



**AIG Life Insurance Company
(Switzerland) Ltd.**

**Financial Condition Report
2018**

30 April 2019



Contents

Executive Summary	3
A. BUSINESS.....	5
A.1 COMPANY INFORMATION	5
A.2 POSITION WITHIN THE GROUP LEGAL STRUCTURE.....	6
A.3 MATERIAL PARTICIPATING UNDERTAKINGS	6
A.4 MATERIAL LINES OF BUSINESS BY OPERATING SEGMENT.....	6
A.5 MATERIAL GEOGRAPHICAL LOCATIONS	8
B. Solvency	9
B.1 Solvency Model.....	9
B.2 Risk Bearing Capital.....	10
B.2.1 Assets.....	11
B.2.2 TECHNICAL PROVISIONS	12
B.2.3 OTHER LIABILITIES.....	14
B.3 TARGET CAPITAL.....	15
B.4 QUANTITATIVE REPORTS.....	17



Executive Summary

AIG Life Insurance Company Ltd. (“AIG Life” or the “Company”) is incorporated in Switzerland and is a wholly owned subsidiary of the American International Group, Inc. (“AIG Inc.”), a company incorporated in the State of Delaware, United States of America with headquarters in New York City.

The Company is authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA) in Switzerland.

The purpose of the Financial Condition Report (FCR) is to provide the reader with an understanding of the Company’s Business and Performance, Systems of Governance, Risk Profile, Valuation for Solvency purposes and Capital Management.

The Company received on March 28, 2018 FINMA’s decision to release AIG Life from the obligation of publishing some information (“light reporting”) as foreseen by FINMA’s circular 2016/02 marginal 16. Based on FINMA’s decision AIG Life must publish the following information:

- Solvability (FINMA’s circular 2016/02 marginal 73-82) (Section B)
- Tables of quantitative model for the market value balance sheet and the target capital (FINMA’s circular 2016/02 marginal 102 and 104 and attachment 1) (Section B)
- Allowance for the light reporting (attachment 1)
- Annual report (Attachment 2)
- Sign off of the Financial Condition Report by the board of directors (Attachment 3)

Section A to the FCR provides information about the Company’s business.

Section B provides information on SST (Swiss Solvency Test) valuation and in particular on the market consistent balance sheet items, the Target capital items and the changes from the prior year results. Furthermore, the following requirements as set in FINMA’s circular 2016/02 marginal 73-82 are covered:

- Information regarding the choice of solvency model.
- Breakdown of target capital into its key components, including explanatory notes
- Breakdown of market risk and insurance risk into their key components, including explanatory notes
- Comparison with the corresponding information from the previous reporting period, including explanatory notes
- Breakdown of risk-bearing capital into its key components, including explanatory notes
- Comparison with the corresponding information from the previous reporting period, including explanatory notes
- Comments on the reported solvency.

The SST coverage is calculated as the ratio of the Company’s total risk bearing capital reduced by the market value margin to the Capital for Insurance & Market & Credit risks (SCR). The SCR corresponds to the target capital reduced by the market value margin. The SST metrics are defined by the regulations. During the year, the company ensured compliance with SST requirements including maintaining capital resources above the solvency capital requirements. As at 1st January 2019, the



SCR is CHF 19.0m covered by CHF 33.2m of capital resources thus providing a 175.3% coverage ratio. The solvency (risk-bearing capital, target capital) amounts stated in the FCR are identical to the information submitted to FINMA. The SST amounts as at 1st January 2019 are still subject to regulatory audit.

The Company was fully compliant with SST during 2018.

A handwritten signature in blue ink, appearing to read "Claudio Maffucci", is written over a faint, light blue circular stamp or watermark.

**AIG General Manager
Claudio Maffucci**



A. BUSINESS

The 'Business' section of the report sets out the details regarding the business structure, key operations and market position of AIG Life Insurance Company (Switzerland) Ltd. ("AIG Life" or the "Company").

