Your Partner in Insurance

Solvency and Financial Condition Report

Ageas Insurance Limited
Company Registration Number: 354568

For the year ended 31st December 2017

CONTENTS

SUMMARY

This is the second Solvency and Financial Condition Report (SFCR) for Ageas Insurance Limited (AIL, the Company) based on the financial position for the year ended 31st December 2017.

1 Business & Performance

AIL is a UK insurance company offering general insurance products through multiple distribution channels. AIL's immediate parent undertaking is Ageas (UK) Limited (AUK). The ultimate holding company of AIL is ageas SA/NV, a company incorporated in Belgium.

Despite a strong underlying performance, the Company's results for the year were adversely impacted by the decision to change the personal injury discount rate (Ogden rate) from +2.5% to -0.75% with effect from 20 March 2017. The reduction in the discount rate had the effect of increasing the cost of personal injury claims. On 31 March 2017 the Ageas UK Boards (which includes the Board of Ageas Insurance Limited) approved immediate actions to improve the solvency ratio by 25% after discussions with the Prudential Regulation Authority (PRA) and 2017 year end Solvency strengthened to 131% from 91% in 2016. These actions included the issuance of an additional £50m of share capital on 7 April, the purchase of a whole account stop loss treaty with effect from 1 April and the de-risking of the bond portfolio. The underlying business remained strong, despite the continued market disruption caused by the change in Ogden rate, and the net IFRS profit after tax for the year improved to £33.1m from a loss of £95.8m in 2016.

Gross Written Premiums reduced by 3.8% compared to 2016 driven by market dislocation post the Ogden announcement, impacting Personal Motor and Commercial lines.

Net underwriting performance was negatively impacted by the recognition of the change in Ogden rate. Excluding Ogden, Motor lines of business have improved with significant improvements in loss ratios. Additionally, Fire and Other Damage to Property Insurance improved, reflecting the benign weather experienced in the year. The exit from a poor performing Managing general agent (MGA) relationship has positively impacted the underwriting performance of the Miscellaneous Financial Loss line of business.

Investment income was £62.0m in the year, compared to £57.3m in 2016. Performance (net of finance costs) increased in 2017 due to the impact of realising gains as a result of an Ogden related portfolio de-risking.

2 System of Governance

A combined board and management structure has continued to be operated by the Ageas UK businesses in 2017. The Ageas UK Boards provide entrepreneurial leadership of the business within a framework of effective governance, setting the strategy, ensuring the direction and performance of the business is aligned to Ageas UK's objectives and is managed competently and prudently in accordance with legal and regulatory expectations.

The Ageas UK Boards have delegated authority to key governance committees in order that they may monitor and oversee specific aspects without further reference to the Ageas UK Boards. The Committees are accountable to the Ageas UK Boards and responsibility rests with the Ageas UK Boards.

The Ageas UK Boards have delegated authority and responsibility for key activities to designated senior managers across Ageas UK, with the allocation of significant responsibilities documented and maintained within the Governance Map of the Ageas UK business.

The Company employs a 'three lines of defence' governance model to provide management with reasonable assurance that the Company is run in a proper way. Management and staff within each Ageas function have the primary responsibility for owning and managing risks (first Line of Defence). Oversight of the effective operation of the internal control framework is supported by the Risk Management and Compliance functions (second Line of Defence). The third Line of Defence is provided via independent verification and challenge of the adequacy and effectiveness of the internal risk and control management framework by the Internal Audit Function.

3 Risk Profile

The Company's primary activity, the underwriting of risk of loss by individuals or businesses, exposes it to a number of risks which may adversely affect the Company's ability to meet its business objectives. The most significant risks that the Company is exposed to are non-life insurance liability risks, market risk and credit risk.

During the year there has been a significant decrease in the Non-life underwriting risks and market risks that the Company is exposed to. The main driver of these decreases has been the placement of Stop Loss arrangements covering AIL's underwriting risk from 1-in-35 to 1-in-185 year losses, and the sale of higher risk BB/BBB assets to reduce market risk.

The key risks faced by AIL are reviewed quarterly by the Prudential and Conduct Risk Committees and subsequently by the Board Risk Committee

Risks are managed through a combination of policies, processes and reports. Key policies are as follows:

- Underwriting Policy
- Pricing Policy
- Reserving Policy
- Reinsurance Policy
- Counterparty Default Policy

The management of Non-life risk at AIL is in conformity with AIL and Ageas Group underwriting and risk taking management guidance. This includes, amongst other things, risk acceptance rules, claims management guidance on claim assessment, reinsurance taking activity and management. Financial risks are managed through various processes & reports. Market and Credit risks are assessed via the Standard Formula.

A regular review of the counterparty exposure is undertaken within the Credit Risk Committee and actions taken to deal with any existing and potential breaches. Reinsurance counterparty exposure is monitored quarterly through the Reinsurance Committee. Counterparty limits relating to investments operation are monitored and reported monthly to the Investment Committee.

4 Valuation for Solvency Purposes

The valuation of assets and liabilities for Solvency II (SII) purposes is the same as IFRS except for:

- differences in the valuation of technical provisions and associated reinsurance recoverables;
- inclusion of acquisition costs in the valuation of SII technical provisions, whereas under IFRS it is separately valued according to period of earnings;
- fair value adjustments for loans and receivables (measured under IFRS at amortised cost, using the effective interest method less impairment).

These differences are summarised below:

in GBP million	2017	2016
IFRS Shareholders' Equity	**440.0**	**388.9**
Net removal of DACs	(151.9)	(145.9)
Net discounting to PV of insurance assets	50.6	63.6
Net best estimate of liabilities	62.8	60.4
Fair value subordinated debt	-	2.0
Fair value debt > 3 months	-	(0.2)
Fair value loans to brokers	0.1	(0.1)
Subordinated liabilities	138.9	136.8
SII Own Funds	**540.4**	**505.5**

5 Capital Management

AIL uses a Partial Internal Model (PIM) to calculate its Solvency Capital Ratio (SCR), approval for which was given by the PRA in December 2015.

The announcement to reduce the Ogden rate from 2.5% to minus 0.75% resulted in the recognition of an additional cost to claims at year end 2016. The impact of this additional cost resulted in the SCR coverage falling to 91%, requiring notification to the PRA. The fall in SCR coverage triggered the Company's capital contingency plan and measures to improve solvency by 25% were approved by the Ageas UK Boards on 31st March 2017 after discussions with the PRA and subsequently implemented during the year.

Own Funds increased by £34.9m driven by the issue of £50m additional share capital by the company and the IFRS profits in the year offset by the movement in unrealised gains in the year. The capital requirement reduced over the year driven by a reduction in Non-life underwriting risk (mainly as a result of the purchase of Stop Loss reinsurance) and a reduction in market risk largely driven by a de-risking of the bond portfolio.

The key principle of the Company's capital management procedures is to ensure that adequate own funds are maintained to cover the SCR. The Ageas UK Boards set the AIL Target Capital Level allowing for a solvency buffer and AIL will not pay a dividend that takes its solvency below this level.

A

BUSINESS AND PERFORMANCE

(Unaudited)

1 Information about our business

1.1 General information

AIL is a UK general insurance company, incorporated in England and Wales. Its registered office is Ageas House, Hampshire Corporate Park, Templars Way, Eastleigh, SO53 3YA.

Supervisory authorities

The Prudential Regulation Authority (PRA), 20 Moorgate, London, EC2R 6DA.
The Financial Conduct Authority (FCA), 25 the North Colonnade, Canary Wharf, E14 5HS.

External auditor

The external auditor of the company for the year ended 31 December 2017 is KPMG LLP, Canary Wharf, 15 Canada Square, London, E14 5GL.

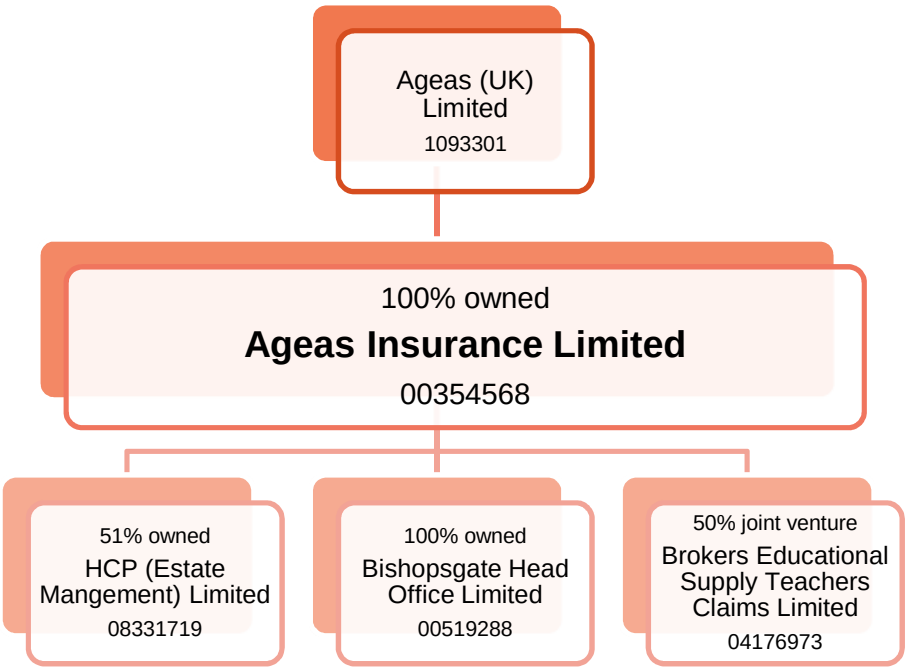
At the completion of its audit tenure, KPMG LLP will stand down as the auditor of the Company. During the year Ageas UK undertook an audit tender and at the recommendation of the Ageas UK Audit Committee and the Company's Board, a written resolution to appoint PricewaterhouseCoopers LLP as the auditor of the Company will be circulated to the shareholders following the approval of the Annual Report and financial statements.

1.2 Group structure and ownership

Ageas Insurance Limited legal structure

AIL is a UK insurance company offering general insurance products through multi-channel distribution. AIL's immediate parent undertaking is Ageas (UK) Limited (AUK). AIL is a wholly owned subsidiary of AUK. The ultimate holding company is ageas SA/NV, a company incorporated in Belgium and which is supervised by the Belgian regulator, the National Bank of Belgium.

The legal structure of AIL at 31 December 2017 is as follows:



On 15 December 2017, Bishopsgate Head Office Limited reduced its issued share capital to £1. Accordingly, the Company has impaired its investment in Bishopsgate Head Office Limited to £1. The directors intend to strike off Bishopsgate Head Office Limited during 2018.

On 16 January 2018 AIL disposed of its investment in Brokers Educational Supply Teachers Claims Limited.

1.3 Description of material lines of business and material geographical areas where business is written

The material products that are sold by AIL are:

- Motor related insurance;
- Property related insurance;
- General liability insurance; and
- Travel and other risks insurance (including miscellaneous financial loss)

The majority of AIL's business is written in the UK with a small proportion written in Ireland, the Channel Islands and the Isle of Man.

1.4 Significant business or other events that have occurred over the reporting period that have had a material impact on the company

On 27 February 2017 the Lord Chancellor announced that the personal injury discount rate (Ogden rate) would reduce from 2.5% to minus 0.75% with effect from 20 March 2017. The reduction in the discount rate had the effect of increasing the cost of personal injury claims, negatively impacting AIL's Solvency ratio.

As a result of the decreased SCR ratio the Ageas UK Boards approved immediate actions to improve the solvency ratio by 25%, after discussions with the PRA, on 31 March 2017. These actions included the purchase of a whole account stop loss treaty with effect from 1 April 2017 and the issuance of an additional £50m of share capital on 7 April 2017. The result of these actions, combined with improved profitability in the year, has resulted in an improvement to the Solvency ratio by 40 percentage points, increasing to 131% by 31 December 2017.

2 Developments and results

Gross Written Premiums

Gross Written Premiums (GWP) in 2017 were £1,355.6m, a 3.8% decrease on 2016 (£1,409.3m). The decrease on prior year was largely driven by declines in Motor Products post the Ogden rate change as AIL strengthened its rating stance in a dislocated market. Miscellaneous Financial Loss declined in 2017 as an unprofitable MGA arrangement went into run off. Fire & Damage showed a small decline with AIL maintaining underwriting discipline and exiting underperforming schemes in a softening market.

Underlying Net Underwriting Performance

The table below shows the Company's premiums, claims and expenses for the year ended 31 December 2017. An analysis by SII lines of business can be found in Quantitative Reporting Template (QRT) S.05.01 (Non-Life and Life) in section H.

£'m	2017	2016	Var
Gross Premiums Earned	1,396.1	1,400.5	(4.4)
Reinsurers' share of premiums	(87.0)	(90.7)	3.7
Gross Claims	(905.6)	(1,318.8)	413.2
Reinsurers' share of claims	27.4	247.8	(220.4)
Expenses	(464.9)	(424.7)	(40.2)
Net underwriting performance	**(34.0)**	**(185.9)**	**(151.9)**

These numbers include the effect of the change in Ogden rate which is discussed in section 1.4., above.

Excluding the impact of Ogden on both years, underlying net underwriting performance has improved in the year. Motor lines of business have improved with significant improvements in

loss ratios. Additionally, Fire and Other Damage to Property Insurance improved, reflecting the benign weather experienced in the year, and the exit from a poor performing MGA relationship has positively impacted the underwriting performance of the Miscellaneous Financial Loss line of business.

The underlying Combined Operating Ratio (COR) (excluding the residual effects of the Ogden rate change) for 2017 was 100.1% (2016 excluding Ogden: 103.2%). Including Ogden the COR for the year was 102.2% (2016: 113.9%).

Employees 2017 – Full Time Equivalent

The total number of employees working for AIL as at 31 December 2017 was 2,049 (2016: 2,178) on a FTE basis.

3 Qualitative and quantitative information about investment performance as shown in the financial statements

3.1 Information about investment performance

Investment income performance (net of finance costs) increased in 2017 due to the impact of realising gains as a result of an Ogden related portfolio de-risking. The related adverse variance relating to ongoing bond income as a result of these trades has been offset mainly by property fund outperformance.

The total value of financial assets held on the balance sheet did not materially change in the year. The Ogden related portfolio de-risking resulted in a change in the mix of bonds held in the portfolio and realised gains combined with increased yields in the year across the curve reduced unrealised gains by £36m. The Company continued to invest in property funds in the year with a further £38m invested during 2017.

3.2 Analysis of our overall investment performance split by relevant class

The following details income and expenses arising from investments by asset class.

	2017	2016
Government bonds	8.4	9.3
Corporate bonds	52.7	51.1
Mortgages and loans	1.8	1.4
Property	8.9	3.6
Other investments	0.9	0.7
Forwards	(1.5)	(0.5)
Subordinated debt interest	(6.0)	(4.8)
Investment management expenses	(1.6)	(1.6)
Property fund expenses	(1.5)	(2.0)
Total	**62.0**	**57.3**

3.3 Gains and losses recognised directly in equity

Assets available-for-sale	2017	2016
Unrealised Gains	50.1	87.5
Unrealised Losses	(3.3)	(5.0)
Total	**46.8**	**82.5**

B

SYSTEM OF GOVERNANCE

(Unaudited)

There have been no material changes to the objectives or policies relating to the system of governance over the period. The governance arrangements in place are regularly reviewed to ensure they remain effective, and the combined board structure further evolved through the implementation of a single tier board structure.

1 Information on governance requirements

1.1 General Information on the system of governance/delegation of responsibility and description of the structure of administrative, management or supervisory bodies

Ageas UK believes that a strong culture of corporate governance and ethical behaviour is fundamental to the way we do business, and therefore a governance framework, based upon the high level principles as set out within the PRA Rulebook, the FCA Handbook, the UK Corporate Governance Code (where relevant), together with the Ageas Principles of Business Conduct has been adopted by the Ageas UK Boards.

An Ageas UK Corporate Governance Manual has been established which incorporates these principles and explains how they are reflected in the organisation and operations of the Ageas UK businesses. The Corporate Governance Framework operates through individuals fulfilling their responsibilities. These are outlined within specific job descriptions and the Ageas UK Governance Map, and delegated authorities are recorded within policies and processes, where relevant.

The decision making framework within Ageas UK is defined by the Ageas UK Boards against high-level parameters agreed with Ageas Group. It reflects the principle of delegated authority based on competence and appropriate mechanisms and triggers for escalation. The framework is a tiered approach with ultimate authority in the UK resting with Ageas UK Boards. In summary the key responsibilities are:

Ageas Group
Set and monitor the overall strategic objectives for Ageas' operations in the UK.

Ageas UK Boards (incl. AIL)
Set and approve the strategy and Multi Year Budget (MYB), aligned with shareholder strategic objectives. Review progress.

UK Executive Team
Develop and lead the delivery of the strategy. Review progress.

The Ageas UK Boards have delegated authority to key governance committees in order that they may monitor and oversee specific aspects without further reference to the Boards. The Committees are accountable to the Boards, and responsibility rests with the Boards. The key Committees are:

1.1.1 Audit Committee
Assists the Ageas UK Boards in fulfilling their responsibility for oversight of the adequacy and effectiveness of internal controls, including internal control over financial reporting.

1.1.2 Board Risk Committee

Assists the Ageas UK Boards in fulfilling their responsibility for oversight of the adequacy and effectiveness of risk governance and its capital allocation and models, and in particular the risk profile relative to the risk appetite determined by the Boards.

1.1.3 Remuneration Committee

Considers and ensures the framework and arrangements that govern the remuneration of the Executive and Senior Management are appropriate, transparent and are aligned with Ageas UK's long term business strategy, risk appetite and values.

1.1.4 UK Executive Team

Manages Ageas' UK business, developing and leading the delivery of the strategy and reviewing performance in keeping with the values, strategies, policies, plans and budgets endorsed by the Ageas UK Boards.

1.1.5 Model Control Board

Assists the Board Risk Committee and in turn the AIL Board in fulfilling its responsibilities in respect of appropriate model governance, design and operation, providing assurance to the Board and the Board Risk Committee on the appropriateness and effectiveness of the models included on the Model Register.

1.1.6 Investment Committee

Oversees the performance of Ageas UK Investments, identifies, develops, and recommends appropriate investment strategies to the Boards, and oversees the implementation and adherence to approved investment strategies by the appointed investment advisers.

1.1.7 Reinsurance Committee

Oversees the implementation of the reinsurance strategy, identifies reinsurance needs in the context of the overall business strategy, detailing reinsurance requirements, reviewing the appointment of placing brokers, negotiating policy terms, approving the reinsurance programme, and monitoring treaty placement.

The Ageas UK Boards have delegated authority and responsibility for key activities to designated senior managers across Ageas UK, with the allocation of significant responsibilities documented and maintained within the Governance Map of the Ageas UK business, a copy of which is provided to the regulator on a regular basis.

1.2 Key Functions

A summary of each Key Function (as defined and required by the Solvency II Directive) is set out in sections 3 to 6 below.

1.3 Description of remuneration entitlements over the reporting period and total amounts of remuneration per member

Ageas UK have established a Remuneration Policy, oversight of which is provided by the Ageas UK Remuneration Committee of Independent Non-Executive and Group Directors, who consider and ensure the framework and arrangements that govern the remuneration of the Executive and Senior Management are appropriate, transparent and are aligned to Ageas UK's long term business strategy, risk appetite and values, and that the remuneration structure meets statutory and regulatory requirements.

Details of Directors' Emoluments that are applicable to AIL have been included within the notes to the 2017 financial statements of the Company (note 33 Related Party Transactions).

The Remuneration Policy describes the following objectives:

- To be able to attract, retain and motivate our Executives to deliver the required standards of performance.
- Reward contribution to the business as well as to Ageas as a whole, ensuring all risk exposures are consistent with the Company's formally agreed Risk Appetite.
- Recognise individual performance as well as seeking to reinforce personal behaviours that deliver on our values.
- Provide a competitive remuneration package, which is fair and reasonable compared to the UK market, and in the context of the wider employee population.
- Provide a remuneration structure which meets statutory and regulatory requirements.

The Remuneration Policy safeguards against inappropriate risk taking, and the approach is to provide a combination of fixed and variable pay, consistent with UK market practices. The standard arrangements are linked to Work Level, and provide a higher level of pay for more senior roles. All employees in Work Levels 1-6 currently have a bonus which consists of 3 elements – two thirds based on business KPIs and one third based on individual performance. Employees within the Executive population are eligible to participate in the Executive Bonus Scheme which consists of 3 elements - Ageas Group performance, Ageas UK performance and individual performance. The Executive Scheme includes an element of deferral should certain thresholds be met. The rules for both Schemes are described and circulated to eligible employees each year.

Employees in Work Level 6 and above are invited to participate in the Ageas Group Share Scheme.

All employees in the UK are eligible to join a Group Personal Pension Scheme.

2 Description of fit and proper policy

Ageas has put in place policies and procedures that provide evidence of fitness and propriety for Directors, Senior Managers and those responsible for discharging a key function. Supporting documentation is collated prior to appointment, and in conjunction with the recruitment and appointment processes, which provides information on the individual's skills and experience and includes, but is not limited to:

- detail of their personal characteristics (including being of good repute and integrity);
- their level of competence, knowledge and experience;
- their qualifications; and
- confirmation that they have undergone or are undergoing all training.

Where applicable this information is submitted to the PRA/FCA in support of their SIMF/controlled function applications.

The obligation to be fit and proper continues for as long as the individual remains an approved person or a key function holder (KFH), and failure to remain fit and proper to perform a controlled function can result in the PRA/FCA prohibiting that individual from performing that function. Ageas has put in place policies and procedures that provide evidence of fitness and propriety, including a recruitment and appointment process for senior managers, a regular cycle of appraisals and performance reviews, and up to date training records, in addition to an annual self-certification exercise.

3 Information about risk management system

By its nature of business, Ageas' insurance activities face risks that, whether internal or external, may affect its operations, its earnings and solvency, the value of its investments or the sale of certain products and services. The fundamental principle underlying the Risk Strategy of Ageas is to maximise shareholder value taking into account the protection of policyholders. To this end, the risk exposures of Ageas are directed towards business that provides attractive risk-adjusted returns.

