System of Governance

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

B.1.A. MANAGEMENT AND GOVERNANCE STRUCTURE

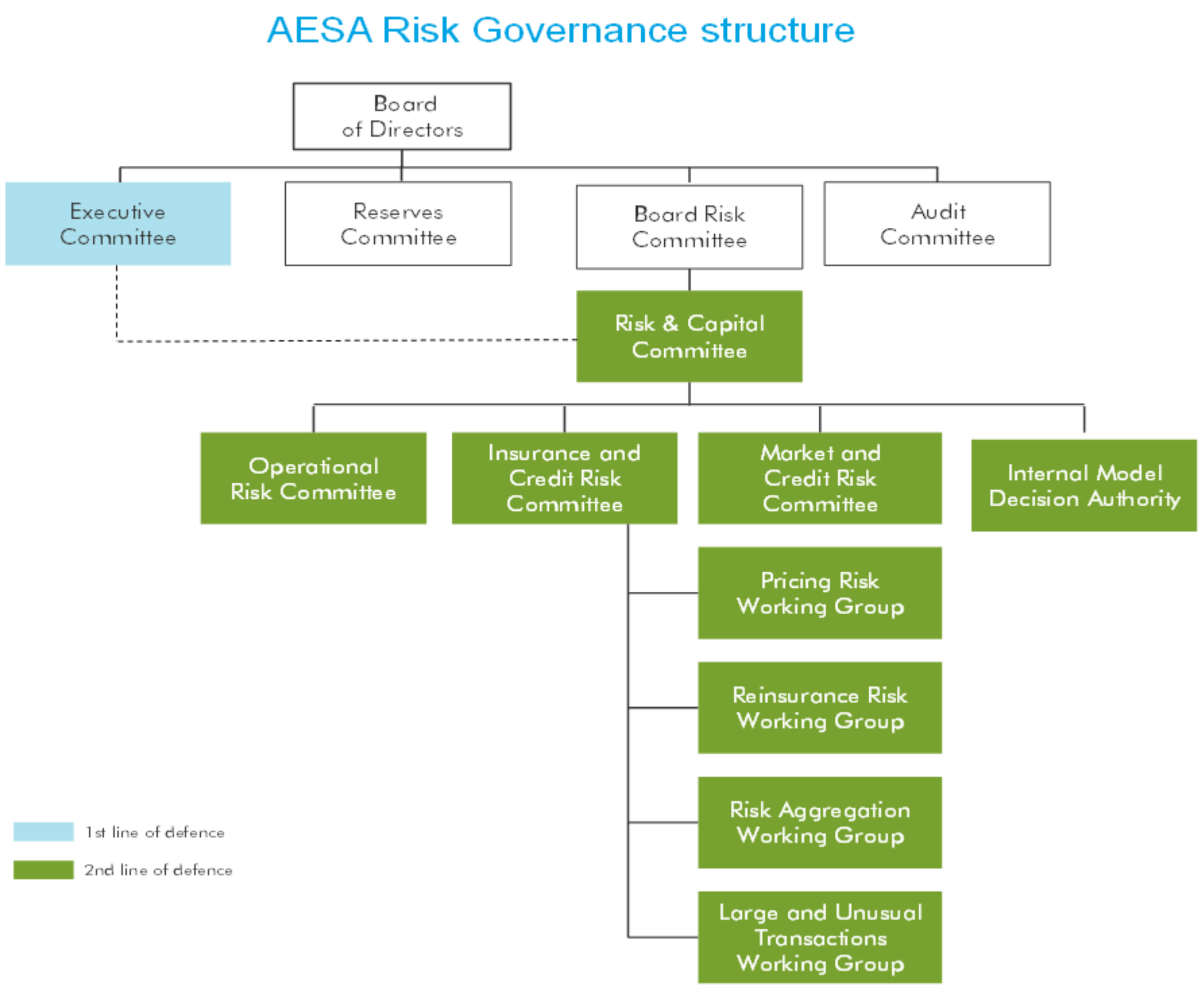
AESA's business strategy and operations operate within its governance structure, of which the management of risk plays a significant part. The Board has overall responsibility for management of the Company providing leadership and oversight of the executive management. It sets the risk appetite for the Company and delegates the day to day operation of the risk and control framework to the executive management and receives reports through a formal governance reporting framework.

Included in the governance framework is the risk management framework. The risk framework covers the Company's business and operations functions and risk areas. The risk governance structure provides a framework within which material risks are continually identified, assessed, monitored and managed, utilising outputs from the Economic Capital Model (ECM), where appropriate.

The governance structure has three levels of committees:

1) Board
2) Board committees
3) Executive Committees including Risk Committees

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



AESA's business strategy and operations operate within its governance structure, of which the management of risk plays a significant part. The Board has overall responsibility for management of the company providing leadership and oversight of the executive management. It sets the risk appetite for the Company and delegates the day to day operation of the risk and control framework to the executive management and receives reports through a formal governance reporting framework. Authority flows from the Board to its sub-committees as set out in their respective terms of reference.

The role of the Board Risk Committee (BRC) is to challenge, oversee and monitor risk management to ensure risks being identified and managed within the Board-approved Risk Appetite.

The Reserves Committee is responsible to ensure that adequate technical reserves are maintained and to oversee and manage reserving risk with the risk appetite.

The Risk and Capital Committee (RCC) is authorised by the BRC and by the ExCo to manage the risk profile within the risk governance framework and Risk Appetite. The RCC has sub-committees, (each chaired by a member of ExCo) covering Insurance, Market and Operational Risk, to manage the risk profile at a more granular level. Other members include relevant European business heads, risk experts from ERM and actuarial expertise from the Internal Model team.

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

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

THE "THREE LINES OF DEFENCE" MODEL

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

Overview of Management and Governance in AESA

Board of Directors

The Board is responsible for promoting the long-term success of the Company whilst securing an appropriate degree of protection for policyholders. Its objectives are to set the Company's strategic aims, monitor management's performance against those strategic aims, set the Company's risk appetite, ensure the Company is adequately resourced and that effective controls are in place. The Board is composed of a mix of an Executive Director and Independent Non-Executive Directors. Any major changes to the Company's business activities must receive Board approval prior to implementation.

Audit Committee

The role of the Audit Committee includes:

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

The Audit Committee is composed of the Independent Non-Executive Directors. The Chief Financial Officer (CFO), the Head of Legal, Chief Risk Officer (CRO) and the Head of Internal Audit and the lead partner of the External auditors are standing invitees. The Audit Committee Chair reports to the Board on key discussions and decisions following quarterly Board meeting. In addition, documents such as the annual financial statements are reviewed by the Audit Committee prior to being put before the Board.

Board Risk Committee

The role of the BRC is to challenge, oversee and monitor the management of risks to ensure risks being identified and managed within the risk appetite as set by the Board. The BRC is part of the Second Line of Defence.

The BRC is composed of the Independent Non-Executive Directors, the Chief Executive Officer (CEO) and the Chief Risk Officer (CRO). The BRC reviews the risk review of the business plan to ensure that risks to the business plan and the capital implications are adequately identified and assessed as part of the business planning process and that appropriate mitigating actions are in place.

The BRC chair reports to the Board on key discussions and decisions. Where the BRC asks for further information or for particular issues to be addressed and reported on, the Enterprise Risk Management (ERM) function is responsible for capturing a list of action points and ensuring that these are reported back on in full at the subsequent BRC meetings. The RCC is the body which bears primary responsibility for ensuring that the BRC's instructions are carried out.

Reserves Committee

The role of the Reserves Committee is to ensure that the Company maintains reasonable and adequate technical reserves and to oversee and manage reserving risk. The Reserves Committee is part of the Second Line of Defence. The Reserves Committee is composed of Independent Non-Executive Directors, the CEO, the CFO, the Chief Actuary, the Head of Claims and the CRO. Various Heads of underwriting units also attend as required. The Reserves Committee Chair provides a summary of key issues and decisions to the following quarterly Board meeting.

The Executive Committee

The Executive Committee (ExCo) has responsibility for developing and implementing strategy and managing operational issues relating to the Company. It is accountable to the Board for the day-to-day management of the Company. It develops strategy through business and capital plans and proposes these for approval by the Board. Once approved, ExCo is responsible for implementing these. The ExCo is composed of the CEO and a mix of senior executives.

The ExCo receives reports from the business, operational and controlled functions (including from the Cluster and Country Senior Leadership Teams) so as to monitor progress against the strategy and business plan. It also maintains an oversight of transformation projects and other strategic initiatives. The ExCo has created two further sub-committees, in addition to the RCC, being the Product Development Forum to oversee Product governance; and the Local Producer Compensation Committee to review and approve, including with conditions or modifications, any new or renewing prospects for arrangements with Third Party Intermediaries which involve non-standard remuneration.

Risk and Capital Committee

The RCC is authorised by the BRC and ExCo to manage the risk profile of the Company within the risk governance framework and risk appetite as set by the Board.

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

The outputs of the risk management processes mentioned above are escalated through the committee structure with each ORSA report and its underlying components reviewed and challenged at each level and approved by the Board.

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

The Insurance Risk Committee has four Sub-Groups; Pricing; Reinsurance; Aggregation and Large and Unusual Transactions, that focus on particular aspects of Insurance Risk and report to the Insurance Risk Committee on any recommendations and findings undertaken as a result of the execution of their responsibilities.

The Market Risk Committee focuses on the Company's balance sheet by monitoring and managing the Market Risk, Investment Risk, Counterparty Credit Risk and Liquidity Risk profile.

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

The RCC fulfils its duty to oversee the internal model via the Internal Model Decision Authority, which reports into it on a quarterly basis. The RCC is deliberately designed to be a second line of defence body, but composed of members who are also in a position to take immediate executive action to address risk issues. The RCC is comprised of the same membership of ExCo and meets after each ExCo meeting on a quarterly basis. Any matter due to go to the BRC should first receive RCC review. The RCC provides a written summary of key issues and decisions to the following quarterly BRC meeting. Where the RCC identifies an action or requires further information in relation to a risk, it gives instructions to the relevant committee member and tracks the progress of the required steps through an actions list.

B.1.A.A FIRST LINE OF DEFENCE

Senior management (executive/business/ operational), along with all staff in the organisation are responsible for implementing and maintaining the controls necessary for achievement of the Company's strategic and business objectives, the ownership and management of its inherent risks, its compliance with corporate standards and its legal and regulatory obligations. In this context, senior management are risk-takers and hence form the "First Line of Defence" against failure.

B.1.A.B SECOND LINE OF DEFENCE

Compliance and Enterprise Risk Management (ERM) are the oversight functions who are responsible for defining the risk framework and for monitoring the effectiveness of risk controls and for reporting their weaknesses or failures to the relevant risk committees. In this context, these functions are the "Second Line of Defence" against failure.

ERM also partners with the business in providing advice, guidance and challenge in managing their risks.

This can be read in conjunction with the system of Governance section of the 2019 Regular Supervisory Report in relation to the Compliance and Enterprise Risk Management functions.

B.1.A.C THIRD LINE OF DEFENCE

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

Internal Audit

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

B.1.A.D KEY FUNCTIONS, ROLES AND RESPONSIBILITIES FOR AESA

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 following functions:

- Finance Function;
- Risk Management Function;
- Compliance Function;
- Actuarial Function;
- Internal Audit Function, and
- Legal Function.

The roles and responsibilities for each of these functions and their key function holders are set out in turn below:

1) Finance Function – Chief Financial Officer (CFO)

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

The Finance function has the following responsibilities:

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

The Company's internal controls over Solvency II is a process, under the supervision of the Board, designed to provide reasonable assurance that the SCR calculation is complete, accurate and is underpinned by an appropriate level of data governance. The CFO is responsible for establishing and maintaining adequate internal controls over Solvency II reporting.

Internal control over Solvency II reporting includes procedures that:

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

For the submissions done during the reporting period under consideration, checks have been performed to ensure the accuracy of data feeding into the SCR reporting by data quality team and detailed review by AIG Financial Control Unit (FCU) of quarterly and annual submissions including review of controls.

2) Risk Function – Chief Risk Officer (CRO)

The Company's ERM function oversees the delivery of the risk management framework. The function is led by the CRO who is a member of the ExCo. The ERM function implements the Risk Management Framework (RMF) through a suite of "Risk Processes". The results and findings from these processes are reviewed, challenged and escalated through the Company's risk governance framework.

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

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

A matrix reporting structure ensures a common approach to risk management throughout the Company and ensures that all relevant risks are identified, measured, managed, monitored and reported. ERM continues to work closely with management to improve the risk profile of the business and strengthen the RMF throughout Europe. The 'Risk Management System' subsection B.3 of the report aims to provide an overview of the key risks encountered and the corresponding processes and procedures put in place for the management of these risks. The section also outlines the overall risk culture.

3) Compliance Function – Chief Compliance Officer

AESA Compliance is organised in accordance with the AIG Global Compliance Group (GCG) Structure, which ensures a common approach to compliance activities across AIG and provides 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 behaviors are demonstrated. The AESA Compliance team is led by the AESA Chief Compliance Officer, who is supported by the AESA Local Compliance Officiers. Subject Matter Expert teams for Privacy, Financial Crimes, and Monitoring & Testing provide input and Compliance Operations support where required.

Compliance function responsibilities

The Compliance function has the following responsibilities:

Compliance Policies and Procedures: AIG's compliance policy issuance is governed by the AIG Policy Framework overseen by the AIG Policy Governance Unit. The Framework is designed to provide consistency across the Company in the development, implementation, and maintenance of policies, which are documents that communicate the philosophy, rules and expectations of the Company. The AESA Local Compliance Officers, by input to GCG, review its policies, and any related procedures, periodically to determine whether updating is necessary to reflect changes in law or regulations. Compliance policies are maintained on the Compliance page of the AIG intranet as well as the AIG Policy Portal.

Subject Matter Expertise: GCG has subject matter expertise with regard to Key Compliance Risks, which are evaluated as part of the annual Compliance risk assessment process, as well as via other means during the year. Although day-to-day management of these risks resides within the Business Units, in order to assist businesses with the management of locally-required compliance risk issues, the Compliance teams, including the FCG and Privacy group, provide advisory guidance for these matters.

Advisory Services: The AESA Local Compliance Officers provide guidance and advice on various compliance risk-related matters in order to assist Business Units and Corporate Functions as they assess opportunities, as well as address challenges, related to governance, performance and growth to facilitate strategies for execution.

Compliance Risk Assessments: The AESA Local Compliance Officers participate in an annual global compliance risk assessment ("CRA") program to facilitate the identification, assessment, and measurement of Key Compliance Risks. As part of this overall program, the Compliance teams evaluate the inherent risk ratings, applicable key controls, and residual risk ratings for Key Compliance Risks. The CRA includes the evaluation of key laws and regulations; policies, procedures, and processes; training; compliance-related external and internal risk events; and testing results, as well as relevant Audit and Regulatory reports related to Key Compliance Risks.

Compliance Testing: GCG maintains a function-wide testing program designed to verify that business operations comply with certain AIG and Business Unit policies and standards, as well as key laws and regulations. The testing program covers Key Compliance Risks that have been agreed upon with Operational Risk Management. The program is managed by the Testing group who are responsible for the execution of the approved Test plan.

Compliance Data Analytics & Monitoring: A function-wide Data Analytics & Monitoring program has been designed to provide ongoing surveillance, review and analysis of key risk indicators to identify red flags and potential compliance violations. It will assist management through data driven risk insights, analytics and automation, in determining where it might need to focus efforts in order to enhance process and control effectiveness, and/or address emerging risks. In addition to this, the AESA Local Compliance Officers are responsible for a local Monitoring Plan that is designed to enable management to determine where it might need to focus resources in order to improve processes, develop remediation plans to address control deficiencies, address emerging risks or implement key initiatives in order to meet business objectives.

Compliance Training: Corporate Compliance is responsible for developing and implementing an annual global compliance training program addressing enterprise-wide Key Compliance Risks. The training program is designed to enhance employee knowledge and understanding of compliance policies and procedures, laws, regulations and standards of good business conduct. The AESA Local Compliance Officers are responsible for developing a local training program tailored to Key Compliance Risks specific to the country Business Units.