A.1 COMPANY INFORMATION

AIG Life is incorporated in Switzerland and is a wholly owned subsidiary of the American International Group, Inc. ("AIG Inc."), a company incorporated in the State of Delaware, United States of America with headquarters in New York City.

AIG Life was founded in 1962 and holds a life insurance license, a reinsurance license, an accident insurance license and an illness insurance license from the Swiss regulator FINMA. Currently the company is headquartered in Breganzona (Switzerland) and started its operations in 1963 under the name "Ticino Vita - Società d'assicurazioni sulla vita" in Lugano and was selling insurance policies to clients from Switzerland, especially to those from the Southern Italian-speaking canton Ticino, as well as clients from North Italy. Initially, customers from Switzerland bought mainly annual premium products, whereas the north Italian customers were more interested in single premium products.

In 1983, AIG Inc. bought 100% of AIG Life. This change in ownership had a positive impact on the business, which continued to expand until the late 1990's. In the late 1990's, due to AIG Inc.'s expansion into markets where AIG Life customers were located, AIG Inc. slowed the growth of the company. In July 2002, the Board of Directors of AIG Life and AIG Inc. decided to put the company into run-off. Currently, the company does not underwrite new business, does not maintain distribution channels and does not market products in any form. Furthermore, due to the long term run-off status of AIG Life, the company maintains only necessary operational structures to support the run-off process. In particular, in order to optimize costs, AIG Life has outsourced some of its administration services (actuarial services, IT services) to external providers.

The company is FINMA authorised and regulated by the FINMA, and owns the following licenses:

A	B	Business lines	
X		A1	Collective life insurance vocational provisions
X		A2.1	Capital insurance bound to parts of fund, with death or disability benefits
X		A2.2	Ditto, with additional guarantee in case of life
X		A2.3	Annuity insurance bound to parts of fund
X		A2.4	Life insurance bound to confined funds or other reference values, with death or disability benefits
X		A2.5	Ditto, with additional guarantee in case of life
X		A2.6	Pension insurance bound to confined funds or other reference values
X		A3.1	Individual capital insurance in case of death and life



X		A3.2	Individual pension insurance
X		A3.3	Other individual life insurances
X		A3.4	Collective life insurance outside vocational provisions
X		A4	Accident insurance
X		A5	Health insurance
X		A6	Operations of capitalization

Registered Office
 AIG Life Insurance
 Company (Switzerland) Ltd
 Via Camara 19
 6932 Breganzona (CH)
 +41 91 960 48 48

Supervisory Authority
 Swiss Financial Market
 Supervisory Authority (FINMA)
 Laupenstrasse 27
 3003 Bern (CH)
 +41 31 327 91 00

External Auditors
 PricewaterhouseCoopers AG
 Birchstrasse 160
 8050 Zürich
 +41 58 792 44 00

A.2 POSITION WITHIN THE GROUP LEGAL STRUCTURE

The company is a 100% subsidiary of AIG Inc. and is thus directly owned by AIG Inc. The company operates independently and almost all operational decisions are made locally.

A.3 MATERIAL PARTICIPATING UNDERTAKINGS

The company has no subsidiaries nor undertakings.

A.4 MATERIAL LINES OF BUSINESS BY OPERATING SEGMENT

From an operating perspective, AIG Life forms part of the Legacy business module of AIG Inc.

The portfolio of AIG Life consists of the product types described in the following:

- Ordinary
 - o Endowment: A product providing a death benefit with an embedded investment element of a fixed term. This type of product provides a benefit regardless of whether the policyholder is alive or not and there is the possibility to increase such a benefit regularly throughout the duration of the policy.
 - o Whole of Life: A single (or annual) premium product, which provides a death benefit and also has an embedded investment element of variable term. The benefit is paid in the event of surrender or death.
 - o Risk Only: A life insurance product for which the benefit is payable only in case of the policyholder's death (which has to occur within the policy's duration, or in the event of the "fixed term product"; the benefit is payable only at the maturity). The policy itself has no value if the policyholder is alive at the expiry date (though any associated policy may have a value). In the case of the "fixed term product", if the policyholder dies before the maturity, no additional premium is due.
 - o Group Pension: A single premium product with a death benefit and amount payable at retirement.