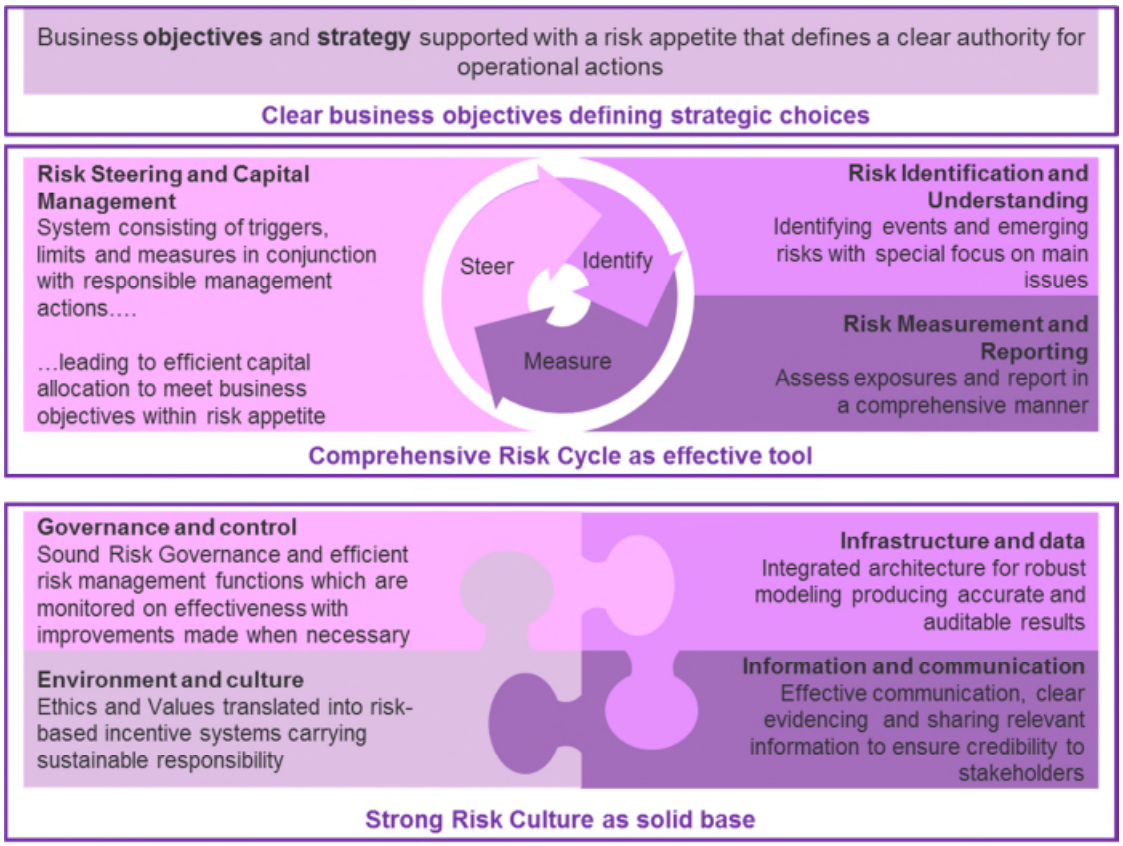
3.1 Risk Management Framework

Ageas UK is active and strongly present in the UK market as a non-life insurance provider. As part of Ageas UK, AIL pursues a risk taking strategy aimed at optimising its operations, earnings, and the value of its investments, within the context of the Capital Management Framework. In order to achieve this, AIL's Risk Management Framework is articulated around a solid risk aware culture, and a comprehensive risk cycle where identification and measurement of risks help to meet the business objectives and risk strategy within tolerable limits and risk appetite.

Ageas UK defines risk as the deviation from its business objectives including an impact on its capital, earnings, customers, reputation or future business opportunities. AIL's risk profile stems from its exposure to external or internal risk factors in conducting its business activities. AIL seeks to take on only risks that:

- it understands well;
- can be adequately managed either at the individual or at the overall portfolio level;
- it can afford (i.e. within the company's risk appetite); and
- have an acceptable risk/reward trade-off.

The goal of Ageas UK's approach to risk management is to ensure that all material risks are understood and effectively managed through a well-designed Risk Management Framework and is illustrated as follows.



Ageas UK operates an effective Risk Management framework which is aligned to the nature and scale of its business and the risks it faces. Although the management of risk is firmly embedded within the business, AIL has undertaken a period of investment in its risk management framework over recent years, including the development of its Risk Management function and in particular the Director of Risk representation at key governance committees. The key elements of the Risk Management Framework are described in the following sections.

Business Objectives and Strategy

AIL is a professional risk taker and this is intrinsic to how it creates value for its stakeholders. AIL avoids undesired concentrations of exposure to either an individual risk or highly dependent risk factors, and exposure to undesired risk. The overall strategy approved by the Ageas UK Boards includes guidance on risk taking (e.g. areas of risk to seek or avoid) as formalised in the Risk Appetite Policy. This risk appetite, together with the derived limits or mandates, forms the boundaries for the risk strategy for AIL.

The Risk Appetite Policy is intended to ensure that AIL sets clear and formal boundaries for risk taking and, most importantly of all, is both willing and able to afford the risks it takes. The risk appetite sets maximum boundaries – it does not determine the optimal exposure, nor does it deal directly with how the detailed limits are implemented. It is not intended to imply that taking risks to the maximum level allowed by the policy is appropriate from a risk/return or any other business point of view, only that it is affordable. It also is not intended to imply that there is automatic permission to increase risks to the maximum allowable level set by the appetite. Controls are set within other policies (e.g. Market Risk Policy) and through additional constraints on risk taking. Capital needed to support risk taking also needs to earn sufficient returns from a value creation point of view. Ageas UK sets limits on the acceptable deviation of various criteria, such as solvency, earnings and customers.

Risk Management Cycle

In order to allow risks to be managed within the appetite set, risks need to be well identified, understood, measured and controlled. To ensure risks are well understood, a bottom-up Control and Risk self-assessment allows individual risk identification taking into account business objectives, as well as risk incident reporting. Individual assessment of risks supports the identification of trends, weaknesses and emerging trends.

Risk assessment within Ageas UK follows the risk taxonomy and measurement is based on likelihood and impact leading to a Level of Concern rating ranging from 1 to the highest risk category 5. Risks are reviewed quarterly by the Ageas UK Board Risk Committee. This Key Risk Reporting (KRR) process ensures oversight and continuous monitoring of all significant risks and ensures that these risks and related controls are periodically identified, reviewed, managed and monitored against risk appetite with management actions formulated when required.

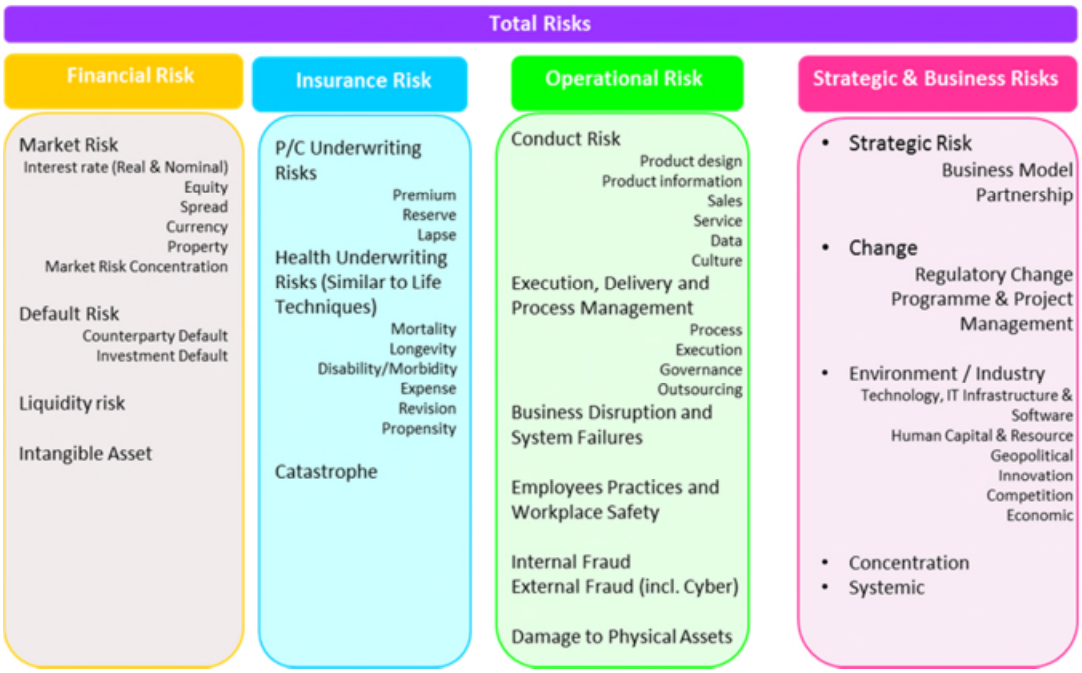
Risks and exposures define capital requirements and are controlled within their limits. Managing the risks and capital management ensures meeting strategic and performance objectives. Where required returns on capital cannot be met, a review of exposure, or capital consumption, is undertaken, such that appropriate actions to improve returns can be identified.

Risk Culture

A strong culture is fundamental to a well-functioning risk management framework allowing the Ageas UK Boards to take responsible management actions and informed decisions. Key areas that support a strong culture are Governance and Control through a clear delegation of authorities and control framework, Infrastructure and Data providing relevant and qualitative management information, Information and Communication creating transparency for people to carry out their responsibilities and Environment and Culture with ethics and values to deliver sustainable profits and fair customer outcomes.

3.2 Risk taxonomy

AIL is exposed to a range of risks. The risk taxonomy is aligned with Ageas Group scope and methodology, and with the objective of ensuring an effective and comprehensive approach to risk identification, assessment, management and monitoring of all risks within AIL.



3.3 Risk management organisation

The risk framework emphasises the importance of ensuring clear responsibilities for efficient risk management within a three lines of defence model. The mission of the Risk Management function is to ensure that risks that affect the achievement of objectives (strategic, operational, financial, etc.) are promptly identified, assessed, managed and monitored. The Risk Management function is designed to ensure:

- clear responsibility and accountability for risk management;
- independence of the Risk Management function; and
- knowledge and best practice sharing, and high standards of risk management.

The Risk Management function is structured around four core activities. Enterprise Risk Management (ERM) provides oversight of Operational and Strategic risks and Internal Control support with key tasks including Control and Risk Self Assessments (CRSA) review, policy attestations and risk incident management. Project Risk Management is built around similar principles to the ERM activities; however as opposed to focusing on business as usual activities, it specifically provides oversight of risks related to the change agenda and project control support. Capital Assurance ensures oversight of Financial and Underwriting risks and the assurance of adherence to risk appetite and limits and writing the Own Risk and Solvency Assessment (ORSA). A key element of the Capital Assurance activity is oversight of Model Control Governance. Risk Governance activities ensure the co-ordination, preparation and oversight of risk reporting requirements.

The Risk Management function places wider reliance on other functions within the Ageas Group, which directly contribute to risk governance. This includes Internal Model validation and development. A Risk Co-ordinator Model is applied. This model relies on Risk Co-ordinators who are first line employees supporting risk management activities. This model allows good business understanding, ownership of risk requirements and a pragmatic attitude towards risk

processes through direct business involvement, as well as an independent risk function, in order to achieve the risk strategy.

The risk framework facilitates day to day reporting of first line risks which, on a quarterly basis, are reviewed and challenged by the Conduct Risk Committee and the Prudential Risk Committee and subsequently reported to the Board Risk Committee. The risk management function provides second line risk views through the ERM process by way of discrete risk opinions on specific topics.

3.4 Own Risk and Solvency Assessment

The main purpose of the ORSA is to ensure that all the risks inherent to the business are assessed and the corresponding capital management needs determined. The ORSA aims to describe:

- The business strategy and objectives
- The risks that may prevent AIL meeting its objectives
- The overall capital needs of the Company taking into account its risk appetite and derived limits

The ORSA is forward-looking and covers a medium to long term perspective, incorporating the MYB planning period of three years and longer where the risks associated to the strategy could be material. This is documented in the ORSA report.

The annual ORSA report is linked to the strategic MYB exercise and takes into account the risk profile and the overall solvency requirement relative to the capital position. The ORSA is reviewed on a quarterly basis.

3.4.1 Coverage

The ORSA report covers the following key areas:

- Risk Appetite & Management Actions, including limits adherence, specifically for Underwriting, Investments, Reinsurance and Counterparty exposure
- Capital Management and Solvency adequacy
- Stress testing, scenario testing and reverse stress testing
- Appropriateness of models and controls.

Risk Appetite & Management Actions

The ORSA is performed in compliance with and in consideration of the principles and rules set out within the Risk Appetite Policy. If risk appetite is breached action is taken by the Ageas UK Boards to remedy the situation. Potential actions include reducing exposure to certain risks, adjusting the strategy, explicitly accepting deviation and taking further mitigating actions (e.g. hedging or reinsurance).

The Risk Appetite framework is updated periodically with changes in strategy, the environment and market expectations. In order to meet overall Risk Appetite the business develops mandates and limits for business lines. These mandates and limits are governed by the Prudential and Conduct Risk Committees and are periodically reviewed, at least on an annual basis as part of the MYB process and ORSA. The review process can result in:

- adding or deleting one of the appetite statements to/from the risk appetite framework;

- a change of one or more of the appetite statements, mandates or limits;
- a change in the set of stress events to be applied; or
- confirmation of the existing risk appetite framework.

Capital Management and Solvency adequacy

The Ageas UK Boards decide whether the risk profile, the approved risk appetite framework and the overall solvency needs are appropriate. The Ageas UK Boards may define certain capital management actions if appropriate. Urgent action may be taken depending on how strongly Solvency risk appetite has been breached as formalised in the capital contingency plan.

Solvency adequacy and related capital management actions are monitored on a quarterly basis. This incorporates the adequacy of the Market Consistent Balance Sheet (MCBS), including reserves and related liability adequacy tests.

Stress Testing, scenario testing and reverse stress testing

A series of stress tests are documented in the ORSA and include reverse stress tests and scenario analyses in order to provide an adequate basis for the assessment of overall solvency needs.

3.4.2 Roles and Responsibilities

The AIL Board owns the ORSA and reviews its assessments and scope, challenges its results and concludes on the outcome. Operationally, the report is prepared by the Risk Function in co-operation with the Finance, Actuarial and Strategy and Planning Functions.

The annual ORSA process utilises the strategic objectives defined by the Ageas UK Boards and incorporated within the MYB. As such, the annual ORSA and MYB processes are closely aligned. Once the ORSA is validated by the AIL Board it is sent to Ageas Group and the regulator. Any actions arising from the ORSA are monitored by the Board Risk Committee on a quarterly basis. ORSA monitoring of compliance with regulatory capital requirements (SCR, Minimum Capital Requirement (MCR) and QRTs) and Risk Appetite and Capital Management Frameworks is performed on a quarterly basis.

Non-regular ORSA triggers are also in place to ensure that solvency assessments are performed if the situation warrants it outside the regular ORSA process. The following non-exhaustive list of triggers is used as a reference:

- A significant change in the risk profile;
- A significant change in the composition of own funds or in capital management / budget assumptions and forecasts
- An acquisition (or divestment) that significantly changes business, risk or solvency profile;
- A significant change to the strategy, affecting budget assumptions in material ways;
- A significant change in the external business environment that has a large impact on the asset-portfolio;
- A significant change in the liability portfolio;
- A significant deviation from the Risk Appetite indicators (solvency, liquidity, earnings); and
- A (significant) change in regulation.

The non-regular ORSA must explain the expected changes in the risk profile and/or financial situation, the impact on the overall solvency needs and the link to the available own funds and SCR.

Whilst the reporting, review and challenge of the risk assessment through Key Risk Reporting establishes a sound ownership of the business risks and controls, the Management Control Statement (MCS) is a formal and explicit sign-off of the process of ongoing risk and control identification and monitoring within the business and support departments.

4 Information on the internal control system

4.1 Description of the internal control system

The objective of the internal control framework is to provide management with reasonable assurance that the Company is run in a proper way. Ageas utilises the “Three Lines of Defence” model of operation consistent with that established across the Ageas Group. Management and staff within each Ageas function have the primary responsibility for owning and managing risks (first Line of Defence). Oversight of the effective operation of the internal control framework is supported by the Risk Management and Compliance functions (second Line of Defence). The third Line of Defence is provided via independent verification and challenge of the adequacy and effectiveness of the internal risk and control management framework by the Internal Audit Function.

Ageas is committed to embedding a compliance culture where the ownership of compliance processes is clearly defined and followed appropriately at all levels. Compliance is not just good business practice; it is about observing high standards of integrity, fair dealing with customers and acting with due care and diligence at all times. Compliance standards are measured through monitoring and risk management processes.

All staff are made aware of their Compliance responsibilities and how Compliance fits in with business requirements. Compliance is not a ‘stand alone’ function. It is an integral part of the business. Directors and senior managers promote a compliance culture, and encourage staff to do likewise.

4.1.1 Control Domains and their Objectives

The overall objectives of the framework are specified according to the following three domains: Operations, Compliance and Financial Reporting.

Operations

Operations include the objectives of appropriate functioning and proper management of operations.

Compliance

Compliance aims to provide reasonable assurance that the company and its employees comply with laws, regulations, internal rules and ethical standards.

Financial Reporting
The objective is that adequate and appropriate information is internally (and externally) reported and when relevant disclosed in a proper way.

4.1.2 Control Components

The Internal Control Components are the elements that need to be assessed and reported for every business function. These components are defined as follows:

Control Environment

Ageas believes that its people are at the core of the business. Their individual attributes including integrity, ethical values and competence and the environment in which they operate is vital to the success of Ageas.

The way Ageas interprets the control environment relates to the policies that are in place regarding specific activities. These policies define the governance, key principles, and management vision regarding that particular activity which provides the “tone from the top”.

Risk Assessment

Risks to which the Company is exposed, from external and internal sources, are assessed relative to AIL’s objectives. The objectives are based on the risk appetite framework and translated into tolerances.

Because economic, industry, regulatory and operating conditions will continue to change, mechanisms are in place to identify and deal with risks associated with change.

The purpose of this component is to identify the key risks that are faced when carrying out the business activities related to a process/function.

Control Activities

Control activities are defined by the policies and procedures that ensure management directives are carried out. They ensure that necessary actions are taken to address risks to achievement of the Company’s objectives.

Control activities occur throughout the organisation, at all levels and in all functions. They include a range of activities including approvals, authorisations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

Information & Communication

Information systems produce reports containing operational, financial and compliance-related information to facilitate the running and control of the business. They deal with internally generated data and information on external events, activities and conditions necessary to inform business decision-making and external reporting.

Effective communication also occurs in a broader sense, flowing down, across and up the organisation. Personnel understand their role in the internal control system and how their individual activities relate to the work of others. There are also communication processes with external parties, particularly customers, suppliers, regulators and shareholders.

Monitoring

Internal control systems are monitored and processes are in place to assess the quality of internal control systems performance over time.

This is accomplished through ongoing monitoring activities and separate evaluations. Ongoing monitoring includes regular management and supervisory activities. The scope and frequency of separate evaluations depends primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures.

Internal control deficiencies are reported upstream, with serious matters reported to Executive Management and the Ageas UK Boards.

4.2 Information about key procedures in the internal control system

The key internal control processes are related to Finance (reporting and performance management), Risk (framework and policy setting, quantified monitoring), Compliance and Audit.

All five control components (Control Environment, Risk Assessment, Control Activities, Information & Communication, and Monitoring) are assessed per business function detailing the key processes, risks, controls and actions.

The Internal Control Policy requires the key processes to be documented together with the key operational risks and related key controls in place. To facilitate the documentation of such processes and the centralisation of controls across the Company, a 'Risk and Control Register' is maintained and contains the processes, risks and controls related to each business function.

The actions to be taken to set up controls and/or improve existing ones are identified and monitored throughout the year. Time constraints are defined depending on the rating of the risk.

The internal control framework is based on the self-assessment performed by the respective process owners. Coordination of this self-assessment process, the subsequent aggregation, and conclusions are managed by the Risk function.

Internal Audit performs an independent assessment of the adequacy of the internal control framework as well as of the control environment within the business functions.

4.3 Description of how the compliance function is implemented

The Ageas UK Compliance Framework is aligned to the Ageas Group Compliance Policy and describes the objectives of Compliance, the fulfilment of the function (as an independent second Line of Defence control function), the organisation of compliance within Ageas UK, reporting, and reporting lines. This is, in part, managed via an annual Compliance Strategy and Plan. This annual Compliance Strategy and Plan includes a compliance assurance programme that is devised and followed (subject to appropriate review and sign-off within Ageas UK) to ensure that those areas covered within the Compliance Universe are appropriately reviewed, on a risk-based approach. The Management, Risk and Audit Committees are given reasonable

assurance of compliance and kept up to date through regular reporting on regulatory risk incidents, monitoring activities, legal & regulatory changes and other relevant Compliance-related matters with opportunities at the Committee meetings to discuss any matters of interest.

The Compliance function is an independent function within Ageas which aims to provide reasonable assurance that the Company and its employees comply with laws, regulations, internal rules and ethical standards. The Compliance team are dedicated to ensuring that Ageas acts in a compliant way and meets its obligations in relation to regulatory requirements, including but not limited to PRA and FCA requirements. Compliance assists the business in delivering its objectives and strategic plans by ensuring that regulatory standards are achieved and maintained.

Compliance is responsible for assessing the compliance standards within Ageas, including ensuring:

- Appropriate systems, procedures and records are in place;
- Adequate monitoring programmes are applied in order to gain assurance on Ageas compliance;
- Assistance is given to adequately and appropriately train the business in compliance matters, and
- Guidance and advice is given to the business on compliance matters.

Compliance acts as a point of contact for business areas on key issues relating to regulatory risk. In addition, Compliance maintains regular contact with management and staff in order to reinforce compliance culture.

