Group Solvency and Financial Condition Report

30 November 2016

AIG Holdings Europe Limited

Contents

SUMMARY

AIG's European Solvency II Group is made up of AIG Holdings Europe Limited (AHEL), its three insurance subsidiaries - AIG Europe Limited (AEL), AIG Israel Insurance Company Limited (AIG Israel) and AIG Life Limited (AIG Life), as well as a healthcare distribution channel, Laya Healthcare Limited. The European Group operates under a simplified management and governance structure so as to enable efficient decision making and delegation of responsibilities.The component entities of the European Group are fairly autonomous in their own right.

As the holding company of the European Group, the AHEL Board is responsible for ensuring it has visibility of the group-wide risks and that effective controls are in place. The AHEL Board is also responsible for ensuring that the Group solvency capital requirement is met and that it adheres to applicable regulations under the Solvency II legislation, including various reporting obligations.

The European Group risk management framework is based on the Three Lines of Defence model implemented at local subsidiary level, whereby the AHEL Board has delegated its governance responsibilities to the subsidiaries. Further details on the segregation of roles and responsibilities between the holding company and its subsidiaries can be found in the section B of this document.

Geographic focus

On 1 June 2016, the holding company of the European Solvency II group changed from AIG Europe Holdings Limited to AIG Holdings Europe Limited with no impact on underlying insurance and non-insurance companies. AIG Europe Holdings Limited ceased to be in scope of Solvency II reporting requirements and its Solvency II reporting obligations were transferred to AIG Holdings Europe Limited.

This group reconstruction was one of the first steps to simplify our geographic presence in Europe, followed by further actions taken at AEL, which is the most significant component of the European Solvency II Group, contributing 92.9% in terms of net written premiums and 90.6% of own funds.

Vision

2016 continued to be a year of intensified focus: our geographic focus, our focus on profitable business lines and also our focus on our clients.

We have continued to build strong momentum towards our vision to be our clients' most valued insurer by concentrating on the business lines and geographies where we can deliver the most value. We have improved our business mix, reduced our expenses and also took steps to exit certain geographies, narrowing our footprint to those countries where we can operate a sustainable, profitable business.

We have also continued to put our clients at the centre of everything we do and collaboration has been a major theme for the European Group in 2016. I'm proud of the great strides we have taken this year to work closer than ever before with our clients and partners to innovate and co-create products that address their needs both today and tomorrow.

Strategy

In 2016, we continued to operate in a challenging environment. Low interest rates, uncertainty reinforced by the UK's referendum decision to leave the European Union, the growing spectre of inflation and the commoditisation of certain products continued to put a downward pressure on prices, profitability, and investment returns.

We also experienced a higher level of severe claims as well as some adverse claims development which led us to take a decision to strengthen our reserves. This impacted our profitability in 2016.

These challenges validate our strategy of focusing on underwriting discipline and on those business lines and geographic areas that are most profitable. We have continued to improve our business mix towards those areas of focus and, even though we have chosen to walk away from premium in certain lines of business, overall, the level of net written premiums have risen.

We continue to focus on our core capabilities, including financial lines, multinational and client risk solutions, leveraging our geographic reach, our capacity and our expertise. We are confident that we can compete effectively in this market with this continued focus.

Our strategy is underpinned by five key pillars as set out below:

- Value Based Management, which means we focus on those segments where we have the greatest ability to create value;
- Customer, which means putting our customer at the centre of everything that we do and delivering an improved client and partner experience;
- Simplification, which means improving efficiency, simplifying our organisational structure and empowering employees;
- Technology / IT, by modernising, digitising and mobilising our technology capabilities to better serve our customers and empower our people;
- People, meaning we seek to develop, attract and engage with a diverse workforce.

Innovation and collaboration

The insurance industry is ripe for disruption, and in order for AIG to remain at the forefront it recognises the need to innovate and collaborate. AIG as a whole has made significant investments in technology to deliver value to its clients.

AEL launched five new industry segments in 2016, and it now has dedicated groups for Financial Services, Energy, Construction, Manufacturing and Transportation. During 2016, it also introduced digital platforms in Financial Lines. The Company actively seeks partnerships with intermediaries and clients to ensure win-win outcomes through collaboration.

AIG Life has won 14 awards in the Protection market in 2016. In August 2016, the company launched its first partnership with the National Farmers Union Mutual (NFUM) to market its products. In the same month, it also launched a new product, Key 3 Critical Illness Insurance, which covers cancer, heart attack and stroke with Life Cover.

AIG Israel has constantly led in the service index published by the Israeli Ministry of Finance since 2014. Its business focus is to drive customer satisfaction and deliver profitable returns using Big Data and digitisation opportunities.

Outlook for 2017

The macroeconomic background for 2017 remains challenging. As the process of the UK leaving the EU commences this year we anticipate continued uncertainty and elsewhere political instability is also likely to result in a subdued economic environment.

The uncertainty surrounding Brexit is also likely to lead to currency instability which may also impact our financial performance. The impact on our Solvency position is anticipated to be minimal given we hold foreign currency assets to back our capital requirements originating from foreign currency liabilities.

During 2016, we embarked on a journey to simplify our geographic focus as well as to improve our business risk mix which will provide us with further capital benefits in 2017. We continue to simplify our business and reduce costs through efficiencies. We see targeted growth opportunities across Europe to partner with our customers to help them achieve their ambitions. We will continue to focus on the largest European economies where we still have the ability to add scale. We will focus even more on profitable business – on lines and geographies where we can add the most value. We also need to be agile and innovative in our thinking to embrace new ways of working. We will be flexible and work in collaboration with our clients as a business enabler: to give our customers the security to allow them to take risks and make investments.

European Group Solvency II Key Metrics at a glance

On 1 January 2016, the European Group smoothly transitioned to the Solvency II regime following significant amount of preparatory work over the last few years to achieve readiness. Solvency II represents a shift to a more risk-based approach to the measurement and monitoring of capital for insurance groups in the European Union.

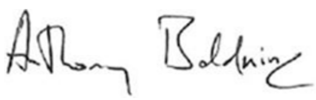
The European Group currently uses the Standard Formula and Method 1 (Accounting Consolidation) to determine its solvency capital requirement; however it intends to replace this with a Partial Internal Model once approval is received from the PRA.