- Annuities: A standard annuity product with guaranteed benefits paid on one or two lives either up to the death of the beneficiaries or up to a defined term. The annuity might be either deferred or in payment and both forms of premium payment single and regular, are available. The policyholder can include in the contract death benefit coverage in the form of a premium refund.
- Saving: Whole of Life saving products with an interest guarantee. In the case of death the saving amount is paid out to the beneficiaries.
- Unit Linked Whole of Life or endowment type product invested in funds with a Guaranteed Minimum Death Benefit (GMDB). The policyholder bears the investment risk.
- Hospitalization A regular premium life insurance product which provides daily benefits in the event of hospitalization according to a chosen plan (every admission into a clinic or hospital as a consequence of an injury or illness).
- Credit Life Credit Life is liable for any outstanding debt the policyholder may leave behind in the event of death or disability.

It was possible to add the following riders to the main insurance policy:

In the event of disability

- Incapacity to work (annuity) This rider is available (1) as an annual benefit in the case of disability claim (incapacity to work) paid until the maturity of the main insurance policy or disability's disappearance or (2) as a lump sum. This rider cover is available only in case the waiver premium rider is subscribed as well.
- Waiver of premium This is a rider cover provided in case of policyholder's incapacity to work. This rider provides as its benefit the payment of the main cover premium.

In the event of death

- by accident A supplementary benefit is due in the event of death by accident.
- Annuity (temporary) An annuity due to the policyholder in the event of death from insured death day to the maturity date of the main cover.
- Risk only (fixed term) A fixed benefit is provided in case of insured death within rider cover duration. This rider cover's duration cannot be higher than the duration of the main cover.

AIG Life products are either with profit participation or Index-linked and unit-linked insurance.

The following table shows the size of the insured portfolio by product class at 31st December 2018:

Product class	Number of covers	Statutory provisions	technical
Ordinary	3'583		70'214'021
Annuities	248		29'282'583
Saving	33		7'184'230
Unit Linked	6		354'673
Disabilities	1'863		13'716'486
Hospitalization	43		181'564



A.5 MATERIAL GEOGRAPHICAL LOCATIONS

AIG Life operates within Switzerland.



B. Solvency

The 'Solvency' section of the report describes the following:

- Valuation of assets, technical provisions and other liabilities from a statutory basis to a Solvency basis. This section contains quantitative and qualitative explanations of the main differences between the figures valued according to the SST principles (FINMA circular 2008/44) and those accounted for in the statutory balance sheet of AIG Life.
- Approach and methodology underlying the target capital valuation.

Key elements of the section include:

- Solvency model
- Risk bearing capital
- Target capital

The Target Capital within the Swiss Solvency Test is the amount of funds that the Company is required to hold in line with the capital requirements set in the Swiss insurance supervision act and ordinance. The Target Capital is a distribution based figure calibrated to ensure that all quantifiable risks are taken into account, including insurance, market, and credit risk.

The amount of the Target Capital at 1st January 2019 was CHF 23.6m for a SST ratio of 175.3% (148.0% in the prior year)

It is worth noting, that the Company capitalization within the SST is done by the ratio of (1) the Risk Bearing Capital reduced by the Market Value Margin and (2) the target capital amount without considering the Market Value Margin. The Target Capital reduced by the Market Value Margin (2) is called Capital for Insurance & Market & Credit risks ("SCR") within the SST valuation.

B.1 Solvency Model

As in the prior year AIG Life applies the SST Standard Model for calculating the target capital. On the 31st of October 2018 FINMA published a new version of the Standard Model for the SST calculation and delivered to the insurance companies a SST Tool set up by FINMA for calculating the SST under the Standard Model. The new FINMA SST model was used by AIG Life to produce the SST 2019 Target Capital components and amounts.