Compliance has a duty to report breaches of PRA and FCA rules to the relevant regulator as notifiable events. Directors have a personal responsibility to ensure that Ageas is compliant with applicable regulations.

Compliance has a reporting line to the Compliance Director, who is responsible for compliance across the Ageas UK Group. Independence is an important element of Compliance's approach, facilitating impartiality, which is essential to the review and monitoring of compliance arrangements within Ageas.

4.3.1 Role

The role of the Compliance senior management ensures:

- reasonable assurance that the company and its employees comply with all laws, regulations, internal rules and ethical standards, that are relevant to its integrity and reputation, such as duty of care, sales standards, conduct risk management, treating customers fairly etc;
- a confident relationship and mutual understanding is developed with the regulators with respect to compliance matters, coordinated with/through the Compliance Director/Company Secretary who reports to the Ageas UK Boards;
- appropriate policies, standards and guidance that mitigate compliance risk; and
- effective reporting arrangements.

The Compliance function will review areas such as:

- Corruption and Anti-Bribery;

- Duty of care, product suitability and adequate information to customers, market practices and consumer protection ("Treating Customers Fairly");
- Third Party and Counterparty Risk;
- Corporate Governance, Fit & Proper Rules, Remuneration Policy, Code of Ethics and Conflicts of Interest;
- Fair competition;
- Privacy protection and
- Any other topics as requested by the business or relevant regulators.

In order to deliver the required reasonable assurance, all topics are assessed at least on a triennial basis (in addition to those topics, laws or regulations which are required to be tackled every year or on an ongoing basis). The activities of the Compliance function are detailed in the Compliance strategy and plan for the coming year and approved by the Audit Committee.

4.3.2 Laws and Regulations linked

An overview of the ever changing regulatory environment is maintained and regular 'Legal and Regulatory updates' issued that encompasses the major laws and regulations that might affect Ageas' way of doing business.

As follow up, Compliance (at least on a quarterly basis) provides regular updates to the Risk Committees to give assurance that there has been adequate follow-up of these laws and rules across the different departments.

4.3.3 Codes of Conduct and Policies

The Compliance Director is responsible for the follow-up of the Codes of Conduct and internal policies. Therefore, they:

- Ensure that there are adequate checks in place to verify if the policies are up-to-date, published, validated by the adequate level of decision; and
- Ensure that the Head of Compliance Assurance has set up an appropriate compliance monitoring programme upon the execution of the imposed rules.

The applied risk-based approach consists of identifying and assessing the compliance risks and ensuring that every reasonable measure (including instructions, procedures, I.T. programs, monitoring methods, awareness and training actions, objective setting, incentives, deterrent measures and sanctions) is taken in order to avoid or reduce the occurrence of the thus identified compliance risks and to minimise the damages, should one of these risks nevertheless occur. Corrective actions are monitored.

5 Information about the internal audit function

5.1 Description of how the internal audit function is implemented

5.1.1 Governance of the Internal Audit function

The Internal Audit function of Ageas UK is governed by a charter that defines its role, mission, positioning, deliverables, duties and operational structure, including its role in the Group. The charter is reviewed every two years, the most recent being approved by the Ageas UK Audit Committee in October 2016. No significant changes were made in this revision.

This charter complies with the UK regulation on internal control and internal audit and with SII regulation and is part of the Ageas governance.

The Ageas UK Boards endorse Internal Audit with a status that preserves its autonomy and functional independence, objectivity and authority necessary to fulfil its role and mission.

The Internal Audit function also has a professional duty to preserve its objectivity and impartiality. Therefore, Internal Audit staff cannot be involved in operational activities or in implementing any organisational or internal control measure, including executing control monitoring.

Internal Audit operates within the International Professional Practices Framework established by the Institute of Internal Auditors and within the basic guidelines set by (inter)national regulatory authorities. It also operates in full accordance with the UK standards in respect of Internal Audit within Financial Services, as specified by the Chartered Institute of Internal Auditors.

The Ageas UK Director of Audit monitors the Internal Audit function within the UK group as governed by the principles, limitations and conditions described in the charter and has an obligation to inform the CEO and the Audit Committee, of any material issue (action, event, decision, blocking factor, lack of resources etc.) that limits, or could limit the scope of Internal Audit.

5.1.2 Objectives of the Internal Audit function

Internal Audit's role is based on the following main objectives:

- Through independent and professional audit assignments, enable Ageas to achieve its long-term objectives by:
  - providing effective and responsive control assurance,
  - fostering a robust control culture,
  - promoting cross-entity knowledge sharing.
- To be a trusted guardian on internal control for the Audit Committee and executive management.

Within Ageas UK, Internal Audit assists the Audit Committee, the Executive Committee and other management committees in the effective discharge of their duties, through delivering reasonable assurance about the quality of governance, risk management and control processes, which include management's reporting on internal control and management's annual statements on the effectiveness of internal control.

Recommendations are issued to optimise internal control in its broadest sense.

5.2 Description of the audit plan

Internal Audit documents its priorities in a formal yearly audit plan, based on a comprehensive risk assessment of processes and functions, using materiality, risk and control related data and input from management and other control functions.

Process relevance, strategic initiatives, regulatory changes, time since last audit, industry and audit trends are additional priority indicators.

The audit plan is submitted to the Ageas UK Audit Committee for the final and formal endorsement after approval by the Ageas UK CEO.

5.2.1 Audit assignments

Internal Audit prepares and executes the audit plan and appropriately reports on the findings, conclusions and recommendations to the CEO and provides summaries to the Audit Committee via a quarterly Management Report. Recommendations are followed up and their status is reported.

In each of its audit assignments Internal Audit focuses on the proper design, operation and effectiveness of:

- governance processes & principles;
- strategy and objective setting, accountability, ethics and integrity, transparency and adequate competencies;
- risk identification and assessment;
- controls as part of risk mitigations; and
- information and communication.

5.2.2 Management Report

Quarterly detailed management reports are provided in order to inform the Audit Committee and Executive Committee on the status of the planning, recent reports issued, staff resources and recommendations.

6 Information about the actuarial function

The objectives of the Actuarial Function within Ageas are formulated as follows:

The Actuarial Function coordinates the calculation of the technical provisions and acts independently from model managers, implementation managers and model users in order to issue an opinion about the reliability and adequacy of the technical provisions. It also issues an opinion on the appropriateness of the underwriting practices and the reinsurance arrangements.

The AIL Chief Actuary is the Actuarial Function holder and is responsible for reserving and setting capital requirements. The Chief Actuary produces an annual Actuarial Function Report which is reviewed and challenged by the Capital Assurance team of the risk management function. The Actuarial Function Report formulates views on and recommendations for:

- the reliability and adequacy of **technical provisions** in IFRS and SII based on the assessments of methodologies, models, data quality and assumptions, and the consistent calculation of technical provision calculations;
- the appropriateness of **underwriting** practices when offering insurance products through assessment of the profitability of the portfolio, product pricing (risk/return) and acceptation rules, and benchmarking these to the applicable underwriting policy;
- the appropriateness of the **reinsurance** arrangements by assessing (i) the adequacy of the reinsurance policy and (ii) the alignment of the reinsurance arrangements with the applicable reinsurance policy.

The Actuarial Function is expected to coordinate the calculation of technical provisions and assure a level of consistency throughout the group as set out in the Group Best Estimate Manual (Non-Life), the Reserving Policy Life and Group Methodology for Risk Margin.

Furthermore, the Financial and Risk Data Management Policy set the data management and quality standards and governance by which Ageas manages its financial and risk data. Of particular relevance to the Internal Model, the Policy sets out how AIL manages the accuracy, completeness and appropriateness of the Internal Model data using a combination of quantitative and qualitative assessments.

In addition, a model governance policy sets out the expectations in respect of controlling key Actuarial models.

Governance of model data is owned by the Model Control Board (MCB) with the Head of Capital, Director of Risk and Chief Actuary reviewing inputs prior to formal sign-off by the MCB. Given the data feeding the Model is largely from accredited sources (e.g. audited IFRS balance sheet, signed-off business plan etc.), it is deemed to be sufficiently accurate and complete.

For data used within AIL's Internal Model, the AIL Internal Model document lists the data inputs and has a 'data dictionary' giving more detail on the source, characteristics and usage of the relevant data used.

7 Information about outsourcing

7.1 Description of why we outsource critical or important operational functions or activities and how we have appropriate oversight and safeguards in place

Ageas UK will only enter into an outsourced arrangement where there is an agreed sound business rationale for doing so and with a provider that is competent (i.e. has the required operational and technical capability, resources and quality standards), is financially sound and has good relevant knowledge and experience of the service it is required to supply. Any decision to outsource activities remains the responsibility of Ageas UK management, based upon the agreed strategy. Decisions and core management responsibilities concerning strategy or risk management will not be outsourced.

Ageas UK remains responsible for all activities that are outsourced and requires that robust governance arrangements are in place in relation to the selection, management and oversight of all outsourced arrangements. Ageas UK will ensure that outsourcing of critical or important operational functions or activities will not

- unduly increase operational risk; or
- breach applicable legal or regulatory requirements; or
- materially impair the quality of the system of governance or the ability of its regulators to monitor Ageas UK's compliance with its obligations; or
- undermine continuous and satisfactory service to policyholders.

The processes to be followed in negotiating, implementing, managing and overseeing critical and important third party provider relationships are set out within the Ageas UK Outsourcing and Third Party Supplier Manual. Board approval is required for any proposed outsourcing arrangement, or to serve notice of variation or termination on any existing outsourcing arrangement, above certain defined thresholds.

Oversight arrangements include satisfactory due diligence, robust contractual documentation, allocated business responsibility for oversight of the relationship and performance, supported by appropriate Compliance and Internal Audit monitoring.

Below is a table outlining the key functions and activities for the Company which have been outsourced:

Nature of relationship	**Jurisdiction**
Delegated Underwriting Authority – Motor and Household insurance	EEA
Outsourcing of legal expenses insurance	EEA
Outsourcing of the administration, claims handling and accounting for the company's London market run-off portfolio	EEA
Managing General Agent	EEA
Investment management activities	EEA

C

RISK PROFILE

(Unaudited)

1 Description of the definition, identification, assessment, management and monitoring for each individual category of risk

The following sections explain AIL's various risk exposures in more detail.

1.1 Insurance Liability risks

Insurance liability risk refers to the risk of claims deviating from our expectations in both their timings and amounts. This risk includes claims expenses and policy lapses.

Non-life risks include reserve risk, premium risks and catastrophe risks. Reserve risk relates to uncertainty around outstanding claims, while premium risk relates to uncertainty around future claims. Premium risk includes attritional losses and large losses, but excludes catastrophe losses. Catastrophe risk is related to claims arising from catastrophic events: either natural disasters or man-made events.

AIL manages insurance risks through a combination of Underwriting Policy, Pricing Policy, Reserving Policy and Reinsurance Policy.

Underwriting policies are adopted as part of the overall management of insurance risk, and are revised on an annual basis by the relevant underwriting team.

Underwriting policies are adopted as part of the overall management of insurance risk and are revised by the applicable underwriting teams. A range of indicators and statistical analysis tools are employed to refine underwriting standards in order to improve loss experience and/or ensure pricing is adjusted appropriately.

Insurance premiums are set at a level that will ensure that premiums received plus the investment income earned on them exceed total claims, costs of handling those claims and the cost of managing the business. The appropriateness of pricing is tested using a range of techniques and key performance indicators appropriate to a particular portfolio/line of business.

In its exposures to insurance risks, AIL benefits from diversification across geographical regions, product lines and even across insurance sub-risks. This reduces AIL's exposure to significant concentrations of insurance risks. Moreover, AIL has built in specific mitigation measures in order to minimise its risk exposures. The main example of risk mitigation is the annual reinsurance cover.

1.1.1 Non-life underwriting risks

Underwriting risks arise from current year exposure to new claims or prior year reserve deterioration.

£'m	2017	2016	Movement
Reserve Risk	188.5	218.6	(30.1)
Premium Risk	217.9	239.1	(21.2)
Nat Cat Risk	196.8	225.4	(28.6)
Man Made Cat Risk	29.7	51.8	(22.1)
Lapse Risk	8.6	5.7	2.9
Diversification within UW risk	(379.1)	(346.9)	(32.2)
Non-Life UW Risk Total	**262.4**	**393.7**	**(131.3)**

The main driver of the reduction across risk is the placement of two Stop Loss arrangements covering all elements of underwriting risk.

Non-life underwriting risks are mainly composed of reserve, premium, catastrophe and lapse risks. This section will first describe these risks (sub-sections A to D). It will then provide an overview of their management within AIL (sub-section E).

A. RESERVE RISK

Reserve risk is related to outstanding claims and represents the risk of adverse change in the value of insurance liabilities resulting from fluctuations in the timing and amount of claim settlements and claims expenses.

B. PREMIUM RISK

Non-life premium risk is the risk that the premium will not be sufficient to cover all liabilities including claims and expenses resulting from fluctuations in frequency, severity of claims, timing of claim settlements, or adverse changes in expenses.

Claims losses can differ from the expected outcome for a range of reasons.

Where appropriate, AIL groups risks into homogenous groups, for example based on claims profile and risk type.

C. CATASTROPHE RISK

Catastrophe risk is related to claims generated by catastrophic events, natural disasters such as storms, floods, earthquakes, freezes, or man-made events such as terrorist attacks, explosions or train accidents.

D. LAPSE RISK

Lapse risk is related to future premiums included in the premium provision where an expected profit is foreseen. Lapse risk is the risk that more lapses will occur than expected, generating less profit than foreseen.

E. MANAGEMENT OF NON-LIFE RISKS AT AIL

The management of Non-life risk at AIL is in conformity with AIL and Ageas Group underwriting and risk taking management guidance. This includes, amongst other things, risk acceptance

rules, claims management guidance on claim assessment, reinsurance taking activity and management.

At Ageas Group level a number of reporting schemes related to the above are in place e.g. Solvency reports, provisions reports.

1.1.2 Reinsurance

Where appropriate, AIL enters into reinsurance contracts to limit its exposure to underwriting losses. This reinsurance can be written on the following bases:

- Policy-by-policy basis (per risk);
- Portfolio basis (per event), i.e. where an unacceptable risk of accumulation of claims exists. These events are mostly weather related or man-made.

Reinsurance companies are selected based primarily on pricing and counterparty default risk considerations. The placement, monitoring and management of reinsurance risk is covered by the reinsurance committee.

The use of reinsurance enables AIL to:

- Mitigate against catastrophic events (natural and man-made);
- Mitigate against large losses;
- Mitigate against loss accumulations;
- Reduce capital requirements; and
- Protect the AIL income statement.

1.2 Financial risk

Financial risk encompasses all risks relating to the value and performance of assets and liabilities that may affect solvency, earnings and liquidity due to changes in financial circumstances. These include:

- Market risk;
- Default risk;
- Liquidity risk.

The most material risk to AIL, after non-life underwriting risks, is Market risk (contributing 33% of SCR at Q4 2017), particularly spread risk (14% of SCR at Q4 2017).

Default risk represents 15% of AIL's SCR at Q4 2017, driven by Type 2 exposures such as receivables from brokers and policyholders. Type 1 exposure including reinsurance receivables is relatively low given the high quality credit rating of AIL's reinsurers of A+ on average.

Financial risks are managed through various processes & reports (including Risk Appetite Monitoring). Market and Default risks are assessed via the Standard Formula.

A regular review of counterparty exposure is undertaken within the Credit Risk Committee and actions taken to deal with any existing and potential breaches.

Reinsurance counterparty exposure is monitored quarterly through the Credit Risk Committee.

Counterparty limits relating to investment operations are monitored and reported monthly to the Investment Committee.

1.2.1 Market risk

Market risk arises from adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets and liabilities. It is composed of the following sub-risks:

a. interest rate risk;
b. equity risk;
c. spread risk.
d. currency risk;
e. property risk;
f. market concentration risk.

In accordance with Article 132 of Directive 2009/138/EC the company has invested all its assets in accordance with the 'prudent person principle':

- With respect to the whole portfolio of assets, the company has only invested in assets whose risks can be properly identified, measured, monitored, managed, controlled and reported.
- All assets, in particular those covering the MCR and the SCR, are invested to ensure the security, quality, liquidity and profitability of the portfolio as a whole.
- Assets held to cover the technical provisions are also invested in a manner appropriate to the nature and duration of the insurance and reinsurance liabilities and in the best interest of policy holders and beneficiaries.
- The company has opted to invest in derivative instruments to reduce risks and facilitate efficient portfolio management. Assets have been diversified in such a way as to avoid excessive reliance on any particular asset, issuer or group of undertakings, or geographical area.

A. INTEREST RATE RISK

AIL's exposure to changes in interest rates is primarily concentrated in its investment portfolio. To mitigate changes in interest rates AIL holds a material proportion of its investments in fixed and floating rate debt securities. It will normally hold these securities to their maturity. This reduces the variation in future cash flows and provides security over future income and redemption values. The market value of fixed interest securities is inversely correlated to movements in interest rates i.e. the market value of fixed interest securities rise if interest rates fall and vice versa.

AIL regularly monitors its investment strategy to minimise the risk of a fall in the portfolio's market value which could affect the amount of business that the Company is able to underwrite or its ability to settle claims as they fall due. AIL is not materially exposed to interest rate risk on the subordinated debt it has issued, as the interest rate is based on London Inter-Bank Offered Rate (LIBOR).

Most insurance contract liabilities are not directly sensitive to the level of market interest rates as they are undiscounted and contractually non-interest bearing. Periodic payment orders (PPOs) take account of likely increases in payments due to, for example, inflation, and are discounted using an appropriate yield curve.

The SII curve as provided by the European Insurance and Occupational Pensions Authority (EIOPA) is used as the risk-free rate curve for valuation purposes.

B. EQUITY RISK

Equity risk is limited to the exposure the company has on its pension benefit surplus/obligation. Changes in the level or volatility of market prices for equities or their yield can impact the value of the surplus/obligation. The pension benefit surplus/obligation is calculated in line with EIOPA technical specifications.

This risk is controlled through limit setting based on the risk appetite and by investment policies that require a range of controls to be in place including the action that will be taken in the event of significant decreases in value.

C. SPREAD RISK

Spread risk results from the sensitivity of the value of assets to changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure.

The company generally aims to hold credit assets to maturity. This limits the long-term impact of spread risk. Although short-term volatility can be important, it is highly unlikely that the company would be forced to sell at distressed prices, but it can choose to sell if it considers this to be the best course of action in light of potential future default risk.

D. CURRENCY RISK

Currency risk arises from the sensitivity of assets and liabilities to changes in the level of currency exchange rates when there is a mismatch between the relevant currency of the assets and liabilities.

AIL has US Dollar (USD) liabilities in respect of the run off of its former Marine and City business. These liabilities are matched on a half-yearly basis with currency assets. The company is also exposed to current travel policy claims that require settlement in mainly USD and Euros. These are normally settled in a short period from notification of the loss.

AIL invests in USD denominated bonds and so has foreign currency risk exposure on those assets. The company mitigates this risk by putting in place matching currency forward derivative contracts. When a USD bond is purchased a spot trade and a forward are executed and these are rolled forward every three months. The spot trade buys USD and sells British Pounds (GBP) (originally to fund the USD bond purchase but now to close out the forward contract) and a new forward contract is then executed to sell USD and buy GBP creating a USD liability that matches the investment. The contracts are rebased monthly.

E. PROPERTY RISK

Property risk arises as a result of sensitivity of assets and liabilities to the level or volatility of market prices of property or their yield. AIL invests in property as a means to diversify its investment strategy away from holding only fixed interest assets.

To mitigate this risk the company has invested in both property funds and direct property investment. Property funds allow investors to achieve diversification across multiple types of property and location with smaller investments and to gain access to the expertise of specialist managers.

F. MARKET CONCENTRATION RISK

Market concentration risk refers to risks stemming either from lack of diversification in the asset portfolio or from large exposure to default risk by a single issuer of securities or a group of related issuers.

Concentration risk can arise due to large aggregate exposures to single counterparties or an aggregate of exposures to a number of positively correlated counterparties (i.e. tendency to default under similar circumstances) with the potential to produce a significant amount of impairments due to a bankruptcy or failure to pay.

Avoidance of concentration is therefore fundamental to AIL's credit risk strategy of maintaining granular, liquid and diversified portfolios. AIL sets counterparty limits which consider its particular situation and requirements set by the Group. The company also commits to continuous monitoring and periodically report to Group so that the overall position can be assessed in line with other Group companies.

To manage the concentration of credit risk, AIL's investment limits aim to spread the credit risk across different sectors and countries. AIL monitors its largest exposures to individual entities, groups of companies and other potential concentrations such as sectors and geographic areas to ensure adequate diversification and identification of significant concentration risk.

1.2.2 Default risk

The company has a Credit Risk Committee that monitors the different exposure, rating and accumulation risks. It will make recommendations on amendments to policies to reduce risk. The maximum exposure is equal to the carrying amount of those assets.

Default risk is composed of two sub-risks:

a. Investment default risk;
b. Counterparty default risk.

The output from the above, together with detailed other credit risk information, is presented quarterly in a summarised basis to the Credit Risk Committee and any key areas of concern are flagged in subsequent reporting to Risk for input into the Prudential Risk Committee and the Board Risk Committee.

A. INVESTMENT DEFAULT RISK

The investment default risk includes the risk of actual default of AIL's investments as well as the potential for indirect losses that may arise from a default event on investment assets.

This risk is managed through limits which take into account the type of credit quality and maturity through regular monitoring and early warning systems.

B. COUNTERPARTY DEFAULT RISK

The counterparty default risk reflects possible losses due to unexpected default or deterioration in the credit standing of counterparties and debtors. The scope of the counterparty default risk category includes:

a. Type 1 exposures – these are risk-mitigating contracts, such as reinsurance arrangements, derivatives and cash.

b. Type 2 exposures – these are receivables from intermediaries and other credit exposure not elsewhere covered (guarantees, policyholders, etc.).