Own Funds	**£4,019.9m**
Standard Formula Solvency Capital Requirement (SF-SCR)	**£3,423.2m**
Surplus	**£596.7m**
Solvency Ratio	**117%**

As at 30 November 2016, the European Group's Standard Formula Solvency Capital Requirement (SF-SCR) is £3,423.2m. This is covered by £4,019.9m of eligible capital resources, providing a Solvency II capital surplus of £596.7m and a Solvency II coverage ratio of 117%.

The European Group Solvency II coverage ratio is in line with its target capital requirements under standard formula. The Group is currently participating in the internal model approval process and working with its regulators to achieve approval. We believe that our own economic view of capital better reflects our risk profile, which is a function of complex multinational programmes, a highly diversified business mix and operations in multiple currencies and countries.

Chief Executive Officer
Anthony Baldwin



DIRECTORS' REPORT

Directors

The current listing of Directors is as follows:

Chairman of the Board and Independent Non-Executive Director	Mr A Hope
Independent Non-Executive Director	Mr M Bowers
Independent Non-Executive Director	Mr P Tromp
Independent Non-Executive Director	Mr J-M Nessi
Chief Executive Officer	Mr A Baldwin
Chief Financial Officer	Mr J Lenton
Chief Risk Officer	Mr F Brossart
EMEA General Counsel and Chief Operating Officer	Mr C Newby
Chief Executive Officer AIG Life Ltd.	Mr A Winslow

During the year, the following appointments took place:

Mr A Baldwin	Appointed	15 June 2016
Mr J Lenton	Appointed	1 June 2016
Mr F Brossart	Appointed	8 July 2016
Mr A Hope	Appointed	1 June 2016
Mr M Bowers	Appointed	1 June 2016
Mr P Tromp	Appointed	1 November 2016
Mr J-M Nessi	Appointed	1 June 2016
Mr C Newby	Appointed	28 January 2016
Mr A Winslow	Appointed	15 June 2016

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Group Solvency Financial Condition Report, including the attached public quantitative reporting templates, in all material respects in accordance with PRA Rules and the Solvency II Regulations.

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

Compliance with SCR

The European Group has complied with all material respects with the requirements of the PRA Rules and Solvency II regulations as applicable throughout the financial year 2016. The European Group reasonably believes that it will comply with the PRA rules and Solvency II regulations subsequently and will continue to comply for the foreseeable future.

Statement of disclosure of information to auditors

In accordance with Section 418 of the Companies Act 2006, each of the persons who is a director in office at the date this report is approved, confirms that:

(a) so far as each of them is aware, there is no relevant audit information of which the European Group's auditors are unaware; and

(b) each of them have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the European Group's auditors are aware of that information.

Independent Auditors

The European Group has, by elective resolution, dispensed with the appointment of auditors annually and subject to the terms of their appointment, PricewaterhouseCoopers LLP are deemed to continue in office until the resolution is revoked.

On behalf of the Board,

Chief Financial Officer
James Lenton

REPORT OF THE EXTERNAL INDEPENDENT AUDITORS TO THE DIRECTORS OF AIG HOLDINGS EUROPE LIMITED ('THE COMPANY') PURSUANT TO RULE 4.1 (2) OF THE EXTERNAL AUDIT PART OF THE PRA RULEBOOK APPLICABLE TO SOLVENCY II FIRMS

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

Opinion

We have audited the following documents prepared by the Company as at 30 November 2016:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Group Solvency and Financial Condition Report of the Company as at 30 November 2016, ('**the Narrative Disclosures subject to audit**'); and

- Group templates S.02.01.02, S.23.01.22, S.25.01.22 and S.32.01.22 ('**the Templates subject to audit'**).

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

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

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

- Group templates S.05.01.02 and S.05.02.01; and

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

In our opinion, the information subject to audit in the relevant elements of the Group Solvency and Financial Condition Report of the Company as at 30 November 2016 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, and as supplemented by supervisory approvals.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & I)), International Standard on Auditing (UK) 800 and International Standard on Auditing (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the relevant elements of the Group Solvency and Financial Condition Report* section of our report.

Emphasis of Matter - Basis of Accounting

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

Responsibilities of Directors for the Group Solvency and Financial Condition Report

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

- Approval of items of ancillary own funds.

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

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

It is our responsibility to form an independent opinion, in accordance with applicable law, ISAs (UK & I) and ISAs (UK) 800 and 805 as to whether the information subject to audit in the relevant elements of the Group Solvency and Financial Condition Report is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based. ISAs (UK & I) require us to comply with the Auditing Practices Board's Ethical Standard for Auditors.

An audit involves obtaining evidence about the amounts and disclosures in the relevant elements of the Group Solvency and Financial Condition Report sufficient to give reasonable assurance that the relevant elements of the Group Solvency and Financial Condition Report are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the relevant elements of the Group Solvency and Financial Condition Report. In addition, we read all the financial and non-financial information in the Group Solvency and Financial Condition Report to identify material inconsistencies with the audited relevant elements of the Group Solvency and Financial Condition Report. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

This report, including the opinion, has been prepared for the Directors of the Company to comply with their obligations under External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose save where expressly agreed by our prior consent in writing.

Report on Other Legal and Regulatory Requirements

In accordance with Rule 4.1 (3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are required to read the Other Information and consider whether it is materially inconsistent with the relevant elements of the Group Solvency and Financial Condition Report and our knowledge obtained in the audits of the Group Solvency and Financial Condition Report and of the Company's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants

London

31 May 2017

- The maintenance and integrity of the AIG Holdings Europe Limited website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Group Solvency and Financial Condition Report since it was initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of Solvency and Financial Condition Reports may differ from legislation in other jurisdictions.

Group Solvency & Financial Condition Report 2016

A. Business and Performance

This section of the report sets out the details regarding AIG Holding Europe Limited's business structure, key operations, market positon and the financial performance for 2016.

