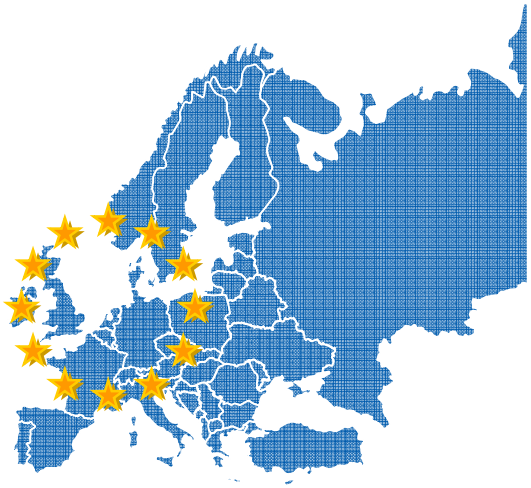

CRO Forum

Public risk disclosure under Solvency II

Principles, content outline and sample report

Draft CRO Forum proposal

November, 2008

Abstract

In order to increase risk transparency – and enforce market discipline – public risk disclosure needs to be harmonised and consistent over time. Undertakings should provide an overview of their main risks, their risk governance framework and their solvency position.

The CRO Forum recommends five key principles for risk disclosure: adopting the group level as reference, leveraging other reporting requirements, disclosing all material risks, being appropriate to both the risks involved and the needs of the relevant audience, and enabling comparability between undertakings.

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A Introduction

This paper offers a proposal for public risk disclosure under Solvency II, as a basis for discussion on the implementing measures for articles 50-55 of the EU Solvency II Draft Directive.

The CRO Forum advocates a principles-based approach: Section B of this paper establishes five main principles for public risk disclosure which should be adhered to by all undertakings. These are aligned with the *Guidance paper on public disclosure by insurers* provided by the International Association of Insurance Supervisors (IAIS) in 2002. Next, section C outlines the general scope of public risk disclosure. However, in line with the proportionality principle set out in Solvency II, the required scope and level of detail may vary, depending on the nature, scale and complexity of an undertaking's business. Finally, the appendix provides an example of a *Report on solvency and financial position* for a multi-national *Group* with a complex business structure.

The public risk disclosure requirements under Solvency II add to the existing requirements under IAS 1, IFRS 4 and IFRS 7. In order to avoid duplication, the CRO Forum proposes combining public risk disclosure with financial reporting and using referencing where appropriate. However, this raises the question of auditing, which is not currently required for public risk disclosure: IFRS 7 only allows references to information or sections outside the audited statements if the referenced figures are also audited.

Further clarification is required on the auditing of capital requirements and Solvency II valuations. In addition, this paper does not yet include a description of the methods used for the valuation of assets and liabilities, as described in article 50 (1) (d) of the Solvency II directive.

B General aim and main principles of public risk disclosure

Public risk disclosure aims at enhancing market discipline by

- increasing transparency about the main risks that insurance and reinsurance undertakings are exposed to in order to avoid negative surprises
- enabling stakeholders to make comparisons among undertakings and over time

In order to achieve comparability, public risk disclosure needs to be harmonised and consistent over time. In addition, tailored information should be added to capture the material risks that are specific to an undertaking. The CRO Forum advocates agreed requirements for public disclosure based on a framework of key principles, which will also allow for cross-sectoral comparisons.
When drafting a risk report, the following principles should be considered:

1 Group disclosure as reference

The starting point for public risk disclosure should be the consolidated group position, with information to reflect capital requirements for single entities regulated under Solvency II if these are material to the group. The choice between group or entity disclosure should be based on where the risks are principally managed and overseen; group-level disclosures should therefore be required for governance as well as for risk and capital information.

2 Leverage of financial reporting

The disclosure should seek to leverage the undertaking's existing and future IFRS annual reporting requirements and timing as far as possible.

3 Materiality

Risks that are material should be publicly disclosed. A risk is considered material if its omission or misstatement could influence the economic decisions of users taken on the basis of the public disclosure, or if the undertaking considers them large enough to threaten its operations. This consideration should be based on an internal assessment by the undertaking's risk management function, which is expected to have appropriate expertise and experience. The risk view on materiality may differ from the accounting view due to the different scope of the two views. Risk disclosure should include the specific definition of materiality used by the undertaking and a description of the material risks faced by the undertaking, the governance framework for managing these risks, and the relationship between risk and capital.

4 Appropriateness

The disclosure should be relevant and appropriate to both the risks involved and the needs of the relevant audience (i.e. “informed knowledgeable users"). Quantitative risk disclosure is required wherever the nature of the risk permits a quantitative analysis with reasonable effort. Where no quantification is available, this should be stated explicitly and a qualitative risk disclosure should be provided. All quantitative disclosure should be accompanied by qualitative commentary on the meaning of the numbers, as well as on the important changes in the risk profile since the last disclosure.

5 Comparability of capitalisation

For the purposes of comparison between undertakings, capital requirements should be disclosed at the confidence level and holding period assumed in the Solvency II standard formula (using the standard model or an equivalently calibrated internal model). The reported risk categories should be based on the categories defined by the Solvency II Draft Directive. Any differences to these standard definitions should be made transparent. The disclosure should include a discussion of the undertaking’s capital management policy.

C Report on solvency and financial position: Content outline based on the CRO Forum principles

This section provides an overview of the content that should be included in a report on solvency and financial position based on the requirements in the EU Draft Directive.
While the overall structure of such reports should be harmonised, the scope and level of detail in public risk disclosure should depend on the nature, scale and complexity of the undertaking's business. This is in accordance with the principle of proportionality described in the EU Draft Directive, which aims at ensuring that the new solvency regime is not too burdensome for small and medium-sized undertakings.
Stress tests are important part of risk disclosure. The CRO Forum expects that Solvency II regulation will define a common set of standardised stress tests, which should be the basis for public risk disclosure.

1 Risk overview and governance framework

1.1 Risk governance framework

1.1.1 Risk management organisation, control procedures and monitoring systems

Qualitative description of:

- Systems and functions that can influence the risk management decisions of the undertaking
- Roles and responsibilities (e.g. of the Board of Directors, the Executive Committee and other committees, as appropriate), including a statement that members of these bodies as well as the holders of key risk management positions are fit and proper persons in accordance with the required criteria
- Internal control procedures used to monitor and manage risk, including a statement of compliance with Own Risk and Solvency Assessment (ORSA) requirements
- Information on outsourcing agreements which transfer key risk management functions and related activities to external parties outside the undertaking and its subsidiaries

1.1.2 Risk policy and control framework

Qualitative description of:

- Risk management principles and strategy
- Risk limit framework and procedure for handling transactions that exceed these limits, including monitoring of concentration risks

1.1.3 Risk reporting

Qualitative description of:

- Internal risk reporting activities
- Target audience of internal risk reporting

1.2 Risk overview

1.2.1 Material risks

A risk is considered material if its omission or misstatement could influence the economic decisions of users taken on the basis of the public disclosure, or if the undertaking considers them large enough to threaten its operation. These considerations are based on an internal assessment by the risk management function.