4) Actuarial Function – Chief Actuary

The Actuarial function is led by the Chief Actuary. The Chief Actuary is member of the AESA ExCo and works closely with other Executive members including the CEO, CFO, CRO and underwriting leadership among others. The Chief Actuary has a reporting line to the AESA CEO as well as the Group General Insurance Chief Actuary. The Actuarial function is responsible for calculating the probability and risk of future events using specialised mathematical techniques, software and commercial expertise. The Actuarial Function is a critical function for the Company, having a significant impact on the pricing, reserving and capital modelling calibration of all lines of business. The Actuarial function is a key contributor to the effective control management of Insurance Risks relating to the failure of pricing, risks relating to the failure of a product or strategy, and risks relating to adverse reserve development. The principal activities of the Actuarial Function are as follows:

- Portfolio/Account Pricing: The Actuarial Function provides advice and support in respect of understanding portfolio trends and related pricing decisions as well as individual account pricing for large complex policies across various countries. This support includes pricing profitability studies, individual account pricing, technical raters and Account Quality Index ('AQI').
- Strategic Pricing: Actuarial also develop structured raters to provide a more controlled environment in which accounts are priced whilst maintaining the ability for underwriting judgement within agreed parameters. Actuarial are heavily involved with the design and development of a strategic IT platform that acts as a well governed yet flexible front-end. It allows the Company to trade in such a way that risk data and exposure data is captured, allowing for a more robust premium rate management environment across the Company.
- Reserving: The Actuarial Function leads the analysis of historic data and recent trends in order to advise Senior Management on the appropriate levels of reserves to cover the expected cost of claims and highlights trends seen in historic claim movements. The level of reserves is AESA's largest liability on its balance sheet; hence an accurate valuation of reserves is critical for the Company to run its business effectively. The Actuarial Function makes reserving recommendations to the Reserves Committee which, in turn, reports to the Board.
- Capital Modelling Calibration: Combining analytical skills, actuarial modelling software and business knowledge, the Actuarial Function plays a leading role in the increasingly important task of modelling of AESA's Insurance Risk. IT supports the Internal Model review and challenge process as part of the Internal Model Decision Authority process. This element feeds into the ECM, which plays a wider role in determining the overall capital impact of changes to the Company's risk profile. Actuarial also helps calculate the Insurance Risk elements of the Standard Formula requirements for the Company which are in turn used as a benchmark to compare against the results of the Internal Model.
- Solvency II Technical Provisions: In compliance with the European Union Solvency II legislation, the Actuarial Function calculates both the best estimate technical provisions and the risk margin which forms the market value of the Company's technical provisions. These calculations are performed based on the latest draft regulations and in conjunction with the ECM team, ensuring consistency with the Internal Model.
- Planning: The Actuarial Function develops a best estimate view of the loss ratio for the budget year; this takes into account information such as expected change in business mix, expected future premium rates, expected future claims inflation and expected

changes to terms and conditions as well as considering the historical loss ratio trends by segment. This is then discussed with the wider business. The execution of the underwriting initiatives in the budget are tracked and reported during the course of the year.

- Overseeing the preparation and submission of the Actuarial function report to the Board which sets out the assessment of the reliability and adequacy of the calculation of technical provisions and an opinion on the underwriting policy and overall reinsurance arrangements;
- Timely provision of actuarial inputs into Solvency II Pillar 3 reporting;
- Owning the risks identified in the European risk register;
- Peer review of pricing profitability studies; and
- Production of management information around profitability as required by the wider business.

5) Internal Audit Function – Head of Internal Audit

Internal Audit's mission is to enhance and protect enterprise value by providing stakeholders with objective assurance and insight. Internal Audit does this by: establishing, implementing and maintaining a risk-based audit programme that is effective and efficient, taking into account the Company's activities, internal conrol, system of governance and risk management processes; conducting an independent assessment of how effectively key risks are identified and managed and challenging management on the effectiveness of their discharge responsibilities and making recommendations for improvement.

The Internal Audit function is led by the Head of Internal Audit and is responsible for developing and maintaining a risk-based internal audit programme for the Company through:

- Delivering a comprehensive, dynamic and globally-aligned audit programme for the Company;
- Evaluating the control framework with respect to the reliability, integrity and timeliness of financial information and statements, and key non-financial data;
- Evaluating the processes and controls established to ensure compliance with corporate ethical standards, policies, plans, procedures, and applicable laws and regulations;
- Monitoring and evaluating the effectiveness of the Company's governance, internal control and risk management processes;
- Reporting periodically on Internal Audit'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; and
- Supporting the assurance needs of the Board and the Audit Committee by developing tailored planning, reporting and advice to meet local corporate governance and regulatory requirements.

Internal Audit Independence and Objectivity

The independence of Internal Audit is fundamental to its ability to deliver objective coverage of all businesses and corporate functions of the Company. The Head of Internal Audit ensures that Internal Audit remains free from all conditions that threaten the ability of its personnel to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. This is achieved through through the following:

- The Head of Internal Audit reports directly to the local Audit Committee, with no reporting line to local management. Internal Audit is a global function, where the global Chief Audit Executive has a direct reporting line to the AIG Audit Committee, and an administrative reporting line to AIG's CEO; this establishes Internal Audit's position within the organization and permits the Internal Audit Group to continue to render impartial and unbiased judgments.
- The Head of Internal Audit is authorised by the Audit Committee to have full and complete access to any of the organisation's records, properties and personnel.
- The Head of Internal Audit is also authorized to designate members of the audit staff to have such full and complete access in discharging their responsibilities.
- The Head of Internal Audit will confirm the organizational independence of Internal Audit to the Audit Committee annually, as well as disclose to the Committee any interference and related implications.
- Internal Audit personnel may not have operational responsibility or authority over any of the Company's business activity or personnel outside of Internal Audit, and may not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment.
- The Audit Committee is responsible for recommending the approval of the appointment or termination of the Head of Internal Audit.

6) Legal Function – Head of Legal

The Legal function is led by a Head of Legal who also acts as Company Secretary and works closely with other Executive members including the CEO, CFO, CRO and underwriting leadership among others. The Head of Legal is a member of the ExCo and he attends the Board, the Audit and the Risk Committees meetings. He is supported by the European regional legal team, legal teams based in the majority of the European branches and on certain specialist areas, the Head Office legal team in New York. The Head of Legal has a reporting line to the Company CEO as well as the EMEA General Counsel.

The principal activities of the Legal function are as follows:

- Providing legal and regulatory advice on all major legal specialisations, including insurance programmes and products for commercial and consumer lines, enterprise risk management, corporate, capital management, treasury, target operating models, outsourcing, M&A, securities, anti-trust investigations, litigation and taxation;
- Ensuring the Company's activities in the pursuit of its business aims complies with its legal and regulatory obligations;
- Providing legal challenge on executive decisions relating to strategic objectives and business plans;
- Anticipating issues and facilitating solutions to legal challenges in support of business growth and ensuring the proper and complete handling of all legal matters through in-house legal resources and outside counsel;
- Acting as Company Secretary to ensure compliance with all statutory and regulatory filing requirements across the company and its branches and maintain appropriate records of Board and committee meetings.

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

There were no material changes during 2019 in the Company's System of Goverance.

B.1.C REMUNERATION

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

Principles of the remuneration policy

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

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

Performance criteria

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

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

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

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

Human Resources

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

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

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

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

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

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

Compensation

The total Direct Compensation consists of the following elements:

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

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

Risk and Compensation Plans

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

B.1.D MATERIAL TRANSACTIONS DURING THE PERIOD

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

B.2 FIT AND PROPER

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

Assessment of fit and proper

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

- References - The Company takes reasonable steps to obtain appropriate references from the person's previous employer(s)
- Criminal Record Bureau (CRB) checks: Following receipt of the person's consent the Company obtains and assesses any disclosures contained within a criminal records bureau check (or overseas equivalent if applicable);
- Pre-appointment questionnaire against which the findings of the above can be cross-checked;
- Qualifications - Request and review evidence of relevant qualifications as appropriate;
- Application - Require a formal application with CV (containing the candidate's full employment history accounting for any gaps, and the reasons for leaving each employer) and ensure that the person is interviewed at an appropriate level in order to assess his or her competence, knowledge, experience and training (including the person's training needs and requirements), taking into account the duties that will be expected of that person as set out in the role profile for the position.

Training of the Board Members

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

B.3 RISK MANAGEMENT SYSTEM

AESA Internal Model

AESA has developed an ECM which was approved in September 2018 by the CAA. There are no material quantifiable risks that are out of scope of the model and there is no intangible asset which is not valued as zero.

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. We achieve this through a strong risk culture articulated by effective ERM senior leadership and embodied by management at all levels through our governance structure and risk management processes.

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

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

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

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

The Company's Board, through its sub committee, the BRC, has ultimate responsibility for development and oversight of the risk management framework; the Board delegates the management of risks within its risk appetite and the risk governance framework to the Company's RCC. The RCC escalates matters of importance to the Board as needed.

Risk Culture

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

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

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

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

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

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

Risk Identification

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

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

- Ongoing assessments of relevant branch level and Cluster (ExCo level) risks in risk committees;
- Identifying growing or emerging risks through conducting risk analysis and follow up monitoring of the annual business plans of the Company and its many lines of business;
- The application of insight from selected external industry studies and media coverage of loss events;
- Participation in and review of the outputs of an enterprise-wide Vulnerability Identification Process, which is designed to ensure that potential new or emerging risks are brought to the attention of senior management; and
- The assessment of internally and externally generated loss events and Risk and Control Self Assessments (RCSAs).
- Regular stress and scenario exercises are undertaken during the year in co-operation with business operations to evaluate the perils the company is exposed to across multiple facets of the business.

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

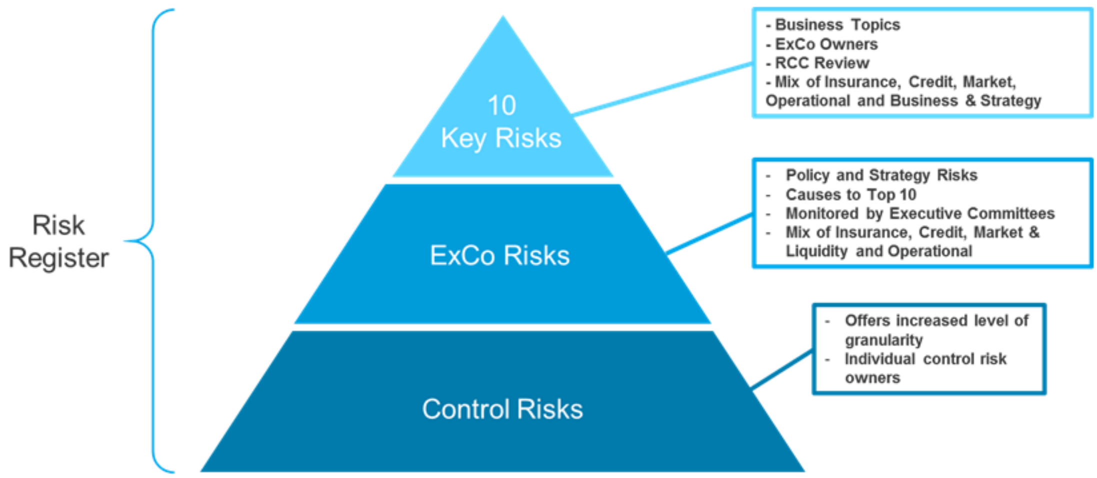
Risk Register

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

- Tier 1: Comprised of the entity level key risks, spanning the whole of the company's operations. These risks are owned at the RCC level.
- Tier 2: Comprised of Granular ExCo risks; owned and managed through the Executive Risk Committees that report to the RCC (being the Insurance, Market, Credit and Operational Risk Committees).
- Tier 3: Comprised of control risks; these support ExCo risks with enhanced granularity and are designed to mitigate the frequency and/or severity of a given risk. The more effective a key control is, the greater its ability to mitigate the impact of the risk it is linked to. The reverse is also true.

The risks identified at Tier 2 and Tier 3 levels are designed to align to the entity level key risks identified for Tier 1. This enables the company to maintain a dynamic, interactive, risk register structure, where issues or developments within specific risks at a certain level are discussed and taken into account for relevant risks within the other tiers.

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



Tier 1: Entity Level Key Risks

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

Tier 2: The 'ExCo' Risks

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

Risk Register Platform

The company's Risk Register will be documented within an intranet based tool that applies the company's current risk register structure. This incorporates risk assessments for all of the company's entity level key risks and second-tier ExCo-level risks, as well as details of risk owners, sub-owners and underlying controls for the ExCo-level risks. The new risk register platform allows users to access the register in a more user-friendly format and to see a real-time overview of the company's risk profile. The Risk Register is updated on a quarterly basis by the Heads of Insurance, Market, Credit and Operational Risk in consultation with relevant risk and control owners.

Risk Management and Control

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

Risk Reporting

ERM utilises periodical risk reporting to articulate to regional and local management, including the RCC and the Board, whether the company is identifying, monitoring and managing its risks sufficiently to adequately operate within its risk appetite and to recommend (where appropriate) remedial actions.

Regular Risk Reports

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

- Key internal or external risk developments over the last month that may impact on the Company's risk profile;
- Updates on the progress of remediation on identified management actions;
- Actions and points of focus in the last risk type committee (Insurance, Market, Operational and Credit Risk committees); including reviews of relevant ExCo-level risks.

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

Quarterly Risk Assessments

The ERM function co-ordinates the production of detailed risk assessments covering key risks for discussion by the Insurance, Market and Operational Risk Committees before being fed up to the RCC on a quarterly basis.

These reports communicate ERM's view of the current and future risk and control landscape around each of the entity level key risks, taking into account assessment of the underlying ExCo risks that comprise each entity level key risk and the results of monitoring conducted on emerging risks is documented in a Risk Watchlist. These assessments utilise a combination of qualitative and quantitative factors, most notably the current calculated risk appetite for each entity level key risk against its defined risk appetite, to grade each of the entity level key risks from low to high risk.

Stress and Scenario Testing Framework

The Company, as part of its risk management framework, undertakes Stress and Scenario Testing across the business, covering single (e.g. sensitivity of fixed investment portfolio to interest rates) and multiple factors (risk aggregation) to determine the Gross and Net (of facultative and internal treaty reinsurance) Profit & Loss impact on the Company.

Stress and Scenario Testing provides valuable input for the company through informing senior management of how simulated 'real-life' events create pools of risk aggregation across risk types that ultimately impact AESA's capital position.The Company's suite of stress and scenarios tests are utilised in the following areas:

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

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

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

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

Emerging Risk Stress Testing: Given the flexible nature of Stress & Scenario Tests as a risk management tool, they are valuable for analysing and quantifying the risks posed by emerging events. Through the ongoing review of the Company's Risk Profile (as a part of the ORSA) the ERM team identifies emerging risks, for which bespoke stress tests can then be delivered to aid measurement and understanding.

Solvency Capital Management

Management develop and regularly reassess capital targets and operating ranges in order to ensure the Company holds an appropriate and efficient amount of capital. The binding regulatory capital requirement for AESA is the Internal Model SCR ("IM-SCR"). The Company has no appetite to breach the IM-SCR and takes appropriate steps to ensure continuous compliance, holding sufficient capital resources in order to meet this requirement.

The Company targets holding sufficient capital to meet the IM SCR run-off to 'ultimate' and withstand various stresses. The Company's IM SCR is designed to capture all relevant risks faced by the business over a 1-year time horizon. Management believe that the capital buffer is sufficient to provide for the run-off of liabilities beyond the 1-year time horizon, to cover all risks until the ultimate settlement of all liabilities (ultimate SCR). Regular stress testing supports the assessment of the target capital buffer.

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

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

B.4 OWN RISK AND SOLVENCY ASSESSMENT

An Enterprise Risk Management ("ERM") framework is in place to identify, assess, manage, monitor and report on the risks faced by the company. The Own Risk and Solvency Assessment ("ORSA") is a mechanism for consolidating outputs from the ERM framework and business processes into one holistic view on the company's risk profile and solvency situation over the company's business planning horizon and if required its ultimate risk position. The outputs of this process are recorded within the ORSA Report.