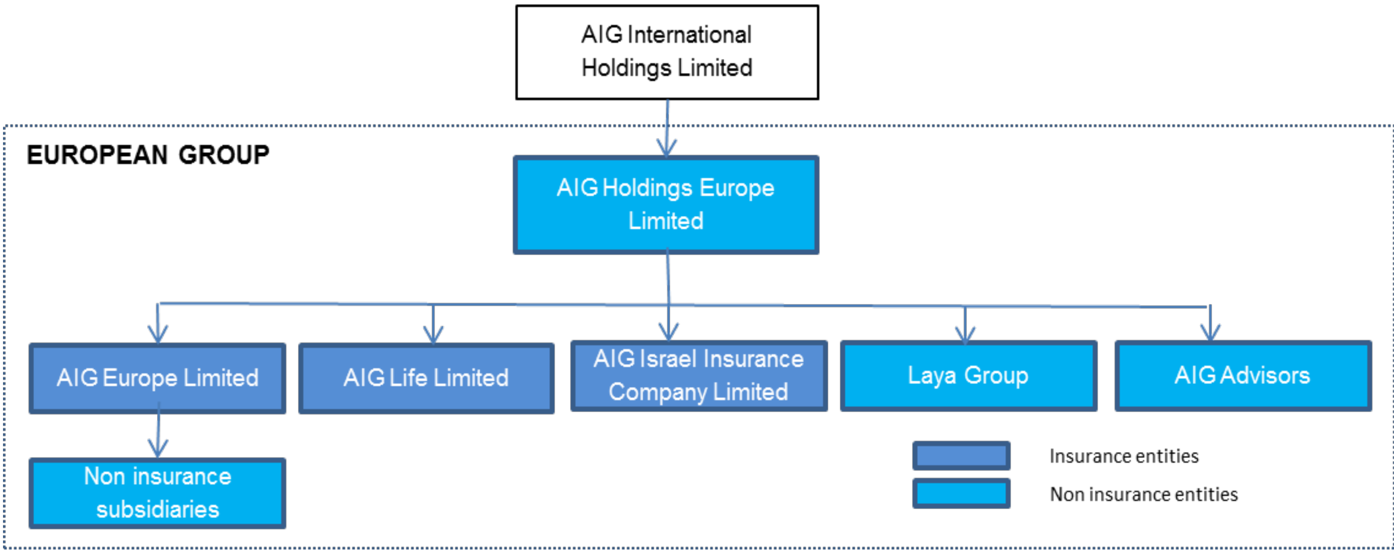
- Key elements of the section are:
- Business information;
- Underwriting Performance;
- Investment Performance; and
- Performance from other activities.

A.1 BUSINESS INFORMATION

The European Group is made up of AIG Holdings Europe Limited (AHEL) and its subsidiaries. The group is formed in a simple structure so as to enable efficient decision making and delegation of responsibilities.The component entities of the European Group are fairly autonomous in their own right.

AHEL is a wholly owned subisdiary of AIG International Holdings Limited, a Swiss incorporated company. Its ultimate parent company AIG Inc., headquartered in New York City.

A simplified group structure as at 30 November 2016 is shown in the diagram below:



AIG Europe Limited (AEL) and AIG Life Limited (AIG Life) are insurance companies incorporated in the United Kingdom. They are authorised and regulated by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). AEL is the core subsidiary of the European Group, representing 95% of the Group's net assets as at 30 November 2016.

AEL and AIG Life are both in scope of Solvency II and have prepared the Solvency and Financial Condition Report (SFCR) on a Solo basis in accordance with Article 51 of the Solvency II Directive and paragraph 3 from the Reporting Section of PRA's Rulebook. The AEL 2016 SFCR report is available for download at http://www.aig.co.uk/about-aig and the AIG Life 2016 SFCR report is available for download at http://www.aiglife.co.uk/.

The European Group's third insurance company, AIG Israel Insurance Company Limited (AIG Israel) has been granted licence by the Israeli Commissioner of the Capital Markets and Insurance (ICCMI) to write general and life insurance business in Israel.

AIG Israel is not in scope of Solvency II, however for the purpose of calculation of the Group's solvency position, its capital resources and requirements are valued in accordance with Solvency II rules and regulations as applicable.

The European Group's registered office address and the contract details of its external auditors and supervisory authorities are shown below:

Registered Office	External Auditors	Supervisory Authorities	
The AIG Building 58 Fenchurch Street London EC3M 4AB +44 (0) 20 7954 7000	PricewaterhouseCoopers LLP 7 More London Riverside London SE1 2RT +44 (0) 20 7583 5000	Prudential Regulation Authority (PRA) 20 Moorgate London EC2R 6DA +44 (0) 20 7601 4444	Financial Conduct Authority (FCA) 25 The North Colonnade London E14 5HS +44 (0) 207 066 1000

The Group SFCR was authorised for issue by the Board of Directors on 23 May 2017.

PARTICIPATING UNDERTAKINGS

The European Group's participating undertakings as at 30 November 2016 are listed in the table below.

Participation	Principal Activity	Country	Ownership
AIG Europe Limited	UK composite insurer operating across 27 countries in Europe.	UK	100%
AIG Life Limited *	UK life insurer specialising in protection products.	UK	100%
AIG Israel Insurance Company Limited *	Israel insurer specialising in retail general, life and health insurance policies.	Israel	100%
Avondhu Limited *	Holding company for Laya Healthcare Limited (Laya Group).	Jersey	100%
Laya Healthcare Limited *	Provision of insurance intermediary services in the Irish market.	Ireland	100%
AIG Advisors Srl	Provision of insurance intermediary services to affiliates within the AIG Inc. group.	Italy	100%
AIG Europe (Services) Limited	Provision of operational and administrative services to affiliates within the AIG Inc. group.	UK	100%
AIG Medical Management Services UK Limited	Provision of case management and occupational health services.	UK	100%
AIG Receivables Management Limited	Provision of technology based receivables management products.	UK	100%
AIG Trade Finance Limited	Provision of technical knowledge in trade finance.	UK	100%
AIG Global Reinsurance Operations Limited	Provision of (re)insurance intermediary services within the AIG Inc. group.	Belgium	100%
AIG Germany Holdings	Holding company for Wynona 1837 GmbH.	Germany	100%
Wynona 1837 GmbH	Sole purpose is to manage an interest entitling it to a share of profits of AEL's German branch.	Germany	100%
Hansa GmbH	General Partner and Managing Director of Hansa KG.	Germany	100%
Hansa KG	Real estate management.	Germany	94.499%
Privilege Holdings Sarl *	Real estate management.	Luxembourg	50%
Habitus Holdings Srl *	Real estate management.	Luxembourg	50%
Privilege Southampton Sarl *	Real estate management.	Luxembourg	50%
Privilege Cardiff Sarl *	Real estate management.	Luxembourg	50%
CI Group	Provision of commercial insurance brokerage and intermediary services.	UK	20%

** Entities with 31 December year end. These entities are consolidated on a quarter-lag basis with adjustments for any material non-routine transactions during the lag period.*

AEL, the largest subsidiary of the European Group, operates from 27 country branches. AEL has passporting rights in 6 other EEA countries including Croatia, Estonia, Gibraltar, Iceland, Latvia and Slovenia but it is currently not actively pursuing business in these countries. AIG Israel operates from Israel and AIG Life operates from the UK, Channel Islands, Isle of Man and Gibraltar. The European Group does not have any branches.