- List of material risk areas that the undertaking is exposed to.
- Classification of material risk areas according to whether they are assessed quantitatively or qualitatively

1.2.2 Risk and solvency assessment

Statement that the standard model is used or description of the internal model

- If the standard model is used:
  - Statement that the standard model specified by Solvency II regulation is used
- If an internal model is used:
  - Information allowing a proper understanding of the main differences between the standard formula and the internal model used by the undertaking for the calculation of its Solvency Capital Requirement
  - Brief description of model governance processes and responsibilities, including model validation
  - Statement that the internal model has been approved by the relevant supervisor or the status of the approval process during a transition period
  - Description of the sectors and entities covered by the internal model

Capital measure(s) and resulting capital adequacy

- Regulatory one-year 99.5% VaR (SCR amount) and MCR amount and whether the undertaking has sufficient capital to cover the SCR and MCR
- Frequency of SCR and MCR calculations
- If applicable, further measures used internally and the resulting capital adequacy in compliance with ORSA, including stress tests and sensitivity analyses performed by the undertaking

1.2.3 Risk mitigation activities

- Overview of risk mitigation instruments (incl. reinsurance, financial market instruments)
- General description of risk mitigation activities

2 Risk assessment by risk category

2.1 Quantitatively assessed risks in terms of required risk capital

2.1.1 Total risk and significant developments

Total risk related to insurance business should be represented by the amount of fully diversified capital calibrated to the confidence level and holding period assumed in the Solvency II standard formula. In addition, any add-on prescribed by the regulator for prior years should be disclosed and briefly explained (unless the add-on has expired or has been removed by the regulator). The diversification effect should be briefly explained together with its main sources. Moreover, a comparison to last year's figures should be provided, in which the main change drivers should be identified for all risk categories.

If applicable, key risks from business activities not regulated under Solvency II (e.g. banking or other financial services) should be briefly discussed.

2.1.2 Non-life underwriting risk

- Definition of non-life underwriting risk
- Description of included risks; by default: non-life premium and reserve risk and non-life natural catastrophe risk
- Qualitative description of limits and escalation process
- One-year estimated 99.5% VaR for total non-life risk
- One-year estimated 99.5% VaR for non-life risk subcategories, where relevant
- Description and impact of stress tests, where relevant
- Cross-references to IFRS exposure splits, where relevant
- Description of risk mitigation activities, where relevant

2.1.3 Life and health underwriting risk

- Definition of life and health underwriting risk
- Description of included risks; by default: life risk (incl. life catastrophe risk) and health risk
- Qualitative description of limits and escalation process
- One-year estimated 99.5% VaR for total life and health risk
- One-year estimated 99.5% VaR for life and health risk subcategories, where relevant
- Description and impact of stress tests, where relevant
- Cross-references to IFRS exposure splits, where relevant
- Description of risk mitigation activities, where relevant

2.1.4 Market risk

- Definition of market risk
- Description of included risks; by default: interest rate risk, equity risk, real estate risk, currency risk, credit spread risk
- Qualitative description of limits and escalation process
- One-year estimated 99.5% VaR for total market risk
- One-year estimated 99.5% VaR for market risk subcategories, where relevant

- Description and impact of stress tests, where relevant
- Cross-references to IFRS exposure splits, where relevant
- Description of risk mitigation activities, where relevant

2.1.5 Credit risk

- Definition of credit risk
- Description of included risks; by default: credit default risk and credit migration risk
- Qualitative description of limits and escalation process
- One-year estimated 99.5% VaR for total credit risk
- One-year estimated 99.5% VaR for credit risk subcategories, where relevant
- Description and impact of stress tests, where relevant
- Cross-references to IFRS exposure splits, where relevant
- Description of risk mitigation activities, where relevant

2.1.6 Other risk categories

A section on other risk categories should be added if the undertaking uses categories other than those defined by the Solvency II draft directive (including the categories defined by the CRO Forum).

- Definition of risk category
- Description of included risks
- Qualitative description of limits and escalation process
- One-year estimated 99.5% VaR for total other risks broken down by category
- One-year estimated 99.5% VaR for subcategories, where relevant
- Description and impact of stress tests, where relevant
- Cross-references to IFRS exposure splits, where relevant
- Description of risk mitigation activities, where relevant

2.1.7 Operational risk

- Definition of operational risk
- Policies, processes and standards in place to manage operational risks (if not covered in 1.1.1)
- Description of the approach(es) for operational risk capital assessment (quantitatively assessed or qualitatively assessed in terms of required risk capital)
- If applicable, description of the internal model including a discussion of relevant internal and external factors considered in the undertaking's measurement approach
- If applicable, description of risk mitigation measures

2.2 Qualitatively assessed risks

2.2.1 Liquidity risk

- Definition of liquidity risk
- Policies, processes and standards in place to manage liquidity risks

2.2.2 Strategic risk

- Definition of strategic risk
- Policies, processes and standards in place to manage strategic risks

2.2.3 Reputational risk

- Definition of reputational risk
- Policies, processes, standards (e.g. Code of Conduct) in place to manage reputational risks
- If applicable, reference to further reports (e.g. Corporate Responsibility Report)

3 Capital adequacy management

Qualitative discussion of the objectives, policies and processes for managing the capital and/or solvency position

3.1 Internal capital adequacy

- If applicable, the internal approach on capital adequacy, e.g. if management uses a different calibration method compared to Solvency II or a different definition of available capital

3.2 Regulatory solvency

- Description of the elements of capital and their quality ("structure and amount of own funds, and their quality")
- Quantitative information regarding the solvency position (available and required capital, MCR and SCR solvency ratio)
- Statement on the solvency position
- Comment on changes from the prior reporting period and main drivers of change
- If applicable, qualitative and quantitative discussion of further externally imposed capital requirements (e.g. with respect to the Financial Conglomerates Directive (FCD) or Basel II requirements)

4 Annexe: Required capital for major solo entities

This disclosure only covers solo entities regulated under Solvency II. The definition of major entities must be stated and should be in line with the materiality principle.

- Total risk for a solo entity: the amount of fully diversified capital calibrated to the confidence level and holding period assumed in the Solvency II standard formula
- Split by risk categories
- Comparison to prior year figures, in which the main change drivers should be identified for all risk categories
- Any add-on prescribed by the regulator for prior years

D Appendix

D1 Sample report on solvency and financial position

The following report provides an example of public risk disclosure for an insurance or reinsurance undertaking (referred to as the "Group" in the following). The sample report does not seek to be comprehensive. For example, while stress tests could be applied in most risk areas, the sample report only includes an illustrative stress test for market risk.