The following simplification is used:

- Cash-flows are projected gross of reinsurance which is thus not considered for mitigating the impact of the risk exposure (e.g. the reinsurance participation in larger or more frequent claims).

The assessment of the Target Capital using the standard formula approach is based on a modular approach consisting of a core of life, market and credit risks with associated sub-modules. These are aggregated in the standard formula using correlation matrices, both at the sub-module and the main module level. Extreme scenarios are then used for calibrating the impact in the distribution tail. Furthermore, the non-linearity impact in the distribution tail is considered as well when determining the Target Capital. The operational risk component is not quantified as part of the Target Capital. A qualitative analysis of that risk is performed within the ORSA.

Here, the "delta-RBC" (Δ RBC) approach is used for capturing the impact of the underlying risk module. Note that the expression Δ RBC has a sign convention whereby positive values signify a loss.



In order to calculate Δ RBC, the base scenario as well as the stressed assets and liabilities will need to be calculated. The difference between the base and the stressed assets and liabilities is the Δ RBC.

The Δ RBC is based on the market consistent balance sheet. No further risk mitigation techniques in addition to those considered within the MCBS (i.e. management of the run-off) are used in the calculation of the Target Capital.

B.2 Risk Bearing Capital

Company's Risk Bearing Capital ("RBC") is comprised of the following:

- The subscribed shareholder equity
- Statutory accumulated gains or losses
- Unrealized gains and losses resulting from the transition of both assets and liabilities from statutory to market consistent balance sheet ("MCBS").

The following table shows the risk bearing capital split into its main components comparing the amounts as at 1st January 2018 and as at 1st January 2019:

Risk Bearing Capital Components	1 st January 2019	1 st January 2018
Subscribed shareholder equity	18'423'580	18'423'580
Statutory accumulated losses	-3'121'559	-3'239'098
Unrealized gains on transition to the MCBS	22'790'784	24'969'642
Reduction	-178'432	-169'208
RBC	37'914'373	39'984'916

The RBC decreased in 2018 by CHF 2.1m. Most of the drop can be explained as follows:

- The statutory accumulated losses slightly decreased by the gain of the financial year 2018 of CHF 0.1m
- The amortization of the real estate book value increased the unrealized gains by CHF 0.3m
- The spread on the bonds increased in 2018 and thus the market value decreased, reducing the hidden reserves on the bonds. The unrealized gains on the bonds decreased indeed by CHF 1.6m
- The unrealized gains on transition to the best estimate liabilities reduced by CHF 0.7m
- The reduction applied within the RBC calculation is related to the intangible assets which are not allowed within the RBC.

The following subsections outline the structure of assets and liabilities as well as the changes in values since the prior year SST valuation.



B.2.1 Assets

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

The assets table below shows the Market Consistent Balance Sheet line items as in the SST valuation, their corresponding statutory values, and the market value adjustments and reclassifications applied.

Assets - Market Consistent Balance Sheet	Notes	Statutory Accounts Value	SST Adjustment	SST Value
		In CHF	In CHF	In CHF
Goodwill		-	-	-
Deferred acquisition costs		-	-	-
Intangible assets		178'432	-	178'432
Deferred tax assets		-	-	-
Pension benefit surplus		-	-	-
Property, plant & equipment held for own use		9'287	-	9'287
Investments (other than assets held for index-linked and unit-linked contracts)	1	148'158'087	6'650'468	154'808'555
Property (other than for own use)		26'638'423	3'199'577	29'838'000
Holdings in related undertakings, including participations		-	-	-
Equities		-	-	-
Government Bonds		15'488'180	879'890	16'368'069
Corporate Bonds		106'031'484	2'571'001	108'602'485
Derivatives		-	-	-
Deposits other than cash equivalents		-	-	-
Other investments		-	-	-
Assets held for index-linked and unit-linked contracts		218'357	-	218'357
Loans and mortgages		527'217	-	527'217
Reinsurance recoverables		-	-	-
Deposits to cedants		-	-	-
Insurance and intermediaries receivables		319'369.03	-	319'369
Reinsurance receivables		86'847	-	86'847
Receivables (trade, not insurance)	2	548'392	540'760	1'089'152
Own shares (held directly)		-	-	-
Amounts due in respect of own fund items or initial fund called up		-	-	-
Cash and cash equivalents	3	3'407'209	-	3'407'209
Any other assets, not elsewhere shown		908'901	-	908'901
Total assets		154'362'098	7'191'228	161'553'326