The European Group solvency position is calculated using Method 1: Accounting Consolidation as prescribed in Article 230 of the Solvency II Directive. Using this method, insurance holding companies, insurance undertakings and ancillary service undertakings are fully consolidated. The entities that do not fall within one of those three classifications are consolidated using the adjusted equity method.

AHEL has taken advantage of the exemption in Section 401 of Companies Act 2006 from the requirement to produce consolidated financial statements.

MATERIAL LINES OF BUSINESS

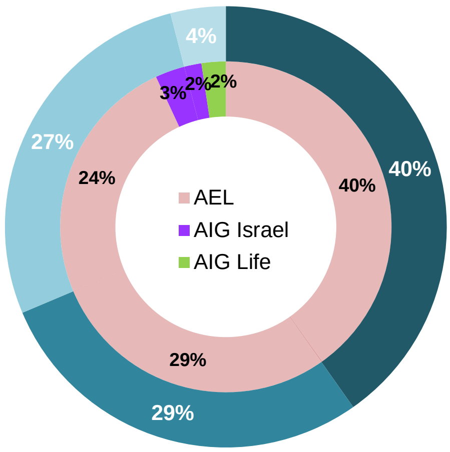
AEL, as the core insurance subsidiary, contributed 92.9% of the European Group's aggregated net written premiums for FY2016. AEL's business segments are organised into Commercial and Consumer lines:

- Commercial lines refer to products and services for the commercial and institutional customers. This line represents around 74% of the AEL's net premiums written. Product lines include traditional types such as general liability, property and financial lines; and highly specialised ones for political risk, cyber security and aviation.
- Consumer lines focus on customer-centric services, innovating product offerings and developing strong distribution relationships. Main product types in this segment are personal accident, income protection and medical expense cover.

The majority of AIG Israel's business is on the consumer side, these being retail policies which are marketed, sold and serviced directly to customers either through call centres or online. Most of the commercial business and a small proportion of its retail business is also sold through intermediaries.

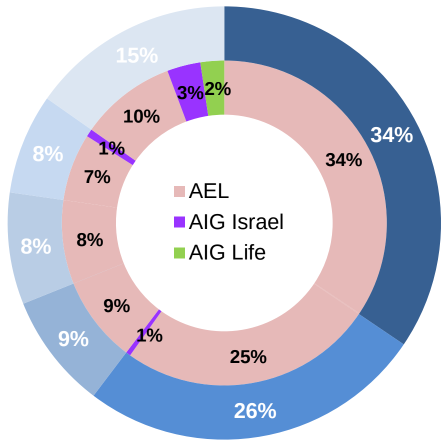
AIG Life is a provider of long term life insurance, critical illness and income protection products. Products are sold through intermediaries and distribution partnerships. All of AIG Life's products are considered to belong within two business segments, Life and Health.

INSURANCE LOBs



FY 2016 Group Net Premiums Written (NPW) £3,937.2m

SOLVENCY II LOBs



Liability and Financial Lines (LFL)

- 40% of Net Premiums Written in FY2016.
- AEL is a market leader in multiple Financial Lines products including Directors and Officers liability, Cyber insurance, M&A insurance, Kidnap & Ransom insurance and Professional liability insurance.

Property and Special Risks (PSR)

- 29% of Net Premiums Written in FY2016.
- Includes Property Insurance products for Commercial Properties, Upstream and Downstream Energy, Power Generation, Oil Rig, Chemicals, Mining and Construction and Speciality Insurance products.

Personal Insurance (PI)

- 27% of Net Premiums Written in FY2016.
- Includes Personal Accident and Health, Personal Property, Personal Auto and Service Programmes.

Life and Health Insurance (LAH)

- 4% of Net Premiums Written in FY2016.
- Includes health insurance and non-profit life insurance products offered by AIG Life and AIG Israel.

Under Solvency II, insurance products are categorised into 16 non-life and 8 life standardised lines of business.

The Group's Top 5 Solvency II lines of business in FY2016 (by Net Premiums Written) are:

- General Liability (34%)
- Fire and other damage to property (26%)
- Income protection (9%)
- Marine, aviation and transport (8%)
- Motor vehicle liability (8%)
- Other* (15%)

* "Other" Solvency II LoB consists of Medical Expense, Financial Loss, Credit and Suretyship, Health Insurance and Non-profit life insurance products. It represents c.15% of the European Group's net premiums written.

SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

Simplification

In early 2016, AIG Inc. made a global strategic update to the market. This outlined plans to achieve a number of financial goals while simplifying the business, becoming increasingly client focused and delivering operating synergies.

On 1 June 2016, ownership of the European Group's parent undertaking changed over to AIG International Holdings GmbH. This was part of the move to simplify the global structure of AIG.

In October 2016, it was announced that Fairfax Financial Holdings Limited (Fairfax) will acquire renewal rights for the portfolio of local business written by AIG's operations in Bulgaria, Czech Republic, Hungary, Poland, Romania and Slovakia. These transactions are expected to be completed in 2017.

In December 2016, AIG disposed of its ownership interest in AIG Greece Representation of Insurance Enterprises S.A., which acts as a Managing General Agent (MGA) for AEL's Greece branch, to EXIN Group.

Brexit

On 23 June 2016, the UK electorate voted to leave the European Union in an historic referendum.

The Group was well prepared for a potential "Leave" vote, having taken the following pre-emptive actions to manage the anticipated short term market volatility in its aftermath:

- Strategic asset allocation: AEL de-risked its portfolio and disposed of the majority of its collateralised debt notes which are subject to higher capital charges.
- Letters of credit: AEL and AIG Life obtained approvals from the PRA for £200m and £80m of letters of credit to be included as available ancillary own funds.

On 29 March 2017, Article 50 of the Lisbon Treaty was triggered by the British Government to start the process of formal negotiations between the UK and the EU.

Also in March 2017, AIG announced a decisive move to locate an insurance company in Luxembourg to ensure continued smooth operation of AIG's business across the European Economic Area (EEA) and Switzerland once the UK leaves the EU. From 2019, AEL proposes to have two subsidiary insurance companies in Europe – one in the UK to write UK business and one in Luxembourg to write EEA and Swiss business.

The proposed restructure is expected to complete in the first quarter of 2019, subject to regulatory approval.