The sample report is for the 2015 financial year. In accordance with the proportionality principle of the EU Draft Directive, actual reports will vary in the level of detail addressed, according to the nature, scale and complexity of the business. For illustrative purposes, the following example describes a multi-national conglomerate with a complex business structure.

1 Risk overview and governance framework

1.1 Risk governance framework

1.1.1 Risk management organisation, control procedures and monitoring systems

Prudent risk-taking is a fundamental part of the Group's business. It requires a strong and independent risk management organisation, as well as a comprehensive group-wide risk management process to identify, assess and control the resulting exposures.

Figure 1: Risk management organisation

Board of Directors		Internal Audit
Audit Committee	**Risk Committee**	
Executive Committee		
ALM Committee	**Operational Risk Committee**	
Chief Risk Officer		**Chief Actuary**
Non-life RM	**Life & Health RM**	**Actuarial function**
Market RM	**Credit RM**	

All members of the Board of Directors and Executive Committee as well as the holders of key risk management positions are assessed prior to their selection to ensure that they

are fit and proper persons in accordance with the required [regulatory] criteria. This assessment is reviewed on a regular basis.
The *Group* has robust internal control procedures that enable the *Group* to identify all material risks and assess their impact on solvency requirements. These procedures are in compliance with Own Risk and Solvency Assessment (ORSA) requirements.
The *Group* has transferred a part of its private equity investment activities to ABC Company and relies on that company to manage the related market risks within clearly defined risk budgets allocated by the *Group*. These are based on maximum stress test losses.

Board of Directors
The Board of Directors is ultimately responsible for the *Group's* risk management principles and policies, as well as for approving the overall risk tolerance and overseeing that the *Group* is adequately resourced and effectively controlled. The Board is also responsible for maintaining proper risk records, which are intended to disclose the solvency position of the *Group* at any time and with reasonable accuracy. In addition, the Board has the overall responsibility for maintaining the internal risk management control system of the *Group* as well as for monitoring its effectiveness.

Board committees
Board committees have direct participation by members of the Board of Directors. The Board committees that deal with risk management issues include the Audit Committee and the Risk Committee. The Board Committees have the overall responsibility of monitoring the internal control process on behalf of the Board.
The Audit Committee performs an annual review of both the effectiveness of the internal audit function and the framework for the *Group's* systems of internal control. Throughout 2015, the Audit Committee received quarterly reports from the Audit Director on newly identified issues, as well as updates on previously reported items.
The Risk Committee annually reviews the *Group's* group-wide Risk Policy and risk tolerance targets. It regularly monitors the usage of risk limits and reviews the most important exposures in all major risk categories. The committee also provides guidance on governance as well as on the *Group's* risk profile and capital structure.

Delegated committees
Delegated committees have authority that has been delegated from the Board but do not have direct participation by members of the Board of Directors.
Risk is managed at both the group and business levels. At group level, the Board has delegated authority to the Executive Committee, which comprises senior executives responsible for reviewing financial risks and non-financial risks and making overall management decisions. The Executive Committee is responsible for implementing the risk management framework through the Asset & Liability Management (ALM) Committee, and the Operational Risk Committee.

The ALM Committee is responsible for reviewing and monitoring the financial risks *Group*-wide. It has several sub-committees that consider the risks relating to investment, capital management, credit and reserving, as well as to life and non-life insurance – and recommend actions to the ALM Committee for approval. These include changes to investment risk limits and changes to the economic risk and capital methodology. Similarly, the Operational Risk Committee monitors non-financial risks including information technology, business continuity management, human resource management, business standards and regulatory compliance.

Risk management function

The Chief Risk Officer leads the global risk management function and is responsible for the control of risks across the *Group*. The global risk management function is organised by risk categories, with dedicated departments for non-life underwriting risk, life and health underwriting risk, market risk, credit risk and operational risk.

At the business level, risk managers of each of these departments identify, assess and manage financial and non-financial risks, and report to the local Risk Director. None of these departments executes business. Instead, they independently oversee risk-taking activities, and set the risk management guidelines and best practice standards that the business units implement.

Internal audit

The internal audit function advises management on the effectiveness of its internal control systems, the adequacy of these systems to manage business risk and to safeguard the *Group's* assets and resources. Through the Audit Director, the internal audit function provides objective assurance on risk and control to the Audit Committee. The effectiveness of the internal audit function is reviewed annually by the Audit Committee. During 2015, the effectiveness of the internal audit peer review process was independently evaluated by [external auditor], who provided an unqualified statement of approval.

Actuarial function

The actuarial function advises management on the adequacy of the calculation of technical provisions (including its assumptions), the appropriateness of the methodology and model used in the calculation of technical provisions, and the sufficiency and quality of data used in the calculation of technical provisions. Through the Chief Actuary, the actuarial function provides assurance on the technical provisions to the ALM Committee. The effectiveness of the actuarial function is reviewed annually. During 2015, the actuarial process of calculating technical provisions was evaluated by the internal audit function as effective.

1.1.2 Risk policy and control framework

The primary objectives of the *Group's* risk management are to limit the impact of adverse events, while ensuring an efficient use of capital to support business activities and create value.

The *Group* has a group-wide Risk Policy, which governs the management and control of its material risks, including concentration risks, in order to ensure a consistent approach. The Risk Policy and its respective risk limits are reviewed and approved by the Board of Directors and the Executive Committee at least annually. Transactions that exceed the specified risk limits require approval by the Board of Directors.
The Group's risk control framework is based on the following principles, which apply universally across all businesses and risk types: protection of financial strength, protection of reputation, risk transparency, management accountability and independent oversight.
The risk management and legal and compliance functions operate independently of the front office to ensure the integrity of the *Group*'s control processes.

1.1.3 Risk reporting

The management monitors the completeness of the *Group's* risk profile on a regular basis. Each quarter, the business units report residual risk profiles and the adequacy of the mitigating action programmes (based on local materiality levels) to the Risk Management function. The impact assessments are based on financial, reputational and operational criteria. This enables the Risk Management function to assess the overall risk exposure and to develop a group-wide risk profile that is updated on a quarterly basis. Material items are reported to the Executive Committee and the Operational Risk Committee.
Escalation procedures are in place for new or increasing risks that are classified at the highest impact levels.