For Type 1 exposures, which principally apply to Reinsurers, Standard & Poor's (S&P) is used as the main source for credit ratings, with A M Best used where no S&P rating is available. Any exceptions to this Policy are approved by AIL's Reinsurance Committee. The use of second best ratings is not considered appropriate for reinsurance purchasing. Where no external rating is available (i.e. generally historical exposures), an internal review of additional security information is undertaken and an internal rating is proposed, which is subsequently reviewed and approved by the Credit Risk Committee.

For Type 2 exposures, which principally apply to Brokers, Experian is used as the main source for credit ratings, complemented by a review of their latest financial information. The Agency appointment process includes financial and credit assessments, including approval by the Financial Operations Manager, and ongoing protection is provided by our terms of business agreement (TOBA) terms. On an ongoing basis, a monthly aged debt review of all material brokers and schemes takes place. For our material brokers, key accounts are reviewed monthly via our Key Account Risk Register (including an assessment of Inherent and Residual risk, taking into account any mitigating controls) and a rolling cycle of Broker risk assessments takes place. These reviews include a review of Experian information and their latest financial information.

Within AIL, this risk is mitigated through the application of AIL's Counterparty Default Policy and close monitoring of outstanding counterparty default credit positions. Diversification and avoidance of low rated exposures are key elements in the mitigation of this risk.

Impairment for specific credit risk is established if there is objective evidence that AIL will not be able to collect all amounts due in accordance with contractual terms.

1.2.3 Liquidity risk

Liquidity risk arises when AIL is unable to realise investments and other assets in order to settle its financial obligations when they fall due. For example, this is the risk that expected and unexpected cash demands of policyholders and other contract holders cannot be met without suffering losses or without endangering the business franchise due to constraints on liquidating assets. These constraints may be structural or due to market disruption. Liquidity risk also covers the risk that any assumed liquidity premium, used to value illiquid liabilities, will not materialise.

The financial commitments of AIL are mainly short to medium term. Claims and other outflows can be unpredictable and may differ significantly from expected amounts. If liquid resources are not available to meet a financial commitment as it falls due, liquid funds will need to be borrowed and/or illiquid assets sold (which may trigger a loss in value) in order to meet the

commitment. Losses would arise from the interest on borrowings and from any discount that would need to be offered to liquidate assets.

Causes of liquidity risk can be split into elements that can create a sudden increase in the need for cash and elements that can reduce unexpectedly the availability of expected resources to cover cash needs. Types of liquidity risk are the following:

- *funding liquidity risk* is the risk that AIL will not be able to obtain sufficient outside funding in the case of an unexpected event due to having illiquid assets;
- *market liquidity risk* is the risk that the process of selling in itself results in losses due to market conditions or high concentrations.

AIL ensures it can meet all liquidity requirements by identifying and monitoring liquidity risk, so that the circumstances under which liquidity issues are possible are known and understood (i.e. expected liability run-off profile, mass lapse event, slowdown in new business, change in rating etc.), as well as the business's ability to respond to such issues (i.e. liquidity of assets in a crisis).

Management of liquidity risk is performed through a limit framework. Limits are in place and provide for indication of the net liquidity position.

Due to local specificities, the monitoring of liquidity risk is aligned to the Group Framework. Liquidity risk is monitored through the use of management information which may include but not be limited to:

- Cash flow forecasts;
- Asset allocation and maturity profile;
- Maturity profile of available credit facilities (where appropriate); and
- Results of scenario testing.

AIL has established and maintains a system of management reporting which provides clear, concise, timely and accurate liquidity risk reports to relevant functions. These reports alert management when businesses approach, or breach, predefined thresholds or limits.

On a quarterly basis, a comprehensive liquidity report is provided to Group Risk. It clearly states the current liquidity position and how it has evolved over the past reporting period, whether limit breaches have occurred and which risk mitigating actions were taken to reduce them. In case of repeated limit breaches, Group Risk can request to adopt more restrictive measures to reduce the liquidity risk exposure.

As at 31 December 2017 the expected profit included in future premiums; as calculated in accordance with Article 260(2) of the Commission Delegated Regulation (EU) 2015/35 of 10 October 2014; is £1.2m. The expected profit in future premium can be found in QRT S23.01.

1.3 Operational risks

AIL is exposed – like any other financial institution – to operational risks, which is understood as the risks of losses arising from inadequate or failed internal processes, personnel or systems, or from external events.

To operate effectively AIL needs to have in place a framework to manage operational risk. This framework is an integral part of the overall risk management framework. The Operational Risk Policy is one of the risk-specific policies created in order to support the risk management framework within AIL. The Operational Risk Policy consists of company-wide processes embedded at business function level, which collectively aim at identifying, assessing, managing, monitoring and reporting on operational risks. These company-wide processes are:

- Loss Data Collection;
- Annual Operational Risk Assessment;
- Operational Risk Event Reporting, and
- Annual Key Risk Report – CRSA.

Through its Risk Taxonomy, AIL has classified its potential sources of operational risks which are defined below.

The following risk sources refer to the risk of losses arising from failures to meet an obligation to clients:

- *Clients, products and business practices*
  Unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements) and corporate stakeholders e.g. regulators, or from the nature or design of a product.

- *Execution, delivery and process management*
  Risk of failed transaction processing or process management from relationships with counterparties such as reinsurers, brokers, business partners etc.

The following risk sources include the inability to deliver and execute according to budget and/or strategic plan as well as the risk of losses related to inadequately designed or implemented governance bodies, policies, guidance and processes:

- *Business disruption and system failures*
  Risk associated with the interruption of business activity due to internal or external system and/or communication system failures, the inaccessibility of information and/or the unavailability of utilities and other externally driven business disruptions, which may also harm personnel.

- *Employee practices and workplace safety*
  Risk arising from acts/omissions, intentional or unintentional, inconsistent with applicable laws on employment relations, health, safety and diversity/discrimination acts the company is responsible for.

- *Internal fraud*
  Internal fraud risk is the risk of deliberate abuse of procedures, systems, assets, products and/or services of the company, involving at least one internal staff member (i.e. on the payroll of the company) who intends to deceitfully or unlawfully benefit him/herself or others.

- *External fraud*
  Events arising from acts of fraud and theft, or intentional circumvention of the law, carried out by third parties, including customers, vendors and outsource companies

(including sub-vendors and sub-contractors), with the goal of obtaining a personal benefit, damaging the company or its counterparties (for which the company pays), or damaging the company's assets. This includes all forms of cyber risk, and frauds by clients and external parties (i.e. parties which do not collaborate usually with the company and have no access to the company's systems, such as non-mechanised brokers).

- *Damage to physical assets*
  Losses arising from loss or damage to physical assets from natural disasters or other events.

AIL aims to keep the above operational risks at appropriate levels by maintaining sound and well-controlled environments in light of the characteristics of its business, the markets and the regulatory environments in which it operates. While these control measures mitigate operational risks, they can never completely eliminate them.

The AIL CRSA is completed quarterly. AIL risk evaluation/monitoring is planned annually. These items feed into an annual Management Control Statement which is issued by the AIL CEO expressing their confidence in AIL's control frameworks.

1.4. Other risks

Other risks cover all the other external and internal factors that can impact AIL's ability to meet its current business plan and objectives.

The identification of strategic risks takes place annually, through the Strategic Planning Process, and more frequently as part of the Key Risk Reporting process. The annual process considers, at a high level, those changes in the operating environment which may substantively affect the achievement of AIL's long term business growth plan. This annual process is enhanced by more regular reviews, aligned to the quarterly Risk Committee cycle, which ensure that emerging risks or changes to the planning assumptions are adequately captured and reflected in the 'Top Risk' profile.

Within AIL taxonomy, these are considered to be the following:

Regulatory change risk

The risk that changes in regulation, with regard to allowable product features, conduct of business, underwriting practices, reserving and solvency, could affect the volume or quality of new sales or the profitability of a business line.

Competitor risk

Competitor risks arise due to changes in competitor landscape or market position.

Distribution risk

This is the risk of a loss due to distribution plans deviating adversely from expectations. This type of strategic risk has been singled out for particular attention due to the importance of distribution in AIL's business model and our reliance on external parties and partners for this distribution. Distribution risk can arise due to a number of causes including lack of alignment of

incentives, poor relationship management or lack of sufficient bargaining power in the relationship.

Reputational risk

This is the risk of loss resulting from damages to the company's reputation, in the form of lost revenue, increased operating, capital or regulatory costs; or destruction of shareholder value.

Country risk

Country risk refers to the risk of investing in a country which may adversely affect operating profits or the value of assets in a specific country. For example, financial factors such as currency controls, devaluation, regulatory changes, stability factors such as mass riots, civil war and other potential events that contribute to companies' strategic risks (e.g. Eurozone break-up). Country risk only refers to risks affecting all companies operating within a particular country.

Economic environment risk

General economic environment risk refers to economic environment factors change and the impact this can have on the general business environment, customer behaviour, etc. A key example is inflation risk, which represents the sensitivity of the value of assets and liabilities to changes in inflation expectations.

Other environmental risks

Environmental risk covers a range of changes to the external environment not already covered by the categories above, including:

- technology shifts such as the application of internet technology and the impact this can have on customer buying behaviour and the need to develop appropriate IT strategies;
- other emerging risks are those major scale events or circumstances beyond the company's direct capacity to control, which would impact in ways difficult to imagine today, such as potential claims due to nanotechnology or changing weather patterns;
- contagion risks – an extreme form of concentration risk that arises when usually unrelated risk factors affect each other and become highly correlated – linked to the greater levels of connectivity across the world and therefore our markets and risk types.

Concentration risk

Concentration risk further refers to all risk exposures, with a loss potential that is large enough to threaten the solvency or the financial position of AIL.

1.5. Risk exposure

1.5.1 Key Risks

The key risks faced by AIL are reviewed quarterly by the Prudential and Conduct Risk Committee and subsequently by the Board Risk Committee. The monitoring of these risks as assessed by the business (first line) is facilitated by the quarterly CRSA process, focusing on the underlying functional level risks and controls. Ageas UK's methodology for assessing the internal control framework is documented in the Enterprise Risk Management documentation, and also externally through the Regulatory Supervisory Report (RSR) (to Regulator) and SFCR (to Investors) documents.

The Prudential Risk Committee focuses on risks with a financial and solvency impact and which relate predominantly to AIL. Risks contained in this section reflect the latest assessments performed by the business as per Q4 2017 and with a Level of Concern (LOC) of 4 and 5, which are the two highest categories.

A number of risks with the highest level of concern 5 relate directly to the Ogden rate change impacting the increase of outstanding claims (claims inflation) and the subsequent impact on the ability to price correctly in a dislocated market post Ogden (Underwriting and Pricing Risk and Deteriorated Market Environment). Other key risks are associated with the uncontrolled run-off of a managing general agent, which include counterparty default risk and underwriting risk in terms of unfavourable loss ratios, as well as information security / cyber risk.

1.5.2 Risk Profile

The table below depicts the risk profile of AIL, in line with its risk taxonomy, and those risks' contribution to SCR.

£'m	**2017**	**2016**
Market Risk	134.7	145.7
Counterparty Default Risk	61.0	67.4
Non-life Underwriting Risk	262.4	393.7
Operational Risk	63.5	69.7
Diversification effect	(99.6)	(116.0)
Loss Absorbing Capacity of Deferred Taxes	(8.3)	(5.3)
SII - SCR PIM (Pillar 1)	**413.6**	**555.2**

The most material risk to AIL arises from **underwriting risk** (63% of year end 2017 SCR PIM), which is assessed using the Internal Model. All other risks (including diversification) are assessed using Standard Formula.

Capital requirements (SCR PIM) have reduced by £141.6m to £413.6m primarily driven by the placement of two Stop Loss arrangements covering AIL's underwriting risk from 1-in-35 to 1-in-185 year losses, and the sale of higher risk BB/BBB assets to reduce market risk.

The second most material risk to AIL after underwriting risk is market risk (33%). The market risk reduction is driven by a reinvestment of corporate bond exposure into sovereign bond exposures earlier in Q1 2017 (less capital intensive) for capital management purposes.

Counterparty default risk represents 15% of AIL's risk profile, driven by Type 2 exposures such as receivables from brokers and policy holders. Type 1 exposure including reinsurance receivables is relatively low given the high quality credit rating of AIL's reinsurers.

1.5.3 Risk Mitigation

Reinsurance

Reinsurance is a key risk management tool used by AIL to control underwriting risk, and to optimise it in line with Ageas' return targets and risk appetite.

Reinsurance is purchased primarily to cover against significant adverse events, a large volume of claims from the same incident and large individual losses, which would seriously impact the AIL profit and loss account and/or balance sheet strength in any one year. AIL only purchases reinsurance that will accomplish genuine risk transfer.

AIL's approach to reinsurance is to structure an annual programme so as to manage solvency within risk appetite, as well as minimise the volatility that would otherwise arise from adverse deviation from business plan claims costs, as a result of large individual claims or events as specified above.

The main elements of the reinsurance programme are the Motor and Property treaties, which combined represent c. 93% of the 2017 reinsurance spend. In addition two Whole Account Stop Loss Treaties were bought (effective 1 April 2017 and 1 July 2017) to provide cover from a return period (attachment) of 1 in 35 years up to a return period (exhaustion) of 1 in 185 years on an undiscounted basis according to the Partial Internal Model. This cover is well in the tail of the distribution (between the 98th and 99.5th percentile) covering individual or combined underwriting losses, resulting in an overall diversified SCR PIM relief of c. £98m at Q4 2017.

1.6. Stress and Scenario Testing

1.6.1 Overview

The 2017 Stress and Scenario Testing (SST) exercise was carried out in line with UK Harmonised Approach to Stress and Scenario Testing, which outlines the process and governance for SST exercises.

A number of tests were carried out in 2017 to provide a robust challenge to the Ageas UK control framework:

- **MYB/ORSA exercise (Group and Local)** - The purpose of these tests is to assess the resilience of the MYB and capital solvency to situations with adverse impact to the business.
- **Standard Formula Appropriateness Review** - The aim is to assess the appropriateness of the SF (market wide calibrated) parameters to capture the Ageas operational risk profile; a number of scenarios are assessed to test their relation (individually and combined) to the overall operational risk charge.
- **2017 Investor's relations reporting** - The purpose of these tests is to assess the impact (as at Q4 2016) of anticipated changes to economic market conditions (e.g. Interest rates) and regulation (e.g. Ultimate Forward Rate proposed changes by EIOPA), as well as provide timely information about business resilience to investors (the results of the tests were disclosed to investors during 2017).

A number of other stress and sensitivity tests were also carried out as part of quarterly reporting (e.g. LAT tests, parameter sensitivity for SCR capital modelling, risk appetite solvency and liquidity monitoring, etc.).

The SST analyses are designed to assess the key volatilities, risks and adverse evolutions. They are specified in the table below.

SST ID	Test name	Risk	Return Period (1 in x years)		High level overview of assumptions
			Single Risk [(a)]	Aggregate Risk [(b)]	
SST 1	Yield curve flattening	Market risk	30	3	100bps flattening from 5-20 years (equivalent to largest flattening over 12 months seen from July 13 to July 14) – this is estimated at in excess of 1 in 30.
SST 2	Corporate Spread widening	Market risk	200	10	A reduction in Own Funds in line with Global Financial Crisis (Mar 08 - Mar 09) – note this is a more severe spread impact than 1 in 200.
SST 3	Property Value reduction	Market risk	30	3	30% fall in property value (in line with IPD measure from Global Financial Crisis)
SST 4	Default of largest A rated corporate	Market risk	200	3	A complete default with a loss of £30m

SST ID	Test name	Risk	Return Period (1 in x years)		High level overview of assumptions
			Single Risk [a]	Aggregate Risk [b]	
SST 5	Multiple weather events	Insurance risk	30	10	Multiple UK weather events over 12 months, one within RI limit and four below RI retention
SST 6	European windstorm and flood	Insurance risk	280	30	PRA General Insurance Stress Test (GIST) 2017 - 4 major weather events in a single year
SST 7	Economic shock (instantaneous to 2017)	Market risk/ Insurance risk	30	30	PRA General Insurance Stress Test (GIST) 2017 - An economic deterioration combined with claims inflation being 4% higher than anticipated in our reserving/pricing basis.
SST 8	Material intermediary failure	Credit Risk	200	10	A default of our largest broker with our exposure being £134m. Assumed loss after recovery of £80m, and loss of business to competitors going forwards
SST 9	Motor Liability Premium and Reserve stress	Insurance risk	30	10	Simulated a 1 in 30 Motor Premium & Reserve loss. This equates to £130m and is similar to the impact of the 2017 Ogden impact
RST 1	Major Cat Event	Insurance risk	30	10	Local Reverse Stress test: Annual Net Nat Cat loss (flood/storm) in the UK resulting in an SCR breach
RST 2	Major Cat Event	Insurance risk	100	18	Local Reverse Stress test: Annual Net Nat Cat loss (flood/storm) in the UK resulting in an MCR breach

[a] 'Single Risk' represents the likelihood of the specific stress scenario occurring over a one-year time horizon

[b] 'Aggregate Risk' represents the likelihood of such an impact on the aggregate own funds of AIL

The table above outlines the assumptions for each stress scenario, and the associated 'single risk' and 'aggregate risk' return periods. As an example, SST8 is a credit risk scenario representing the default of AIL's largest broker, which is considered an extremely unlikely event (1-in-200 year 'single risk'); the relative significance of the scenario to AIL's own funds however is comparatively small and equates to a 1-in-10 'aggregate risk'. The 'aggregate risk' helps to compare different events like-for-like in terms of their impact on AIL's own funds, by positioning the impact of each event against the overall risk distribution of AIL (e.g. SST8 is more severe than SST4; also SST8 is less severe than SST6).

The table below summarises the impact that each stress test would have on the YE 2017 position.

	YE 2017	2018	2019	2020
Base	**131%**			
Solvency impact of test (incremental)				
SST1	**-9%**	0%	2%	8%
SST2	**0%**	-37%	15%	20%
SST3	**-5%**	-1%	0%	4%
SST4	**-7%**	0%	0%	5%
SST5	**-29%**	1%	6%	11%
SST6	**-71%**	17%	11%	11%
SST7	**-76%**	17%	13%	11%
SST8	**-15%**	-2%	0%	5%
SST9	**-33%**	3%	6%	11%
RST1	**-32%**	2%	6%	11%
RST2	**-59%**	16%	6%	11%

The key conclusions reached are presented below:

- A number of stress scenarios have been applied, resulting in a reduction of AIL's capital coverage and subsequent reduction in dividend payments in line with the capital management policy. For more severe events such as the European Windstorm and Flood event (SST6 conducted for the PRA), or the combined economic downturn scenario (SST7 conducted for the PRA), our capital position would drop below the SCR requirement.

- At the end of the MYB AIL expects that available own funds will sustain a 1-in-30 year shock without breaching the SCR PIM and a 1-in-75 year shock without breaching MCR with all planned dividends being fully paid. Should dividends be restricted over the MYB period, AIL could sustain a 1-in-80 year shock without breaching SCR PIM, and a 1-in-150 year shock without breaching MCR.

The results of the Group and Local tests have been analysed pre and post dividend (as per MYB base case planned dividend). Further capital contingency actions could be taken after the stress event, in line with the Capital Management and dividend policy.

The capital contingency plan summarises the actions to be taken should the Solvency Ratio of AIL be at certain levels, with a specific focus on the different means at AIL's disposal to manage the solvency ratio. Broadly speaking, capital optimisation takes place as part of the MYB. Should the Solvency Ratio drop below Target then various actions are proposed with the actions becoming more severe as the Solvency Ratio gets lower. The severity of the actions also impacts the efficiency of the balance sheet restructuring. The key areas covered in the capital contingency plan include:

- **Capital demand** options: include actions reducing, for example, underwriting and market risks and their respective capital charges required.

- **Capital supply** options: including equity, dividend retention and subordinated debt issuance in the context of maintaining/improving solvency and optimising capital structure and Return on Equity.

1.6.2 MYB/ORSA exercise (Group and Local tests)

These tests aim to assess the consequences of adverse events over the MYB period. Via these tests, AIL verifies whether the realisation of an adverse event would lead to breaches in risk appetite as described previously and if so, what management actions would be required to address it.

During 2017 Ageas performed a range of Stress and Scenario Tests (SSTs), with input from key personnel throughout the business (Underwriting, Reserving, Finance, Capital, and Risk), which aimed to identify a range of tests anticipated to cause:

- adverse movements in capital solvency compared to plan (stress tests)
- the business plan to become unviable (reverse stress tests).

Risk Management sought the input of the Board Risk Committee to help challenge the appropriateness of the tests. Subject matter experts from various areas of the business quantified the tests and provided their conclusions to the Risk Management team. The outcome was documented and agreed.

A list of the tests carried out 2017 is presented earlier in this section at 1.6.1.

SST5, SST9 and RST1 represent an update to the tests carried out as part of the 2016 ORSA exercise as the underlying risks remain relevant for Ageas UK and AIL. A number of other tests were reviewed to reflect the UK strategic risks and the end-to-end UK view of capital (i.e. AIL, Ageas Retail and Other).

SST5 considers the impact of 1-in-30 annual Nat Cat experience, resulting in a net impact to Ageas of c. £120m. This loss can be generated by a number of scenarios, ranging from a single loss above our reinsurance (RI) limit to multiple small losses all below RI retention. However, from our Nat Cat model, the most common scenario resulting in such a loss is comprised of a single large loss above RI retention, but below the RI limit, and four smaller losses below RI retention. This scenario highlights the efficacy of our Cat XL programme protecting us against single1-in-7 year losses, leaving only residual exposure with two-thirds of the 1-in-30 Nat Cat loss from smaller events below RI retention.

SST9 is a follow up from the ORSA 2016 stress test on Motor Liability premium and reserves (AIL's largest line of business) which included the crystallised impact of Ogden rate changes. It encompasses key drivers of uncertainty such as frequency and severity of large losses, claims inflation volatility and PPO propensity, as well as further regulatory change uncertainty. It is broadly equivalent to a 1-in-30 year loss on ML net of RI (or 1-in-10 year combined net loss to AIL) and therefore similar to the crystallised impact of Ogden in 2016.