Subsequent Events After Reporting Date

On 16 March 2017, AHEL issued a further 200 shares to its immediate parent, AIG International Holdings GmbH, at par value with an associated share premium of £199,999,800.

AHEL in turn subscribed for and fully paid up on 200 additional shares in its subsidiary AEL at par value with an associated share premium of £199,999,800.

A.2 UNDERWRITING PERFORMANCE

The European Group's underwriting performance for FY 2016 was affected by downward pressures on rates and adverse claims developments on both accident year and prior years. However these should not detract from an improvement in the underlying business as evidenced by premium growth in several key business lines.

The Group will continue to pursue sustainable new business growth by combining underwriting discpline with a focus on core capabilities.

Underwriting performance by Solvency II lines of business

The table below provides key underwriting performance indicators for the European Group's Top 5 Solvency II lines of business.

£m	General Liability	Fire and Other Damage to Property	Marine, Aviation and Transport	Income Protection	Motor Vehicle Liability
Net Premiums Written (NPW)	1,357.2	1,017.7	328.2	339.0	294.8
Net Premiums Earned (NPE)	1,370.7	1,008.2	417.0	334.6	272.8
Claims	(1,173.0)	(643.0)	(264.1)	(160.0)	(237.5)
Expenses	(530.8)	(507.5)	(122.3)	(158.6)	(107.0)
Underwriting Performance *	**(333.1)**	**(142.3)**	**30.6**	**16.0**	**(71.7)**

**AIG Life and AIG Israel are consolidated using their 30 September 2016 financials.*

General Liability

- AEL contributed 99.8% of the Net Premiums Written in this LoB for FY 2016, with the remaining 0.2% from AIG Israel.
- General Liability business experienced adverse prior year development and also higher levels of severe claims across Casualty and Commercial D&O business in FY 2016.
- Additionally, Liability reserves were strengthened as a result of the Lord Chancellor's announcement to lower the Ogden discount rate from 2.5% to minus 0.75%.

Fire and Other Damage to Property

- AEL contributed 98.2% of the Net Premiums Written in this LoB for FY 2016, with the remaining 1.8% from AIG Israel.
- Underwriting performance in this LoB was impacted by higher levels of severe claims through terrorist attacks and storm impacts of hurricane Desmond, Storm Eva and German floods in the Property business.

Marine, Aviation and Transport

- AEL contributed 100% of the Net Premiums Written in this LoB for FY 2016.
- The underwriting performance for Marine, Aviation and Transport for FY 2016 was in line with the expectations.

Income Protection

- AEL contributed 100% of the Net Premiums Written in this LoB for FY 2016.
- During the year, the Income Protection business experienced a growth in earned premiums which combined with expense optimisation resulted in underwriting profit.

Motor Vehicle Liability

- AEL contributed 89.8% of the Net Premiums Written in this LoB for FY 2016, with the remaining 10.2% from AIG Israel.
- The Motor Vehicle Liability business experienced adverse prior year development in the Primary Auto market.
- Underwriting performance was also impacted by reserve strengthening as a result of the lowering of discount rates (i.e. the Ogden Provision in the UK and Vinograd Provision in Israel).

Underwriting performance by material geographical area

The European Group's material geographical areas are the United Kingdom (31.3%), France (12.5%), Germany (9.3%), Italy (8.0%), Ireland (5.4%) and Israel (4.6%). These six countries make up 74.7% of the Group's Net Premiums Written in FY 2016. The underwriting performance of each geographic region, as shown in table below, takes into account life and non-life business that relates to that region.

£m	UK	France	Germany	Italy	Ireland	Israel
NPW	1,232.3	490.3	364.3	314.0	211.4	182.9
NPE	1,280.7	490.2	365.5	312.6	190.8	178.2
Claims	(1,081.8)	(211.3)	(335.2)	(194.7)	(172.0)	(99.2)
Expenses	(477.0)	(251.8)	(70.3)	(91.5)	(44.5)	(64.6)
Underwriting performance *	**(278.1)**	**27.1**	**(40.0)**	**26.4**	**(25.7)**	**14.4**

**AIG Life and AIG Israel are consolidated using their 30 September 2016 financials.*

United Kingdom

The UK market experienced adverse claims development across Casualty and Commercial D&O business. The underwriting performance was also impacted by higher levels of severe claims through storm impacts of hurricane Desmond and Storm Eva.

Additionally, the UK Liability reserves were strengthened as a result of the Lord Chancellor's announcement to lower the Ogden discount rate from 2.5% to minus 0.75%.

France

The French market's underwriting performance was in line with expectations for 2016.

Germany

The German market experienced higher levels of severe claims in the Energy and Excess Casualty line and floods which impacted the underwriting performance for 2016.

Italy

The Italian market experienced moderate growth in net premiums earned due to higher premium retention..

Ireland

The Irish market experienced adverse claims development in Casualty business (including Primary Auto).

Israel

During FY 2016, the Israel business experienced moderate growth in their Motor and Property business.

A.3 INVESTMENT PERFORMANCE

Investment performance is defined as net investment income, realised and unrealised gains and losses less investment management expenses.

The European Group's investment performance by asset class for FY 2016 is shown in the table below:

Asset Classes £m	Investment Income	Realised Gains and Losses (incl. forex)	Unrealised Gains and Losses (incl. forex)	Total Investment Return
Corporate Bonds	224.1	209.1	558.0	991.3
Government Bonds	78.2	71.5	204.8	354.4
Securitised Assets	7.6	49.9	8.3	65.8
Mutual Funds	0.2	9.8	1.37	11.4
Equity Instruments	0.6	(0.5)	-	0.1
Loan Participations	0.9	3.8	13.5	18.2
Short Term Deposits	3.6	-	(0.1)	3.4
Total *	**315.1**	**343.6**	**785.9**	**1,444.6**

**AIG Life and AIG Israel are consolidated using their 30 September 2016 financials.*

£1,444.6m of total investment returns are made up of:

- £785.9m unrealised gains driven by the weakening of GBP against major currencies following the EU Referendum, given that a significant proportion of the European Group's investments are denominated in EUR and USD.
- £343.6m realised gains on maturities and disposals are driven by a fall in interest rates and favourable credit spread movements.
- £315.1m investment income representing coupon payments from corporate and government bonds.

The European Group incurred investment management expenses of £13.1m during the reporting period.

INVESTMENTS IN SECURITISATIONS

At 30 November 2016, the European Group held £317.3m of investments in securitised assets. Most of these relate to Residential Mortgage Backed Securities (RMBS) and nearly all of the Group's securitised asset investments are held by AEL. The European Group does not sponsor or transfer assets to, act as the servicer for or is involved in the design of these asset-backed structures.