1.2 Risk overview

1.2.1 Material risks

The *Group* defines material risks as risks that are large enough to threaten its operations. Assessments of material risks are made by the businesses, and are challenged, reviewed and aggregated at group level by the *Group's* risk function.
The following material risks are quantitatively assessed in terms of required risk capital:

- Non-life underwriting risk
- Life and health underwriting risk
- Market risk
- Credit risk
- Operational risk

The following risks are qualitatively assessed:

- Liquidity risk
- Strategic risk
- Reputational risk

A detailed description of the measurement, monitoring and management of these risks by risk category can be found in section 2 of this report. A description of the monitoring and management of hedging activities can be found at the end of this section.

1.2.2 Risk and solvency assessment

The *Group* has an internal assessment process to determine its Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR). The *Group* uses an internal model to calculate its SCR that is also applied by the *Group* for strategic decision-making and capital management purposes. All models are subject to a rigorous internal peer review process and must be approved by the ALM Committee. The *Group's* internal model has also been approved by [local financial services regulator].

The methodology of the internal model is consistent with the criteria of the standard formula and is based on an economic balance sheet with a confidence level of 99.5% (1-in-200-year assessment) over a time horizon of one year and uses Value-at-Risk (VaR) as the risk measure.

The internal model covers all European Economic Area (EEA) and non-EEA insurance, reinsurance, subsidiaries (>50% control), participations (20-50% control) and cross-sector participations.

In calculating the SCR, the internal model takes into account all quantitative risks that are borne by the *Group*. This includes all quantitative risks of the standard formula. The calculation of the MCR is based on a percentage of the last reported SCR. Both the SCR and the MCR are calculated and reported to [local financial services regulator] at least annually.

As at 31 December 2015, the *Group*'s SCR was EUR XX billion and the *Group's* MCR was EUR XX billion. The *Group* has sufficient capital to cover its SCR and MCR. A detailed description of the *Group's* solvency position can be found in section 3 of this report.

Material risks not included in the internal model are assessed as part of the Group's Own Risk and Solvency Assessment (ORSA). These include liquidity, strategic and reputational risks.

1.2.3 Risk mitigation activities

The *Group* mitigates part of its risks to limit peak catastrophe exposures and reduce the impact of a potential reduction in asset values or a potential increase in liability values caused by unfavourable market movements.

Risk mitigation instruments are used in line with the policy guidelines agreed by the Board and overseen by the delegated sub-committee that monitors the implementation of the policy and exposure levels. The *Group* uses reinsurance to protect against catastrophic claims, to diversify risk, to stabilise financial ratios and to obtain additional underwriting capacity. In addition, the *Group* uses capital market instruments to protect against insurance and financial market losses.

2 Risk assessment by risk category

2.1 Quantitatively assessed risks in terms of required risk capital

2.1.1 Total risk and significant developments

Table 1 provides information on the one-year 99.5% VaR of the *Group* as well as the respective stand-alone risk measures for non-life, life and health, financial market, and credit risk. The figures show the diversification effect, as the base capital requirement for the overall portfolio is smaller than the sum of the base capital requirements for the individual sub-portfolios.

Table 1: Required capital by risk category, excluding capital add-ons

1-year stand-alone 99.5% VaR as at 31 December, in EUR millions	2014	2015	Change in %
Non-life underwriting risk			
Life and health underwriting risk			
Market risk			
Credit risk			
Operational risk			
Total			
Diversification effect			
Total required capital			

The *Group's* overall risk exposure based on 99.5% VaR [declined/increased] from EUR X billion at the end of 2014 to EUR X billion at the end of 2015, mainly as a result of […]. The [decline/increase] in non-life underwriting risk mainly reflects the […], as well as the fact that […]. The *Group* continued to expand its hedging activities, further reducing its non-life exposure. The [decline/increase] in life and health underwriting risk is mainly due to […].Market risk [increased/decreased], mainly as a result of […]. Credit risk [increased/decreased], mainly due to […].

The *Group's* internal model considers the dependencies between different risks when aggregating results on a group level, in order to reflect that not all of potential losses are likely to be realised at the same time. This effect is known as diversification. The *Group* strives to diversify the risks to which it is exposed to limit the impact of any single source of risk and to ensure that the positive developments of some businesses neutralise the possible negative developments of others.

As a global financial service provider offering a broad variety of products across different business segments and geographic regions, the *Group* benefits from a high level of

diversification between its underwriting risks, and the low level of correlation between its underwriting and financial market risks. The diversification effect in table 1 represents the difference between total required capital and the sum of stand-alone VaR for the risk categories shown. Its absolute size largely depends on the selected level of aggregation. The effect shown in table 1 reflects the diversification between the risk categories shown and not the significant diversification within the individual categories.

[The regulator] has stipulated a capital add-on of EUR X billion for 2014 to cover exposures relating to […]. Including the capital add-on, the *Group's* total required capital amounted to EUR XX billion as at 31 December 2014 (99.5% VaR). The add-on for 2015, if any, will only be available after the publication of this report.

In addition to the 99.5% VaR, the *Group* also considers other measures, including 99% VaR and 99% shortfall. The 99% VaR measures the level of loss likely to be exceeded in only one year out of a hundred, while the 99% shortfall measures the average annual loss likely to occur with a frequency of less than once in one hundred years. Based on exposure data as of 31 December 2015, the *Group's* 99% VaR amounted to EUR XX billion, an X% [increase/decrease] compared to the end of 2014, while the 99% shortfall amounted to EUR XX billion, an X% [increase/decrease] compared to the prior year.

2.1.2 Non-life underwriting risk

Non-life underwriting risk is the risk arising from the underwriting of non-life insurance contracts. It includes the risk of loss or of adverse change in the value of insurance liabilities resulting from non-life premium and reserve risk, as well as non-life catastrophe risk.

Limits to prevent excessive exposure to any individual risk are monitored on a group-wide basis. In addition, each underwriter is given a specified limit per treaty programme and single risk. There is a well-defined escalation process at various levels up to the Risk Committee. These procedures and limits define the underwriting process and are laid down in the Underwriting Guidelines, which are approved by the Risk Committee.

Non-life Risk Management is responsible for group-wide monitoring and reporting of non-life underwriting risks. Underwriting systems provide timely reporting on risks assumed and capacity used.

Where appropriate, the *Group* also uses retrocession and insurance-linked securities to balance its portfolio. The main risk mitigation instruments for non-life exposures are a catastrophe bond covering European windstorm risk as well as a 25% quota share agreement with a highly-rated counterparty covering the *Group*'s aviation portfolio.

2.1.3 Life and health underwriting risk

Life and health underwriting risk is the risk arising from the underwriting of life and health insurance contracts. It includes the risk of loss or of adverse change in the value of insurance liabilities resulting from mortality risk, longevity risk, disability and morbidity risk, life expense risk, revision risk, lapse risk, life catastrophe risk, health expense risk, health premium and reserve risk, and health epidemic risk.