SST6 and SST7 have been carried out initially as part of the PRA General Insurance Stress Testing exercise submission in May 2017, and subsequently assessed over the MYB period as part of the MYB exercise. Both these tests equate to a 1-in-30 year combined net loss to AIL. SST6 is comprised of 2 significant windstorm and 2 large floods in a single year, with a Nat Cat return period of 1-in-280 years. As these are very extreme events, the resulting MCR breach is not unexpected. RST2 (discussed below) investigates the risk of an MCR breach from a Nat Cat event in more detail.

RST1 represents a reverse stress test breaching regulatory capital (SCR PIM), and equates to a 1-in-30 year Nat Cat loss net of RI (or 1-in-10 year combined net loss to AIL). Note: the Reverse Stress Test assumes a scenario where solvency would be approximately at the breakeven point of 100% SCR PIM (i.e. wipe-out of the existing risk appetite buffer above regulatory solvency).

RST2 is identical in methodology to RST1, albeit measuring the risk of an MCR breach resulting from weather events throughout the year. A Nat Cat scenario resulting in an MCR breach has a return period of 1-in-100 (or 1-in-18 year combined net loss to AIL).

These reverse stress tests highlight that despite purchasing reinsurance that protects against individual 1-in-200 Nat Cat events, the aggregate loss from multiple smaller events poses a material risk at lesser return periods. While the net loss can be driven by either single or multiple weather loss events, AIL's reinsurance protects against single losses, resulting in the primary component of these regulatory breach scenarios being multiple smaller events that are not covered by AIL's reinsurance.

2 Description of any other material information regarding the risk profile

The key risks faced by AIL are reviewed quarterly by the Prudential and Conduct Risk Committee and subsequently by the Board Risk Committee. The monitoring of these risks as assessed by the business (first line) is facilitated by the quarterly CRSA process, focusing on the underlying functional level risks and controls. Ageas UK's methodology for assessing the internal control framework is documented in the Enterprise Risk Management documentation, and also externally through the RSR (to Regulator) and SFCR (to Investors) documents.

Risks for which a Solvency Capital Requirement is measured using the PRA approved model (SCR PIM) are considered Pillar 1 risks.

Risks that are not covered under the SCR PIM are considered under Pillar 2. Risks not covered under the SCR calculation are outlined in the ORSA report, and briefly described below:

- To-Ultimate volatility: the capital requirement calculated under SCR reflects a one-year view of risk against 1 in 200 year events; this does not allow for potential adverse movement / volatility that may arise after one year (full run-off of the exposure).

- Pension scheme longevity and inflation risks: longevity risk (liabilities only) and inflation risk (assets and liabilities) are not included in the SCR PIM.

Risks not covered by the SCR are captured in the quarterly CRSA process, and the ORSA.

D

VALUATION FOR SOLVENCY PURPOSES

This chapter should be read in conjunction with the market consistent balance sheet (MCBS) of Solvency II as reported in the Quantitative Reporting Template S.02.01.

Audited (with the exception of section 2.8)

This section provides information on the valuation of assets, technical provisions and other liabilities within the Company's SII balance sheet.

In accordance with SII valuation regulations the Company has valued its assets and liabilities at fair value. Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

The Company applies the methodology and valuation hierarchy in accordance with Article 75 of the Level 1 Directive (or where specifically provided for by Delegated Acts):

- As the default valuation method the Company values assets and liabilities using quoted market prices in active markets for the same assets or liabilities.
- Where the use of quoted market prices in active markets for the same assets or liabilities is not possible, assets and liabilities are valued using quoted market prices in active markets for similar assets and liabilities with adjustments to reflect differences.
- Where these criteria are not met, alternative valuation methods are used.

1 Valuation of assets

1.1 Valuation of assets

The table below summarises per material class of asset the basis, methods and main assumptions used for the valuation of assets. For the data, we refer to the Quantitative Reporting Template (S.02.01.b).

Asset class	Basis, methods and main assumptions used
Deferred acquisition costs	Valued at nil.
Deferred tax assets	Value based on the difference between the value of the underlying assets and liabilities in the MCBS and the tax base balance sheet. The measurement principles of IAS 12 are applied in valuing deferred tax assets. A net deferred tax asset is only recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. See section 1.3 for further details.
Property, plant and equipment (PPE) held for own use	PPE held for own use consists of buildings, IT equipment, other equipment and motor vehicles. The value of a property is assessed using different valuation methods. These include external valuations, whose timing is at management discretion and discounted cash flows. The discount rate will be based on property yields for the surrounding location of the building and previous or estimated rental values. For other categories of PPE there is no active market for the assets therefore a range of alternative valuation methods are used. These include replacement cost with an allowance for obsolescence.

Asset class	Basis, methods and main assumptions used
Property (other than for own use)	The value of a property is assessed using different valuation methods. These include external valuations, whose timing is at management discretion and discounted cash flows. The discount rate will be based on property yields for the surrounding location of the building and current rental values.
Participations	The Company has determined that there is no adjustment required to the value of its participation as it is already held at the fair value of the investment.
Government and Corporate Bonds	The Company uses mark to market based on quoted prices in active markets that are sourced independently. Where the assets are less liquid and no readily available market exists then observable data in active markets is used. Prices are sourced from external asset managers. Accrued interest in relation to Government and Corporate Bonds is also reclassified from 'Any other assets, not elsewhere shown' and included in the value of Government and Corporate Bonds, to ensure the SII value is reported.
Collective Investments Undertakings	The assets are less liquid and no readily available quoted price in an active market exists, therefore observable data in active markets is used. Prices are sourced from external fund managers.
Deposits other than cash equivalents	Under SII all 'Cash and cash equivalents' must be readily convertible on demand, without penalty. This definition is different to IFRS. Hence, some items have been restated as 'Deposits other than cash equivalents' to meet the SII definition.
Other Loans & mortgages	Loans to brokers are marked to market through the use of discounted cash flow methodology (using market discount rates) to reflect market value. The discount rate used is sourced from the Bank of England and is based on loan interest rates for similar durations.
Reinsurance recoverables	The reinsurance technical provisions are recalculated under SII. Key aspects in calculating the adjustment required include: allowing for the best-estimate of default in future recoveries associated with past claims, allowing for the reinsurance premium and recoveries associated with excess-of-loss treaties on unearned exposure, allowing for the profit or loss associated with quota share reinsurance on unearned exposure, allowing for the reinsurance share of provisions relating to binary events, allowing for appropriate amounts in respect of legally-obliged business and, transforming all reinsurance amounts to cash flows and discounting to give the provision.

Asset class	Basis, methods and main assumptions used
Insurance & intermediaries receivables	All receivables included in this category of assets are reported at fair value under IFRS. Fair value is derived by discounting expected future cash flows (where time value of money is not significant cash flows are not discounted). The carrying value is reviewed on the basis of recoverability whenever events or circumstances indicate that the carrying amount may not be recoverable. Further, receivables from salvage and subrogation are deducted from this category of assets and included as a negative liability to reduce the technical provisions.
Reinsurance receivables	Reinsurance receivables are measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of reinsurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the income statement.
Receivables (trade, not insurance)	Trade receivables are measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of trade receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the income statement.
Cash and cash equivalents	There are no valuation differences for cash between SII and IFRS, however as noted above, all 'Cash and cash equivalents' must be readily convertible on demand, without penalty. This definition is different to IFRS. Hence, some items have been restated as 'Deposits other than cash equivalents' to meet the SII definition.
Any other assets, not elsewhere shown	Any other assets not elsewhere shown consist of: ▪ Current tax assets: valued based on the applicable national tax regime and at the amount expected to be recovered or paid in accordance with the provisions of IAS 12. The valuation method for current tax assets and liabilities is the same under IFRS and SII; ▪ Deferred other charges: stated at realisable value under SII. This is consistent with the valuation approach followed in the IFRS statutory accounts.

1.2 Material differences between SII basis and IFRS

The table below summarises per material class of asset the material differences between the valuation for Solvency II purposes and the IFRS valuation. For the data we refer to the Quantitative Reporting Template (S.02.01.b).

Asset class	Different basis, methods and main assumptions used for financial reporting
Deferred acquisitions costs	Under SII acquisition costs are included in the valuation of technical provisions. Under IFRS they are separately valued according to period of future earnings.
Deferred tax assets	The valuation under MCBS is based on the difference between the value of the underlying assets and liabilities in the MCBS and the tax base balance sheet.
Government and corporate bonds	Under IFRS government bonds and corporate bonds are reported excluding accrued interest while under SII these are reported including accrued interest. Hence, accrued interest is reclassified to reflect this.
Deposits other than cash equivalents	Some items have been restated as 'Deposits other than cash equivalents' from 'Cash and cash equivalents' to ensure this better meets the SII definition of being readily available cash.
Other Loans & mortgages	Under IFRS, loans and receivables are measured at amortised cost using the effective interest method less impairment, whilst under SII these are fair valued.
Reinsurance recoverables	Reinsurance recoverables are transformed to cash flows and discounted to calculate the provision under SII ruling.
Insurance & intermediaries receivables	Receivables from salvage and subrogation are deducted from this category of assets and included as a negative liability to reduce the technical provisions.
Cash & cash equivalents	Some items have been restated as 'Deposits other than cash equivalents' from 'Cash and cash equivalents' to meet the SII definition.
Any other assets, not elsewhere shown	Accrued interest receivable is reclassified from this class of assets to financial assets to ensure they are reported at their SII value.

1.3 Explanation of calculation of future taxable profits and identified amount and expected time horizons for reversal of temporary differences (only in case of material recognised deferred tax assets)

AIL has unutilised tax losses which it acquired from Groupama Insurance Company Limited under the Part VII Scheme of the Financial Services and Markets Act 2000 on 1 October 2013. These losses were supplemented in 2016 by an additional loss created by the change in the Ogden discount rate. AIL must judge the extent that future taxable profits will arise such that any deferred tax asset is based on profits that are more likely to arise than not based on tax rates that have been substantively enacted at the balance sheet date. AIL has calculated the deferred tax asset based on the budget and forecasts, adjusting for any material known tax differences that will arise in that period.

A deferred tax asset of £39.3m is recognised in full based on the latest Board approved MYB and management's confidence of recovery of tax losses. The calculation is based on the expected tax rates in future years, being 19% (effective from 1 April 2017) and 17% (effective

from 1 April 2020). The losses do not expire.

A deferred tax asset is only recognised to the extent that it is probable that future profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Other temporary differences include, capital allowances and the unwind of unrealised gains on assets held as available-for-sale calculated under previous legislation that was in force until 31 December 2015.

There are no unused tax losses or other temporary differences for which deferred tax is not recognised on the balance sheet.

The IFRS deferred tax value is the starting basis for the SII deferred tax asset. Deferred tax is then calculated on the difference between the value of the underlying assets and liabilities in the MCBS and the tax base balance sheet and layered on top of the IFRS tax value to arrive at the SII deferred tax asset, net of deferred tax liabilities.

2 Valuation of technical provisions

2.1 Technical provisions by line of business

The table below shows the technical provisions at 31 December 2017 by line of business:

in GBP million

	Direct business and accepted proportional reinsurance							Accepted non-proportional reinsurance	**Total Non-Life obligation (per S.17.01)**	**Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations (per S.12.01)**
	Income protection insurance	Motor vehicle liability insurance	Other motor insurance	Fire and other damage to property insurance	General liability insurance	Assistance	Misc financial loss	Non-proportional marine, aviation and transport reinsurance		
Premium provisions	2.2	256.4	66.3	105.7	14.8	3.4	36.8	0.0	485.9	
Claims provisions	2.6	1,269.7	4.7	146.6	127.3	3.7	19.2	24.7	1,598.6	
Total best estimate - gross	4.8	1,526.2	71.1	252.2	142.2	7.1	56.1	24.7	2,084.5	204.7
Risk margin	0.2	40.0	2.8	9.8	5.5	0.3	2.2	1.0	61.7	27.6
Technical provisions - total	**5.0**	**1,566.2**	**73.9**	**262.0**	**147.7**	**7.4**	**58.3**	**25.7**	**2,146.2**	**232.3**
Total recoverable from reinsurance	0.1	(263.2)	1.2	(0.4)	(13.3)	0.0	(5.7)	(2.0)	(283.4)	(153.7)
Technical provisions - net of reinsurance	**5.1**	**1,303.0**	**75.1**	**261.6**	**134.4**	**7.4**	**52.6**	**23.7**	**1,862.8**	**78.6**

The table below shows the technical provisions at 31 December 2016 by line of business:

in GBP million	Direct business and accepted proportional reinsurance							Accepted non-proportional reinsurance	**Total Non-Life obligation (per S.17.01)**	**Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations (per S.12.01)**
	Income protection insurance	Motor vehicle liability insurance	Other motor insurance	Fire and other damage to property insurance	General liability insurance	Assistance	Misc financial loss	Non-proportional marine, aviation and transport reinsurance		
Premium provisions	2.0	294.7	76.9	104.5	15.0	3.6	53.9	0.0	550.6	
Claims provisions	2.0	1,213.7	4.3	151.5	124.8	4.9	29.5	27.6	1,558.3	
Total best estimate - gross	4.1	1,508.4	81.2	256.0	139.8	8.5	83.4	27.6	2,109.0	213.6
Risk margin	0.1	33.6	2.7	8.6	4.7	0.3	2.8	0.9	53.8	24.3
Technical provisions - total	**4.2**	**1,542.0**	**83.9**	**264.6**	**144.5**	**8.8**	**86.2**	**28.5**	**2,162.8**	**237.9**
Total recoverable from reinsurance	(0.0)	(260.7)	(7.9)	(6.7)	(16.4)	(0.4)	(13.2)	(2.7)	(308.0)	(154.2)
Technical provisions - net of RI	**4.2**	**1,281.2**	**76.0**	**257.9**	**128.1**	**8.4**	**73.0**	**25.8**	**1,854.7**	**83.7**

Valuation of AIL's material classes of liabilities and a description of the bases, methods and assumptions used for Solvency II MCBS purposes

2.2 Generic items

2.2.1 Time horizon for cash-flow projections

The time horizon used in the calculation of the best estimate is the full lifetime of the existing (re)insurance liabilities on the date of valuation. The determination of the lifetime of the (re)insurance portfolio is based on up-to-date and credible information and realistic assumptions about when the existing liabilities will be fully run-off, cancelled or expired. The cashflow projection used in the calculation of the best estimate takes into account all AIL cash inflows and outflows. All cash-flows incurred in meeting liabilities are identified and valued.

2.2.2 Discounting

Discounting is performed for all relevant cash inflows and outflows, e.g. premiums, claims payments. Discounting is performed on annualised data that, as a simplification, is assumed to

emerge at mid-year. Discounting is performed using the GBP zero-coupon interest rate curves (risk-free curve) as communicated by Ageas Group Risk Valuation on a quarterly basis. The cashflows are discounted back to the quarterly reporting date. The best estimate technical provisions are then the sum of the discounted cashflows.

2.2.3 Granularity

The calculation of the best estimate technical provisions is based on a number of economic and non-economic assumptions. AIL's businesses are managed in a more granular way than at SII Lines of Business level, so the assumptions are also set at a more granular level.

2.2.4 The level of uncertainty in the amount of technical provisions

Due to the uncertainty of future events, any modelling of future cash flows (implicitly or explicitly contained in the valuation methodology) will necessarily be imperfect, leading to a certain degree of inaccuracy and imprecision in the measurement.

For Non-Life business, the main input assumptions feeding the Best Estimate model are taken from the MYB and are revised on an annual basis. These assumptions (e.g.; loss ratios, expense ratios) are rolled forward on a quarterly basis. The rolled forward assumptions are re-visited by the AIL capital team on a quarterly basis via discussion with relevant stakeholders to ensure their ongoing appropriateness. The input budget assumptions are revised in cases where there is a valid business reason to revise them.

2.2.5 Expenses

All expenses to be incurred in servicing insurance and reinsurance obligations are taken into account. Expenses are direct operating expenses, local business overhead expenses as well as allocated central head-office expenses.

AIL expenses are categorised as Upfront Expenses (such as commission), Ongoing Expenses (such as operating expenses and overhead), or Claims Handling Expenses.

Expenses associated with reinsurance contracts are included in the best estimate provisions calculation.

The cashflows include an appropriate allowance for claims inflation. The inflation rate is term dependent and set relative to inflation instruments. Inflation rates are justifiable relative to external sources of information such as Consumer or Retail Price Indices.

For AIL, inflation (where appropriate) is allowed for in the IFRS reserving process, the output of which feeds into the AIL SII Best Estimate Technical Provisions model.

2.2.6 Commissions

Commission assumptions are taken from the AIL budget.

Upfront expenses feed into the AIL Best Estimate model. Upfront expenses include gross commissions, acquisition expenses, overrider commission, net marketing fund, fulfilment costs.

2.2.7 Contract Boundaries

The allowance for future premiums within the AIL Best Estimate Model depends on the 'boundary of the contract'. The boundary of the contract is defined in the EIOPA's technical

specifications (Level 2 Implementing measures, Article 13 TP2: contract boundaries) and the Group Best Estimate Manual as follows:

(a) Where the insurance or reinsurance undertaking has a unilateral right to terminate the contract, a unilateral right to reject the premiums payable under the contract or an unlimited ability to amend the premiums or the benefits payable under the contract at some point in the future, any obligations which relate to insurance or reinsurance cover which would have been provided by the insurance or reinsurance undertaking after that date do not belong to the existing contract;
(b) Where the undertaking's unilateral right to terminate the contract or to unilaterally reject the premiums or its unlimited ability to amend the premiums or the benefits relates only to a part of the contract, the same principle as defined above should be applied to this part;
(c) All other obligations relating to the terms and conditions of the contract belong to the contract.

Inputs into contract boundary provisions may include:

- Tacit renewals, where a legal obligation exists;
- New business quotes (as issuing a quote will often implicitly mean that the insurer has already initiated and agreed to the contract);
- Options and guarantees (which may lead to further provisions if they are applied); and
- Multi-year contracts. The SII premium provision should allow for the expected claims costs though the whole remaining term of the contract and also the associated premiums and expenses.

Practically, for AIL, tacit renewals mean setting up a negative provision for renewals (where a renewal is deemed to be those instances in which a renewal letter has gone out, but the policy has not incepted at the reporting date). The provision is negative, as the policies are expected to be profitable.

AIL does not write any options and guarantees. AIL also has a small number of multi-year contracts, which are not allowed for in the AIL Best Estimate Model. The allowance for these contracts would lead to the setting up of a small negative provision and hence this approach gives a result which is on the prudent side of the SII Best Estimate.

The Expected Profit In Future Premium represents a small part of AIL's overall policies.

The provision for bound but not incepted business is for the profit or loss from these bound but not incepted policies. This means that the 'Expected Profit in Future Premium' provision will only be significant if the business is expected to run at a Combined Operating Ratio which differs markedly from 100% (e.g.; if the business is expected to be very profitable).

The method for calculating the provision is as follows:

- Head of Underwriting provides Actuarial with information regarding the number of days in advance that home renewal notices are sent out and what the take-up rate of renewals might be.
- The amount of business (premium) can then be expressed as a percentage of the future year's gross earned premiums (GEP) by the expression:
- Legally-obliged factor: Advance Days / 365 * Take-up Rate

Evaluating this is kept deliberately prudent by taking the lowest of the responses across all classes of business, which happens to be in respect of Motor classes for the current year. The advance day assumption for all lines of business is 30 days, the take-up rate assumption applied for all lines of business is 60%.

- Claims and expenses in association with future premiums are then modelled in line with the methodology outlined in sections 2.3.3 to 2.3.5.

2.2.8 Testing

Testing is an integral part of the actuarial control cycle associated with the reserving process. It provides the necessary feedback loop to the actuary, it provides the empirical evidence as to the inherent level of estimation error associated with its forecast and should provide the formal assurance that the actuary is using adequate methods within the framework and circumstances of which he has been commissioned to perform the necessary assessments.

AIL best estimate provisions are subject to a number of tests, which predominantly focus on backtesting. The AIL reserving teams backtest IFRS reserves, which are major driver of SII Best Estimate provisions.

2.3 Non-life

Non-life provisions consist of:

- **Claims provisions:** cash flow projections relate to claim events having occurred before or at the valuation date – whether the claims arising from these events have been reported or not (i.e. all incurred but not settled claims);
- **Premium provisions:** the cash flows relate to claims and expenses occurring in the future related to policies in force according to contract boundaries defined above at 2.2.7 and below at 2.3.8.

2.3.1 Granularity

In additional to the generic description for granularity, additional requirements are in place for non-life.

The best estimate of claims provision and premium provision are calculated separately with a split between gross insurance cash flows and reinsurance related cash flows.

The minimum level of segmentation is at homogeneous risk group level with a minimum level being the SII lines of business. All the assumptions used for the calculation of the claims provision need to be consistent with the assumptions used for the calculation of the premium provision and vice versa.

Claims must be split into four categories: attritional claims (claims with a cost under a predefined threshold), large claims, claims arising from natural catastrophe events and claims arising from binary events.

AIL produces quarterly results at Best Estimate Model line of business and SII line of business level. AIL has 11 Best Estimate model lines of business.

2.3.2 Cash flow projection for Claims provisions and Premium provisions

The cash flow projection used in the calculation of the best estimate takes into account all cash in- and outflows required to settle the insurance obligations over their lifetime. Therefore all cash flows incurred in meeting liabilities are identified and valued.

The scope for Claims provision includes:

Outward cash flows

- Claims payments payable to policyholders or beneficiaries;
- Expenses incurred in servicing insurance obligations;
- Reinstatement premiums; and
- Binary events provision.

Inward cash flows

- Recoverables from reinsurance contracts and special purpose vehicles (AIL do not have SPVs);
- Recoverables for salvage and subrogation.

For AIL, the booked IFRS reserves are the starting point (and major input into) the Best Estimate Claims Provision model.

The scope for Premium provision includes:

Outward cash flows

- Claims payments payable to policyholders or beneficiaries from claims occurred since the valuation date until the term of the contract;
- Commissions to be paid since the valuation date until the term of the contract;
- Reinsurance premium or reinstatement premiums;
- Expenses incurred in servicing (re)insurance obligations;
- Expenses necessary to handle claims until settlement;
- Expenses necessary to administer contracts during the valuation period;
- Acquisition expenses (other than commissions);
- Investment expenses necessary to administer the assets representing the liabilities related to contracts during the valuation period; and
- Binary events provision.