Between 30 November 2016 and 28 February 2017, as a continuation of its asset de-risking strategy, AEL has disposed of £264.4m of its holdings in Residential Mortgage Backed Securities (RMBS) and a number of Comercial Mortgage Backed Securities (CMBS).

A.4 PERFORMANCE FROM OTHER ACTIVITIES

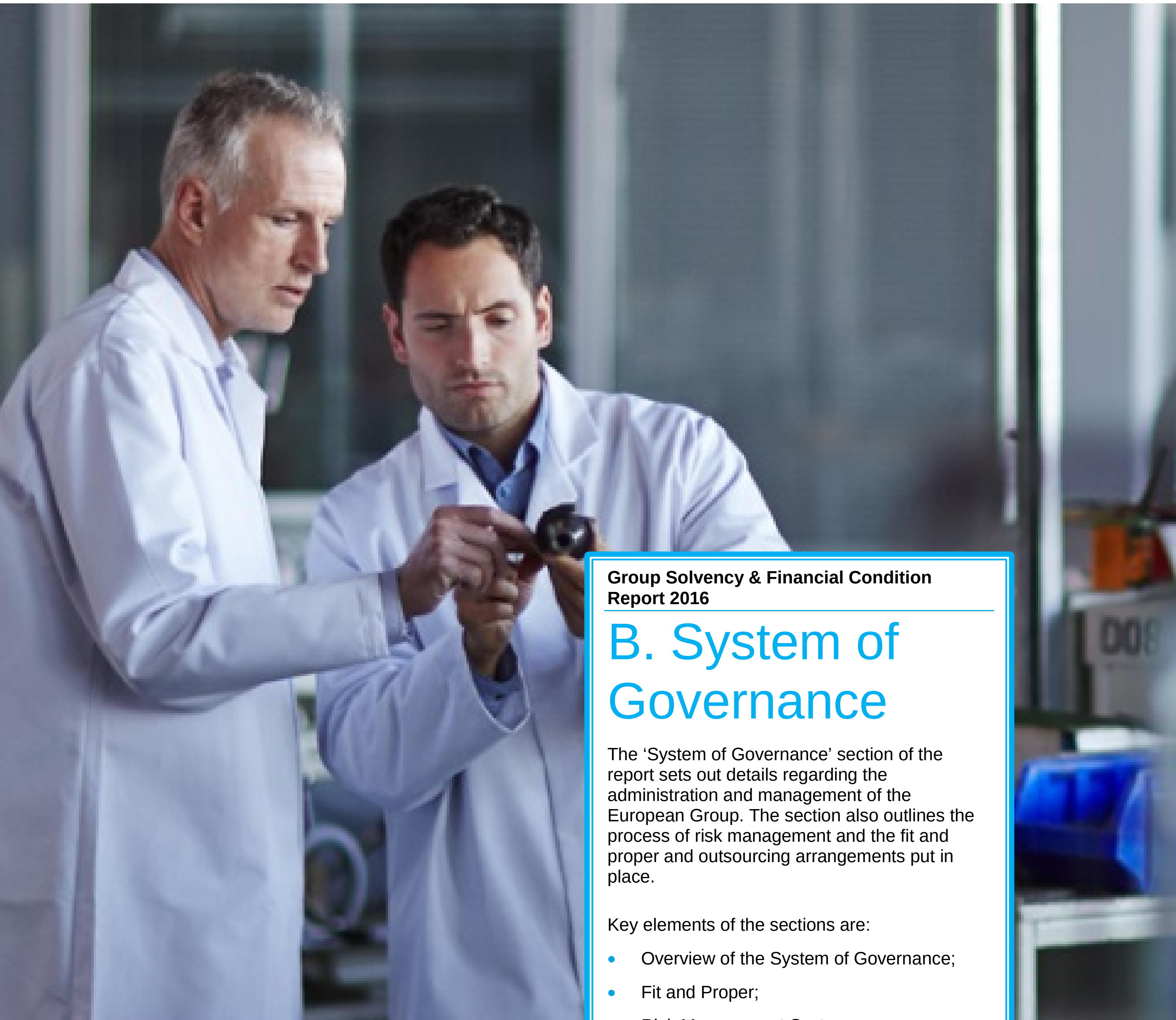
No other activities are material to the European Group.

A.5 ANY OTHER MATERIAL INFORMATION

The details of significant intra-group transactions during the reporting period are:

- AIG Europe Limited (AEL) issued a £50m subordinated debt to AIG Europe Holdings Limited (AEHL) on 17 August 2012. Interest is charged at LIBOR + 3% per annum. On 1 June 2016, the loan was novated to AIG International Holdings GmbH and ceased to be an intra-group loan. Between 1 December 2015 and 1 June 2016, interest of £0.9m was paid by AEL to AEHL in respect of this loan. Further details are available in QRT S.36.01.
- AIG Life issued a £41m subordinated debt to AIG Europe Holdings Limited (AEHL) on 31 December 2014. Interest is charged at LIBOR + 3.5% per annum. On 1 June 2016, the loan was novated to AIG Holdings Europe Limited (AHEL). On 1 July 2016, £26m of the subordinated debt was capitalised. During FY2016, interest of £1.8m was charged in respect of this loan. Further details are available in QRT S.36.01.
- AEHL issued a £76m loan to AEL on 2 September 2015. Interest is charged at 1.23% per annum. On 1 June 2016, the loan was novated to AIGIH and ceased to be an intra-group loan. Between 1 December 2015 and 1 June 2016, interest of £0.8m was paid by AEHL to AEL in respect of this loan. Further details are available in QRT S.36.01.
- During FY2016, AIG Europe Services Limited (AESL) provided administrative services to AEL, for which the latter was charged £28m. Further details are available in QRT S.36.04.

The information presented in Section A provides a true and fair view of the business performance of the European Group during the period.



Group Solvency & Financial Condition Report 2016

B. System of Governance

The ‘System of Governance’ section of the report sets out details regarding the administration and management of the European Group. The section also outlines the process of risk management and the fit and proper and outsourcing arrangements put in place.