A global limit is in place for the acceptance of mortality risk, and local business units can write reinsurance within their capital plans and within clearly defined limits, such as per-

life retention limits for individual business. Maximum market exposure limits are in place for life and health catastrophe business. Limits are also in force to control and monitor business with exposure to longevity, health and critical illness risk. Any business that falls outside of specified limits must be approved by the Board of Directors.
Life & Health Risk Management is responsible for the group-wide monitoring and reporting of life and health underwriting risk. The *Group* also uses insurance-linked securities as a means of reducing peak exposures. In addition, a quota share agreement for mortality business is in place with a highly-rated counterparty.

2.1.4 Market risk

Market risk is the risk of loss or adverse changes in the financial situation, caused by fluctuations in the level and the volatility of the market prices of assets, liabilities and financial instruments. This comprises interest rate risk, equity risk, real estate risk, currency risk, credit spread risk.
Market risk arises from three main sources: the *Group's* investment activities, the financial market sensitivity of the economic value of liabilities, and the capital markets trading activities. All activities involving financial market risk are subject to one overall limit for each major risk class, expressed in terms of both VaR and stress testing.
Limits for the investment activities are monitored on a weekly basis, while the capital markets trading uses a combination of daily and weekly reporting. These reports are the primary tools used to track exposures and monitor the usage of limits. Market Risk Management independently monitors the limit usage. The *Group* seeks to optimise the portfolio within these limits, also using cash and derivative instruments.
The following table reports the stand-alone one-year 99.5% VaR in 2014 and 2015.

Table 2: Stand-alone required capital by market risk sub-category

1-year stand-alone 99.5% VaR as at 31 December, in EUR millions	2014	2015	Change in %
Interest rate risk			
Equity risk			
Real estate risk			
Currency risk			
Credit spread risk			
Total market risk			

The above table shows changes in the one-year 99.5% VaR for market risk subcategories. Interest rate risk [increased/decreased] by X% in 2015, mainly due to […]. The X% [rise/decline] in equity risk is due to […]. Real estate risk […]. Currency risk […]. Credit spread risk […].

The Group uses stress tests to estimate the potential loss under extreme market conditions.

Table 3: Impact of market stress tests

Estimated economic loss, in EUR billions	2014	2015	Change in %
20% fall in equity, real estate and hedge funds			
Interest rates rise 100 bp in all currencies			

2.1.5 Credit risk

Credit risk is the risk of loss or adverse change in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties and debtors to which the *Group* is exposed. The credit risk exposure arises from financial transactions with asset issuers, debtors, intermediaries, policyholders or reinsurers. It comprises credit default risk and credit migration risk.

There are aggregate credit limits in place as well as limits for corporate counterparties and limits by country. Limits are based on a variety of factors including the prevailing economic environment, the nature of the underlying credit exposures and, in the case of corporate counterparties, a detailed assessment of the counterparty's financial strength, industry position and qualitative factors. Credit Risk Management independently monitors the limit usage.

2.1.6 Operational risk

Operational risk is the risk of loss from inadequate or failed internal processes, or from personnel and systems, or from external events, including legal risk.

The company uses a set of scenarios to quantify its operational risk exposure. These scenarios are established by an expert panel using internal information (e.g. risk assessments) and external data (e. g. loss cases), and are reviewed on an annual basis. Progress in mitigating the most significant risks is monitored regularly. In addition, a formal referral process allows for the top operational risks and their mitigation status to be regularly reviewed by the Executive Committee.

2.2 Qualitatively assessed risks

2.2.1 Liquidity risk

Liquidity risk is the risk that the *Group* does not have sufficient funding available to meet its financial obligations when they fall due or to borrow funds in the market at an acceptable price to fund its commitments.

The *Group* manages this risk by enforcing a group-wide Liquidity Policy. Under this policy, the *Group* assesses its available liquidity against its required liquidity both in normal and stressed business conditions, and at various points over a timeframe of twelve months.

Available liquidity is that part of the *Group's* assets that can be converted into cash by a specific point in the timeframe as well as external funding available to the *Group*. Required liquidity is the expected outflow of cash up to a specific point in the timeframe.
The Risk Committee regularly reviews the methodology and assumptions used to assess the *Group's* liquidity position, and determines the liquidity risk tolerance level. The Treasury function is responsible for managing liquidity at group level. The Executive Committee receives monthly reports on the *Group's* liquidity position, and is responsible for monitoring and resolving any breach of the Liquidity Policy.

2.2.2 Strategic risk

Strategic risk is the risk of a current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions or lack of responsiveness to industry changes.
The *Group* manages strategic risk for individual business segments through its capital allocation based on the planning dialogue, thereby controlling each segment's ability to take on risk.
Strategic risks are regularly reviewed by the Board of Directors as part of its oversight of the *Group's* business strategy.

2.2.3 Reputational risk

Reputational risk is the risk of potential damage to the *Group* from the deterioration of its reputation or standing due to a negative perception of its image among customers, counterparties, shareholders or regulatory authorities. It may arise from a variety of sources, including […]. The *Group* actively monitors these factors to address any potential reputational exposure that may arise from its business or other operations. Reputational risks are regularly reviewed by the Risk Committee as well as by the Board of Directors.
The *Group* is committed to conducting its operations in a manner that is environmentally and socially responsible. All employees and business operations are subject to the strict values defined in the *Group's* Code of Conduct. Upholding these values is crucial in preventing or mitigating reputational risk.
The *Group* publishes a Corporate Responsibility Report in order to inform its stakeholders how it manages the major environmental and social risks inherent to its business.

3 Capital adequacy management

It is the *Group's* policy to maintain a strong capital base to support the development of its business and to be adequately capitalised at all times, even following a significant adverse event. In addition, the *Group* aims to ensure that all operating entities meet their respective capital requirements. Furthermore, the level of capital held by *Group Holding* and other major entities is determined by its rating targets. The *Group* currently uses a benchmark minimum tier 1 capital ratio of 8.25% for the purposes of its long-term capital planning. The *Group* recognises the impact on shareholder returns of the level of equity capital it employs and seeks to maintain a prudent balance between the advantages and

flexibility afforded by a strong capital position and the higher returns on equity possible with greater leverage. The internal risk capital model plays a significant role in solvency management and capital allocation. The *Group* employs a value-based approach, among other approaches, to measure and manage its business activities as well as to optimise capital allocation. Internal risk capital is a key parameter of this approach.

An annual *Group*-wide capital plan is prepared and approved by the Board with the objective of maintaining both the optimal amount of capital and the mix between the different components of capital. The *Group's* policy is to hold capital in a range of different forms and from diverse sources and all capital raising is agreed with major entities as part of the capital management process. Major entities typically raise their own non-equity tier 1 capital and subordinated debt in accordance with the *Group's* guidelines on market and investor concentration, cost, market conditions, timing and maturity profile. The subordinated debt requirements of other entities belonging to the *Group* are met internally.