ORSA Governance

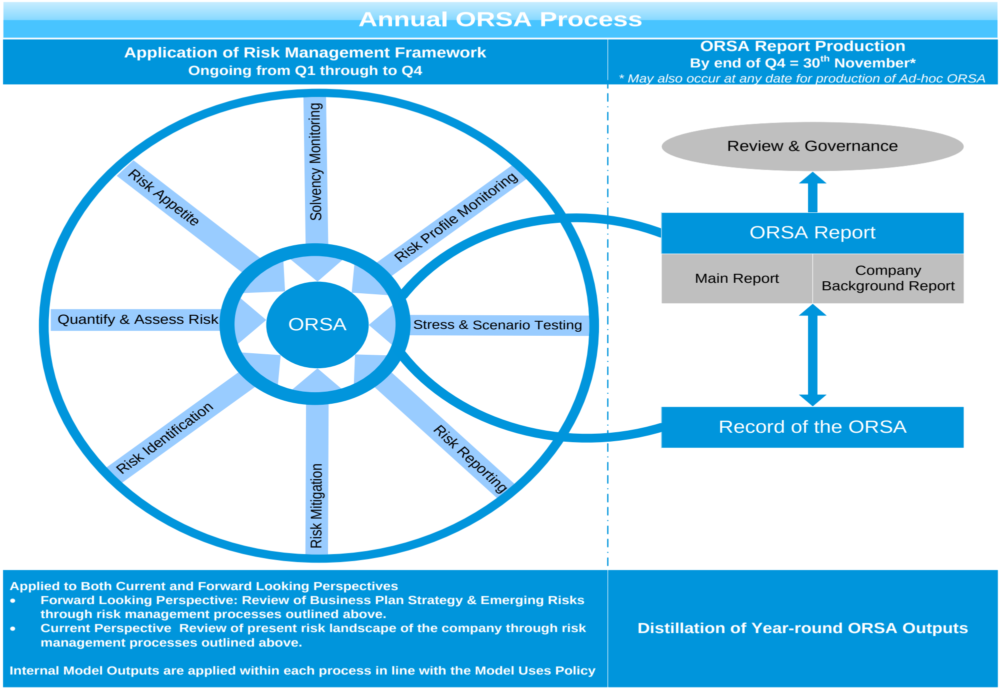
Ultimate ownership of the ORSA process lies with the Board as part of its oversight responsibility for the management of risk in the organisation. As such, the Board is expected to set their expectations for the ORSA. The Board delegates responsibility of the execution of the ORSA process to the Chief Risk Officer, who is also responsible for overseeing the production of the ORSA Report.

ORSA Report

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

The ERM function prepares at least one ORSA report annually and this is reviewed, challenged and ultimately signed off at Board level. In addition, a further interim update of the ORSA may be produced in cases where an event occurs that results in a material change to the Company's Risk Profile, Internal Model or Business Plan. The ORSA process and report is used and embedded in the first line of defence.

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



B.5 INTERNAL CONTROL SYSTEM

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

B.6 INTERNAL AUDIT FUNCTION

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

B.7 ACTUARIAL FUNCTION

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

B.8 OUTSOURCING ARRANGEMENTS

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

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

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

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

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

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

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

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

During the reporting period the following auxiliary functions were outsourced:

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

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

B.9 ADEQUACY AND APPROPRIATENESS OF THE SYSTEM OF GOVERNANCE

The governance structure ensures that management are able to provide the appropriate levels of oversight whilst allowing decisions to be made at the appropriate level of the Company. Each of the Committees and sub-committees is comprised of members with specific experience and expertise to provide the necessary challenge and oversight. The Committees and sub committees are authorised to make decisions and take actions within a delegated authority.

The governance structure provides a mechanism for the Company to anticipate and respond to potential changes in the business environment or risk profile within an appropriate period of time. The governance structure is also designed to facilitate the formulation, scrutiny and once approved, implementation of strategy.

As a member of a wider group, the broad strategic direction of the Company as a whole is set by AIG, Inc.'s executive operating committee. The ExCo formulates local strategies and business plans, taking account of AIG Group strategic direction. The plan is presented to the Board who scrutinise it to assess its benefits and risks to determine whether its implementation would be in accordance with AESA's:

- Risk appetite;
- Legal and regulatory constraints;
- Fair treatment of those who are (or may become) the policyholders of its insurance subsidiaries; and
- Safety and soundness of the Company.

B.10 ANY OTHER MATERIAL INFORMATION

Aside from the information provided in Section B there is no other material information of the system of governance of the Company during the period.

Solvency & Financial Condition Report 2019

C. Risk Profile

THE RISK PROFILE SECTION OF THE REPORT CAPTURES THE COMPLEXITY OF THE OVERALL RISK STATUS OF THE COMPANY, TAKING INTO ACCOUNT ALL THE MATERIAL RISKS TO WHICH THE COMPANY IS EXPOSED.

FOR EACH MAJOR RISK GROUPING, THIS SECTION PROVIDES A DESCRIPTION OF:

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

C. RISK PROFILE

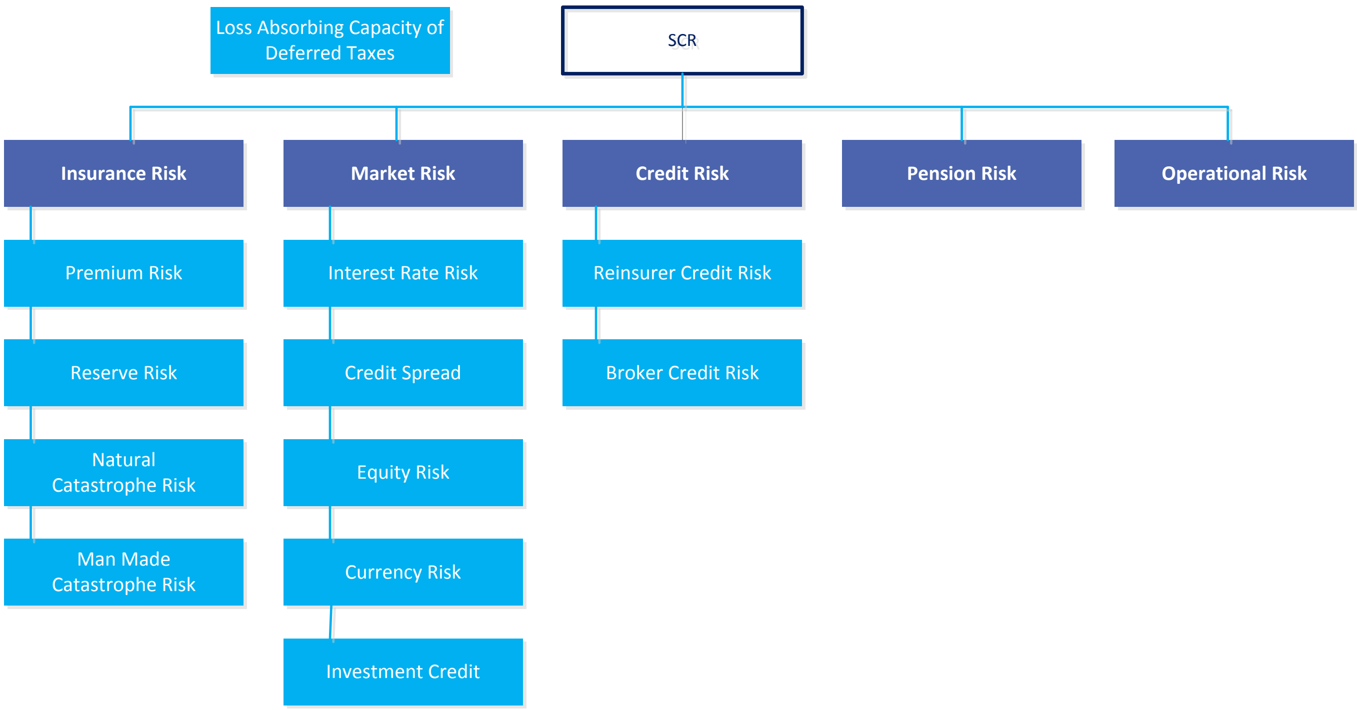
The Company believes that a strong, effective and embedded risk management framework is crucial to maintaining successful business operations and delivering sustainable, long-term profitability. The Company's goal is to achieve this through a risk culture articulated by its ERM senior leadership and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

The Company's capital requirement under Solvency II (which seeks to quantify and reflect its current risk profile) is calculated on a Full Internal Model basis (IM-SCR). The Company currently has and is forecast to maintain a capital surplus above this binding capital constraint over the horizon of our business plan.

AESA SCR
€'m

	Y/E 2019
Insurance risk	967
Market risk	400
Credit risk	245
Operational risk	196
Pension risk	49
Diversification	(487)
Total Solvency Capital Requirement	1,370

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



Risk Profile, Measurement and Assessment

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

- Insurance Risk;
- Market Risk including Liquidity Risk;
- Credit Risk;
- Operational Risk including Technology Risk;
- Business & Strategy Risk

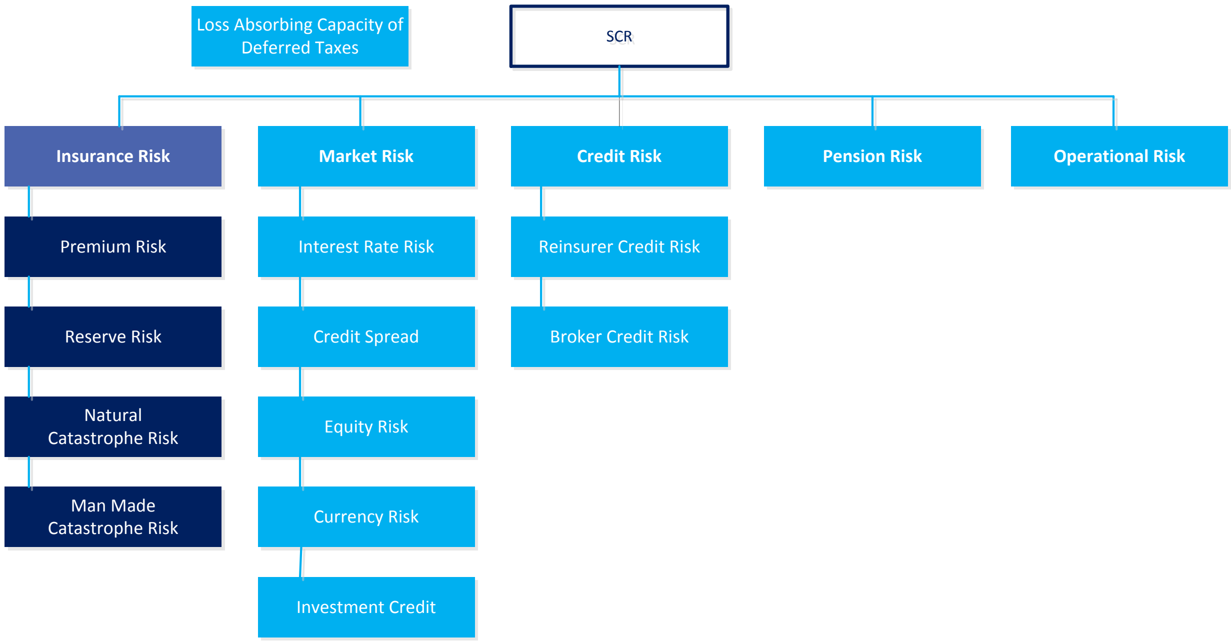
The Company has identified a number of risks that may potentially impact on the successful execution of its business plan and ability to generate sustainable profits during 2019 and beyond.

Top Ten risks on the Company's Risk Watch List

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

C.1 INSURANCE RISK (UNDERWRITING RISK)

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



INSURANCE RISK EXPOSURES

Premium Risk

Premium Risk is the risk that the loss experience for the future accident year is different from the central assumption. More specifically, Premium Risk results from fluctuations in the timing, frequency and severity of insured events. It relates to risks from policies that will be written during the period (including renewals), and to unexpired risks on existing contracts. Premium Risk includes the risk that premium provisions turn out to be insufficient.

Reserve Risk

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

Natural Catastrophe Risk

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

Man Made Cat Risk

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

The Company's exposure to Insurance Risks is the largest contributor to its capital requirement and represents 62% of the total of allocated risks.

MEASURES USED TO ASSESS INSURANCE RISK

Premium Risk (Non Cat)

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

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

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

Premium Risk (Natural Catastrophes)

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

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

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

Premium Risk (Man-Made Catastrophes)

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

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

When deriving each scenario the impact of multiple lines of business is considered. Workshops with product tower managers, risk officers and actuaries are used to identify and determine scenario inputs. The scenarios are calculated on a gross, gross less facultative and net basis. An Expert Panel reviews and signs off on the scenarios.

Reserve Risk

The Reserve variability method is to re-project the reserves to obtain a range of potential reserve outcomes. The method that we use looks to model a re-reserving exercise following further development and payments modelled in each simulation.

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

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

The process is calibrated by Corporate Actuarial with guidance on techniques and tools from the Economic Capital Model.

The reserve risk calibration process is done at the same time as that for premium risk ensuring consistency both in terms of data and approach.

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

The following Key Risk Indicators (KRI) are used by the Company to qualitative assess the risks described in the previous section:

Insurance Risk Components	Key Risk Indicators (KRIs)
Premium Risk	Premium Adequacy ratio per line of business. A ratio of 100% indicates the line of business is expected to exactly break-even.
Reserve Risk	Accident Year Ultimate Loss Ratio vs Budget , Incurred Loss Ratio vs 5 Year Average, Magnitude of Prior Year Reserve Movements
Natural Catastrophe Risk	Natural Catastrophe Accumulations
Man-Made Catastrophe Risk	Terrorism Accumulations

There are no material changes to the measures used to assess Premium Risk, Reserve Risk, Natural Catastrophe Risk and Man-Made Catastrophe Risk.

INSURANCE RISK CONCENTRATION

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

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

INSURANCE RISK MITIGATION TECHNIQUES

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

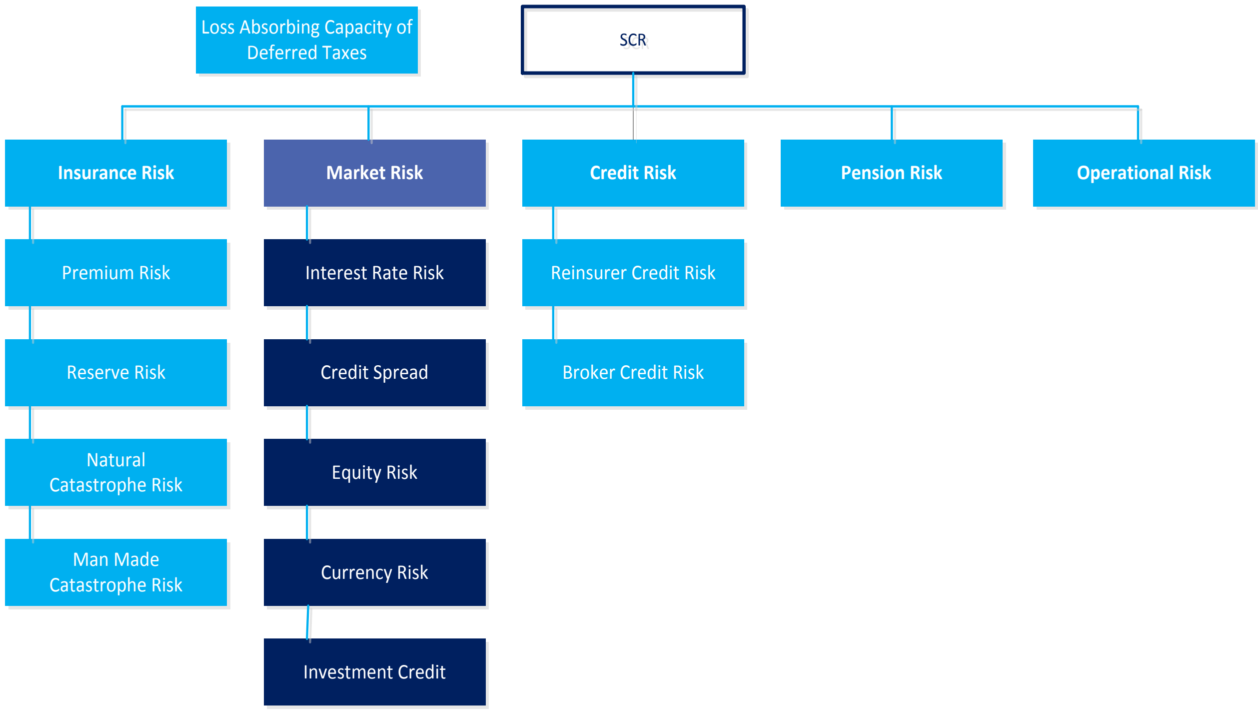
Type of risk	Risk mitigation techniques
Premium Risk - Failure of pricing	
Pricing guidelines	The Company seeks to manage pricing risk through the setting and review of pricing guidelines relevant to each business line and the application of a strict hierarchy of underwriting authorities to ensure that policies are underwritten with management oversight.
Review of large and unusual transactions	Large and unusual transactions are referred to the Large and Unusual Transactions (LUT) referral group, primarily comprised of members of the Company's Insurance Risk Committee for consideration from a Statement of Financial Position, liquidity and portfolio point of view before the Company becomes committed.
Purchase of reinsurance	The Company also mitigates exposure to pricing risk through the purchase of reinsurance.
Premium Risk - Ineffective strategy / Failure of product	
Review of business plans and new products	The Company seeks to manage this risk through the use of processes and procedures over the production, review and analysis of annual business plans and the introduction of new products for each line of business, prior to approval and execution.
Assessment of key projects and strategic investments	The Company also has processes in place for the identification, assessment and approval of key projects and strategic investments.
Reserve Risk - Adverse reserve development	
Monitoring adherence to claims reserving policies and procedures	The Company seeks to manage this risk through monitoring adherence to established policies and procedures in place governing claims reserving practices.
Catastrophe Risk - Failure to manage risk aggregation / accumulation	
Use of pre-bind rules and authorities	The Company seeks to manage this risk through the use of pre-bind rules and authorities to manage significant within line and cross-line exposures.
Review of large and unusual transactions	Large and unusual transactions are referred to the LUT for further consideration.