Key elements of the sections are:

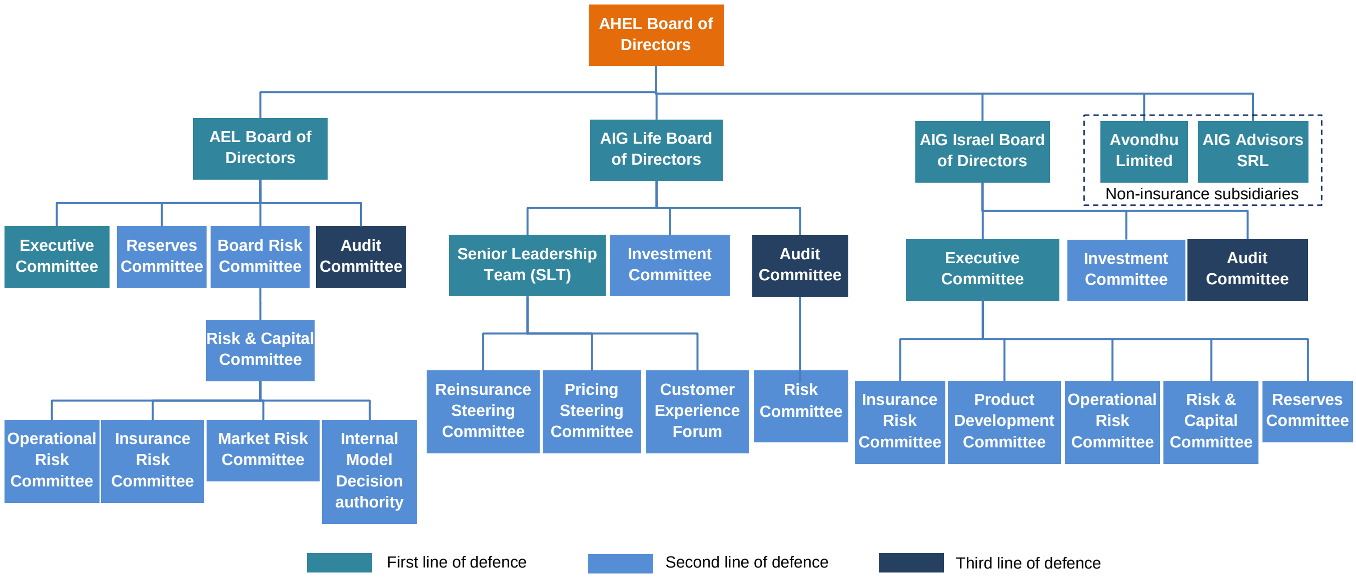
- Overview of the System of Governance;
- Fit and Proper;
- Risk Management System;
- Own Risk and Solvency Assessment; and
- Outsourcing arrangements.

B. SYSTEM OF GOVERNANCE

B.1 GENERAL INFORMATION ON THE EUROPEAN GROUP'S SYSTEM OF GOVERNANCE

The 'General Information on the System of Governance' subsection of the report aims to provide details of the European Group's management structure, its interaction with the Boards of its insurance subsidiaries and the roles and responsibilties of the various committees and working groups contained therein.

B.1A MANAGEMENT AND GOVERNANCE STRUCTURE



AHEL Board

The AHEL Board has overall responsibility for the management of the Company. As the holding company of the European Group, the AHEL Board is in particular responsible for ensuring it has visibility across all its subsidiaries so that it is able to identify risks present within the European Group to which insurers and their policyholders may be exposed which are not apparent when looking at the solo entities, and that effective controls are in place. The AHEL Board is also responsible for ensuring that the Group solvency capital requirement is met and that the Company adheres to applicable regulations under the Solvency II legislation, including various reporting obligations.

The AHEL Board meets at least four times a year with more frequent meetings as required. It is composed of a mix of AEL executive directors, Independent Non-Executive Directors and AIG Life executive directors so as to achieve a balance of skills, experience, challenge and debate and so that no individual or small group of individuals can dominate its decision taking.

Allocation of responsibilities

The European Group's system of governance is broadly aligned to its organisation structure above. The AHEL Board is able to fulfil its duties through the reporting required under its Terms of Reference controlled through the use of a standing items schedule, including assurance function reporting.

The AHEL Board delegates the governance of its subsidiaries to the Boards of AEL, AIG Life, AIG Israel and its two other non-insurance entities, Laya Group and AIG Advisors SRL. This system of governance model avoids duplicative and disproportionate reviews at the AHEL Board level and is both adequate and appropriate for the level of complexity to the role of a holding company. The underlying insurance subsidiaries have appropriate and adequate governance structures including properly constituted sub committees in compliance with local laws and regulation.

All three of AHEL's insurance subsidiaries, AEL, AIG Life and AIG Israel are regulated and have properly constituted unitary boards, appropriately structured committees and executive management teams. They also have specific personnel dedicated to the 'controlled functions' (Compliance, Risk and Audit).

The core documentation, which supports the allocation of responsibilities, is as follows:

- AHEL Group Governance Policy;
- AIG Europe Governance Playbook;
- Governance Maps for AIG Life and AEL;
- SIMR documentation including Fit and Proper Policy for AIG Life and AEL;
- Structure charts (updated each quarter);
- Documented roles and responsibilities for all members of ExCo, the Board and the controlled functions (held by Company Secretariat);

- Similar documentation in place for AIG Israel appropriate to its size and complexity.

The "Three Lines of Defence Model"

The Risk Management Frameworks for AEL, AIG Life and AIG Israel are based on the "Three Lines of Defence" model. This structure allows for each function and individual to have a clear understanding of their risk management responsibilities and aids embedding of an effective risk culture across the European Group.

Three lines of Defence	
First Line of Defence	Senior management (executive/business/operational), along with all staff in the organisation are responsible for implementing and maintaining the controls necessary for achievement of the Company's strategic and business objectives, the ownership and management of its inherent risks, its compliance with corporate standards and its legal and regulatory obligations.
Second Line of Defence	The oversight functions (ERM and Compliance) are responsible for defining the risk framework and for monitoring the effectiveness of risk controls and for reporting their weaknesses or failures to the risk and audit committees. In this context, these functions are the "Second Line of Defence" against failure. Both functions also partner with the business in providing advice, guidance and challenge in managing their risks including conduct risk.
Third Line of Defence	The Internal Audit function delivers the "Third Line of Defence" by providing independent assurance to the Board, through the Audit Committee, regarding the effectiveness of the First and Second Lines of Defence.

Overview of Management and Governance Structure in AEL

The AEL Board has overall responsibility for the oversight of the management of AEL. Its role is to provide entrepreneurial leadership of AEL within a framework of prudent and effective controls which enables each of the risks faced by AEL to be assessed and managed. All authority in AEL flows from the Board, which in turn delegates the authority to sub-committees as set out in their respective terms of reference.