For AIL, the IFRS unearned premium reserve (UPR) is the starting point (and major input into) the Best Estimate Premium Provision model. AIL's forward looking (budget) assumptions are then applied to this UPR (net of deferred acquisition costs (DAC)) in order to derive its SII Best Estimate Premium Provisions.

Inward cash flows

- Premiums to be written until the term of the contract (future premiums);
- Recoverables from reinsurance contracts;
- Recoverables for salvage and subrogation.

2.3.3 Claims payments

Claims are split into four categories: attritional claims (claims with a cost under a predefined threshold), large claims (claims with a cost above a predefined threshold excluding catastrophe claims), claims arising from natural catastrophe events and claims arising from binary events

(restricted to events with very low frequency-high severity (which could be one large claim or an accumulation of attritional claims)).

Methods to value attritional claims and large losses are aggregate methods where claims are grouped per accident year and where payments are grouped by accounting year to form a claims triangle.

The main reason for isolating Large and Catastrophe claims from others is that, in many cases, large claims require a dedicated valuation technique, as the claims characteristics are different. Furthermore, AIL (along with all companies in the market) do not have adequate internal catastrophe data, as catastrophe events by definition are low frequency, high severity. Furthermore, non-proportional reinsurance will be selected by considering large loss and catastrophe losses separately and therefore it makes sense to produce AIL numbers on a consistent basis. As a consequence, isolating large and catastrophe losses from other losses is deemed appropriate and is in line with market practice.

2.3.4 Reinsurance recoveries

Recoverables from reinsurance contracts are shown separately on the asset side of the balance sheet as “recoverables from reinsurance contracts”.

AIL cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. The reinsurance programme is across all lines of business with the exception of the income protection insurance business. Reinsurance recoveries include balances due from reinsurance companies for reinsurance claims. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsured policy.

The time value of money is taken into account in the calculation of reinsurance recoveries. Furthermore reinsurance recoveries are adjusted for the expected losses due to the default of the counterparty (Counterparty default adjustment is negligible on current AIL recoveries).

Counterparty defaults are derived by reference to the credit quality and term of AIL reinsurance cashflows.

Expenses related to the internal processes for reinsurance are allowed for in the expenses forming part of the gross best estimate.

2.3.5 Expenses

Expense assumptions are based on experience over the last year or another recent period. Any trends observed or unusual events such as catastrophes are analysed on their propensity to be included in future projection valuations. In this respect the past one-off expenses may be excluded from consideration, if justifiable.

Expenses are calculated on a going concern basis.

2.3.5.1 Commissions

Future commission assumptions are only considered for the part of the premium provisions related to premiums not already written. These commission assumptions are generally expressed as a percentage of written premiums.

2.3.5.2 Acquisition Expenses

Future acquisition costs are valued when regarding cashflows related to premium provisions and considered differently depending on whether the premium has already been written or not. For the part of provision constituted by premium already written, no acquisition cost is projected since all expenses are considered as having been paid at the drawing up of the contract. For renewals, acquisition cost is projected since these expenses have not yet been paid.

2.3.5.3 Administration and Operating costs

Expenses connected with ongoing administration of in-force policies and operational businesses (including reinsurance costs) are allocated to premium provisions.

2.3.5.4 Claims Expenses

Claim management expenses which are related to claims that have occurred before the valuation date are considered for the cash flows related to claims provisions.

Expenses related to claims that will occur in the period covered by the in-force premiums are considered when regarding cash flows related to premium provisions.

2.3.6 Binary events – Man-made Catastrophe events

The definition of “Man-made Catastrophe/binary events” is restricted to those events with very low frequency-high severity (which could be one large claim or an accumulation of attritional claims). AIL makes a distinction between the claims arising from natural catastrophe events classified as Natural Catastrophe claims and Man-made catastrophe (called Binary events under SII terminology).

- Typical Natural Catastrophe events are Earthquakes, Floods, Windstorms, Tsunamis, etc.
- Examples of binary events are large explosions, latent claims e.g. asbestos; legislative changes e.g. Ogden table changes, etc.

Binary events are explicitly considered in premium provisions and claims provisions, in a consistent way. Natural catastrophe events are explicitly considered in premium provisions.

Not all lines of business will be affected to the same extent by binary events and natural catastrophe events. Longer tailed classes of business are more affected by binary events.

- Binary events are allowed for in the Best Estimate Model by considering the ratio of expected man-made catastrophe losses from the Internal Model to the GEP at line of business level and setting up a corresponding provision.
- For Claims Provisions, the only line of business which has a binary events provision is cancelled business, which is a long-tail US business line no longer written which has exposure to Asbestos, Pollution and Health.

2.3.7 Inflation

SII explicitly requires inflation to be taken into account in the calculation of technical provisions. Furthermore inflation is considered on the claims and the expenses sides.

Inflation is to be considered when projecting future cashflows. The cashflows that are potentially impacted by inflation are:

- Claims costs;

- Expenses: the biggest part of expenses are salaries that will evolve over time;
- Inflation that applies to claims, called “claims inflation”.

Claims inflation is one of the key assumptions used by non-life actuaries. The assumptions used for valuation are consistent with other areas in which claims inflation assumptions have been applied.

Future claims inflation is highly difficult to estimate. It is typically only material for longer-tail lines of business, such as Motor Liability. The impact of claims inflation on Motor Liability is exacerbated by the existence of PPOs for this line of business.

2.3.8 Contract boundaries

In addition to the generic definition additional requirements are set out below.

The definition and issues arising from contract boundaries are fairly inconsequential when considering the claims provision. It is the premium provision that is affected by the issues arising from this topic.

"Unincepted business" are those contracts that contribute to the SII provisions and not to accounting reporting (IFRS reporting). Inputs into this area include tacit renewals where a legal obligation exists and multi-year contracts. The premium provision should allow for the expected claims cost throughout the whole remaining term of the contract, as well as associated premiums and expenses.

It is possible for unincepted business to either increase or decrease the premium provision. If unincepted business is expected to be profitable then a reduction in premium provision would be expected, however if unprofitable business is expected, then this would cause an increase in the premium provision (all other things being equal).

2.3.9 Management action

AIL does not currently need to consider any management action for the valuation of their non-life best estimate provisions. In particular, policies currently written by AIL do not include any discretionary features. Note that action in relation to reinsurance, such as consideration of reinstatement premiums, is not considered as management action and is dealt with in the section on "Reinsurance recoveries”.

2.3.10 Treatment of taxes when calculating the best-estimate liabilities

Taxes are not included in non-life best-estimate liabilities:

- Taxes on profit are not relevant in Non-Life technical provisions;
- Future premiums that are included in the computation of the best estimate are always net of taxes. AIL collects premiums that include taxes and pays the taxes to the taxation authorities. Any mismatch in timing between the moment of tax collection and the moment of payment to HMRC can be assumed to be negligible.

2.3.11 Uncertainty

Due to the uncertainty of future events, any modelling of future cash flows (implicitly or explicitly contained in the valuation methodology) will necessarily be imperfect, leading to a certain degree of inaccuracy and imprecision in the measurement (or model error).
Various types of errors can be observed when developing a model:

- The process error which is intrinsic to the natural randomness of the process that is being modelled;
- The model error which comes from the choice of the model, which can be erroneous;
- The parameter error (or estimation error) which comes from uncertainties in the value of the parameters of the model.

AIL does not estimate process error, model error or parameter error for its Best Estimate provisions model.

2.3.12 Expert Judgement

Expert judgement/assessment is when the selection of a particular adjustment, methodology or parameter within the best estimate model is based not just on scientific analysis but on the expertise of persons with relevant knowledge, experience and understanding of the risks inherent in the insurance or reinsurance business.

A distinction is made between expert judgement and expert assessment. When the reserving actuary uses expertise in his daily work, the decision/choice will be classified as an expert assessment. When the decision is outside of normal work, this could lead to an expert judgement with high materiality or uncertainty.

The use of expert judgement must respect AIL's governance: expert judgement should be justified, explained and validated, the impact of expert judgement should be assessed and should be properly documented and subject to testing.

Typical areas in non-life where expert judgement is applied are:

- **Tail factor**
  Because the tail factor linearly affects the whole claims portfolio contained in a triangle, it can be a material item;
- **Loss ratios**
  The loss ratio of the current year is a key driver of premium provision and is thus highly material;
- **Impact of legislative changes**

2.4 Material changes in the level of technical provisions since the last reporting period, including reasons for material changes, especially material changes in assumptions

For the output of Non-Life SII Provisions, refer to the Quantitative Reporting Templates S.17.01 and S.12.01.

There were no material changes in the level of technical provisions since the last reporting period.

2.5 Details of the homogeneous risk groups used to calculate the technical provisions

Homogeneous Risk Groups are groupings per risk characteristic and these usually are equivalent at model point level. For AIL, the SII Technical Provisions are calculated at Best Estimate/Internal Model line of business.

2.6 Details of the Economic Scenario Generator, including an explanation of how consistency to the risk free rate has been achieved and which volatility assumptions have been chosen

AIL does not currently use an Economic Scenario Generator.

2.7 Impact of the reduction of the volatility adjustment to zero

AIL has not used the volatility adjustment to discount insurance liabilities in 2017.

In 2016 a volatility adjustment was applied to discount insurance liabilities. The impact on own funds had it not been applied would have been to reduce them by £11.5m.

2.8 Risk Margin

The methodology for calculation of the risk margin involves the run-off of the basic SCR and operational SCR in line with selected risk drivers. For Reserve risk, the risk drivers are at line of business level; other SCR sub-risks are at AIL level. A cost of capital rate of 6% as defined by EIOPA is then be applied on the net present value of the future non-hedgeable SCR.

The calculation is completed using a bottom up approach. The AIL risk margin is refreshed every quarter and feeds into the MCBS technical provisions.

2.9 Explanation of material differences between the basis, methods and assumptions used for Solvency II MCBS compared to IFRS

The technical reserves included in SII MCBS are not the same as those required by local accounting regulations or reserves as defined under IFRS.

The SII approach requires the calculation of Best Estimate Technical Provisions, which consist of Claims Provisions, Premium Provisions and a Risk Margin. Booked IFRS reserves are an input into the AIL SII Best Estimate Model. A Risk Margin is then calculated and added to the SII Best Estimate claims and premium provisions. The following differences between IFRS and SII should also be noted:

Premium Provisions

- Under SII, Premium Provisions are net of DAC
- Under SII, AIL recognises profits in its UPR (which is not the case under IFRS)
- Under SII, AIL allows for Binary Events in its provisions
- Under SII, cash flows are discounted using a risk-free rate based on EIOPA guidance.

Claim Provisions

- Under SII, AIL removes the Additional Risk Margin from the Booked IFRS Reserves and calculates an SII Risk Margin, calculated in line with section 2.8 of this report.
- Under SII, an allowance is made for Binary Events.
- Under SII, cash flows are discounted using a risk-free rate based on EIOPA guidance.

3 Valuation of other liabilities

The table below summarises per material class of liability the material differences between the valuation for SII purposes and the IFRS valuation. For the data refer to the Quantitative Reporting Template (S.02.01.b).

Other liability class	Basis, methods and main assumptions used
Provisions other than technical provisions	Provisions are valued using a discounted cash flow methodology.
Pension benefit obligations	Value based on IAS 19 using the projected unit credit method in the case of Defined Benefits Plan.
Deferred tax liabilities	Value based on the difference between the underlying assets and liabilities of the MCBS and the tax base balance sheet. However, the measurement principles of IAS 12 are applied in valuing deferred tax assets. Deferred tax is shown as a net asset/liability (see section 1.3 for further details).
Derivatives	Derivatives are held for hedging purposes and relate to foreign exchange exposure from USD denominated net financial assets. They are fair valued using observable spot rates at the period end, sourced from the external asset manager.
Financial liabilities other than debts owed to credit institutions	Financial liabilities are valued at fair value for both IFRS and SII balance sheet valuation purposes. There is no valuation difference to IFRS.
Insurance & intermediaries payables	Insurance & intermediaries payables are valued at fair value in line with IFRS. There is no valuation difference to IFRS.
Reinsurance payables	Reinsurance payables are valued at fair value in line with IFRS. There is no valuation difference to IFRS.
Payables (trade, not insurance)	Trade payables are valued at fair value in line with IFRS. There is no valuation difference to IFRS.
Subordinated liabilities in basic own funds	Under SII subordinated debt is to be recognised at fair value, but with no adjustment made for changes in own credit. Subordinated liabilities are mark to market valued using a discounted cashflow method. The discount rate used is based on the issued rate (3.85% above LIBOR) plus the insurance and bank sterling subordinated spread movement.
Any other liabilities, not elsewhere shown	Any other liabilities not elsewhere shown consist of: ▪ Current Tax liabilities, value based on the applicable national tax regime and at the amount expected to be recovered or paid in accordance with the provisions of IAS 12. The valuation method for current tax assets and liabilities is the same under IFRS and SII; ▪ Accrued charges, interest payable and deferred income: measured on initial recognition at the fair value of the consideration paid or payable.

3.1 Material differences between SII basis and IFRS

Asset class	Different basis, methods and main assumptions used for financial reporting
Deferred tax liabilities	The valuation under MCBS is based on the difference between the value of the underlying assets and liabilities in the MCBS and the tax base balance sheet.

3.2 Description of recognition and valuation basis applied to other liabilities

3.2.1 Pension benefit obligations

AIL operates a funded defined benefit pension scheme, the Ageas Insurance Staff Pension Scheme, in respect of staff who were members of the scheme on 31 December 1997 and staff of group companies who had contractual rights to join the scheme after this date.

The assets of the scheme are held in a separate trust fund and are invested under trustee guidelines. Contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. A full actuarial valuation was carried out at 1 January 2015 and the next valuation is scheduled for 2018.

The valuation of the pension benefit obligation is based on IAS 19 using the projected unit credit method in the case of Defined Benefits Plans. All actuarial gains/losses are recognised immediately which is in line with SII.

The formal valuation of the Ageas Insurance Staff Pension Scheme at 1 January 2015 has been updated by a qualified independent actuary on an IAS 19 (Revised) basis at 31 December 2017. The major assumptions used by the actuary were:

Demographic assumptions	**31 December 2017 and 2016**	
Mortality assumptions	95% of 'S2NA' tables, with CMI 2014 core model projections using a long term improvement rate of 1.5% pa	
Life expectancy	Male	Female
Member aged 65 at the Review date	23.5 years	25.7 years
Member aged 65 20 years after the Review date	25.6 years	27.9 years

Financial assumptions	**2017**	**2016**
Valuation method	Projected unit %	Projected unit %
Rate of increase in salaries	3.60	3.75
Pensions accrued before 1 October 2012 rate of increase:		
- Post 1988 Non GMP (ex Bishopsgate members)	5.00	5.00
- Post 1988 Non GMP (ex Northern Star members)	3.40	3.55
Pensions accrued from 1 October 2012 rate of increase	1.95	2.05
Discount rate	2.50	3.05
RPI inflation assumption	3.60	3.75

The pension scheme continues to de-risk and in 2017 more assets were allocated to Liability Driven Investments. The plan's assets at year end 2017 and 2016 were as follows:

Asset mix of scheme assets	**2017**	**2016**
Equity securities	43.8	40.1
Debt securities	80.2	73.5
Real estate	36.2	32.1
Other	37.1	32.9
Fair value of scheme assets at 31 December	**197.3**	**178.6**

3.2.2 Description of assumptions and judgements including those about the future and other major sources of estimation uncertainty

The assumptions used in the pension benefit obligations are described above. There are no major assumptions or areas of uncertainty in the valuation of the remaining other liabilities.

4 Description of alternative valuation methods

4.1 Justification and assumptions of applying alternative valuation methods as identified in the tables for assets and liabilities

The best evidence for the fair value of an asset held or a liability to be issued is a quoted market price or value based on an active market. Where this is not possible then alternative valuation methods can be used. AIL uses alternative valuation methods for the following categories of assets and liabilities:

Property held for own use and Property (other than for own use)

The nature of property (both for own use and other than own use) is that it is unusual for identical assets to be traded regularly, meaning that quoted market prices in an active market for an identical instrument are not available. In the absence of an external market valuation (whose timings are at management discretion) properties are valued using observable property yield curves for the surrounding location of the building and current, previous or estimated rental values. Estimated rental values will be based on market data on properties available for rent of a similar size and in a similar location taking into account the expected rental growth rate, void periods, lease incentive costs such as rent-free periods and other costs not paid by tenants. Management believe that this is the most appropriate method of valuing these assets in the absence of a formal valuation.

Due to the relative uncertainty of alternative valuation methods compared to quoted market prices, sensitivity analysis is carried out by varying rental values and yield curves. The estimated fair value would increase (decrease) if:

- expected market rental growth were higher (lower);
- void periods were shorter (longer);
- rent-free periods were shorter (longer); or
- yield curves were lower (higher)

The impact of these variables is assessed by management as part of the process for valuing assets.

Government & Corporate Bonds

The majority of bonds held are held in companies or institutions that are not readily traded, i.e. there is not an active market. This means that quoted market prices in an active market for an identical instrument are not available. These assets are valued using observable data in active markets and prices are sourced from the external asset manager. This is appropriate for this asset class due to the illiquidity of these bonds.

Collective Investments Undertakings

The nature of these collective investment undertakings are property funds which are not readily traded and are illiquid. This means that quoted market prices in an active market for an identical instrument are not available. These assets are valued using observable data in active markets and prices are sourced from the external fund managers. This is appropriate for this asset class due to the illiquidity of these funds.

Derivatives

The market for derivatives is not an active market. This means that quoted market prices in an active market for an identical instrument are not available. They are fair valued using observable spot rates at the period end, sourced from the external asset manager. This is appropriate for this asset class due to nature of these liabilities.

5 Any other material information

No other material information to disclose.

6 Quantitative material differences between basis SII and IFRS

A reconciliation between Statutory values (IFRS) and SII values is shown below:

in GBP million 2017	2017 Statutory accounts value (IFRS)	Valuation adjustment technical provisions	Valuation adjustment reinsurance recoverables	Valuation adjustment deferred acquisitions costs	Valuation/ reclassification adjustment other items	2017 Solvency II value MCBS
Assets						
Deferred acquisition costs	**187.5**			(187.5)		**0.0**
Deferred tax assets	**38.1**				9.0	**47.1**
Property, plant & equipment held for own use	**42.7**					**42.7**
Investments (other than assets held for index-linked and unit-linked contracts)	**1,894.2**				171.2	**2,065.4**
Property (other than for own use)	20.4					20.4
Holdings in related undertakings, including participations	0.0					0.0
Bonds	1,780.6				21.1	1,801.7
Government Bonds	*608.8*				*7.9*	*616.7*
Corporate Bonds	*1,171.8*				*13.2*	*1,185.0*
Collective Investments Undertakings	93.2				(93.2)	0.0
Deposits other than cash equivalents	-				2.0	2.0
Money Market Funds	-				148.0	148.0
Property in Invested Funds	-				93.2	93.2
Loans and mortgages	**114.7**				0.1	**114.8**
Other loans and mortgages	114.7				0.1	114.8
Reinsurance recoverables from:	**374.6**		62.5			**437.1**
Non-life and health similar to non-life	374.6		*(91.2)*			283.4
Non-life excluding health	374.6		*(91.2)*			*283.4*
Health similar to non-life	-		*(0.0)*			*(0.0)*
Life and health similar to life, excluding index-linked and unit-linked	**-**		153.7			153.7
Life excluding health and index-linked and unit-linked	**-**		*153.7*			*153.7*
Insurance and intermediaries receivables	**296.3**	(25.9)				**270.4**
Reinsurance receivables	**13.4**					**13.4**
Receivables (trade, not insurance)	**26.4**					**26.4**
Cash and cash equivalents	**162.6**				(150.0)	**12.6**
Any other assets, not elsewhere shown	**25.7**				(21.2)	**4.5**
Total assets	**3,176.2**	(25.9)	62.5	(187.5)	9.1	**3,034.4**

in GBP million 2017	2017 Statutory accounts value (IFRS)	Valuation adjustment technical provisions	Valuation adjustment reinsurance recoverables	Valuation adjustment deferred acquisitions costs	Valuation/ reclassification adjustment other items	2017 Solvency II value MCBS
Liabilities						
Technical provisions - non-life	**2,481.9**	(335.7)				**2,146.2**
Technical provisions - non-life (excluding health)	2,481.9	(340.7)				2,141.2
Best Estimate		*2,079.6*				*2,079.6*
Risk margin		*61.6*				*61.6*
Technical provisions - health (similar to non-life)		5.0				5.0
Best Estimate		*4.8*				*4.8*
Risk margin		*0.2*				*0.2*
Technical provisions - life		232.3				**232.3**
Technical provisions - life		232.3				232.3
Best Estimate		*204.7*				*204.7*
Risk margin		*27.6*				*27.6*
Provisions other than technical provisions	**2.1**					**2.1**
Pension benefit obligations	**6.0**					**6.0**
Derivatives	**0.5**					**0.5**
Financial liabilities other than debts owed to credit institutions	**0.3**					**0.3**
Insurance & intermediaries payables	**29.4**					**29.4**
Reinsurance payables	**8.5**					**8.5**
Payables (trade, not insurance)	**45.2**					**45.2**
Subordinated liabilities	**138.9**					**138.9**
Subordinated liabilities in BOF	138.9					138.9
Any other liabilities, not elsewhere shown	**23.5**					**23.5**
Total liabilities	**2,736.2**	(103.4)	0.0	0.0	0.0	**2,632.8**
Excess of assets over liabilities	**440.0**	77.5	62.5	(187.5)	148.0	**540.4**