PROCESS FOR MONITORING THE EFFECTIVENESS OF INSURANCE RISK MITIGATION TECHNIQUES

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

In relation to Reserve Risk, the Company's Actuarial Team conducts quarterly reserve reviews of the Company's overall book to determine appropriate reserve levels and quarterly reviews of the Company's expected Incurred But Not Reported (IBNR) adequacy. The Company also employs external consultants to perform reviews of its reserves to provide an independent review of their adequacy.

C.2 MARKET RISK



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

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

- Assets in the Company's investment portfolio including, but not limited to, bonds, loans, structured products, equity, alternative investments and real estate;
- Capital markets transactions, such as exchange-traded and over-the-counter derivatives;
- The Company's insurance businesses providing services to clients that can generate assets and liabilities with valuations linked to Market Risk Factors
- Transactions that require cash-flow settlement in a currency other than the functional currency, generating foreign exchange transaction risk.

MARKET RISK EXPOSURE

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

Market Risk Components	Description
Spread risk	The potential financial loss due to the increase in the spread that an asset trades at relative to comparable government bonds hence a decrease in the asset's market value.
Currency risk	The potential financial loss arising from the change in value of currency exchange rates or from closing out a currency position at a loss due to adverse movements in exchange rates.
Interest rate risk	The potential financial loss arising from the reduction in the value of the investment portfolio and liabilities due to changes in the level of interest rates.
Equity risk	The potential financial loss arising from the reduction in the value of the investment portfolio due to changes in prices of equities, mutual funds and equity-linked capital market instruments. The Company's exposure to Equity risk is immaterial because holdings in underlying equity securities are not significant.
Investment Credit Risk	In the process of purchasing investment assets to pay claims and meet future liabilities AIG is exposed to investment credit risk. Investment credit risk is the risk of idiosyncratic or systematic default within our investment portfolio which results in credit losses and impairments.

MEASURES USED TO ASSESS MARKET RISK

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

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

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

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

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

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

There are no material changes to the measures used to assess market risk during the year 2019.

MARKET RISK CONCENTRATION

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

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

Bonds (government, corporate and securitised assets) comprise the largest portion of the Company's investment portfolio out of which 75% were either rated AAA, AA or A in 2019.

Asset Ratings	Market Risk Concentration €m	Market Risk Concentration %
AAA	1,378	21%
AA	1,653	25%
A	1,630	25%
BBB	1,052	16%
BB	319	5%
B	180	3%
Not Rated	330	5%
Total	**6,541**	**100%**

Source: QRT S.06.02.02

MARKET RISK CONCENTRATION – BY ISSUER

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

Issuer names	Market Risk Concentration €m	Market Risk Concentration %
Republic of France	391	6%
United States Department of Treasury	353	5%
Kingdom of Denmark	183	3%
Kingdom of Belgium	102	2%
Republic of Austria	96	1%

Source: QRT S.06.02.02

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

MARKET RISK CONCENTRATION – BY CURRENCY

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

Currency	Market Risk Concentration €m	Market Risk Concentration %
Euro	5,251	80%
US Dollar	558	9%
Danish Krone	215	3%
Other	518	8%
Total	**6,541**	**100%**

Source: QRT S.06.02.02

MARKET RISK MITIGATION TECHNIQUES

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

PROCESS FOR MONITORING THE EFFECTIVENESS OF MARKET RISK MITIGATION TECHNIQUES

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

The Board of the Company either as a whole or through its committees oversees market risk and approves annually the Company's Risk Appetite Statement.

The Board of the Company discharges its responsibility for oversight of the Policies and Procedures through the RCC, and as such is empowered to provide guidance and oversight regarding Market Risk. The RCC is chaired by the CRO.

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

RISK MITIGATION AND THE PRUDENT PERSON PRINCIPLE

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

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

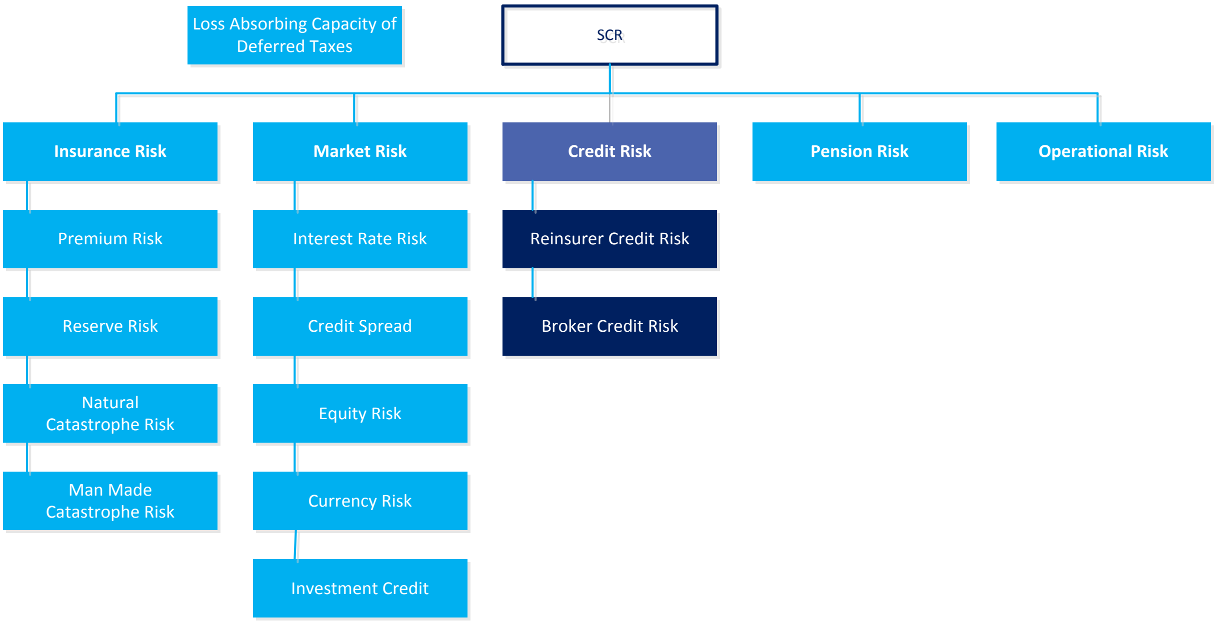
Asset categories that are included in the SAA are those that are suitable for the Company's liabilities profile by nature, term and currency and for which AIG Asset Management (Europe) Limited (AAMEL) (the investment manager) could assess, monitor and control risks. The Company chooses not to invest in any asset category that is not included in the SAA.

Tactical deviations from the SAA to maximise investment returns are permitted but they are limited to changes in allocation of asset categories covered by the SAA only. The Company rebalances its portfolio on a quarterly basis so that the actual allocation of assets is not materially different from the SAA. SAA implemented by IMA sets out the limits to avoid concentration of risks to a particular sector, issuer, currency, credit rating and country. The Company holds a well-diversified portfolio due to aforementioned limits and it uses derivatives and collaterals for risk management purposes only.

C.3 CREDIT RISK

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

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



CREDIT RISK EXPOSURE

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

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

- Asset Credit Risk (within Market Risk); and
- Trade Credit (within Insurance Risk).

The Company's exposure to Credit Risks is the fourth largest.

MEASURES USED TO ASSESS CREDIT RISK

The Internal Model allows the explicit modelling of default and exposure to both reinsurance and broker counterparties. The Company assigns to each counterparty an internal rating with each counterparty modelled seperately within the Internal Model.

The calibration of Probability of Defaults utilises information from the external credit rating agencies.

The calibration of Loss Given Default of each counterparty is carried out using a credibility theory approach which utilises both internal and external data.

The following Key Risk Indicators (KRI) are used by the Company to qualitative assess the credit risk:

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

There are no material changes to the measures used to assess Credit Risk during the year 2019.

CREDIT RISK CONCENTRATION

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

The Company's most material Credit Risk concentration relates to reinsurance arrangements. The largest reinsurance balance is with AIG Group and the details of top five reinsurer balances, including those held with captive reinsurers are as follows:

Reinsurer Name	€m
American International Group, Inc.	957
Two Harbors Insurance Company	85
Euroguard Insurance Company Limited	80
Marius Falls Insurance Company Limited	69
Avis Budget Europe Int'l Re Ltd.	38

Source: S.31.01 QRT

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

CREDIT RISK MITIGATION TECHNIQUES

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

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

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

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

PROCESS FOR MONITORING THE EFFECTIVENESS OF CREDIT RISK MITIGATION TECHNIQUES

Credit Risks are monitored through the governance structure. The Insurance Risk committee monitors and reports on the credit risks within Insurance business. The Reinsurance Committee, a sub-committee of the Insurance Risk committee, meets quarterly to manage, monitor and report the Credit Risks associated with reinsurance and broker balances within the Company. The committee adheres to its terms of reference with respect to its membership, chair, the frequency of meetings, and record keeping.

The Committee executes its responsibilities effectively by review of the Credit Risk profile against the risk appetite, and ad-hoc portfolio reviews. The Insurance Risk Committee also receives and comments on relevant Credit Risk content relating to the Economic capital model calibration, model validation and model outputs. Feedback and challenge is provided by the committee on these all of these reports.

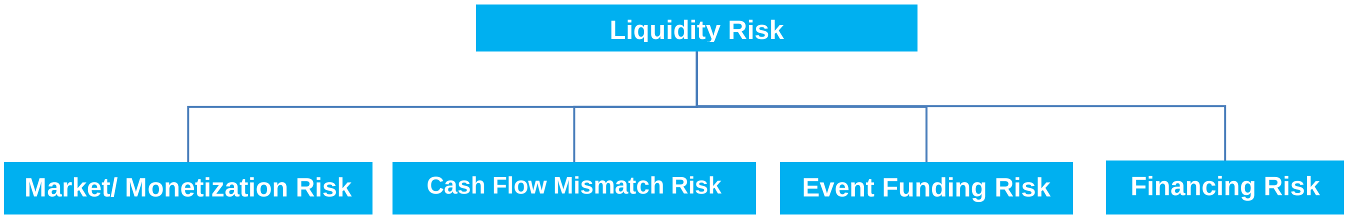
Reinsurance recoverables are a key risk consideration for the Company. The Reinsurance Credit Department is dedicated to the management of reinsurance recoverables within AIG, and conducts the following principal control activities:

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

C.4 LIQUIDITY RISK

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

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



LIQUIDITY RISK EXPOSURE

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

- Market/Monetization Risk: Assets cannot be readily transformed into cash due to unfavourable market conditions. Market Liquidity Risk may limit the ability to sell assets at reasonable values to meet liquidity needs.
- Cash Flow Mismatch Risk: Discrete and cumulative cash flow mismatches or gaps over short-term horizons under both expected and adverse business conditions may create future liquidity shortfalls.
- Event Funding Risk: Additional funding is required as the result of a trigger event. Event Funding Risk comes in many forms and may result from a downgrade in credit ratings, a market event, or some other event that created a funding obligation or limits existing funding options.

MEASURES USED TO ASSESS LIQUIDITY RISK

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

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

There are no material changes to the measures used to assess liquidity during the year 2019.

LIQUIDITY RISK CONCENTRATIONS

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

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

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

The Company being predominantly a non-life insurer has made all of its financial investments in assets designated as available for sale except for loans and mortgages, and therefore, can be sold when needed. For the purpose of monitoring Liquidity Risk these are classified as available on demand or within one year and therefore, the largest concentration of assets is within one year maturity category.

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

LIQUIDITY RISK MITIGATION TECHNIQUES

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

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

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

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

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

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

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

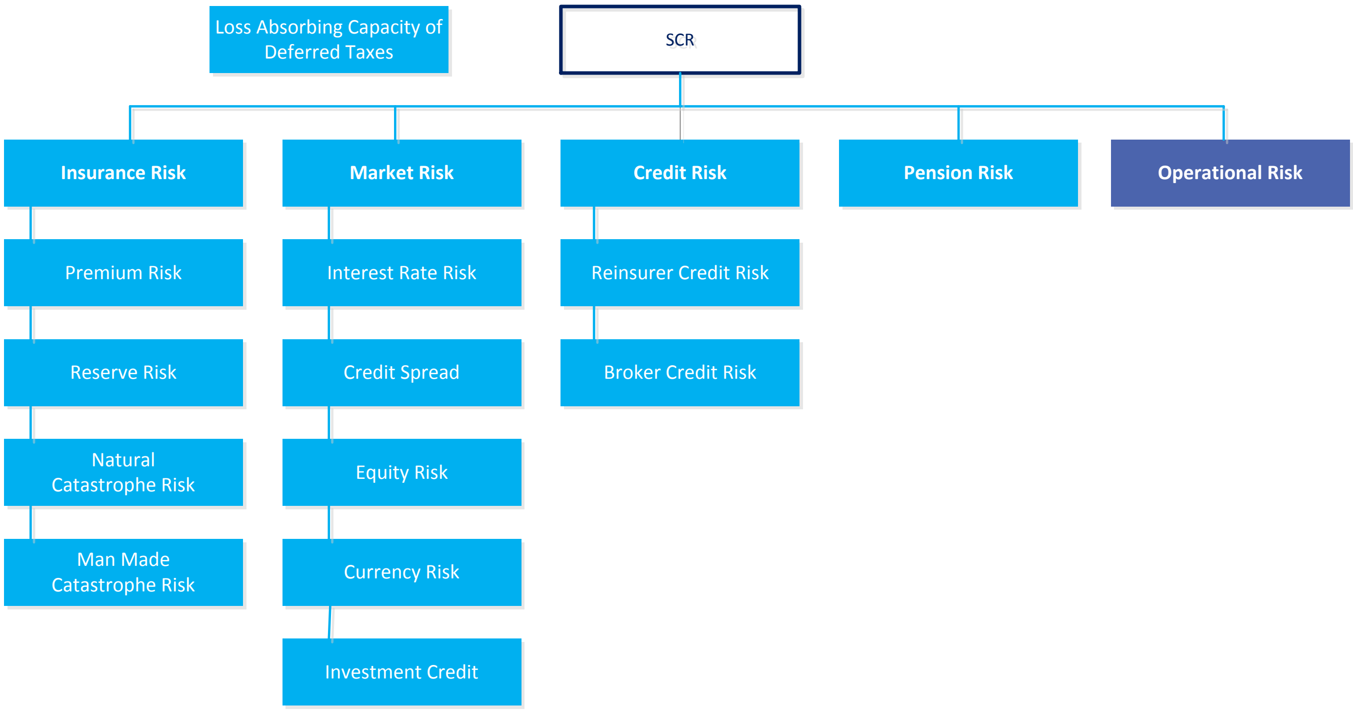
PROCESS FOR MONITORING THE EFFECTIVENESS OF LIQUIDITY RISK MITIGATION TECHNIQUES

The Company has established a Liquidity Risk Management Framework which is guided by the Liquidity Risk Tolerance as set forth by the Statement of Risk Appetite approved by the Board. The purpose of the framework is to establish minimum liquidity requirements that protect the Company's long-term viability and ability to fund its ongoing business and meet short-term financial obligations in a timely manner in both normal and stressed conditions. The Company's Liquidity Risk Management team is responsible for the implementation of this framework whereas, the MRC are responsible for monitoring the Liquidity Risk through a range of responsibilities. These include meeting at least quarterly to manage, monitor and report on the Liquidity risks within the Company. The MRC executes its responsibilities effectively by review of the liquidity risk profile against its present risk appetite as well as reviewing key risk exposures.