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

Investments are measured and carried at fair value in accordance with FINMA circular 2008/44. The following valuation principles are applied to the statutory amounts:

- Bonds and other fixed-interest bearing securities are valued according to the amortized cost-method, which prescribes that the difference between the purchase price and the amount to be repaid should be written off pro rata over the remaining period to maturity.
- Property at market value reduced by the annual depreciation.
- Deposits other than cash equivalents at par value.

The valuation difference of CHF 7.2m between statutory and SST relates to unrealized gains, i.e. differences between book and market value of the properties and the bonds.



2. RECEIVABLES (TRADE, NOT INSURANCE)

The CHF 0.5m difference between statutory and SST balance sheet results from the amount (fees) the company will receive in 2019 for the administration support delivered to American Security Life in Liechtenstein. In the statutory approach future fees resulting from that third party agreement are already considered within the statutory reserves. As under SST such that approach is not allowed only the fees outstanding for 2019 are recognised within the market consistent balance sheet as an asset.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprises deposits with banks and cash.

Cash and deposits at banks are reported at par.

B.2.2 TECHNICAL PROVISIONS

The below technical provisions table has been extracted from the Market Consistent Balance Sheet which summarises the calculation of Technical Provisions using statutory reserves as the starting point.

Technical Provisions - Market Consistent Balance Sheet	Statutory Accounts Value	SST Adjustment	SST Value
	In CHF	In CHF	In CHF
Technical provisions - life (excluding index-linked and unit-linked)	133'867'299.07	(15'655'913.78)	118'211'385.29
Technical provisions – index-linked and unit-linked	218'357.20	56'357.29	274'714.49
Total Technical Provisions	134'085'656.27	(15'599'556.49)	118'486'099.78

The significant difference in the Technical Provisions is due to the following:

- Statutory amounts are calculated using conservative approaches as required by FINMA and the Swiss Association of Actuaries and thus contain large prudence margins.
- Technical provisions under SST are calculated as best estimates and hence without risk margins.
- Equalization reserves are considered as part of the shareholder equity within the SST valuation whether in the statutory balance sheet are part of the technical provisions. Thus CHF 9.5m are moved into the RBC when moving from the statutory balance sheet into the SST MCBS.

The technical provisions are defined as the probability-weighted average of future cash flows, discounted to take into account the time value of money considering all possible future scenarios. The cash flow projection used in the calculation of the best estimate takes account of all the cash in-flows and out-flows required to settle the insurance and reinsurance obligations over their lifetime. Policy cashflows are modelled at a granular level (per policy basis in monthly or annual increments).

BEST ESTIMATE LIABILITY

In line with FINMA circular 2008/44, the best estimate liability (“BEL”) is determined as a present value of the probability weighted future cash flows using the relevant risk-free interest rate term structure.

AIG Life does not perform a scenario based calculation (i.e. simulation techniques are not used). The calculation of BEL is based on deterministic techniques. This involves determining a fixed set of assumptions (i.e. best estimate assumptions) which are used to project cash flows and calculate the BEL. The uncertainty in the cash flows is embedded within the best estimate assumptions.



The above approach has been considered appropriate because of the size and complexity of the insured portfolio.