During the *Group's* annual planning dialogues with its operating entities, the capital requirements are determined through business plans, which specify the levels and timing of capital expenditures and investments. Each entity manages its own capital within the context of the approved annual *Group*-wide capital plan, which determines levels of risk-weighted asset growth and the optimal amount and mix of capital required to support planned business growth. As part of the *Group's* capital management policy, capital generated in excess of planned requirements is returned to *Group Holding*, normally by way of dividends.

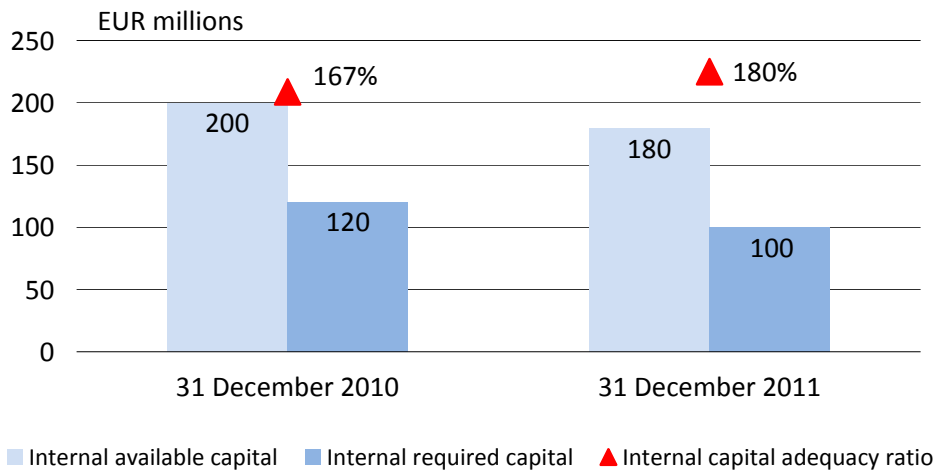
In managing its capital position, the *Group* also considers additional external requirements of regulators and rating agencies. While meeting rating agencies' capital requirements forms a strategic business objective of the *Group*, capital requirements imposed by regulators constitute a binding constraint. Regulators and rating agencies impose minimum capital rules on the level of both the *Group's* operating entities and on the *Group* as a whole.

3.1 Internal capital adequacy

The *Group's* objective is to maintain available capital at holding level in excess of the minimum requirements that are determined by our internal risk capital model according to a solvency probability of 99.97% over a holding period of one year. In support of this objective, the *Group* requires the local operating entities to hold available capital resources allowing them to remain solvent at a lower confidence level of 99.93% over the same one-year holding period. In doing so, the benefits of a single operating entity being part of a larger, diversified *Group* are taken into account.

The *Group's* internal available capital is based on published shareholders' equity adjusted to reflect the full economic capital base available to absorb any unexpected volatility in results of operations. For example, both hybrid capital and the present value of future profits in the life and health segment are added to shareholders' equity, whereas goodwill and other intangible assets are subtracted.

Figure 2: Internal available and required capital



The internal available capital as of 31 December 2015 amounted to EUR 180 billion (2014: EUR 200 billion), while the internal capital requirements as of 31 December 2015 amounted to EUR 100 billion (2014: EUR 120 billion), resulting in a capital adequacy ratio of 180% at the end of 2015, compared to 167% at the end of 2014. The decrease of 10% in internal available capital was primarily driven by a decrease of shareholders' equity due to the buy-out by the *Group* of the minority interests in XXX.

3.2 Regulatory solvency

Under the EU Financial Conglomerates Directive, a supplementary European Union directive, a financial conglomerate is defined as any financial parent holding *Group* that, together with its operating entities, has significant cross-border and cross-sector activities. The *Group* is a financial conglomerate within the scope of the Directive and related national law. The law requires that a financial conglomerate calculate the capital needed to meet its solvency requirements on a consolidated basis.

As of 31 December 2015, based on the current status of discussion, the eligible capital for the solvency margin required for the *Group's* insurance segments and its banking and asset management business is EUR 75.0 billion (2014: EUR 80.0 billion), including off-balance sheet reserves. This exceeds the minimum legally stipulated level by EUR 25.0 billion (2014: EUR 20.0 billion). The margin results in a preliminary cover ratio of 150% as of 31 December 2015 (2014: 133%). The decrease of 6.3% in eligible capital was primarily driven by a decrease of shareholders' equity due to the buy-out by the *Group* of the minority interests in […].

Insurance segment – Solvency II

As of 31 December 2015, the *Group's* own funds that were eligible under Solvency II amounted to EUR XX billion (2014: EUR XX billion). The MCR cover ratio and the SCR cover ratio were XX% and XX%, respectively. Both ratios remain very strong. Compared

to prior year, the MCR and SCR cover ratios increased/decreased by XX% and XX%, respectively, primarily driven by […].

Table 4: Solvency II available and required capital, excluding capital add-ons

As at 31 December, in EUR millions	2014	2015	Change in %
Tier I capital (core capital)			
Tier I and tier II capital			
Tier III capital (supplementary capital)			
Total available capital			
Total required capital (one-year 99.5% VaR)			

As at 31 December, in %	2014	2015	Change
MCR cover ratio			
SCR cover ratio			

Including the capital add-on of EUR X billion stipulated by [the regulator], the *Group's* SCR for 2014 was X percentage points lower, at XXX%.
The distinction between "core capital" and "supplementary capital" in the table above reflects the ability of the capital components to cover losses depending on their nature and the extent to which they meet five key criteria (i.e. subordination, loss-absorbency, permanence, perpetuality and absence of servicing costs), as set out in Article 92 of the EU Solvency II Draft Directive. Core capital, with the highest ability to cover losses, corresponds to Tier I capital, while supplementary capital corresponds to Tier III capital.

Banking segment – Basel II
[Discussion of banking segment based on Basel II requirements]

Structure of own funds
The *Group's* shareholders' equity is adjusted to reflect the respective adequate capital bases available to absorb any unexpected volatility in results of operations under each solvency regime. Table 4 shows the *Group's* available capital according to the requirements of the Financial Conglomerates Directive (FCD), Solvency II and Basel II.

Table 5: Available capital according to the FCD, Solvency II and Basel II

As at 31 December 2015, in EUR millions	FCD Total group	Solvency II Insurance segment	Basel II Banking segment
IFRS shareholders' equity			
Adjustments*			
Tier I capital (core capital)			
Adjustments**			
Tier I and tier II capital			
Adjustments***			
Total capital			

* Includes mark-to-market adjustments for real estate, . .