C.5 OPERATIONAL RISK

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

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



OPERATIONAL RISK EXPOSURES

The Company's exposure to Operational Risks is the third largest risk type. The Company has the exposure to the following types of Operational risk:

Operational Risk Components	Description
IT system disruptions	The risk of IT systems or applications failing or not performing reliably (includes application development, infrastructure maintenance and DR capability).
Outsourcing and Third party performance and engagement	The risk that third party capabilities and SLAs do not match business requirements and expose the company to unintended risk. Also includes errors and delays in the on-boarding of new vendors and business partners.
Legal & Regulatory risk	Applies to local insurance rules & regulations and the failure of adhering to them.
Business Disruption & Systems Failure	Risks associated with the interruption of business activity due to system or communication failures, the inaccessibility of information or the unavailability of utilities.
Financial reporting misstatements	This is the risk of financial statements containing material misstatements and/or errors in tax accounting.
Claims	The risk of inadequate handling of claims by the company resulting in claims leakage or inappropriate denials.
Staffing resources	The risk of losses arising due to insufficient capability of staff resources (includes the failure to provide a safe environment for employees).
Fraud	Risk of loss due to fraud perpetrated internally or externally.
Administration execution	Covers execution administration errors in policy servicing (timeliness, incorrect data, communication breakdowns), leading to customer detriment, reputational and operational impacts.
Cyber	The risk of cyber-attacks leading to information theft & denial of service.

Operational Risk Components	Description
Project execution	Covers the risk of program execution failure with large projects not delivered correctly, on time, on budget, or causing other unforeseen impacts or errors. Also includes the risk of the incorrect prioritisation of projects.
Reinsurance	Risk of loss due to inadequate reinsurance processes. Includes the failure of placing reinsurance when requested.
Receivables	Risk of not recovering receivables from brokers, policy holders and other applicable debtors.
Business continuity	The risk of ineffective business continuity plans negatively impacting company operations as a result of natural disasters, political events, terrorism or accidents.
Data	The risk that required data is not sufficiently available or of high enough quality (both because of systems and supporting processes) to support business decisions.
Conduct risk	The risk of not ensuring fair customer outcomes through the product life cycle, both from internal or external (outsourced) processes. The risk overlaps with other key risks (e.g. data quality, programme execution, TPA management, claims, Data Privacy, Cyber, Local insurance rules, product design).
Modelling risk	The risk of errors of deficiencies in the data used to build models, flawed assumption, choice of specification, or undue influence of outliers caused by human error. Also includes the lack of a model.
Mergers and Acquisitions (M&A)	Risks associated with mergers and acquisitions and more specifically the prospect of insufficient due diligence before finalised M&A’s.

MEASURES USED TO ASSESS OPERATIONAL RISK

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

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

Three data points are defined for each scenario, setting out a frequency (return period) and expected impact. These data points are then used to create loss distributions for each scenario and in turn are used to calibrate the Internal Model Operational Risk Module.

The following metrics are used by the Company to qualitative assess the Operational Risk:

Operational Risk Components	Metrics
IT system disruptions	Report of IT systems or applications fail or do not perform reliably
Outsourcing and Third party performance and engagement	Risk Events, Computer Based Risk Assessment (CBRA) Report
Legal & Regulatory risk	Number of Privacy Risk Incidents / Escalations
Business Disruption & Systems Failure	Outage Systems and Outage Duration Report
Financial reporting misstatements	Late Fillings Report
Claims	Closed file reviews, Declined Ratios, Complaints Claim Handling Report
Staffing resources	Headcount Report
Fraud	Number of internal fraud cases, Gross loss from internal fraud
Administration execution	Service Level Agreement (SLA) Report
Cyber	Number of attacks, Malware detected
Project execution	Large Projects Execution Report
Reinsurance	Bound not booked report, Internal Treaty, External Treaty, Facultative / Captive spend
Receivables	Open Receivables Report
Business continuity	BIA/ BCP Assessment Report

Data	Data Quality and Availability Report
Conduct risk	Complaint Management Report

During 2019 the Company updated the list of Operational Risk components used to monitor Operational Risk.

OPERATIONAL RISK CONCENTRATION

When viewed on a standalone basis, the largest Operational Risk AESA is exposed to is the group contagion/reputational risk where a negative impact of AIG reputation such as a downgrade on credit rating could have a significant impact on client relationships. Other significant Operational Risks include financial integrity, failure in application of reinsurance and breach of underwriting authority.

OPERATIONAL RISK MITIGATION TECHNIQUES

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

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

PROCESS FOR MONITORING THE EFFECTIVENESS OF OPERATIONAL RISK MITIGATION TECHNIQUES

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

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

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

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

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

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

C.6 RISK SENSITIVITIES

The Company conducts various tests to identify the implications of a wide-range of risks within the Stress and Scenario Testing Framework.

This ensures that potential adverse scenarios are considered and negative outcomes can be adequately mitigated either through controls implemented in advance or through timely remedial measures.

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

The details of various SSTs are as follows:

Types of SSTs	Risks covered	Timeline
Business Plan SST	All material risks over 1 year planning period	Performed annually
	All material risks over 5 years planning period	
Reverse Stress Testing (RST)	Solvency/Capital RSTs	Performed annually
	Liquidity RSTs	
	Reputational & Strategic RSTs	
Risk Specific SST	Liquidity Risks	Performed monthly
	Securitisation Stress Testing	Performed quarterly
	EIOPA	Performed every two years (even years)
Strategic planning SSTs	All Risks	Performed annually
Emerging Risks SSTs	All Risks	Performed annually

STRESS TESTS AND SENSITIVITIES

In order to monitor the impact of sensitivity of material risks and events on the Company's risk profile and SII Surplus, the Company has performed the following stress tests.

These tests were performed using business planning data from the Company's 2020 Business Plan and 2020 Capital Plan that were based on 2Q19 actual with 6 months forecast and hereon with defined as the Base Position 2020 for the purpose of this section.

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

A. Synchronised Cyber Attack

Cyber risk is an on-going risk that the AIG Board and regulators have been monitoring and hence has been selected as the basis for stressing the AESA entity across the horizon of the business plan.

The company has selected a scenario where multiple companies are impacted by an operating system hack. The attack results in business interruption and data breaches.

Methods and assumptions used

The details of risks impacted by the scenario and methods and assumptions used to assess the impact of this scenario on relevant risks are as follows:

Risks in scope	Methods and Assumptions
Insurance Risk: Losses relating to multiple lines of business affected by the attack.	AESA incurs the following losses: • Insurance cost on Cyber LoB • Insurance cost due to secondary impact on non-cyber LoBs (e.g. business interruption) • Loss of business for data-sensitive LoBs due to reputational impact (Cyber, M&A, K&R, Consumer Property, Consumer Auto) Assumptions: • Gross Cyber loss estimated as the sum of the policy limits for the top 7 cyber accounts. • Secondary impact estimated from the Cyber MMC scenario. • Estimated claims cost reflected in immediate increase in reserves and SCR; runs off over next three years.
Operational Risk: AESA subject to a breach of IT Security, key system outage and data theft.	AESA incurs the following losses: • Operational risk loss: impact on AIG's systems • Operational risk loss: fine for failing to implement effective security measures Assumptions: • Operational risk loss and loss of business due to reputational damage has minimal impact on SCR but impacts the own funds through impact on future P&L.

Outcome

The results of this scenario are set out below. As it can be seen there was no capital breach over the three year business planning period.

	Base Position 2019	2020	2021	2022
Base Scenario SII Ratio (%)	147%	149%	155%	160%
Cyber Scenario SII Ratio (%)	147%	124%	131%	136%

B. Large Losses and Prior Year Development

Methods and assumptions used

The details of risks impacted by the scenario and methods and assumptions used to assess the impact of this scenario on relevant risks are as follows:

Risks in scope	Methods and Assumptions
Insurance Risk: Losses relating to multiple lines of business.	AESA incurs the following losses: • €100m uncorrelated large losses are experienced across multiple lines of business. • €319m of prior-year development are causing reserve increases across multiple lines of business. Assumptions: • Increase in reserves from large losses are run off within the three-year horizon. • Increase in reserves due to Prior Year Development are run off at the same rate as the pre-shock reserves.

Outcome

The results of this scenario are set out below. As it can be seen there was no capital breach over the three year business planning period.

	Base Position 2019	2020	2021	2022
Base Scenario SII Ratio (%)	147%	149%	155%	160%
Large Losses and Prior Year Development Scenario SII Ratio (%)	147%	124%	133%	139%

C. European Windstorm Event

The Company has selected a scenario that considers a material European Windstorm event occurring.

Methods and assumptions used

The details of risks impacted by the scenario and methods and assumptions used to assess the impact of this scenario on relevant risks are as follows:

Risks in scope	Methods and Assumptions
Insurance Risk: Losses arising from AESAs Property and Energy book.	Material European Windstorm event: • Occurs at t=0 • 1:100 event (19Q1 Nat Cat data) • Main reinsurer is facing liquidity problems and it is unable to pay recoveries Assumptions: • Produces increase in reserves which runs off over the following year

Outcome

The results of this scenario are set out below. As it can be seen there was no capital breach over the three year business planning period.

	Base Position 2019	2020	2021	2022
Base Scenario SII Ratio (%)	147%	149%	155%	160%
European Windstorm Scenario SII Ratio (%)	147%	146%	152%	158%

D. German Flood Event

The Company has selected a scenario that considers a material German Flood event occurring.

Methods and assumptions used:

The details of risks impacted by the scenario and methods and assumptions used to assess the impact of this scenario on relevant risks are as follows:

Risks in scope	Methods and Assumptions
Insurance Risk: Losses arising from AESA's Property and Marine book.	Material German Flood event ▪ Occurs at t=0 ▪ 1:100 event (19Q1 Nat Cat data) ▪ Main reinsurer is facing liquidity problems and it is unable to pay recoveries Assumptions: ▪ Produces increase in reserves which runs off over the following year

Outcome

The results of this scenario are set out below. As it can be seen there was no capital breach over the three year business planning period.

	Base Position 2019	2020	2021	2022
Base Scenario SII Ratio (%)	147%	149%	155%	160%
German Flood Scenario SII Ratio (%)	147%	145%	152%	157%

C.7 OTHER MATERIAL RISKS

Pension Risk

Pension risk exists for AESA on the defined benefit schemes sponsored by its direct and indirect subsidiaries, primarily in Germany, Netherlands, Ireland and Switzerland. For AESA, the pension deficit on an IAS19 accounting basis is the principal driver of capital requirement for pension risk under Solvency II as well as for internal risk management purposes. The primary risk mitigation of pension risk is through ongoing monitoring, assessment and capital setting. Quarterly SCR calculations are performed by the Solvency II Pillar 3 reporting team based on updated quarterly IAS19 valuation provided by Mercer, the pension scheme actuaries.

Technology Risk

Technology Risk is the risk that customers or AIG may suffer service disruptions, or may incur losses arising from system defects such as failures, faults, or incompleteness in computer operations, or illegal or unauthorized use of computer systems.

The Technology Risk function within ERM provides specialist risk oversight across all technology aspects impacting AESA. The team monitor the technology risk position, providing reports to the Board, Risk and Capital Committee and the Operational Risk Committee.

Technology Risk provide specialist support to the Chief Risk Officer, performing deep dive risk reviews, managing completion of reviews of IT related operational risk scenarios as part of the operational risk component of the internal capital model, as well as monitoring all technology related risk events, ensuring appropriate actions are taken to address any control failures. The team partner with technology management on various initiatives, providing risk insights to support business activities such as programme delivery and vendor engagements.

Technology risk is mitigated through capital setting as it is modelled within the Company's internal model as part of Operational Risk.

Solvency & Financial Condition Report 2019

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 LUXEMBOURG GAAP BASIS TO SOLVENCY II BASIS. THE SECTION ALSO OUTLINES THE APPROACH AND METHODOLOGY UNDERLYING THE VALUATION.

KEY ELEMENTS OF THE SECTION ARE:

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

D. VALUATION FOR SOLVENCY PURPOSES

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

The table below sets out AIG Europe S.A.'s summarised Balance Sheet as at 30 November 2019, comparing assets and liabilities reported under Luxembourg GAAP to Solvency II.

Solvency II Balance Sheet as at 30 November 2019 €m	Notes	LUX GAAP	Solvency II Reclassification	Solvency II Adjustment	Solvency II EBS
Assets					
Deferred acquisition costs	8	184.2	0.0	(184.2)	0.0
Intangible assets	9	15.5	0.0	(15.5)	0.0
Deferred tax assets	7	0.0	0.0	71.8	71.8
Pension benefit surplus	10	0.2	0.0	0.0	0.2
Property, plant & equipment held for own use	6	18.6	0.0	0.0	18.6
Investments	1	6,142.6	37.7	121.9	6,302.3
Property (other than for own use)		0.0	0.0	0.0	0.0
Participations		63.3	0.0	9.8	73.1
Equities		0.0	0.0	5.1	5.1
Equities - listed		0.0	0.0	0.0	0.0
Equities - unlisted		0.0	0.0	5.1	5.1
Bonds		6,069.5	37.7	104.2	6,211.5
Government Bonds		2,138.0	10.3	19.4	2,167.8
Corporate Bonds		3,916.8	27.4	84.8	4,028.9
Structured notes		0.0	0.0	0.0	0.0
Collateralised securities		14.7	0.0	0.0	14.8
Investment funds		0.0	0.0	2.7	2.7
Deposits other than cash equivalents		9.8	0.0	0.0	9.8
Loans & mortgages	2	44.6	0.1	0.2	45.0
Other loans & mortgages		44.6	0.1	0.2	45.0
Reinsurance recoverable from:	D.2	2,315.1	158.5	(856.2)	1,617.4
Non-life excluding health		2,315.1	158.5	(870.3)	1,603.3
Health similar to non-life		0.0	0.0	14.1	14.1
Life excluding Health and index-linked and unit-linked		0.0	0.0	0.0	0.0
Insurance & intermediaries receivables	11	783.0	(761.7)	0.0	21.3
Reinsurance receivables	4	196.8	0.0	0.0	196.8
Receivables (trade, not insurance)	3	960.8	(78.5)	0.0	882.3
Cash and cash equivalents	5	157.7	17.8	0.0	175.5
Total assets		**10,819.3**	**(626.1)**	**(862.0)**	**9,331.3**

Solvency II Balance Sheet as at 30 November 2019 €m	Notes	LUX GAAP	Solvency II Reclassification	Solvency II Adjustment	Solvency II EBS
Liabilities					
Technical Provisions	D.2				
Technical provisions – non-life		(7,565.4)	(110.3)	656.8	(7,018.9)
Non-life excluding health		(7,565.4)	(110.3)	919.1	(6,756.6)
Health similar to non-life		0.0	0.0	(262.3)	(262.3)
Technical provisions – life		0.0	0.0	0.0	0.0
Liabilities other than Technical Provisions		0.0	0.0	0.0	
Provisions other than technical provisions	13	(78.8)	16.7	0.0	(62.2)
Pension benefit obligations	14	(81.4)	0.0	0.0	(81.4)
Deposits from reinsurers	16	(1.2)	0.0	0.0	(1.2)
Deferred tax liabilities	17	0.0	0.0	(30.8)	(30.8)
Debts owed to credit institutions		(0.2)	(17.8)	0.0	(18.0)
Insurance & intermediaries payables		(33.2)	33.2	0.0	0.0
Reinsurance payables	18	(787.1)	625.8	161.3	0.0
Payables (trade, not insurance)	12	(622.7)	78.5	25.7	(518.5)
Total Liabilities		**(9,170.1)**	**626.1**	**813.0**	**(7,731.0)**
Excess of Assets over Liabilities		**1,649.2**	**0.0**	**(49.0)**	**1,600.3**

D.1 ASSETS

NOTE 1: INVESTMENTS

Under Solvency II, investments excluding participations are measured using fair valuation principles.