The projected cash flows are associated with existing contracts and obligations with uncertainty incorporated through an expected lapse rate. Lapse rates have been estimated based on company experience. Expected cash flows are also influenced by mortality, morbidity and expense assumptions (including expense overruns related to the company's run-off). These are updated each year based on company experience combined with industry data and reviewed and approved by the AIG Life management.

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

The calculation does not explicitly consider any other future management actions that may be taken to reduce the Company's risk exposure following certain events.

Furthermore best estimate liabilities are calculated gross, without deduction of the amounts recoverable from reinsurance contracts. The cash flows are therefore calculated gross of reinsurance recoveries expected from the reinsurance arrangement.

Market Value Margin

The Market Value Margin ("MVM") amounts to CHF 4.7m at 1st January 2019. Within the Solvency 2 valuations the MVM would correspond to the risk margin used to increase the Best Estimate Liabilities and get the technical provisions. Within the SST valuation the MVM is not part of the technical provisions and thus of the MCBS. However, the MVM is used to reduce the RBC when calculating the SST coverage ratio.

The new Standard Model introduced by FINMA simplified the calculation of the non-hedgeable market risk so that the construction of a replicating portfolio as done in the previous SST valuations was no more necessary. On the other hand the projection new requirements on the drivers of the insurance risk components are stated in the revised Standard Model.

Insurance risk

On the other hand, it is no longer sufficient to project the aggregated insurance risk as a whole and there are now detailed prescriptions regarding the risk drivers with which the components of the insurance risk should be projected.

The risk drivers used for the projection of the components of the insurance risk are the following:

- Mortality: expected sum at risk
- Longevity: expected annuity outgoes
- Invalidity: expected invalidity risk premiums
- Reactivation: expected invalidity annuity outgoes
- Costs: expected costs (split BVG / non-BVG)
- Surrenders: expected surrender outgoes (split BVG / non-BVG)
- Capital option: expected cash-outs at retirement

Market risk

The impact on the non-hedgeable market risk is calculated directly within the new SST tool. No further inputs were required.

Credit risk



The credit risk calculation within the market value margin calculation is done directly within the new SST tool. No further inputs were required.

Scenarios

The impact of the scenarios within the market value margin calculation is done directly within the new SST tool. No further inputs were required.

B.2.3 OTHER LIABILITIES

The below liabilities table has been extracted from the Market Consistent Balance Sheet which details the calculation of SST values from statutory to SST. The below table should be viewed in conjunction with the explanatory notes.

Liabilities - Market Consistent Balance Sheet	Notes	Statutory Accounts Value	Solvency II Adjustment	Solvency II Value
		In CHF	In CHF	In CHF
Total Technical Provisions		134'085'656	(15'599'556)	118'486'100
Provisions other than technical provisions		500'000	-	500'000
Pension benefit obligations		-	-	-
Deposits from reinsurers		-	-	-
Deferred tax liabilities		-	-	-
Derivatives		-	-	-
Debts owed to credit institutions		-	-	-
Financial liabilities other than debts owed to credit institutions		-	-	-
Insurance & intermediaries payables	1	3'934'497	-	3'934'497
Reinsurance payables		-	-	-
Payables (trade, not insurance)		176'505	-	176'505
Subordinated liabilities		-	-	-
Any other liabilities, not elsewhere shown		363'418	-	363'418
Total liabilities		139'060'077	(15'599'556)	123'460'521

The valuation of liabilities other than technical provisions is recognised at face value.

1. INSURANCE & INTERMEDIARIES PAYABLE

Insurance and Intermediaries payables include the following:

- Payables to brokers	CHF	74'761
- Payables to policyholders:	CHF	2'172'032
- Prepaid premiums and premium deposits:	CHF	711'802
- Payables to reinsurers (third party):	CHF	975'901

Most of the amount results from pending benefit payments to policyholders due to pending claims and from premium deposits.



B.3 TARGET CAPITAL

The Target Capital is measured at least annually or more frequently if a material change occurs to the Company's risk or capital profile, business strategy, the macro-economic outlook or if regulatory feedback warrants a change.