in GBP million 2016	2017 Statutory accounts value (IFRS)	Valuation adjustment technical provisions	Valuation adjustment reinsurance recoverables	Valuation adjustment deferred acquisitions costs	Valuation/ reclassification adjustment other items	2017 Solvency II value MCBS
Assets						
Deferred acquisition costs	**180.6**			(180.6)		-
Deferred tax assets	**36.8**				5.2	**42.0**
Property, plant & equipment held for own use	**45.4**					**45.4**
Investments (other than assets held for index-linked and unit-linked contracts)	**1,967.6**				28.0	**1,995.6**
Property (other than for own use)	20.8					20.8
Holdings in related undertakings, including participations	0.0					0.0
Bonds	1,891.8				25.9	1,917.7
Government Bonds	*343.6*				*6.0*	*349.6*
Corporate Bonds	*1,548.2*				*19.9*	*1,568.1*
Collective Investments Undertakings	55.0					55.0
Deposits other than cash equivalents	-				2.1	2.1
Loans and mortgages	**20.2**				(0.1)	**20.1**
Other loans and mortgages	20.2				(0.1)	20.1
Reinsurance recoverables from:	**383.5**		78.8			**462.2**
Non-life and health similar to non-life	383.5		(75.5)			308.0
Non-life excluding health	383.5		*(75.5)*			*308.0*
Health similar to non-life	-		*0.0*			*0.0*
Life and health similar to life, excluding index-linked and unit-linked	-		154.2			154.2
Life excluding health and index-linked and unit-linked	-		*154.2*			*154.2*
Insurance and intermediaries receivables	**316.3**	(26.5)			(0.2)	**289.6**
Reinsurance receivables	**2.9**					**2.9**
Receivables (trade, not insurance)	**37.1**					**37.1**
Cash and cash equivalents	**100.9**				(2.1)	**98.8**
Any other assets, not elsewhere shown	**43.7**				(25.9)	**17.9**
Total assets	**3,135.1**	(26.5)	78.8	(180.6)	4.9	**3,011.6**

in GBP million 2016	2017 Statutory accounts value (IFRS)	Valuation adjustment technical provisions	Valuation adjustment reinsurance recoverables	Valuation adjustment deferred acquisitions costs	Valuation/ reclassification adjustment other items	2017 Solvency II value MCBS
Liabilities						
Technical provisions - non-life	**2,502.0**	(339.2)				**2,162.8**
Technical provisions - non-life (excluding health)	2,502.0	(343.5)				2,158.5
Best Estimate		*2,104.9*				*2,104.9*
Risk margin		*53.6*				*53.6*
Technical provisions - health (similar to non-life)		4.2				4.2
Best Estimate		*4.1*				*4.1*
Risk margin		*0.1*				*0.1*
Technical provisions - life		237.9				237.9
Technical provisions - life		237.9				237.9
Best Estimate		*213.6*				*213.6*
Risk margin		*24.3*				*24.3*
Provisions other than technical provisions	**3.2**					**3.2**
Pension benefit obligations	**2.3**					**2.3**
Derivatives	**3.0**					**3.0**
Financial liabilities other than debts owed to credit institutions	**0.5**					**0.5**
Insurance & intermediaries payables	**25.6**					**25.6**
Reinsurance payables	**9.8**					**9.8**
Payables (trade, not insurance)	**41.3**					**41.3**
Subordinated liabilities	**138.7**				(2.0)	**136.8**
Subordinated liabilities in BOF	138.7				(2.0)	136.8
Any other liabilities, not elsewhere shown	**19.7**				(0.1)	**19.6**
Total liabilities	**2,746.2**	(101.3)	-	-	(2.0)	**2,642.8**
Excess of assets over liabilities	**388.9**	74.8	78.8	(180.6)	143.7	**505.5**

E

CAPITAL MANAGEMENT

Audited (with the exception of sections 2 & 3)

1 Information on Capital Management regarding own funds

1.1 Description of objectives, policies and processes employed for managing own funds

Operating Business Plans, which are a key component of the Ageas UK Strategic Plan, are reviewed and revised each year then formally approved by the Ageas UK Boards. A key factor in the formulation of the Strategic Plan is the assessment of the capital required to support the business objectives (i.e. growth and profit targets) and the appropriateness of the supporting capital structure. The time horizon over which the MYB is planned is a period of three years.

Overall capital requirements and structure are assessed taking account of the following:

- capital required to support the planned growth in new business and renewal premiums and profit targets;
- the required rate of return on capital employed;
- the required dividend;
- SII capital requirements; and
- capital required to support the desired credit rating.

For pricing/underwriting purposes, capital is allocated to different classes of business using a risk-based methodology. Where product lines do not have the potential to achieve the required return on capital within the plan period the Company will consider divestment.

1.2 Description per tier of the amount, structure and quality of our own funds

Below is a summary of the makeup of AIL's Basic own funds as at 31 December 2017:

Basic Own Funds (in GBP m)	2017 TOTAL	2017 Tier 1 unrestricted	2017 Tier 1 restricted	2017 Tier 2	2017 Tier 3
Ordinary share capital (gross of own shares)	277.8	277.8	-	-	-
Share premium account related to ordinary share capital	3.9	3.9	-	-	-
Reconciliation reserve	72.7	72.7	-	-	-
Subordinated liabilities	138.9	-	-	138.9	-
An amount equal to the value of net deferred tax assets	47.1	-	-	-	47.1
Total basic own funds after adjustment	**540.4**	**354.4**	-	**138.9**	**47.1**

As at 31 December 2016:

Basic Own Funds (in GBP m)	2016 TOTAL	2016 Tier 1 unrestricted	2016 Tier 1 restricted	2016 Tier 2	2016 Tier 3
Ordinary share capital (gross of own shares)	227.8	227.8	-	-	-
Share premium account related to ordinary share capital	3.9	3.9	-	-	-
Reconciliation reserve	95.0	95.0	-	-	-
Subordinated liabilities	136.8	-	-	136.8	-
An amount equal to the value of net deferred tax assets	42.0	-	-	-	42.0
Total basic own funds after adjustment	**505.5**	**326.7**	-	**136.8**	**42.0**

AIL's own funds are categorised into tiers as specified by the Delegated Regulation (EU) 2015/35.

Ordinary share capital: Share capital is fully subordinated and has permanent availability, therefore is included in Tier 1.

Share premium: Share premium is fully subordinated and has permanent availability, therefore is included in Tier 1.

Reconciliation reserve: The reconciliation reserve equals the total excess of assets over liabilities reduced by ordinary share capital, share premium and value of net deferred tax asset. This item is available to fully absorb losses both on a going concern basis and in the case of winding up. The item also satisfies the criteria in Delegated Regulation (EU) 2015/35 and therefore is included in Tier 1. There are no items that are foreseen to reduce the reconciliation reserve such as foreseeable dividends and own shares held.

Ordinary share capital, share premium and the reconciliation reserve are classified as Tier 1 because they are undated and there is no limit to their loss absorbing capacity.

Subordinated liabilities: The subordinated debt within the IFRS balance sheet classified as subordinated liabilities has been reclassified from liabilities to own funds in line with SII requirements. Each of the eligibility criteria required for the subordinated debt to qualify as Tier 2 capital, as set out in Article 73 of Delegated Regulation (EU) 2015/35 have been met. The debt is fully subordinated in the event of a winding up, with the claims of the holder of the debt subordinated to the claims of the senior creditors (including policyholders and non-subordinated creditors). The subordinated debt is fully available to absorb losses and is free from encumbrances.

Net deferred tax asset: Deferred tax is explicitly included in the list of Tier 3 capital items. For deferred tax assets (DTA) the only criteria required for it to be classified as Tier 3 is the absence of features causing or accelerating insolvency. The DTA does not include any features that would cause or accelerate insolvency; therefore it is classified as Tier 3.

1.2.1 Subordinated debt

The subordinated debt of £138.9m was issued by the Company to Ageas Insurance International N.V., the Company's intermediate parent, over two tranches.

Both tranches of the debt incur interest at 3.85% above LIBOR, with the LIBOR rate being reviewed quarterly. From 2026 the interest rate will increase to 4.85% above LIBOR and will remain at this rate until maturity. Accrued interest is also payable quarterly. The subordinated debt is dated with a maturity date of 5 November 2046.

1.2.2 Reconciliation Reserve

The reconciliation reserve:

in GBP millions	2017	2016
Excess of assets over liabilities (per QRT S.02.01.02)	401.6	368.7
Less:		
Share capital	(277.8)	(227.8)
Share premium	(3.9)	(3.9)
Net deferred tax asset	(47.1)	(42.0)
	72.7	95.0

1.3 Disclosure of significant changes in own funds during the reporting period

Basic Own Funds (in GBP m)	2017	2016	Variance	Variance %
Ordinary share capital (gross of own shares)	277.8	227.8	50.0	21.9
Share premium account related to ordinary share capital	3.9	3.9	0.0	0.0
Reconciliation reserve	72.7	95.0	(22.3)	(23.5)
Subordinated liabilities	138.9	136.8	2.1	1.5
An amount equal to the value of net deferred tax assets	47.1	42.0	5.1	12.1
Total basic own funds after adjustment	**540.4**	**505.5**	**34.9**	**6.9**

The largest driver of the increase in own funds during the year was the issue of additional share capital by the company. As disclosed in section A, item 1.4., it was issued by the company in response to the impact of the change in Ogden rate on the SCR ratio. The decrease in the reconciliation reserve was driven by the movement in unrealised gains in the year offset by IFRS profits.

1.4 Eligible amount of own funds to cover the Solvency Capital Requirement classified by tiers

	2017	2016	Variance	Variance %
Tier 1	354.4	326.7	27.7	8.5
Tier 2	138.9	136.8	2.1	1.5
Tier 3	47.1	42.0	5.1	12.1
Total	**540.4**	**505.5**	**34.9**	**6.9**

1.5 Eligible amount of own funds to cover the Minimal Capital Requirement classified by tiers

	2017	2016	Variance	Variance %
Tier 1	354.4	326.7	27.7	8.5
Tier 2	37.2	50.0	(12.8)	(25.6)
Tier 3	0.0	0.0	0.0	0.0
Total	**391.6**	**376.7**	**14.9**	**4.0**

Eligible own funds to cover the Minimum Capital Requirement (MCR) are limited for Tiers 2 and below. Tier 2 items are subject to the following quantitative limits:

a) the eligible amount of Tier 1 items shall be at least 80 % of the Minimum Capital Requirement;
b) the eligible amounts of Tier 2 items shall not exceed 20 % of the Minimum Capital Requirement

Tier 3 items are not available to be used to cover the MCR.

1.6 Quantitative and qualitative explanation of material differences between equity in the financial statements and the excess of assets over liabilities as calculated for SII purposes

Differences between equity in the IFRS financial statements and the excess over liabilities as calculated for SII purposes mainly stem from the revaluation of technical provisions, reclassification of subordinated liabilities and deferred acquisition costs.

Liabilities arising from insurance contracts also need to be recognised at market consistent values. The value of technical provisions under SII is equal to the sum of the best estimate of the liabilities and the risk margin. To calculate the best estimate of the liabilities a deterministic approach is taken, whereas the risk margin represents the capital costs of the non-hedgeable risks included in the best estimate.

The reconciliation from IFRS equity to SII Own Funds is as follows:

in GBP million	2017	2016
IFRS Shareholders' Equity	**440.0**	**388.9**
Net removal of DACs	(151.9)	(145.9)
Net discounting to PV of insurance assets	50.6	63.6
Net best estimate of liabilities	62.8	60.4
Fair value subordinated debt	-	2.0
Fair value debt > 3 months	-	(0.2)
Fair value loans to brokers	0.1	(0.1)
Subordinated liabilities	138.9	136.8
SII Own Funds	**540.4**	**505.5**

2 Information on SCR and MCR

2.1 Quantitative information of the amounts of the undertaking's Solvency Capital Requirement and the Minimum Capital Requirement at the end of the reporting period

in GBP million	2017	2016	Variance	Variance %
Solvency Capital Requirement (SCR)	413.6	555.2	(141.6)	(25.5)
Minimal Capital Requirement (MCR)	186.1	249.9	(63.8)	(25.5)

The capital requirements reduced over the year. The main drivers were as follows:

- A reduction in Non-Life Underwriting Risk largely driven by the purchase of Stop Loss reinsurance.
- A reduction in Market Risk largely driven by a de-risking of the bond portfolio offset by impact of committed increase to property funds
- Other reductions due to a decrease in business volumes.

2.2 Quantitative information of SCR split by risk modules where standard formula is used and by risk category where an internal model is applied

The composition of the capital solvency requirements can be summarised as follows:

in GBP million	2017	2016
Market Risk	134.7	145.7
Counterparty Default Risk	61.0	67.4
Non-life Underwriting Risk	262.4	393.7
Operational Risk	63.5	69.7
Diversification effect	(99.6)	(116.0)
Loss-Absorption through Deferred Taxes	(8.3)	(5.3)
Capital Solvency Requirements under the SII PIM	**413.6**	**555.2**

The non-life underwriting risk component is calculated on an Internal Model basis. For the remainder AIL applies standard formula.

2.2.1 Introduction

Within AIL, under SII capital adequacy a number of items are monitored by AIL and the PRA:

- The Minimum Capital Requirement (MCR) - The MCR is the capital level representing the final threshold that triggers ultimate supervisory intervention (withdrawal of license to underwriting new business) in the event this limit is breached. Under the Partial Internal Model (PIM), the MCR is a linear approach combined with a cap of 45% and a floor of 25% of the Solvency capital requirements (SCR).
- SCR Partial Internal Model (PIM) - SCR PIM is the amount of capital to be held by an insurer to meet its capital requirements calculated using an Internal Model for Non-life risks, and the Standard Formula (SF) for all other sub-risks.

For the breakdown of the base case SCR into different risk modules for SCR PIM for Insurance, refer to the Quantitative Reporting Template S.25.02.21.

2.2.2 Description of the methods used to calculate the probability distribution forecast and the SCR in the internal model.

AIL takes a Partial Internal Model approach to SCR estimation. Underwriting risk is estimated using an Internal Model; while market, counterparty default and operational risk are estimated using the Standard Formula approach. These risks are then aggregated together using the Standard Formula aggregation approach to estimate the diversified SCR.

The Internal Model uses stochastic simulation to generate a full distribution of possible underwriting loss outcomes for the forthcoming year. The possible outcomes represented by this distribution are calibrated using AIL's historic data and then centred on the budget; where the budget is assumed to be the mean of all possible outcomes.

The model is run to produce 100,000 simulations for every sub-risk for each line of business separately. This is performed by drawing random numbers from chosen distributions to generate losses. Each of the simulations therefore represents a different possible future outcome. The model then aggregates all lines of business and sub-risks into a single probability distribution in order to provide a single measure of non-life insurance risk. In order to do this, the model uses inputs for the strength of dependency between two risks and/or lines of business. These dependencies are modelled via correlations that drive the diversification between risks and lines of business.

The required solvency capital is the difference between the 99.5^{th} percentile (1 in 200 year scenario) and the input mean. This represents the adverse deviation from the mean.

2.2.3 Description of the nature and appropriateness of the data used in the internal model.

The majority of the data feeding the Internal Model is held internally. Governance of the data is owned by the MCB with Head of Capital, Director of Risk and Chief Actuary reviewing inputs prior to formal sign-offs. Given that the data is largely from accredited sources which are already audited, validated or have other governance around them (e.g. audited IFRS balance sheet, signed-off business plan etc.), it is deemed to be sufficiently accurate and complete.

The default position for the Internal Model calibration is to include all historic data. This means that for most sub-risks, the entire history of loss ratios or reserve movements are used in the calibration process. Where less history has been used or data has been excluded it has been fully justified.

2.3 SCR simplifications

AIL does not have any material simplifications in its SCR calculation.

3 Information on internal models used for calculation of SCR and MCR

3.1 Description of the results of the review of the causes and sources of profits and losses for each major business unit and how the categorisation of risk chosen in the internal model explains those causes and sources of profit and loss

Profit and Loss Attribution reviews AIL's Actual performance and compares it against the Budgeted prediction made by the Internal Model at the beginning of the year.

The purpose of this analysis is to demonstrate that the Internal Model is able to sufficiently capture all the sources of Underwriting Risk created by writing Insurance business. This establishes whether:

1. AIL's Actual performance was favourable (more profitable), or unfavourable (less profitable) relative to the Budget.
2. the Internal Model allows for sufficient variability around Budgeted estimates and thereby allows for sufficient levels of risk.
3. the Internal Model is complete, allowing for the full range of underwriting risks that AIL is exposed to.

The Internal Model sub-divides Underwriting risk into the following categories.

Lines of Business	Reserve Risk	Attritional Losses	Large Losses	Man Made Catastrophe Losses	Natural Catastrophe Losses
Commercial Property	X	X	X	X	X
Household & Caravan	X	X		X	X
Travel	X	X			
Personal Accident	X	X		X	
Personal Motor Liability	X	X	X	X	
Special Risks	X	X			
Cancelled Business	X				
Commercial Motor Liability	X	X	X	X	
Commercial Motor Other	X	X			X
Personal Motor Other	X	X			X
GTPL	X	X	X	X	

The 2017 Year End Profit and Loss Attribution compared the 2017 Internal Model prediction against 2017 Actuals. The primary deviation from the budget is in respect of movement in claim reserves, which are assumed to have a mean of zero within the Internal Model. In 2017 there was a £31m reduction in claim reserves (net of reinsurance and gross of tax).

None of the analysis suggested that the model is incomplete or that it allows for an insufficient level of risk.

3.2 Differences between the standard formula and any internal model used.

AIL's Internal Model differs from the Standard Formula in the following ways.

1. Risk Taxonomy,
2. PPO Modelling,
3. Premium and Reserve Risk Modelling,
4. Catastrophe Risk Modelling,
5. Reinsurance Modelling,
6. Dependency Structure,
7. Distribution.

1. Risk Taxonomy

AIL disaggregates its business into the following reporting units.

- Personal Motor Liability and Commercial Motor Liability; these would be modelled together under "Motor vehicle liability insurance" under Standard Formula.
- Personal Motor Property and Commercial Motor Property; these would be modelled together under "Other motor insurance" under Standard Formula.
- Commercial Property and Household; these would be modelled together under "Fire and other damage to property insurance" under Standard Formula.

Each reporting unit also uses an appropriate selection of large and attritional premium sub-risks; under the Standard Formula these sub-risks are not modelled separately.

2. PPO Modelling

AIL's Internal Model identifies and models PPO's appropriately; this includes allowing for variability in mortality and inflation risk.

3. Premium and Reserve Risk Modelling

Premium and Reserve risk is a factor-based model under Standard Formula. The factors are common for the whole market. In the Internal Model, Premium and Reserve risk is calculated by sampling from various distribution to generate losses.

4. Catastrophe Risk Modelling

Under Standard Formula, only 1 or 2 catastrophe scenarios are considered based on market parameters. Under the Internal Model, specific scenarios are considered and severity of losses are based on the exposure of AIL.

5. Reinsurance Modelling

Reinsurance modelling is crude under Standard Formula allowing only for a broad spectrum 20% reduction in premium risk coefficient of variation (COV) for lines of business that carry non-proportional reinsurance. AIL's Internal Model allows for more accurate modelling of the true reinsurance structure.

6. Dependency Structure

AIL's Internal Model uses a dependency structure that has been calibrated internally. The most material difference is that the Internal Model's dependency structure models catastrophe risks as independent of premium and reserve risk. Under the Standard Formula these risks are correlated by 25%.

7. Distribution

The Standard Formula produces only one value at the 99.5% percentile while the Internal Model produces the full distribution.

3.3 Information on whether, and if so to what extent, the risk profile deviates from the assumptions underlying the internal model

Specific limitations of the Internal Model and the approach adopted by AIL to address them are set out in the table below

Limitation	AIL approach
Dependency	Data representing tail events is too limited to reliably model dependency between risk types and lines of business. Calibration of the correlation parameters is therefore based on expert judgement. A panel of experts, including the Head of Underwriting for each line of business, meets on an annual basis to discuss the emergence of any new insight into the drivers of dependency, and ensure the ongoing appropriateness of the correlation assumptions.
Natural catastrophe	Natural catastrophes are rare events and as such, data is limited. However, windstorms and floods are material risks to AIL and so must be modelled. To mitigate the lack of data, AIL uses models supplied by third-parties that contain models of both the science of windstorms and floods, together with their impact on property. AIL uses its relatively scarce data to help validate these models.

3.4 Information about future management actions used in the calculation of the SCR

Management actions are not included in the calculation of the AIL SCR.

4 The risk of non-compliance with the MCR or SCR and plans to ensure compliance

The Ageas UK Boards set the Target Solvency Capital Level allowing for a solvency buffer above the SCR. AIL will not pay a dividend that takes its solvency below this level.

Solvency levels are reviewed by Management and reported to the Ageas UK Boards, Audit Committee, Board Risk Committee and Ageas Group on a quarterly basis.

The following possible actions are available to Ageas UK should the Solvency ratio drop below target levels:

- Increase own funds

Options available include: issuing further equity; reducing the dividends and issuing further sub-debt.

- Decrease PIM SCR

Options available include: reducing the scale of the business, adjusting the investment portfolio, purchasing additional reinsurance, hedging using derivatives.

5 Any other material information regarding Capital Management

On 27 February 2017 the Lord Chancellor announced that the personal injury discount rate (Ogden rate) would reduce from +2.5% to -0.75% with effect from 20 March 2017. The reduction in the discount rate had the effect of increasing the cost of personal injury claims and also increasing the ultimate loss ratio for business written up to the effective date.

The immediate effect of this on AIL was an additional cost to claims reserves as at 31 December 2016, impacting the overall net pre-tax underwriting performance by £140m and reducing the Solvency II ratio to 91%. On 31 March 2017 the Ageas UK Boards approved immediate actions to improve the solvency ratio by 25% after discussions with the PRA. These actions included the issuance of an additional £50m of share capital on 7 April and the purchase of a whole account stop loss treaty with effect from 1 April. The result of these actions, combined with improved profitability in the year, has resulted in an improvement to the Solvency ratio by 40 percentage points, increasing to 131% by 31 December 2017.