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

- **Level 1:** Quoted market prices in active markets for the same assets.
- **Level 2:** Quoted market prices in active markets for similar assets with adjustments to reflect differences. The adjustments reflect factors specific to the asset including the condition or location of the asset, the extent to which inputs relate to items that are comparable with the asset and the volume or level of activity in the markets within which the inputs are observed.
- **Level 3:** Alternative valuation methods which make use of relevant market inputs including:

- Quoted prices for identical or similar assets in markets which are not active;
- Inputs other than quoted prices that are observable for the asset, including interest rates and yield curves observable at commonly quoted intervals, implied volatilities and credit spreads; and
- Market-corroborated inputs, which may not be directly observable but are based on or supported by observable market data.

Holdings in related undertakings, including participations are valued at the lower of historic cost and realisable value under Luxembourg GAAP. Under Solvency II, participations are valued using the adjusted equity method by applying the Article 75 valuation principles on the individual assets and liabilities of the Company's subsidiaries.

The table below shows the split of AIG Europe S.A.'s total investments between the different Solvency II asset categories, as well as the reclassification and valuation adjustments applied at 30 November 2019.

Note 1: Total Investments, €m	LUX GAAP	Reclassification Adjustments	Solvency II Valuation Adjustments	Solvency II
Property (other than for own use)	0.0	0.0	0.0	0.0
Participations	63.3	0.0	9.8	73.1
Equities	0.0	0.0	5.1	5.1
Bonds	6,069.5	37.7	104.2	6,211.5
Investment funds	0.0	0.0	2.7	2.7
Deposits other than cash equivalents	9.8	0.0	0.0	9.8
Total Investments	**6,142.6**	**37.7**	**121.9**	**6,302.3**

At 30 November 2019, accrued interest was reclassified from other receivables to the value of the underlying assets under Solvency II.

NOTE 2: LOANS AND MORTGAGES

AIG Europe S.A.'s loans and mortgages are measured at amortised cost under Luxembourg GAAP. Under Solvency II, they are measured at fair value using the discounted cash flow method as described above.

The table below shows the reclassification and valuation adjustments made to loans and mortgages at 30 November 2019.

Note 2: Loans and Mortgages, €m	Lux GAAP	Reclassification Adjustments	Solvency II Valuation Adjustments	Solvency II
Balance at 30 November 2019	44.6	0.1	0.2	45.0

At 30 November 2019, accrued interest was reclassified from other receivables to mortgage loans under Solvency II. The fair value adjustment was €0.2m.

NOTE 3: RECEIVABLES (TRADE, NOT INSURANCE)

The table below shows the reclassification and valuation adjustments made to trade receivables at 30 November 2019.

Note 3: Receivables (trade, not insurance), €m	LUX GAAP	Reclassification Adjustments	Solvency II Valuation Adjustments	Solvency II
Balance at 30 November 2019	960.8	(78.5)	0.0	882.3

As shown in Notes 1 and 2 above, accrued interest was reclassified to the underlying asset under Solvency II and Salvage and Subrogation receivables were reclassified to Reinsurance Recoverables under Solvency II.

NOTE 4: REINSURANCE RECEIVABLES

Note 4: Reinsurance Receivables, €m	Lux GAAP	Reclassification Adjustments	Solvency II Valuation Adjustments	Solvency II
Balance at 30 November 2019	196.8	0.0	0.0	196.8

At 30 November 2019, there were no differences between Luxembourg GAAP and Solvency II for reinsurance receivables.

NOTE 5: CASH AND CASH EQUIVALENTS

The table below shows the reclassification and valuation adjustments made to cash and cash equivalents at 30 November 2019.

Note 5: Cash and Cash Equivalents, €m	Lux GAAP	Reclassification Adjustments	Solvency II Valuation Adjustments	Solvency II
Balance at 30 November 2019	157.7	17.8	0.0	175.5

At 30 November 2019, overdrafts were reclassified to debts owed to credit institutions on the balance sheet.

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

Note 6: Property, Plant and Equipment held for Own Use, €m	Lux GAAP	Reclassification Adjustments	Solvency II Valuation Adjustments	Solvency II
Balance at 30 November 2019	18.6	0.0	0.0	18.6

At 30 November 2019, there were no differences between Luxembourg GAAP and Solvency II for property, plant and equipment held for own use.

NOTE 7: DEFERRED TAX ASSET

Deferred tax is provided in full on all temporary differences arising between the Solvency II valuation and the tax bases of assets and liabilities. Deferred tax is calculated by jurisdiction such that applicable national tax rates are used for these calculations.

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

Under Luxembourg GAAP, the concept of deferred tax assets or liability does not exist. Adjustments are made to reinstate the deferred tax assets and liabilities on an IFRS basis. The Company's Solvency II deferred tax asset or liability is then calculated based on the temporary differences between the Economic Balance Sheet and the IFRS tax bases of the entity's component branches.

The table below shows the reclassification and valuation adjustments made to deferred tax assets at 30 November 2019.

Note 7: Deferred Tax Asset, €m	LUX GAAP	Reclassification Adjustments	Solvency II Valuation Adjustments	Solvency II
Balance at 30 November 2019	0.0	0.0	71.8	71.8

At 30 November 2019, the Solvency II adjustment represents the value of Deferred Tax Assets allowable under Solvency II.

NOTE 8: DEFERRED ACQUISITION COST

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

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

The table below shows the reclassification and valuation adjustments made to deferred acquisition costs at 30 November 2019.

Note 8: Deferred Acquisition Costs, €m	LUX GAAP	Reclassification Adjustments	Solvency II Valuation Adjustments	Solvency II
Balance at 30 November 2019	184.2	0.0	(184.2)	0.0

At 30 November 2019, deferred acquisition costs were written off under Solvency II.

NOTE 9: INTANGIBLE ASSETS

The Company's intangible assets include capitalised software costs, acquired brands and goodwill. Under Luxembourg GAAP, intangible assets are measured at historical cost less accumulated amortisation and impairment.

Under Solvency II, intangible assets are valued at zero unless they can be sold separately and their values can be derived using quoted prices in active markets. At 30 November 2019, none of the Company's intangible assets met this criterion therefore the whole amount was written off.

The table below shows the reclassification and valuation adjustments made to intangible assets at 30 November 2019.

Note 9: Intangible Assets, €m	Lux GAAP	Reclassification Adjustments	Solvency II Valuation Adjustments	Solvency II
Balance at 30 November 2019	15.5	0.0	(15.5)	0.0

At 30 November 2019, intangible assets were written off under Solvency II.

NOTE 10: PENSION BENEFIT SURPLUS

The Company operates a number of pension schemes, whose members receive benefits on either a defined benefit or defined contribution basis. Under Luxembourg GAAP, the defined benefit obligation and associated surplus or deficit are calculated by independent actuaries using the Projected Unit Credit Method.

Note 10: Pension Benefit Surplus, €m	Lux GAAP	Reclassification Adjustments	Solvency II Valuation Adjustments	Solvency II
Balance at 30 November 2019	0.2	0.0	0.0	0.2

At 30 November 2019, there were no differences between Luxembourg GAAP and Solvency II for pension benefit surplus.

NOTE 11: INSURANCE & INTERMEDIARIES RECEIVABLES

Insurance and intermediaries receivables that are not past due (<90 days) are future cash flows and are therefore reclassified to technical provisions under Solvency II. Any remaining insurance receivables/ payables not reclassified to technical provisions are measured using the income approach alternative valuation method, which converts future cash flows to a single current amount.

The table below shows the reclassification and valuation adjustments made to insurance and intermediaries receivable at 30 November 2019.

Note 11: Insurance & intermediaries receivables, €m	LUX GAAP	Reclassification Adjustments	Solvency II Valuation Adjustments	Solvency II
Balance at 30 November 2019	783.0	(761.7)	0.0	21.3

At 30 November 2019, the reclassification adjustment represents the future net receivables/payables relating to Solvency II technical provisions.

D.2 TECHNICAL PROVISIONS

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

Technical provisions are grouped into the following key components:

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

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

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

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

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

VALUATION BASIS, METHODS AND MAIN ASSUMPTIONS

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

GROSS CLAIMS PROVISIONS

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

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

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

GROSS PREMIUM PROVISIONS

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

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

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

SOLVENCY II ADJUSTMENTS

The details of Solvency II adjustments that are applied to the Company’s Luxembourg GAAP reserves to arrive at Best Estimates of Technical Provisions are as follows:

1. CLAIMS CASH FLOWS OF UNEARNED BUSINESS

Budget loss ratios are used to calculate the expected losses from unearned business in the premium provisions. They are derived utilising the actuarial best estimate ultimate loss ratio assumptions with adjustments made to allow for future expected inflation and rate changes.

2. BBNI (BOUND BUT NOT INCEPTED)

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

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

3. EXPENSES

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

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

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

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

4. EVENTS NOT IN DATA (ENID)

ENID adjustment is designed to capture those potential future claims that do not exist in the historical data used for Luxembourg GAAP reserves calculation. These claims are typically caused by low-frequency, high-severity man-made hazards. Historical events which are contained within the Company's historical loss experience are also considered to ascertain whether further scenarios or loadings need to be applied.

5. DISCOUNTING CREDIT

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

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

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

6. FUTURE PREMIUM (PAYABLES AND RECEIVABLES)

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

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

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

7. REINSURANCE RECOVERIES (LESS BAD DEBT)

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

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

Principle of correspondence

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

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

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

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

RISK MARGIN

Methodology 1, prescribed by EIOPA's Guideline 62, is used to calculate the future Solvency Capital Requirement (SCR) relating to current obligations. The calculation is done in the Internal Model using loss distributions of Non-Catastrophic Insurance Risk (excluding New Business risk), Counterparty Default Risk, Operational Risk and Catastrophic Risk. The losses by risk type and by Solvency II line of business are run off individually, taking into account the duration of each line of business.

The future loss distributions are then aggregated and the future SCRs are calculated as the 99.5th percentile of the total loss distribution for each future time. These future SCRs are discounted with the appropriate EUR yield curve as prescribed by EIOPA. The sum of the discounted SCRs is multiplied by the Cost of Capital of 6% as prescribed by EIOPA to obtain an initial Risk Margin. The initial Risk Margin is then adjusted to account for any differences between the actual Technical Provisions on the Economic Balance Sheet and the modelled Technical Provisions in the Internal Model to obtain the final Risk Margin for the Company.

Lapses and other policyholder behaviours are assumed to be immaterial given the nature of the Company's business. Multi-year policies are assumed to be immaterial given the general business is to write one-year policies.

An allocation of the Risk Margin by Solvency II line of business is also produced using a simplified risk margin by line of business as allocation key.

LEVEL OF UNCERTAINTY

UNCERTAINTY IN BEST ESTIMATE RESERVING

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

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

Casualty: Litigation changes, legal reforms, bodily injury and industrial disease claims are areas of uncertainty.

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

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

Modelling is completed using a variety of different methods including:

- Chain-ladder.

- Bornhuetter Ferguson.
- Frequency/Severity.

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

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

UNCERTAINTY IN CASH FLOWS

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

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

UNCERTAINTY IN THE EXPENSES ESTIMATE

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

UNCERTAINTY IN THE BBNI ESTIMATE

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

VALUE OF TECHNICAL PROVISIONS FOR EACH MATERIAL LINE OF BUSINESS

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

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

Valuation of Technical Provisions for each Major Line of Business, €m	General liability insurance	Motor vehicle liability insurance	Fire and other damage to property insurance	Marine, aviation and transport insurance
Best Estimate	4,059.6	905.3	898.9	332.3
Risk Margin	207.8	26.7	26.2	13.0
Gross Technical Provision	**4,267.4**	**932.0**	**925.1**	**345.2**
Reinsurance Recoverable	585.9	430.1	474.0	64.4
Net Technical Provision	**3,681.5**	**501.9**	**451.1**	**280.9**

GENERAL LIABILITY INSURANCE

General Liability lines represent 68% of Solvency II net technical provisions. Luxembourg GAAP reserves for Liability and Financial lines that represent Casualty (General Liability), D&O and Professional Indemnity business are the starting point for the calculation of technical provisions of this Solvency II line. The most material Solvency II adjustments that result in reduction of Luxembourg GAAP reserves are for the UEPR profit which amounts to €72.1m and future premium (receivables and payables) of €18.1m.

MOTOR VEHICLE LIABILITY INSURANCE

Motor Vehicle Liability insurance represents 9% of Solvency II net technical provisions. Luxembourg GAAP reserves that represent Casualty (Auto) and Personal Auto Liability business are the starting point for the calculation of technical provisions for this Solvency II line. The most material Solvency II adjustments that result in reduction of Luxembourg GAAP reserves are for the UEPR profit which amounts to €31.2m and future premium (receivables and payables) of €(2.3)m.

FIRE AND OTHER DAMAGE TO PROPERTY INSURANCE

Fire and Other Damage lines represents 8% of SII net technical provisions. Luxembourg GAAP reserves that represent Property and Energy business are the starting point for the calculation of technical provisions for this Solvency II line. The most material Solvency II adjustments that result in reduction of Luxembourg GAAP reserves are for the UEPR profit which amounts to €62.7m and future premium (receivables and payables) of €33.3m.

MARINE, AVIATION AND TRANSPORT INSURANCE

Marine, Aviation and Transport represents 5% of Solvency II net technical provisions. Luxembourg GAAP reserves that represent Marine and Aerospace business are the starting point for the calculation of technical provisions for this Solvency II line. The most material Solvency II adjustments that result in reduction of Luxembourg GAAP reserves are for the UEPR profit which amounts to €11.8m and future premium (receivables and payables) of €(38.8)m.

D.3 OTHER LIABILITIES

NOTE 12: PAYABLES (TRADE, NOT INSURANCE)

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

The table below shows the reclassification and valuation adjustments made to trade payables at 30 November 2019.

Note 12: Payables (Trade, Not Insurance), €m	LUX GAAP	Reclassification Adjustments	Solvency II Valuation Adjustments	Solvency II
Payables (Trade, Not Insurance)	(622.7)	78.5	25.7	(518.5)

At 30 November 2019 the reclassification adjustment consists of commissions reported within trade payables under Luxembourg GAAP reclassified to technical provisions under Solvency II, the grossing up adjustment with insurance receivables for net balances within the branch ledgers, salvage and subrogation costs reclassified to Technical Provisions and amounts due from brokers for investment purchases reclassified from other provisions.

At 30 November 2019, deferred foreign exchange gains were written off under Solvency II.

NOTE 13: PROVISIONS OTHER THAN TECHNICAL PROVISIONS

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

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

The table below shows the reclassification and valuation adjustments made to other provisions at 30 November 2019.

Note 13: Provisions Other Than Technical Provisions, €m	LUX GAAP	Reclassification Adjustments	Solvency II Valuation Adjustments	Solvency II
Provisions Other Than Technical Provisions	(78.8)	16.7	0.0	(62.2)

At 30 November 2019, amounts due from brokers for investment purchases was reclassified from other provisions to trade payables.

NOTE 14: PENSION BENEFIT OBLIGATIONS

Refer to Note 10 for the Luxembourg GAAP and Solvency II valuation principles in respect of pension benefit obligations.

Note 14: Pension Benefit Obligations, €m	Lux GAAP	Reclassification Adjustments	Solvency II Valuation Adjustments	Solvency II
Pension Benefit Obligations	(81.4)	0.0	0.0	(81.4)

At 30 November 2019, there were no differences between Luxembourg GAAP and Solvency II for pension benefit obligations.

NOTE 15: DEFERRED TAX LIABILITIES

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

The table below shows the reclassification and valuation adjustments made to deferred tax liabilities at 30 November 2019.

Note 15: Deferred Tax Liabilities, €m	LUX GAAP	Reclassification Adjustments	Solvency II Valuation Adjustments	Solvency II
Deferred Tax Liabilities	0.0	0.0	(30.8)	(30.8)

At 30 November 2019, the Solvency II adjustment represents the value of Deferred Tax Liabilities allowable under Solvency II.

NOTE 16: DEPOSIT FROM REINSURERS

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

Note 16: Deposit From Reinsurers, €m	Lux GAAP	Reclassification Adjustments	Solvency II Valuation Adjustments	Solvency II
Deposit From Reinsurers	(1.2)	0.0	0.0	(1.2)

At 30 November 2019, there were no differences between Luxembourg GAAP and Solvency II for deposits from reinsurers.