The Target Capital is composed by the following risk items:

- Insurance Risk
- Market Risk
- Credit Risk
- Market Value Margin

The table below highlights the capital requirements for each risk module with the comparison to the prior year amounts as submitted to FINMA (2017 column) and resulting applying the new SST standard model (2017 new SST Standard Model column):

In CHF m	2018	2017 new SST Standard Model	2017
Insurance Risk			
Parameter Risk			8.4
Mortality	1.2	1.1	1.1
Longevity	1.5	1.4	0.5
Disability	0.2	0.2	0.2
Recovery rate	0.3	0.4	0.2
Cost	7.6	8.0	8.3
Lapse rate	0.2	0.3	1.1
Diversification	-3.0	-3.1	-3.0
Stochastic Risk			1.1
Diversification			-1.0
Insurance Risk (diversified)	8.0	8.3	8.5
Market Risk			
Interest rate	1.0	1.8	3.1
Spread	6.2	7.0	11.3
Currency	2.1	2.0	3.0
Real estate	5.2	5.3	5.8
Diversification	-4.9	-5.5	-8.8
Market Risk (diversified)	9.7	10.6	14.5
Diversification	-4.2	-5.5	-5.8
Insurance & Market (diversified)	13.4	13.4	17.2
Scenarios	3.8	2.6	1.6
Credit Risk	2.9	3.4	3.9
Expected financial result	-1.2	-1.3	
SCR	19.0	18.2	22.6
Market Value Margin	4.7	4.0	6.5
Target Capital	23.6	22.2	29.1

The table shows that the new SST model had significant impact on the risk amounts. The main changes for the AIG's SST calculation are indeed the following:

- Market risk: the Market risk module was changed significantly with respect to the previous year. In particular, the total number of risk factors has been roughly halved (mostly through



fewer interest rate risk factors), the yield curve for all major currencies is stressed significantly less granularly and the spread risk module has been completely revised.

- Insurance risk: stochastic risk is not considered in the calculation of insurance risk anymore. Moreover, the definition of the parameter sensitivities was changed numerically and sometimes conceptually.
- Market Value Margin: On one hand, the calculation of non-hedgeable market risk has been simplified and does not require any more the construction of a replicating portfolio. On the other hand, there are now detailed prescriptions regarding the risk drivers with which the components of the insurance risk should be projected and it is no longer sufficient to project the aggregated insurance risk as a whole.

Insurance Risk

AIG Life's Insurance risk is dominated by the risk related to the run-off costs. As this exposure reduces slowly over the years the capital amount on the insurance risk remained stable compared to the prior year. The other insurance risk components reduced as the insured portfolio reduced being the company in run-off. The slight increase in the mortality and longevity risks is related to the policyholders getting older and thus the volatility amount increases with the increase in the mortality rates.

Market Risk

AIG Life's market risk is dominated by spread risk and real estate risk. The overall market risk based on the delta-gamma approach has decreased by CHF -0.9 m compared to last year. The main changes with respect to last year are the decrease in interest rate and spread risks. The reduction of the long term policies through the buyout campaign decreased the duration of the liabilities increasing the asset liability matching and thus reducing the exposure to the interest rate risk. The reduction in the spread is mainly related to the reduction of the bonds portfolio as the company is in run-off.

Credit Risk

AIG Life's Credit Risk Model is based on the FINMA standard model and parameterization. Credit risk results mainly from the bond portfolio and bank deposits. The total credit risk amounts to CHF 2.9m compared to CHF 3.4 m for the prior year SST 2018. This decrease in credit risk is mostly linked to the decrease of the size of the asset portfolio.