F. Validation & Authorisation

Ageas Insurance Limited

Approval by the Board of Directors

Financial year ended 31 December 2017

We certify:

(a) that the Solvency and Financial Condition Report ("SFCR") has been prepared in all material respects in accordance with the PRA rules and Solvency II Regulations; and

(b) we are satisfied that:

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

ii) it is reasonable to believe that the insurer has continued so to comply with the requirements of the PRA rules and Solvency II Regulations, and will continue so to comply in future.

Fernley Dyson
Chief Financial Officer
Ageas Insurance Limited

2 May 2018

Report of the external independent auditor to the Directors of Ageas Insurance Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the Relevant Elements of the Solvency and Financial Condition Report

Opinion

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

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

- Company templates S02.01.02, S12.01.01, S17.01.02, S22.01.21, S23.01.01, S28.01.01 ('**the Templates subject to audit'**).

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

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

- information contained within the Relevant Elements of the Solvency and Financial Condition Report set out about above which are, or derive from the Solvency Capital Requirement, as identified in the Appendix to this report;

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

- Company templates S05.01.02, S05.02.01, S19.01.21, S.25.02.21;

- the written acknowledgement by the Directors of their responsibilities, including for the preparation of the solvency and financial condition report ('**the Responsibility Statement**').

In our opinion, the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report of the Company as at 31 December 2017 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Relevant Elements of the Solvency and Financial Condition Report* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public

interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – special purpose basis of accounting

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

Conclusions relating to going concern

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

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

Other Information

The Directors are responsible for the Other Information.

Our opinion on the Relevant Elements of the Solvency and Financial Condition Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the Relevant Elements of the Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Relevant Elements of the Solvency and Financial Condition Report or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations which have been modified by the approval(s) and modifications granted by the PRA under The Solvency 2 Regulations 2015 and section 138A of FSMA respectively

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Relevant Elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the Relevant Elements of the Solvency and Financial Condition Report are prepared, in all material respects, with financial reporting provisions of the PRA Rules and Solvency II regulations on which it they based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

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

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

Other Matter

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

Report on Other Legal and Regulatory Requirements

In accordance with Rule 4.1 (3) of the External Audit Chapter of the PRA Rulebook we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the Company's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

The purpose of our audit work and to whom we owe our responsibilities

This report of the external auditor is made solely to the company's directors, as its governing body, in accordance with the requirement in Rule 4.1(2) of the External Audit Part of the PRA Rulebook and

the terms of our engagement. We acknowledge that the directors are required to submit the report to the PRA, to enable the PRA to verify that an auditor's report has been commissioned by the company's directors and issued in accordance with the requirement set out in Rule 4.1(2) of the External Audit Part of the PRA Rulebook and to facilitate the discharge by the PRA of its regulatory functions in respect of the company, conferred on the PRA by or under the Financial Services and Markets Act 2000.

Our audit has been undertaken so that we might state to the company's directors those matters we are required to state to them in an auditor's report issued pursuant to Rule 4.1(2) and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company through its governing body, for our audit, for this report, or for the opinions we have formed.

Karen Orr for and on behalf of KPMG LLP
Chartered Accountants
Canary Wharf
15 Canada Square
London
E14 5GL

2 May 2018

- The maintenance and integrity of Ageas Insurance Limited's website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Solvency and Financial Condition Report since it was initially presented on the website.

- Legislation in the United Kingdom governing the preparation and dissemination of Solvency and Financial Condition Reports may differ from legislation in other jurisdictions.

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

Solo internal model

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

- The following elements of template S.02.01.02:
  - Row R0550: Technical provisions - non-life (excluding health) - risk margin
  - Row R0590: Technical provisions - health (similar to non-life) - risk margin
  - Row R0640: Technical provisions - health (similar to life) - risk margin
  - Row R0680: Technical provisions - life (excluding health and index-linked and unit-linked) - risk margin
  - Row R0720: Technical provisions - Index-linked and unit-linked - risk margin

- The following elements of template S.12.01.02
  - Row R0100: Technical provisions calculated as a sum of BE and RM - Risk margin
  - Rows R0110 to R0130 – Amount of transitional measure on technical provisions

- The following elements of template S.17.01.02
  - Row R0280: Technical provisions calculated as a sum of BE and RM - Risk margin
  - Rows R0290 to R0310 – Amount of transitional measure on technical provisions

- The following elements of template S.22.01.21
  - Column C0030 – Impact of transitional measure on technical provisions
  - Row R0010 – Technical provisions
  - Row R0090 – Solvency Capital Requirement

- The following elements of template S.23.01.01
  - Row R0580: SCR
  - Row R0740: Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

- The following elements of template S.28.01.01
  - Row R0310: SCR

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

H

APPENDICES

QUANTITATIVE REPORTING TEMPLATES

All figures GBP 000's

S.02.01.02
Balance sheet Page 1 of 2

	Solvency II value
Assets	
Intangible assets	
Deferred tax assets	47,146
Pension benefit surplus	
Property, plant & equipment held for own use	42,707
Investments (other than assets held for index-linked and unit-linked contracts)	2,065,384
Property (other than for own use)	20,449
Equities - listed	
Equities - unlisted	
Bonds	1,801,738
Government Bonds	616,720
Corporate Bonds	1,185,018
Collective Investments Undertakings	241,169
Deposits other than cash equivalents	2,028
Assets held for index-linked and unit-linked contracts	
Loans and mortgages	114,787
Loans and mortgages to individuals	
Other loans and mortgages	114,787
Reinsurance recoverables from:	437,092
Non-life and health similar to non-life	283,434
Non-life excluding health	283,474
Health similar to non-life	-40
Life and health similar to life, excluding index-linked and unit-linked	153,657
Life excluding health and index-linked and unit-linked	153,657
Insurance and intermediaries receivables	270,389
Reinsurance receivables	13,394
Receivables (trade, not insurance)	26,394
Cash and cash equivalents	12,647
Any other assets, not elsewhere shown	4,521
Total assets	3,034,458

S.02.01.02
Balance sheet Page 2 of 2

	Solvency II value
Liabilities	
Technical provisions - non-life	2,146,207
Technical provisions - non-life (excluding health)	2,141,164
Best Estimate	2,079,598
Risk margin	61,565
Technical provisions - health (similar to non-life)	5,043
Best Estimate	4,853
Risk margin	189
Technical provisions - life (excluding index-linked and unit-linked)	232,300
Technical provisions - life (excluding health and index-linked and unit-linked)	232,300
Best Estimate	204,702
Risk margin	27,598
Contingent liabilities	
Provisions other than technical provisions	2,136
Pension benefit obligations	6,004
Deposits from reinsurers	
Deferred tax liabilities	
Derivatives	452
Debts owed to credit institutions	
Financial liabilities other than debts owed to credit institutions	340
Insurance & intermediaries payables	29,391
Reinsurance payables	8,535
Payables (trade, not insurance)	45,196
Subordinated liabilities	138,863
Subordinated liabilities not in BOF	
Subordinated liabilities in BOF	138,863
Any other liabilities, not elsewhere shown	23,459
Total liabilities	2,632,882
Excess of assets over liabilities	401,577

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
	Income protection insurance	Motor vehicle liability insurance	Other motor insurance	Fire and other damage to property insurance	General liability insurance	Assistance	Misc. financial loss	Marine, aviation and transport	
Premiums written									
Gross - Direct Business	9,218	668,165	157,750	381,721	63,214	18,712	56,762		1,355,541
Gross - Non-proportional reinsurance accepted								10	10
Reinsurers' share	176	36,210	8,549	26,422	3,395	1,424	2,859	5	79,040
Net	9,042	631,955	149,201	355,299	59,819	17,287	53,903	5	1,276,511
Premiums earned									
Gross - Direct Business	8,885	690,010	162,907	387,616	59,881	19,209	67,538		1,396,045
Gross - Non-proportional reinsurance accepted								10	10
Reinsurers' share	176	37,452	8,842	27,888	3,395	1,496	7,721	5	86,976
Net	8,709	652,558	154,065	359,727	56,485	17,713	59,817	5	1,309,080
Claims incurred									
Gross - Direct Business	5,685	509,260	120,774	191,016	30,665	9,769	37,007		904,177
Gross - Non-proportional reinsurance accepted								-810	-810
Reinsurers' share	1	9,212	3,216	6,362	-2,248	741	6,534	-810	23,008
Net	5,684	500,048	117,559	184,654	32,913	9,028	30,473	0	880,359
Changes in other technical provisions									
Net	0	0	0	0	0	0	0	0	0
Expenses incurred	3,467	157,390	26,029	172,150	25,044	8,813	33,043	5,786	431,722
Other expenses									30,749
Total expenses									462,471

S.05.02.01
Premiums, claims and expenses by country

Non-life

	Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations			Total Top 5 and home country
		IE			
Premiums written					
Gross - Direct Business	1,349,581	5,960			1,355,541
Gross - Non-proportional reinsurance accepted	10				10
Reinsurers' share	78,794	246			79,040
Net	1,270,797	5,713	0	0	1,276,511
Premiums earned					
Gross - Direct Business	1,390,393	5,652			1,396,045
Gross - Non-proportional reinsurance accepted	10				10
Reinsurers' share	86,735	240			86,976
Net	1,303,668	5,412	0	0	1,309,080
Claims incurred					
Gross - Direct Business	899,252	4,925			904,177
Gross - Non-proportional reinsurance accepted	-810				-810
Reinsurers' share	21,706	1,302			23,008
Net	876,736	3,623	0	0	880,359
Changes in other technical provisions					
Net	0	0	0	0	0
Expenses incurred	430,148	1,574			431,722
Other expenses					30,749
Total expenses					462,471

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

Life	Line of Business for: life insurance obligations	Total
	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	
Premiums written		
Gross		0
Reinsurers' share		0
Net		0
Premiums earned		
Gross		0
Reinsurers' share		0
Net		0
Claims incurred		
Gross	2,292	2,292
Reinsurers' share	4,409	4,409
Net	-2,117	-2,117
Changes in other technical provisions		
Net	0	0
Expenses incurred	2,408	2,408
Other expenses		0
Total expenses		2,408

S.05.02.01
Premiums, claims and expenses by country
Life

	Home Country	Total Top 5 and home country
Premiums written		
Gross		0
Reinsurers' share		0
Net		0
Premiums earned		
Gross		0
Reinsurers' share		0
Net		0
Claims incurred		
Gross	2,292	2,292
Reinsurers' share	4,409	4,409
Net	-2,117	-2,117
Changes in other technical provisions		
Net	0	0
Expenses incurred	2,408	2,408
Other expenses		0
Total expenses		2,408

S.12.01.02
Life and Health SLT Technical Provisions

	Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Total (Life other than health insurance, including Unit-Linked)
Technical provisions calculated as a sum of BE and RM		
Best estimate		
Gross Best Estimate	204,702	204,702
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	153,657	153,657
Best estimate minus recoverables from reinsurance/SPV and Finite Re	51,045	51,045
Risk margin	27,598	27,598
Amount of the transitional on Technical Provisions		
Technical provisions - total	232,300	232,300

S.17.01.02

Non-Life Technical Provisions

	Direct business and accepted proportional reinsurance		Direct business and accepted proportional reinsurance			Direct business and accepted proportional reinsurance		Accepted non-proportional reinsurance	Total Non-Life obligation
	Income protection insurance	Motor vehicle liability insurance	Other motor insurance	Fire and other damage to property insurance	General liability insurance	Assistance	Miscellaneous financial loss	Non-proportional marine, aviation and transport reinsurance	
Technical provisions calculated as a sum of BE and RM									
Best estimate									
Premium provisions									
Gross	2,265	256,411	66,375	105,660	14,853	3,420	36,890	0	485,874
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	-11	-3,516	-680	-3,566	-968	-152	3,785		-5,108
Net Best Estimate of Premium Provisions	2,276	259,926	67,055	109,226	15,822	3,572	33,105	0	490,982
Claims provisions									
Gross	2,588	1,269,749	4,771	146,568	127,311	3,686	19,223	24,680	1,598,578
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	-29	266,702	-522	3,955	14,326	126	1,901	2,083	288,542
Net Best Estimate of Claims Provisions	2,617	1,003,047	5,293	142,613	112,986	3,560	17,322	22,597	1,310,035
Total best estimate - gross	4,853	1,526,160	71,146	252,228	142,165	7,106	56,113	24,680	2,084,452
Total best estimate - net	4,893	1,262,973	72,348	251,839	128,807	7,132	50,427	22,597	1,801,017
Risk margin	189	39,963	2,777	9,845	5,549	277	2,190	963	61,755
Technical provisions - total	5,043	1,566,123	73,923	262,073	147,714	7,384	58,304	25,644	2,146,207
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	-40	263,187	-1,202	388	13,357	-25	5,686	2,083	283,434
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	5,083	1,302,936	75,125	261,685	134,356	7,409	52,617	23,560	1,862,772

S.19.01.21 Page 1 of 2

Non-Life insurance claims

Total Non-life business

Accident year / underwriting year | Accident Year

Gross Claims Paid (non-cumulative)

(absolute amount)

Year	Development year											In Current year	Sum of years (cumulative)
	0	1	2	3	4	5	6	7	8	9	10 & +		
Prior											2,815	2,815	2,815
N-9	244,919	175,944	54,511	47,302	35,086	16,115	5,898	3,700	1,574	653		653	585,703
N-8	269,056	202,744	70,711	49,661	42,814	16,927	7,016	6,160	1,160			1,160	666,249
N-7	165,479	364,821	69,852	47,415	30,333	22,120	7,668	2,348				2,348	710,036
N-6	281,549	191,924	77,456	43,732	31,705	15,638	4,440					4,440	646,443
N-5	299,000	201,813	67,406	55,295	37,482	31,067						31,067	692,062
N-4	261,145	200,823	67,308	40,081	35,168							35,168	604,524
N-3	272,167	197,272	69,221	48,138								48,138	586,797
N-2	252,710	222,608	80,242									80,242	555,560
N-1	418,711	212,398										212,398	631,110
N	465,183											465,183	465,183
											Total	883,611	6,146,482

S.19.01.21 Page 2 of 2

Non-Life insurance claims

Gross undiscounted Best Estimate Claims Provisions

(absolute amount)

Year	Development year											Year end (discounted data)
	0	1	2	3	4	5	6	7	8	9	10 & +	
Prior											100,505	102,581
N-9	0	0	0	0	0	0	0	0	-622	23,917		24,899
N-8	0	0	0	0	0	0	0	8,027	50,736			51,055
N-7	0	0	0	0	0	0	1,318	17,856				18,279
N-6	0	0	0	0	0	243	41,714					40,707
N-5	0	0	0	0	6,508	60,868						60,887
N-4	0	0	0	-2,500	97,023							99,623
N-3	0	0	6,277	162,613								169,962
N-2	0	208,063	240,132									248,950
N-1	136,688	462,543										477,538
N	510,283											534,706
											Total	1,829,188

S.22.01.21

Impact of long term guarantees measures and transitionals

	Amount with Long Term Guarantee measures and transitionals
Technical provisions	2,378,507
Basic own funds	540,440
Eligible own funds to meet Solvency Capital Requirement	540,440
Solvency Capital Requirement	413,565
Eligible own funds to meet Minimum Capital Requirement	391,652
Minimum Capital Requirement	186,104

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**
Ordinary share capital (gross of own shares)	277,823	277,823		0	
Share premium account related to ordinary share capital	3,860	3,860		0	
Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
Subordinated mutual member accounts	0		0	0	0
Surplus funds	0	0			
Preference shares	0		0	0	0
Share premium account related to preference shares	0		0	0	0
Reconciliation reserve	72,748	72,748			
Subordinated liabilities	138,863		0	138,863	0
An amount equal to the value of net deferred tax assets	47,146				47,146
Total basic own funds after deductions	540,440	354,431	0	138,863	47,146

Available and eligible own funds

Total available own funds to meet the SCR	540,440	354,431	0	138,863	47,146
Total available own funds to meet the MCR	493,294	354,431	0	138,863	
Total eligible own funds to meet the SCR	540,440	354,431	0	138,863	47,146
Total eligible own funds to meet the MCR	391,652	354,431	0	37,221	

SCR	413,565
MCR	186,104
Ratio of Eligible own funds to SCR	130.7%
Ratio of Eligible own funds to MCR	210.4%

Reconciliation reserve

Excess of assets over liabilities	401,577
Other basic own fund items	328,829
Reconciliation reserve	72,748

Expected profits

Expected profits included in future premiums (EPIFP) - Non-life business	1,212
Total Expected profits included in future premiums (EPIFP)	1,212

S.25.02.21

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

Unique number of component	Component description	Calculation of the Solvency Capital Requirement	Amount modelled	USP	Simplifications
10100I	Interest rate risk down	6,479		9	
10400I	Equity risk	33,571		9	
10600I	Property risk	46,028		9	
10700I	Spread risk	59,574		9	
10800I	Concentration risk	45,060		9	
10900I	Currency risk	4,090		9	
19900I	Diversification within market risk	-60,106		9	
20100I	Type 1 counterparty credit risk	15,106		9	
20200I	Type 2 counterparty credit risk	48,865		9	
20300I	Diversification within counterparty credit risk	-2,953		9	
5015GI	Premium risk (Attritional)	128,234	128,234	9	
5015HI	Premium risk (Large Losses)	89,707	89,707	9	
50107I	diversification within premium risk	-63,106	-63,106	9	
50210I	Reserve risk	188,448	188,448	9	
50310I	Non-life catastrophe risk - meteorological & geological (i.e. 'natural') events - modelled	196,750	196,750	9	
50330I	Non-life catastrophe risk - other events (i.e. "Man-Made")	29,724	29,724	9	
50399I	diversification within cat risk	-29,589	-29,589	9	
50400I	Non-life lapse risk	8,626	8,626	9	
59900I	Diversification within non-life underwriting risk	-286,442	-286,442	9	
70100I	Operational risk	63,455		9	
80300I	Loss-absorbing capacity of deferred taxes	-8,334		9	

S.25.02.21

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

Calculation of Solvency Capital Requirement	
Total undiversified components	513,189
Diversification	-99,624
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
Solvency capital requirement excluding capital add-on	413,565
Capital add-ons already set	
Solvency capital requirement	413,565

Other information on SCR	
Amount/estimate of the overall loss-absorbing capacity of technical provisions	
Amount/estimate of the overall loss-absorbing capacity of deferred taxes	-8,334
Capital requirement for duration-based equity risk sub-module	
Total amount of Notional Solvency Capital Requirements for remaining part	
Total amount of Notional Solvency Capital Requirement for ring fenced funds	
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	
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

MCR_{NL} Result	276,623

	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
Income protection insurance and proportional reinsurance	4,893	0
Motor vehicle liability insurance and proportional reinsurance	1,262,973	610,434
Other motor insurance and proportional reinsurance	72,348	168,943
Fire and other damage to property insurance and proportional reinsurance	251,839	353,283
General liability insurance and proportional reinsurance	128,807	46,704
Assistance and proportional reinsurance	7,132	16,891
Miscellaneous financial loss insurance and proportional reinsurance	50,427	59,450
Non-proportional marine, aviation and transport reinsurance	22,597	-2

Linear formula component for life insurance and reinsurance obligations

MCR_{L} Result	1,072

	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
Obligations with profit participation - guaranteed benefits		
Obligations with profit participation - future discretionary benefits		
Index-linked and unit-linked insurance obligations		
Other life (re)insurance and health (re)insurance obligations	51,045	
Total capital at risk for all life (re)insurance obligations		

S.28.01.01

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

Overall MCR calculation	
Linear MCR	277,695
SCR	413,565
MCR cap	186,104
MCR floor	103,391
Combined MCR	186,104
Absolute floor of the MCR	3,251
Minimum Capital Requirement	186,104

I. Glossary

Ageas Group	Together ageas SA/NV and its operating subsidiaries
Ageas UK	Ageas (UK) Limited and subsidiary companies
Ageas UK Boards	Together the Boards of Directors of Ageas (UK) Limited, Ageas Insurance Limited, Ageas Retail Limited and Ageas Services (UK) Limited
AIL or the Company	Ageas Insurance Limited
AIL Board	The Board of Directors of Ageas Insurance Limited
AUK	Ageas (UK) Limited - the Company's immediate parent undertaking
COR	Combined Operating Ratio - a metric for assessing the Company's overall efficiency, calculated as the total of incurred claims, commissions, expenses, other operating income and reinsurance
CRSA	Control and Risk Self Assessment
DAC	Deferred acquisition costs
DTA	Deferred tax asset
EEA	European Economic Area
EIOPA	European Insurance and Occupational Pensions Authority
ERM	Enterprise Risk Framework
FCA	Financial Conduct Authority
GEP	Gross earned premiums
GMP	Guaranteed minimum pensions
Group	ageas SA/NV
GWP	Gross written premiums
IFRS	International Financial Reporting Standards
KRR	Key risk reporting
LAT	Liability adequacy testing
LIBOR	London Inter-Bank Offered Rate
MCB	Model Control Board
MCBS	Market Consistent Balance Sheet
MCR	Minimum Capital Requirement - the MCR represents an absolute floor to the level of eligible own funds that the insurance undertaking is required to hold under Solvency II
MGA	Managing general agent
MYB	Multi year budget - the time horizon over which the MYB is planned is a period of 3 years
NBB	National Bank of Belgium - the supervisor of AIL's ultimate parent, ageas SA/NV
Ogden	The personal injury discount rate applied to bodily injury claims

ORSA	Own Risk and Solvency Assessment, also known as the forward-looking assessment of own risks
Own Funds	The amount of capital available to cover a firm's SCR
PIM	Partial Internal Model - a solvency calculation model partially tailored to the individual risk profile of a specific firm
PPO	Periodic payment orders
PRA	Prudential Regulation Authority
PV	Present value
QRT	Quantitative reporting template
SCR	Solvency Capital Requirement - The economic capital to be held by an insurer in order to ensure that it will still be in a position to meet their obligations to policyholders over the following 12 months, with a probability of at least 99.5% (i.e. limit probability of failure to less than 1 in 200 years)
SII	Solvency II
SIMF	Senior insurance management functions
Solvency ratio	Eligible Own Funds on a regulatory basis divided by the Solvency Capital Requirement
SPV	Special purpose vehicles
SST	Stress and Scenario tests