NOTE 17: REINSURANCE PAYABLE

Reinsurance payables represent the sum of creditors arising out of direct insurance and reinsurance operations. The Company’s reinsurance payables are all due within 12 months. Owing to their short term nature, the amortised cost valuation under Luxembourg GAAP is taken to approximate fair valuation. Under Solvency II, reinsurance payables form part of the future premium cash flows which make up the gross premium provisions component of the Solvency II technical provisions.

The table below shows the reclassification and valuation adjustments made to reinsurance payables at 30 November 2019.

Note 17: Reinsurance Payable, €m	LUX GAAP	Reclassification Adjustments	Solvency II Valuation Adjustments	Solvency II
Reinsurance Payable	(787.1)	625.8	161.3	0.0

At 30 November 2019, the reclassification adjustment represents the future net receivables/payables relating to Solvency II technical provisions. The valuation adjustment represents the write off of Reinsurance Deferred Acquisition Costs, which are disallowed under Solvency II.

D.4 ALTERNATIVE VALUATION METHODS

Alternative valuation methods, as defined in the Solvency II regulations, are applied in the fair valuation of the following assets of the Company:

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

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

D.5 OTHER MATERIAL INFORMATION

No other information to report.

Solvency & Financial Condition Report 2019

E. Capital Management

THE 'CAPITAL MANAGEMENT' SECTION OF THE REPORT DESCRIBES THE INTERNAL OPERATIONAL STRUCTURES/PROCEDURES UNDERLYING CAPITAL MANAGEMENT WITHIN THE COMPANY.

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 OF THE SECTION ARE:

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

E. CAPITAL MANAGEMENT

E.1 OWN FUNDS

The Company uses a combination of Basic and Ancillary Own Funds to meet its Solvency II capital requirements:

- Basic Own Funds – net assets on the balance sheet.
- Ancillary Own Funds - off balance sheet items that may be called up to absorb losses (e.g. Letters of Credit).

COMPOSITION AND QUALITY OF OWN FUNDS

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

The composition and total available own funds for the Company as at 30 November 2019 is provided below:

Composition and Quality of Own Funds, €m	Tier 1 Unrestricted	Tier 1 Restricted	Tier 2	Tier 3	Total
Ordinary Share Capital	47.2	0.0	0.0	0.0	47.2
Share Premium Account related to Ordinary Share Capital	1,572.6	0.0	0.0	0.0	1,572.6
Reconciliation Reserve	(91.3)	0.0	0.0	0.0	(91.3)
Letters of Credit (Ancillary Own Funds)	0.0	0.0	340.0	0.0	340.0
Net Deferred Tax Assets	0.0	0.0	0.0	71.8	71.8
Total Available Own Funds	**1,528.5**	**0.0**	**340.0**	**71.8**	**1,940.3**

TIER 1 BASIC OWN FUNDS

At 30 November 2019, the Company's Tier 1 Basic Own Funds were made up of the following items:

- Ordinary share capital.
- Solvency II reconciliation reserve.

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

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

Reconciliation Reserve	€m
Excess of assets over liabilities	1,600.3
Less:	
Ordinary Share Capital	(47.2)
Share Premium Account related to Ordinary Share Capital	(1,572.6)
Net Deferred Tax Assets	(71.8)
Reconciliation Reserve	**(91.3)**

TIER 2 ANCILLARY OWN FUNDS

Own Funds that do not fall within the definition of Basic Own Funds are known as Ancillary Own Funds.

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

At 30 November 2019, the Company had the following Letters of Credit in place:

Letters of Credit		
Counterpart	CAA approval period	€m
ING Bank N.V (Dublin branch)	27 November 2018 - 27 November 2022	200
BNP Paribas (Paris branch)	27 November 2018 - 27 November 2022	140
Total Letters of Credit		**340**

Both Letters of Credit are provided by external banks. The terms of the Letters of Credit enable the Company to call upon the agreed guarantee amounts on demand. The banks in turn recover funds from AIG, Inc. in its capacity as applicant and guarantor.

TIER 3 BASIC OWN FUNDS

At 30 November 2019, the Company had net deferred tax assets of €78.4m on its Economic Balance Sheet, all of which counted towards its Tier 3 Basic Own Funds.

ELIGIBLE OWN FUNDS

At 30 November 2019, the Company's total eligible Own Funds to meet its SCR was the same as the total available Own Funds.

€m	Total	Tier 1 (unrestricted)	Tier 1 (restricted)	Tier 2	Tier 3
Total eligible own funds to meet the SCR	1,940.3	1,528.5	0.0	340.0	71.8
Total available own funds to meet the SCR	1,940.3	1,528.5	0.0	340.0	71.8

FUNGIBILITY AND TRANSFERABILITY OF OWN FUNDS

At 30 November 2019, the Company did not have any restrictions in respect of the fungibility and transferability of its Own Funds.

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

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

Balance as at 30 November 2019	€'m
Equity as per UK GAAP	1,649.2
Solvency II valuation differences	(49.0)
Excess of assets over liabilities under Solvency II	**1,600.3**

E. 2 SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

E.2.1 SOLVENCY CAPITAL REQUIREMENT (SCR)

AIG Europe S.A. received approval from the CAA in September 2018 to calculate its Solvency Capital Requirement (SCR) using the Internal Model.

The Company's SCR at 30 November 2019 was €1,369.7m. The table below shows a breakdown of the Company's SCR by risk and diversification benefit.

AESA SCR
€'m

	Y/E 2019
Insurance risk	967
Market risk	400
Credit risk	245
Operational risk	196
Pension risk	49
Diversification	(487)
Total Solvency Capital Requirement	1,370

E.2.2 MINIMUM CAPITAL REQUIREMENT (MCR)

The Company uses the Internal Model to calculate its Minimum Capital Requirement (MCR). The amount of the MCR for the reporting period is €616.3m.

The following table shows the MCR calculation:

Overall MCR calculation	**€m**
Linear MCR	683.6
SCR	1,369.7
MCR cap	616.3
MCR floor	342.4
Combined MCR	616.3
Absolute floor of the MCR	3.7
Minimum Capital Requirement	**616.3**

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

Calculation of MCR (inputs), €m	Net (of reinsurance) best estimate provisions	Net (of reinsurance written premiums in last 12 months)
Medical expense insurance and proportional reinsurance	15.8	18.0
Income protection insurance and proportional reinsurance	163.1	147.1
Workers' compensation insurance and proportional reinsurance	53.6	0.2
Motor vehicle liability insurance and proportional reinsurance	475.2	135.9
Other motor insurance and proportional reinsurance	32.6	7.9
Marine, aviation and transport insurance and proportional reinsurance	267.9	130.4
Fire and other damage to property insurance and proportional reinsurance	424.9	400.6
General liability insurance and proportional reinsurance	3,473.7	514.7
Credit and suretyship insurance and proportional reinsurance	40.5	21.5
Legal expenses insurance and proportional reinsurance	0.0	0.0
Assistance and proportional reinsurance	8.0	20.0
Miscellaneous financial loss insurance and proportional reinsurance	123.1	24.3
Non-proportional health reinsurance	0.0	0.0
Non-proportional casualty reinsurance	13.9	9.5
Non-proportional marine, aviation and transport reinsurance	0.5	0.5
Non-proportional property reinsurance	6.7	6.0

APPROACH TO CAPITAL MANAGEMENT

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

Capital management focuses on two aspects:

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

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

CAPITAL MANAGEMENT PLAN

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

The Company Capital Plan aims to:

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

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

- Multiple macroeconomic and financial market scenarios.
- Business and Strategic Plan, budget and goals.
- The Company's overall capital level relative to its risk tolerance.
- Applicable regulations.
- The Company's capital management goals.
- Multiple future scenarios involving capital resources and requirements under the Solvency II Internal Model and Standard Formula views.
- It presents the key facts with respect to the Company's assessment of capital adequacy, and analyses the impact of the proposed restructuring events and capital actions.

CAPITAL MANAGEMENT PROCESS AND POLICY

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

- Ensuring adequate capital is maintained within the Company to meet regulatory and rating agency requirements and ensuring capital is available to support strategic plans.
- Enabling the Company to follow and meet its rating agency strategy and in particular to achieve its target ratings.
- Optimising the Company's sources and usage of capital.
- Ensuring that excess capital is returned to Group on a timely basis without compromising the other objectives, as above.
- The Capital Management Policy pertains to capital level and capital structure.
- Cover the CAA's requested amount above Minimum Capital Level
- Cover the risk appetite approved by the Board as part of the Risk Appetite Framework. This is currently set at a 1 in 7 year financial scenario
- The Company has an active Capital Management process to ensure it meets regulatory capital requirements and rating agency expectations while optimising capital efficiency by returning "excess" capital to its parent.

The CAA authorised AIG Europe S.A. to hold €340m of the capital buffer in the form of Letters of Credit whilst the balancing amount of the buffer is covered by called up capital.

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

The 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 Internal Model to calculate the SCR.

- Different Calculation Basis: The most basic difference between the Standard Formula and the Company's Internal Model is the general approach taken to calculating the Solvency Capital Requirement. The Standard Formula broadly takes a deterministic, shock based approach (e.g. shocks to asset values, premiums and reserves) to reach an aggregate 99.5% loss.
- The Internal Model however takes a stochastic simulation based approach, which delivers a full P&L distribution (probability distribution forecast) from which a 99.5% loss can be derived. At lower return periods of loss, like for like comparisons can be difficult as the Standard Formula is only focused at the 99.5th percentile.
- Dependency Structure – Correlation & Diversification: The Standard Formula has been developed to reflect the risk profile of an average European-centric insurer; as a result it does not provide full recognition of risk diversification available to a firm such as AIG Europe S.A. For example when modelling Insurance Risk the Standard Formula does not fully allow for the level of line of business and geographical diversification inherent within the Company's Insurance Risk profile.

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

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

The Company ensures all risk types are appropriately modelled and calibrated to meet the potential outcomes from their own risk profile.

Premium Risk (Non Cat)

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

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

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

Premium Risk (Natural Catastrophes)

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

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

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

Premium Risk (Man Made Catastrophes)

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

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

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

Workshops with profit centre managers, risk officers and actuaries used to identify and determine scenario inputs. The scenarios are calculated on a gross, gross less facultative and net basis.

An Expert Panel reviews and signs off on the scenarios.

Reserve Risk

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

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

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

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

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

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

Market Risk

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

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

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

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

Credit Risk

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

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

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

Operational Risk

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

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

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

Dependencies

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

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

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

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

E. 5 NON-COMPLIANCE

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

E.6 ANY OTHER INFORMATION

No other information to report.

Solvency & Financial Condition Report 2019

F. Appendices to the Solvency and Financial Condition Report

KEY ELEMENTS OF THE SECTION ARE:

- Glossary;
- AESA QRT's

F.1 GLOSSARY

A

AIG	American International Group
A&H	Accident and Health
AAMEL	AIG Asset Management (Europe) Limited
AESA	AIG Europe SA (the Company)
AFS	Available for Sale
ALAE	Allocated Loss Adjustment Expenses
ALM	Asset Liability Matching
AMG	Asset Management Group
AOF	Ancillary Own Funds
AQI	Account Quality Index
AY	Accident Year
AYLR	Accident Year Loss Ratio

B

BBNI	Bound But Not Yet Incepted
BIA	Business Impact Analysis
BCP	Business Continuity Plan
BOF	Basic Own Funds
BTA	Business Travel Assistance
BRC	Board Risk Committee
BSCR	Basic Solvency Capital Requirement

C

CAT	Catastrophe
CBRA	Category Based Risk Assessment
CCAR	Comprehensive Capital Analysis and Review
CCO	Chief Credit Officer
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CMBS	Commercial Mortgage Backed Security
CMRC	Compensation and Management Resources Committee
COO	Chief Operating Officer
CoR	Combined Operating Ratio
CP	Commercial Property
CRO	Chief Risk Officer

D

D&O	Directors and Officers
DAC	Deferred Acquisition Costs
DGC	Data Governance Council
DTA	Deferred Tax Asset
DTL	Deferred Tax Liability

E

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

F

FAC	Facultative Reinsurance
FCG	Financial Crime Group
FCU	Financial Control Unit
FL	Financial Lines
FOE	Freedom of Establishment
FOS	Freedom of Services
FX	Foreign Exchange

G

GAAP	Generally Accepted Accounting Principles
GCG	Global Compliance Group
GDP	Gross Domestic Profit
GL	General Liability

GOE	Gross Operating Expenses
GPE	Gross Premiums Earned
GPW	Gross Premium Written

H

HR	Human Resources

I

IAG	Internal Audit Group
IBNR	Incurred but not Reported
ICAS	Individual Capital Adequacy Standards
ICG	Individual Capital Guidance
IFRS	International Financial Reporting Standards
ILS	Insurance Linked Securities
IM	Internal Model
IMA	Investment Management Agreement
IMAP	Internal Model Approval Process

K

KRI	Key Risk Indicator

L

LAC - DT	Loss Absorbing Capacity of Deferred Taxes
LCAR	Liquid Assets Coverage Ratio
LCO	Local Compliance Officer
LFL	Liability & Financial Lines
LoB	Lines of Business
LoC	Letters of Credit
LTP	Late Travelling Period
LUT	Large and Unusual Transactions

M

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

N

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

O

ORM	Operational Risk Management
ORR	Obligor Risk Rating
ORSA	Own Risk and Solvency Assessment
OSP	Outsourcing Service Provider

P

P&L	Profit and Loss
PI	Personal Insurance
PP	Personal Property
PPI	Payment Protection Insurance
PPO	Periodic Payment Order
PSR	Property & Special Risks
PwC	PricewaterhouseCoopers
PYD	Prior Year Development

Q

QRT	Quantitative Reporting Template

R

RCC	Risk and Capital Committee
RCSA	Risk and Control Self Assessment
RDS	Realistic Disaster Scenario
RF	Risk Free
RI	Reinsurance
RM	Risk Management
RMF	Risk Management Framework
RMBS	Residential Mortgage Backed Security
ROE	Return on Equity
RT	Risk transfer

S

S&P	Standard and Poor's
SAA	Strategic Asset Allocation
SCR	Solvency Capital Requirement
SFCR	Solvency and Financial Condition Report
SF-SCR	Standard Formula - Solvency Capital Requirement
SII	Solvency II
SIMR	Senior Insurance Managers Regime
SLA	Service Level Agreement
SME	Small Medium Enterprise
SST	Stress and Scenario Testing

T

TDC	Total Direct Compensation
TOM	Target Operating Model

U

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

V

VAT	Value Added Tax

X

XoL	Excess of Loss

AIG Europe S.A.