B.4 QUANTITATIVE REPORTS

This section contains the two quantitative reports required by FINMA Circular 2016/02 marginal 102:

Financial situation report:
quantitative template "Market-consistent Balance Sheet Solo"

Currency : CHF
Indications in CHF

		Ref. date previous period	Adjustments previous period	Ref. date reporting year
Market-consistent value of investments	Real estate	29'838'000		29'838'000
	Shareholdings			
	Fixed-income securities	136'282'377		124'970'555
	Loans	782'107		527'217
	Mortgages			
	Equities			
	Other investments			
	Collective investment schemes			
	Alternative investments			
	Other investments			
Total investments		166'902'484		155'335'772
Financial investments from unit-linked life insurance		3'207'818		218'357
Receivables from derivative financial instruments				
Market-consistent value of other assets	Cash and cash equivalents	6'015'638		3'407'209
	Receivables from insurance business	328'023		406'216
	Other receivables	1'286'473		1'089'152
	Other assets	1'241'558		1'096'620
	Total other assets		8'871'691	
Total market-consistent value of assets	Total market-consistent value of assets	178'981'994		161'553'326
Best estimate liabilities (BEL)	Best estimate of provisions for insurance liabilities			
	Direct insurance: life insurance business (excluding ALV)	133'375'525		118'486'100
	Direct insurance: non-life insurance business	130'311'629		117'599'369
	Direct insurance: health insurance business	91'020		612'016
	Direct insurance: unit-linked life insurance business	2'972'876		274'714
	Direct insurance: other business			
	Outward reinsurance: life insurance business (excluding ALV)			
	Outward reinsurance: non-life insurance business			
	Outward reinsurance: health insurance business			
	Outward reinsurance: unit-linked life insurance business			
	Outward reinsurance: other business			
	Reinsurers' share of best estimate of provisions for insurance liabilities	-		-
	Direct insurance: life insurance business (excluding ALV)			
	Direct insurance: non-life insurance business			
	Direct insurance: health insurance business			
	Direct insurance: unit-linked life insurance business			
	Direct insurance: other business			
	Outward reinsurance: life insurance business (excluding ALV)			
	Outward reinsurance: non-life insurance business			
	Outward reinsurance: health insurance business			
Outward reinsurance: unit-linked life insurance business				
Outward reinsurance: other business				
Market-consistent value of other liabilities	Non-technical provisions	500'000		500'000
	Interest-bearing liabilities			
	Liabilities from derivative financial instruments			
	Deposits retained on ceded reinsurance			
	Liabilities from insurance business	4'357'727		3'934'497
	Other liabilities	594'618		539'924
Total BEL plus market-consistent value of other liabilities	Total BEL plus market-consistent value of other liabilities	138'827'870		123'460'521
	Market-consistent value of assets minus total from BEL plus market-consistent value of other liabilities	40'154'124		38'092'806



**Financial situation report:
quantitative template « Solvency Solo »**

Currency : CHF
Indications in CHF

		Ref. date previous period	Adjustments previous period	Ref. date reporting year
		in CHF millions	in CHF millions	in CHF millions
Derivation of RBC	Market-consistent value of assets minus total from best estimate liabilities plus market-consistent value of other liabilities	40'154'124		38'092'806
	Deductions	-169'208		-178'432
	Core capital	39'984'916		37'914'373
	Supplementary capital	-		0
	RBC	39'984'916		37'914'373

		Ref. date previous period	Adjustments previous period	Ref. date reporting year
		in CHF millions	in CHF millions	in CHF millions
Derivation of target capital	Underwriting risk	8'476'988		8'011'105
	Market risk	14'462'254		9'651'278
	Diversification effects	-5'786'005		-4'218'874
	Scenarios effects	1'551'183		3'818'956
	Credit risk	3'929'782		2'905'464
	Expected financial result			-1'201'605
	Capital for Insurance & Market & Credit risks (SCR)	22'634'202		18'966'325
	Risk margin and other effects on target capital	6'489'757		4'674'490
	Target capital	29'123'959		23'640'815

		Ref. date previous period	Adjustments previous period	Ref. date reporting year
		%	%	%
Quotient SST	(CPR-Montant minimum)/SCR	148.0%		175.3%