** Includes economic adjustments for discounting long term liabilities, . .

*** Includes other forms of hybrid equity, such as mandatory convertible securities, . .

4 Annexe: Required capital for major solo entities

This annexe describes the required capital and solvency position of the *Group's* major solo entities that are regulated under Solvency II. In line with the principle of materiality, the *Group* defines major entities as subsidiaries that account for at least 20% of the *Group's* total required capital.

Table 6: Solvency position of XYZ Insurance Company, excluding capital add-ons

1-year stand-alone 99.5% VaR as at 31 December, in EUR millions	2014	2015	Change in %
Non-life underwriting risk			
Life and health underwriting risk			
Market risk			
Credit risk			
Operational risk			
Total			
Diversification effect			
Total required capital			
Total available capital			

As at 31 December, in %	2014	2015	Change
MCR cover ratio			
SCR cover ratio			

XYZ Insurance Company's overall risk exposure based on 99.5% VaR [declined/ increased] from EUR X billion at the end of 2014 to EUR X billion at the end of 2015, mainly as a result of […]. [Comment on developments].

In addition to the required capital based on 99.5% VaR, [the regulator] has also stipulated a capital add-on of EUR X billion for 2014 to cover exposures relating to […]. Including the capital add-on, XYZ Insurance Company's total required capital as at 31 December 2014 amounted to EUR XX billion. The add-on for 2015, if any, will only be available after the publication of this report.

[Solo table and brief commentary for each major subsidiary regulated under Solvency II]

D2 Excerpts on risk disclosure from the draft Solvency II Directive

The following excerpts provide the legal background set out in the Proposal for a Directive of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance, Solvency II, Commission of the European Communities, Brussels 10.7.2007

Section 3 – Public Disclosure

Article 50: Report on Solvency and financial condition: contents

1. Member States shall, taking into account the principles set out in paragraphs 3 and 4 of Article 35, require insurance and reinsurance undertakings to publicly disclose, on an annual basis, a report on their solvency and financial condition.

   That report shall contain the following information, either in full or by way of references to equivalent information disclosed publicly under other legal or regulatory requirements:

   (a) a description of the business and the performance of the undertaking;

   (b) a description of the system of governance and an assessment of its adequacy for the risk profile of the undertaking;

   (c) a description, separately for each category of risk, of the risk exposure, concentration, mitigation and sensitivity;

   (d) a description, separately for assets, technical provisions, and other liabilities, of the bases and methods used for their valuation, together with an explanation of any major differences in the bases and methods used for their valuation in financial statements;

   (e) a description of the capital management, including at least the following:

      (i) the structure and amount of own funds, and their quality;

      (ii) the amounts of the Minimum Capital Requirement and of the Solvency Capital Requirement;

      (iii) information allowing a proper understanding of the main differences between the standard formula and any internal model used by the undertaking for the calculation of its Solvency Capital Requirement;

      (iv) the amount of any non compliance with the Minimum Capital Requirement or any significant non compliance with the Solvency Capital Requirement during the reporting period, even if subsequently resolved, with an explanation of its origin and consequences as well as any remedial measures taken.

2. The description referred to in point (e)(i) of paragraph 1 shall include an analysis of any significant changes as compared to the previous reporting period and an explanation of any major differences in relation to the value of such elements in financial statements, and a brief description of the capital transferability.

   The disclosure of the Solvency Capital Requirement referred to in point (e)(ii) of paragraph 1 shall show separately the amount calculated in accordance with

Chapter VI, Section 4, Subsections 2 and 3 and any capital add-on imposed in accordance with Article 37, together with concise information on its justification by the supervisory authority concerned.

However, and without prejudice to any disclosure mandatory under any other legal or regulatory requirements, Member States may provide that the capital add-on need not separately disclosed during a transitional period not exceeding five years after the date referred to in Article 318.

The disclosure of the Solvency Capital Requirement shall be accompanied, where applicable, by an indication that its final amount is still subject to supervisory assessment.

Article 52: Report on Solvency and financial condition: applicable principles

1. Supervisory authorities shall permit insurance and reinsurance undertakings not to disclose information in the following cases:

   (a) if, by disclosing such information, the competitors of the undertaking gain significant undue advantage;

   (b) if there are obligations to policyholders or other counterparty relationships binding an undertaking to secrecy or confidentiality.

2. Where non-disclosure of information is approved by the supervisory authority, undertakings shall state this in the report on solvency and financial condition and explain the reasons.

3. Supervisory authorities shall permit insurance and reinsurance undertakings, to make use of – or refer to - public disclosures made under other legal or regulatory requirements, to the extent that those disclosures are equivalent to the information required under Article 50 in both their nature and scope.

4. Paragraphs 1 and 2 shall not apply to the information referred to in point (e) of Article 50(1).

D3 Excerpts on disclosure from IFRS 4 and 7

IFRS 4 (36-39)

Disclosure

Explanation of recognised amounts

36 An insurer shall disclose information that identifies and explains the amounts in its financial statements arising from insurance contracts.

37 To comply with paragraph 36, an insurer shall disclose:

(a) its accounting policies for insurance contracts and related assets, liabilities, income and expense.

(b) the recognised assets, liabilities, income and expense (and, if it presents its cash flow statement using the direct method, cash flows) arising from insurance contracts. Furthermore, if the insurer is a cedant, it shall disclose:

(i) gains and losses recognised in profit or loss on buying reinsurance; and

(ii) if the cedant defers and amortises gains and losses arising on buying reinsurance, the amortisation for the period and the amounts remaining unamortised at the beginning and end of the period.

(c) the process used to determine the assumptions that have the greatest effect on the measurement of the recognised amounts described in (b). When practicable, an insurer shall also give quantified disclosure of those assumptions.

(d) the effect of changes in assumptions used to measure insurance assets and insurance liabilities, showing separately the effect of each change that has a material effect on the financial statements.

(e) reconciliations of changes in insurance liabilities, reinsurance assets and, if any, related deferred acquisition costs.

Nature and extent of risks arising from insurance contracts

38 An insurer shall disclose information that helps users of its financial statements to evaluate the nature and extent of risks arising from insurance contracts.

39 To comply with paragraph 38, an insurer shall disclose:

(a) its objectives, policies and processes for managing risks arising from insurance contracts and the methods used to manage those risks.

(b) [deleted]

(c) information about insurance risk (both before and after risk mitigation by reinsurance), including information about:

(i) sensitivity to insurance risk (see paragraph 39A).

(ii) concentrations of insurance risk, including a description of how management determines concentrations and a description of the shared

characteristics that identifies each concentration (eg type of insured event, geographical area, or currency).