Solvency and Financial Condition Report

Disclosures

30 November

2019

(Monetary amounts in EUR thousands)

General information

Undertaking name	AIG Europe S.A.
Undertaking identification code	213800SCCLMKOWSSX732
Type of code of undertaking	LEI
Type of undertaking	Non-life undertakings
Country of authorisation	LU
Language of reporting	en
Reporting reference date	30 November 2019
Currency used for reporting	EUR
Accounting standards	Local GAAP
Method of Calculation of the SCR	Full internal model
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02 - Balance sheet
S.05.01.02 - Premiums, claims and expenses by line of business
S.05.02.01 - Premiums, claims and expenses by country
S.17.01.02 - Non-Life Technical Provisions
S.19.01.21 - Non-Life insurance claims
S.23.01.01 - Own Funds
S.25.03.21 - Solvency Capital Requirement - for undertakings on Full Internal Models
S.25.03.21 - Solvency Capital Requirement - for undertakings on Full Internal Models
S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	0
R0040	Deferred tax assets	71,810
R0050	Pension benefit surplus	194
R0060	Property, plant & equipment held for own use	18,649
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	6,302,305
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	73,085
R0100	*Equities*	5,130
R0110	*Equities - listed*	0
R0120	*Equities - unlisted*	5,130
R0130	*Bonds*	6,211,511
R0140	*Government Bonds*	2,167,784
R0150	*Corporate Bonds*	4,028,936
R0160	*Structured notes*	0
R0170	*Collateralised securities*	14,791
R0180	*Collective Investments Undertakings*	2,735
R0190	*Derivatives*	0
R0200	*Deposits other than cash equivalents*	9,844
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	0
R0230	Loans and mortgages	44,951
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	0
R0260	*Other loans and mortgages*	44,951
R0270	Reinsurance recoverables from:	1,617,425
R0280	*Non-life and health similar to non-life*	1,617,425
R0290	*Non-life excluding health*	1,603,336
R0300	*Health similar to non-life*	14,088
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	
R0330	*Life excluding health and index-linked and unit-linked*	
R0340	*Life index-linked and unit-linked*	
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	21,332
R0370	Reinsurance receivables	196,792
R0380	Receivables (trade, not insurance)	882,288
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	175,540
R0420	Any other assets, not elsewhere shown	0
R0500	**Total assets**	9,331,284

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	7,018,901
R0520	*Technical provisions - non-life (excluding health)*	6,756,622
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	6,470,425
R0550	*Risk margin*	286,197
R0560	*Technical provisions - health (similar to non-life)*	262,279
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	246,555
R0590	*Risk margin*	15,725
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	
R0630	*Best Estimate*	
R0640	*Risk margin*	
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	0
R0660	*TP calculated as a whole*	
R0670	*Best Estimate*	
R0680	*Risk margin*	
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	
R0710	*Best Estimate*	
R0720	*Risk margin*	
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	62,187
R0760	Pension benefit obligations	81,384
R0770	Deposits from reinsurers	1,199
R0780	Deferred tax liabilities	30,845
R0790	Derivatives	0
R0800	Debts owed to credit institutions	18,031
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	0
R0830	Reinsurance payables	0
R0840	Payables (trade, not insurance)	518,454
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	0
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	0
R0900	**Total liabilities**	7,731,000
R1000	**Excess of assets over liabilities**	1,600,284

S.05.01.02

Premiums, claims and expenses by line of business

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	Gross - Direct Business	35,091	318,797	544	273,560	27,140	312,717	1,095,983	1,189,942	52,657	0	38,864	84,927					3,430,222
R0120	Gross - Proportional reinsurance accepted	2,894	8,545	0	9,998	0	10,730	64,885	27,159	0	0	26	4,385					128,623
R0130	Gross - Non-proportional reinsurance accepted													0	16,500	1,008	10,260	27,768
R0140	Reinsurers' share	19,962	180,252	348	147,707	19,197	193,076	760,241	702,415	31,207	0	18,900	65,016	0	6,993	488	4,250	2,150,051
R0200	Net	18,022	147,090	197	135,852	7,943	130,371	400,626	514,686	21,450	0	19,991	24,296	0	9,507	520	6,010	1,436,562
	Premiums earned																	
R0210	Gross - Direct Business	37,243	316,255	649	286,570	30,457	290,837	1,034,315	1,204,053	50,128	0	36,883	94,544					3,381,935
R0220	Gross - Proportional reinsurance accepted	2,908	8,705	0	9,784	0	12,114	78,360	28,641	0	0	29	4,129					144,670
R0230	Gross - Non-proportional reinsurance accepted													0	17,206	1,183	11,979	30,368
R0240	Reinsurers' share	16,410	141,674	253	120,944	11,585	157,095	705,404	522,371	28,194	0	15,428	53,404	0	6,042	449	5,294	1,784,546
R0300	Net	23,740	183,287	396	175,410	18,873	145,856	407,272	710,323	21,934	0	21,484	45,270	0	11,164	734	6,685	1,772,426
	Claims incurred																	
R0310	Gross - Direct Business	9,393	134,995	755	379,433	1,075	223,404	483,741	725,413	44,203	0	16,547	28,207					2,047,166
R0320	Gross - Proportional reinsurance accepted	173	1,135	0	2,929	0	6,629	19,738	14,529	0	0	6	-458					44,681
R0330	Gross - Non-proportional reinsurance accepted													0	5,093	643	2,603	8,339
R0340	Reinsurers' share	4,801	60,847	77	203,896	3,065	134,810	319,010	290,003	25,230	0	5,852	10,577	0	1,116	102	709	1,060,094
R0400	Net	4,765	75,283	678	178,467	-1,990	95,223	184,470	449,938	18,972	0	10,701	17,172	0	3,977	542	1,894	1,040,093
	Changes in other technical provisions																	
R0410	Gross - Direct Business																	0
R0420	Gross - Proportional reinsurance accepted																	0
R0430	Gross - Non-proportional reinsurance accepted																	0
R0440	Reinsurers' share																	0
R0500	Net	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
R0550	**Expenses incurred**	8,912	55,767	750	44,559	23,084	39,850	265,072	253,741	7,777	0	14,596	8,865	0	2,273	175	807	726,229
R1200	**Other expenses**																	
R1300	**Total expenses**																	726,229

S.05.02.01

Premiums, claims and expenses by country

Non-life

		C0010	C0020	C0030	C0040	C0050	C0060	C0070
		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations			Top 5 countries (by amount of gross premiums written) - non-life obligations		Total Top 5 and home country
R0010			France	Germany	Ireland	Italy	Netherlands	
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	Gross - Direct Business	256,597	614,623	504,671	293,085	494,961	226,079	2,390,016
R0120	Gross - Proportional reinsurance accepted	45	23,891	37,695	0	6,487	12	68,130
R0130	Gross - Non-proportional reinsurance accepted	3	1,999	8,607	0	1,852	1	12,463
R0140	Reinsurers' share	170,059	375,964	280,905	191,452	306,798	129,081	1,454,259
R0200	Net	86,587	264,548	270,068	101,633	196,502	97,012	1,016,350
	Premiums earned							
R0210	Gross - Direct Business	212,988	610,442	489,280	295,951	485,878	222,751	2,317,290
R0220	Gross - Proportional reinsurance accepted	1,197	24,099	49,730	0	7,718	134	82,877
R0230	Gross - Non-proportional reinsurance accepted	80	1,954	9,940	0	2,177	30	14,181
R0240	Reinsurers' share	130,821	328,061	248,272	120,777	239,994	104,824	1,172,750
R0300	Net	83,444	308,433	300,677	175,173	255,779	118,090	1,241,598
	Claims incurred							
R0310	Gross - Direct Business	143,946	378,281	291,015	210,580	266,678	97,520	1,388,020
R0320	Gross - Proportional reinsurance accepted	1,026	6,536	-5,507	0	59	236	2,350
R0330	Gross - Non-proportional reinsurance accepted	286	144	-3,007	0	34	6	-2,536
R0340	Reinsurers' share	111,210	217,452	126,731	73,772	120,300	64,724	714,190
R0400	Net	34,048	167,509	155,771	136,808	146,470	33,038	673,644
	Changes in other technical provisions							
R0410	Gross - Direct Business							0
R0420	Gross - Proportional reinsurance accepted							0
R0430	Gross - Non-proportional reinsurance accepted							0
R0440	Reinsurers' share							0
R0500	Net	0	0	0	0	0	0	0
R0550	**Expenses incurred**	34,134	154,580	102,339	78,061	86,652	48,104	503,870
R1200	**Other expenses**							
R1300	**Total expenses**							503,870

S.17.01.02
Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total Non-Life obligation
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
R0010	**Technical provisions calculated as a whole**	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
R0050	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
	Technical provisions calculated as a sum of BE and RM																	
	Best estimate																	
	Premium provisions																	
R0060	Gross	-7,127	-44,156	67	73,787	4,610	30,692	47,219	4,571	4,498	0	-3,842	-7,153	0	-529	-28	-185	102,426
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	-4,351	-33,709	3,962	92,677	-12,485	-59,323	-38,881	-105,567	-6,413	0	-4,170	-14,750	0	-312	-20	-391	-183,734
R0150	**Net Best Estimate of Premium Provisions**	-2,776	-10,446	-3,895	-18,890	17,095	90,015	86,101	110,138	10,912	0	329	7,597	0	-217	-7	206	286,160
	Claims provisions																	
R0160	Gross	22,059	217,152	58,560	831,554	16,706	301,565	851,692	4,055,036	58,658	0	10,108	167,413	0	14,194	617	9,241	6,614,554
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	3,499	43,595	1,092	337,423	1,156	123,680	512,880	691,505	29,052	0	2,428	51,933	0	45	91	2,779	1,801,159
R0250	**Net Best Estimate of Claims Provisions**	18,559	173,557	57,468	494,131	15,549	177,885	338,812	3,363,530	29,605	0	7,681	115,480	0	14,150	526	6,462	4,813,395
R0260	**Total best estimate - gross**	14,931	172,996	58,627	905,341	21,316	332,258	898,911	4,059,607	63,156	0	6,267	160,260	0	13,665	589	9,056	6,716,980
R0270	**Total best estimate - net**	15,783	163,111	53,573	475,241	32,644	267,901	424,912	3,473,668	40,517	0	8,009	123,077	0	13,933	519	6,668	5,099,555
R0280	**Risk margin**	1,189	11,361	3,174	26,698	1,568	12,991	26,167	207,792	2,037	0	536	6,977	0	947	37	447	301,922
	Amount of the transitional on Technical Provisions																	
R0290	Technical Provisions calculated as a whole																	0
R0300	Best estimate																	0
R0310	Risk margin																	0
R0320	**Technical provisions - total**	16,120	184,358	61,801	932,040	22,883	345,249	925,078	4,267,399	65,193	0	6,803	167,237	0	14,612	626	9,503	7,018,901
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**	-851	9,886	5,054	430,100	-11,328	64,357	473,999	585,939	22,639	0	-1,743	37,183	0	-268	70	2,388	1,617,425
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**	16,971	174,472	56,747	501,940	34,212	280,892	451,079	3,681,461	42,554	0	8,545	130,054	0	14,879	556	7,115	5,401,477

S.19.01.21

Non-Life insurance claims

Total Non-life business

Z0020 Accident year / underwriting year: Accident Year

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

		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
	Year	Development year											In Current year	Sum of years (cumulative)
		0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior											72,227	72,227	72,227
R0160	2010	434,410	563,733	260,886	142,593	118,287	74,432	45,593	28,235	26,790	34,021		34,021	1,728,980
R0170	2011	454,395	471,212	195,851	156,478	92,047	59,362	61,026	44,980	43,091			43,091	1,578,442
R0180	2012	372,828	418,323	181,925	139,044	92,493	60,509	95,312	44,145				44,145	1,404,579
R0190	2013	458,857	551,118	199,221	132,234	82,845	66,973	24,013					24,013	1,515,261
R0200	2014	398,571	606,207	227,931	106,103	84,251	44,278						44,278	1,467,341
R0210	2015	438,150	533,108	239,538	132,337	75,242							75,242	1,418,375
R0220	2016	581,377	803,699	339,175	191,352								191,352	1,915,603
R0230	2017	486,705	608,968	324,331									324,331	1,420,004
R0240	2018	510,788	682,668										682,668	1,193,456
R0250	2019	501,786											501,786	501,786
R0260												Total	2,037,154	14,216,054

Gross Undiscounted Best Estimate Claims Provisions
(absolute amount)

		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
	Year	Development year											Year end (discounted data)
		0	1	2	3	4	5	6	7	8	9	10 & +	
R0100	Prior											514,083	514,554
R0160	2010	0	0	0	0	0	0	184,847	152,553	167,582	175,948		176,096
R0170	2011	0	0	0	0	0	263,467	187,420	164,745	174,334			174,633
R0180	2012	0	0	0	0	364,992	269,228	201,119	176,591				176,742
R0190	2013	0	0	0	588,768	370,915	288,927	210,318					210,504
R0200	2014	0	0	712,880	601,767	399,657	305,937						306,292
R0210	2015	0	1,110,664	739,582	642,015	420,180							420,699
R0220	2016	1,517,046	1,167,407	795,285	675,211								675,964
R0230	2017	1,612,611	1,291,472	823,422									824,332
R0240	2018	1,810,524	1,308,363										1,309,552
R0250	2019	1,823,455											1,825,185
R0260												Total	6,614,554

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)	47,176	47,176		0	
R0030	Share premium account related to ordinary share capital	1,572,590	1,572,590		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	-91,292	-91,292			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	71,810				71,810
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
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				
R0230	**Deductions for participations in financial and credit institutions**	0				
R0290	**Total basic own funds after deductions**	1,600,284	1,528,474	0	0	71,810
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
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				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	340,000			340,000	
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	340,000			340,000	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	1,940,284	1,528,474	0	340,000	71,810
R0510	Total available own funds to meet the MCR	1,528,474	1,528,474	0	0	
R0540	Total eligible own funds to meet the SCR	1,940,284	1,528,474	0	340,000	71,810
R0550	Total eligible own funds to meet the MCR	1,528,474	1,528,474	0	0	
R0580	**SCR**	1,369,654				
R0600	**MCR**	616,344				
R0620	**Ratio of Eligible own funds to SCR**	141.66%				
R0640	**Ratio of Eligible own funds to MCR**	247.99%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	1,600,284
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	1,691,576
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	-91,292
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	267,305
R0790	**Total Expected profits included in future premiums (EPIFP)**	267,305

S.25.03.21

Solvency Capital Requirement - for undertakings on Full Internal Models

Row	Unique number of component	Component description	Calculation of the Solvency Capital Requirement
	C0010	C0020	C0030
1	10300I	Interest rate Risk	84,748
2	10400I	Equity risk	18,006
3	10900I	Currency Risk	110,937
4	10700I	Spread Risk	196,391
5	11000I	Investment Credit	162,306
6	10600I	Property Risk	1,528
7	19900I	Diversification within market risk	-302,088
8	20100I	Type 1 counterparty risk	246,326
9	20200I	Type 2 counterparty risk	67,754
10	29900I	Diversification within counterparty risk	-69,564
11	50100I	Non Cat Premium Risk	95,049
12	50200I	Reserve Risk	780,427
13	50301I	Non-Life Natural Catastrophe Premium Risk	232,024
14	50302I	Non-Life Man Made Catastrophe Premium Risk	250,189
15	59900I	Diversification within non-life underwriting risk	-556,568
16	70100I	Operational Risk	196,391
17	80100P	Pension Risk	49,097
18	80300I	Loss-absorbing capacity of deferred tax	-4,543
19	80400I	Other Adjustments	0

S.25.03.21

Solvency Capital Requirement - for undertakings on Full Internal Models

	Calculation of Solvency Capital Requirement	C0100
R0110	Total undiversified components	1,558,410
R0060	Diversification	-486,756
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
R0200	**Solvency capital requirement excluding capital add-on**	1,071,654
R0210	Capital add-ons already set	298,000
R0220	**Solvency capital requirement**	1,369,654
	Other information on SCR	
R0300	Amount/estimate of the overall loss-absorbing capacity of technical provisions	
R0310	Amount/estimate of the overall loss-absorbing capacity ot deferred taxes	4,543
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	
R0420	Total amount of Notional Solvency Capital Requirement for ring fenced funds	
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	
R0440	Diversification effects due to RFF nSCR aggregation for article 304	

S.28.01.01

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

	Linear formula component for non-life insurance and reinsurance obligations	C0010
R0010	MCR_{NL} Result	683,581

		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	15,783	18,022
R0030	Income protection insurance and proportional reinsurance	163,111	147,090
R0040	Workers' compensation insurance and proportional reinsurance	53,573	197
R0050	Motor vehicle liability insurance and proportional reinsurance	475,241	135,852
R0060	Other motor insurance and proportional reinsurance	32,644	7,943
R0070	Marine, aviation and transport insurance and proportional reinsurance	267,901	130,371
R0080	Fire and other damage to property insurance and proportional reinsurance	424,912	400,626
R0090	General liability insurance and proportional reinsurance	3,473,668	514,686
R0100	Credit and suretyship insurance and proportional reinsurance	40,517	21,450
R0110	Legal expenses insurance and proportional reinsurance	0	0
R0120	Assistance and proportional reinsurance	8,009	19,991
R0130	Miscellaneous financial loss insurance and proportional reinsurance	123,077	24,296
R0140	Non-proportional health reinsurance	0	0
R0150	Non-proportional casualty reinsurance	13,933	9,507
R0160	Non-proportional marine, aviation and transport reinsurance	519	520
R0170	Non-proportional property reinsurance	6,668	6,010

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCR_{L} Result	0

		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		

	Overall MCR calculation	C0070
R0300	Linear MCR	683,581
R0310	SCR	1,369,654
R0320	MCR cap	616,344
R0330	MCR floor	342,414
R0340	Combined MCR	616,344
R0350	Absolute floor of the MCR	3,700
R0400	**Minimum Capital Requirement**	616,344