(iii) actual claims compared with previous estimates (ie claims development). The disclosure about claims development shall go back to the period when the earliest material claim arose for which there is still uncertainty about the amount and timing of the claims payments, but need not go back more than ten years. An insurer need not disclose this information for claims for which uncertainty about the amount and timing of claims payments is typically resolved within one year.

(d) information about credit risk, liquidity risk and market risk that paragraphs 31-42 of IFRS 7 would require if the insurance contracts were within the scope of IFRS 7. However:

(i) an insurer need not provide the maturity analysis required by paragraph 39(a) of IFRS 7 if it discloses information about the estimated timing of the net cash outflows resulting from recognised insurance liabilities instead. This may take the form of an analysis, by estimated timing, of the amounts recognised in the statement of financial position.

(ii) if an insurer uses an alternative method to manage sensitivity to market conditions, such as an embedded value analysis, it may use that sensitivity analysis to meet the requirement in paragraph(a) of IFRS 7. Such insurer shall also provide the disclosures required by paragraph 41 of IFRS 7.

(e) information about exposures to market risk from embedded derivatives contained in a host insurance contract if the insurer is not required to, and does not, measure the embedded derivatives at fair value.

39A To comply with paragraph 39(c), an insurer shall disclose either (a) or (b) as follows:

(a) a sensitivity analysis that shows how profit or loss and equity would have been effected if changes in the relevant risk variable that were reasonably possible at the end of the reporting period had occurred; the methods and assumptions used in preparing the sensitivity analysis; and any changes from the previous period in the methods and assumptions used. However, if an insurer uses an alternative method to manage sensitivity to market conditions, such as an embedded value analysis, it may meet this requirement by disclosing that alternative sensitivity analysis and the disclosures required by paragraph 41 of IFRS 7.

(b) qualitative information about sensitivity, and information about those terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of the insurer's future cash flows.

IFRS 7 (33-42)

Qualitative disclosures

33 For each type of risk arising from financial instruments, an entity shall disclose:

(a) the exposures to risk and how they arise;

(b) its objectives, policies and processes for managing the risk and the methods used to measure the risk; and

(c) any changes in (a) or (b) from the previous period.

Quantitative disclosures

34 For each type of risk arising from financial instruments, an entity shall disclose:

(a) summary quantitative data about its exposure to that risk at the reporting date. This disclosure shall be based on the information provided internally to key management personnel of the entity (as defined in IAS 24 Related Party Disclosures), for example the entity's board of directors or chief executive officer.

(b) the disclosures required by paragraphs 36–42, to the extent not provided in (a), unless the risk is not material (see paragraphs 29–31 of IAS 1 for a discussion of materiality).

(c) concentrations of risk if not apparent from (a) and (b).

35 If the quantitative data disclosed as at the reporting date are unrepresentative of an entity's exposure to risk during the period, an entity shall provide further information that is representative.

Credit risk

36 An entity shall disclose by class of financial instrument:

(a) the amount that best represents its maximum exposure to credit risk at the reporting date without taking account of any collateral held or other credit enhancements (eg netting agreements that do not qualify for offset in accordance with IAS 32);

(b) in respect of the amount disclosed in (a), a description of collateral held as security and other credit enhancements;

(c) information about the credit quality of financial assets that are neither past due nor impaired; and

(d) the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated.

Financial assets that are either past due or impaired

37 An entity shall disclose by class of financial asset:

(a) an analysis of the age of financial assets that are past due as at the reporting date but not impaired;

(b) an analysis of financial assets that are individually determined to be impaired as at the reporting date, including the factors the entity considered in determining that they are impaired; and

(c) for the amounts disclosed in (a) and (b), a description of collateral held by the entity as security and other credit enhancements and, unless impracticable, an estimate of their fair value.

Collateral and other credit enhancements obtained

38 When an entity obtains financial or non-financial assets during the period by taking possession of collateral it holds as security or calling on other credit enhancements (eg guarantees), and such assets meet the recognition criteria in other Standards, an entity shall disclose:

(a) the nature and carrying amount of the assets obtained; and

(b) when the assets are not readily convertible into cash, its policies for disposing of such assets or for using them in its operations.

Liquidity risk

39 An entity shall disclose:

(a) a maturity analysis for financial liabilities that shows the remaining contractual maturities; and

(b) a description of how it manages the liquidity risk inherent in (a).

Market risk

Sensitivity analysis

40 Unless an entity complies with paragraph 41, it shall disclose:

(a) a sensitivity analysis for each type of market risk to which the entity is exposed at the reporting date, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date;

(b) the methods and assumptions used in preparing the sensitivity analysis; and

(c) changes from the previous period in the methods and assumptions used, and the reasons for such changes.

41 If an entity prepares a sensitivity analysis, such as value-at-risk, that reflects interdependencies between risk variables (eg interest rates and exchange rates) and uses it to manage financial risks, it may use that sensitivity analysis in place of the analysis specified in paragraph 40.

The entity shall also disclose:

(a) an explanation of the method used in preparing such a sensitivity analysis, and of the main parameters and assumptions underlying the data provided; and

(b) an explanation of the objective of the method used and of limitations that may result in the information not fully reflecting the fair value of the assets and liabilities involved.

Other market risk disclosures

42 When the sensitivity analyses disclosed in accordance with paragraph 40 or 41 are unrepresentative of a risk inherent in a financial instrument (for example because the year-end exposure does not reflect the exposure during the year), the entity shall disclose that fact and the reason it believes the sensitivity analyses are unrepresentative.

D4 Excerpts on capital disclosure from IAS 1

1p124A

The entity should disclose information that enables users of its financial statements to evaluate its objectives, policies and processes for managing capital.

1p124B

To comply with paragraph 124A, the entity should disclose the following:

(a) qualitative information about its objectives, policies and processes for managing capital, including (but not limited to):

  (i) a description of what it manages as capital;

  (ii) when an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the management of capital; and

  (iii) how it is meeting its objectives for managing capital;

(b) summary quantitative data about what it manages as capital. Some entities regard some financial liabilities (for example, some forms of subordinated debt) as part of capital. Other entities regard capital as excluding some components of equity (for example, components arising from cash flow hedges);

(c) any changes in (a) and (b) from the previous period;

Not intended to be disclosed:

(d) whether during the period it complied with any externally imposed capital requirements to which it is subject; and

(e) when the entity has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

These disclosures should be based on the information provided internally to the entity's key management personnel.

1p124C

An entity may manage capital in a number of ways and be subject to a number of different capital requirements. For example, a conglomerate may include entities that undertake insurance activities and banking activities, and those entities may also operate in several jurisdictions. When an aggregate disclosure of capital requirements and how capital is managed would not provide useful information or distorts a financial statement user's understanding of an entity's capital resources, the entity should disclose separate information for each capital requirement to which the entity is subject.