The role of the Board Risk Committee (BRC) is to challenge, oversee and monitor the management of risks within AEL to ensure they are being managed within the risk governance requirements and risk appetite approved by the Board.

The Reserves Committee is responsible to ensure that AEL maintains reasonable and adequate technical reserves and to oversee and manage all forms of reserving risk assumed or accepted by AEL.

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

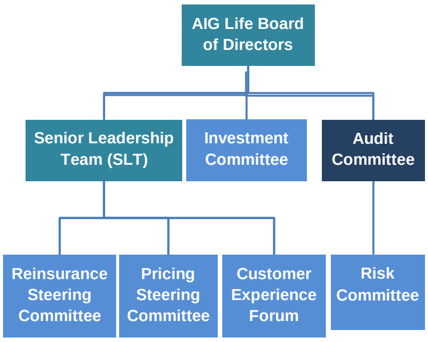
AEL's risk management framework is itself supported by and delivered through a set of processes, which aid the identification, measurement, monitoring, management and reporting of risks. These processes and deliverables include the Risk Register, Risk Appetite Framework, Internal Model Output (for risk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

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

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

The full description of AEL's Management and Governance Structure and its Key Functions, Roles and Responsibilities is found in Section B.1A on pages 17-25 of AEL's 2016 SFCR. The AEL 2016 SFCR is available for download and viewing from the AIG website at https://www.aig.co.uk/about-aig.

Overview of Management and Governance Structure in AIG Life



The role of the AIG Life Board is to exercise effective control and oversight over its business in accordance with legislative and regulatory requirements. The Senior Leadership Team (SLT) develops, implements and manages AIG Life's business strategy including the monitoring of its progress against the strategic plan.

The SLT is composed of the CEO and senior management and is responsible to maintain an oversight of the various strategic initiatives. The SLT reports directly to AIG Life Board.

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

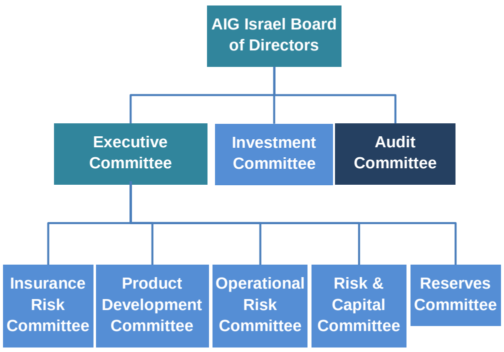
The Risk Committee oversees the risk management processes of AIG Life, ensuring that all risks are formally evaluated and categorised, that plans for the management of such risks are effective, and that the AIG Life Board and Audit Committee are informed of the results of this analysis and monitoring work. The Risk Committee reviews and approves the suite of AIG Life Risk Policies with a small number of core risk management policies requiring subsequent Board approval. The Risk Committee has oversight of model development and changes, data quality and governance and the overall risk and control environment.

Solvency capital reporting and adherence to risk appetite is provided to the Risk Committee for review prior to submission to the Audit Committee and Board. The Risk Committee also has responsibility for reviewing the AIG Life ORSA prior to submission to the Board for approval, on an annual basis or more often if appropriate.

The Audit Committee reports directly to the Board highlighting material issues which the Committee considers should be escalated for the Board's attention or action. In addition, documents such as the annual accounts must be reviewed by the Audit Committee prior to being put before the Board.

The full description of AIG Life's Management and Governance Structure and its Key Functions, Roles and Responsibilities is found in Section B.1.1 on pages 14-18 of AIG Life's 2016 SFCR. The AIG Life 2016 SFCR is available for download and viewing from the AIG website at https://www.aiglife.co.uk/.

Overview of Management and Governance Structure in AIG Israel



AIG Israel has a strong risk culture articulated by effective ERM and embodied by management at all levels through the governance structure and risk management processes. The Board has the ultimate responsibility for development and oversight of the risk management framework and delegates the management of risks to the Board's Investment Committee and to the Executive Committee (Ex-Co).

As required by the local regulation, there are two Board committees: Audit Committee and Investment Committee. The Board Committee and Investment Committee convene on a monthly basis. The Audit Committee, through its Internal Audit function provides independent assurance to the Board, through the Audit Committee, regarding the effectiveness of the First and Second Lines of Defence. The Audit Committee convenes a minimum of 6 meetings a year.

ERM provides its insight and risk reports to these committees and specifically to Investment Committee, as required by regulation and the Investment Committee.

In addition to the Board committees, there are five management committees as detailed below:

- Risk & Capital Committee (RCC) convenes at least quarterly, chaired by the GM. The Committee's Terms of Reference (TOR) is to recommend the Board as to the Company's overall risk management framework, including risk appetite; Solvency II; reinsurance exposure policy; and other capital management issues.
- Insurance Risk Committee (IRC) convenes at least quarterly, chaired by the CRO. The Committee is responsible to assess, manage, monitor and report on the insurance risk of the company, ensuring the company operates within its insurance risk appetite, reviewing reinsurance changes approving price changes, and reviewing key underlining assumptions used in the pricing models.
- Product Development Committee (PDC) convenes at least 6 times a year and chaired by the Life and A&H Consumer Product Manager. The Committee is responsible for establishing and maintaining a framework that assures all products are developed and approved using a disciplined and consistent process before they are offered and that takes into account: (1) customer needs; (2) legal and regulatory requirements; (3) AIG policies; and (4) internal business strategies.
- Operational Risk Committee (ORC) convenes quarterly, chaired by the CRO, and includes representatives from different business units. The ORC monitors current and emerging operational risks, mitigating actions and related decisions. The Committee's TOR is to overview the operational risk framework; to promote the operational risk agenda and initiatives; to oversee, monitor, and discuss recommendations to mitigate operational risks; and to implement a procedure for risk events

analysis.

- Reserves Committee (RC) was set up in 2016 and convenes at least annually, chaired by the GM. The Committee's TOR is to ensure that the Company maintains reasonable and adequate technical reserves, to challenge the reserves (including Unearned Premium Reserves, Incurred But Not Enough Reported (IBNER), Incurred But Not Reported (IBNR), Unallocated Loss Adjustment Expenses (ULAE) and ad-hoc reserves) within the range of actuarial reasonable best estimates and stat reserves provided, in line with the Company's reserving policy taking into account.

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

AHEL has adequate internal governance, which adheres to the standards expected of it by EIOPA and guidance issued by the PRA.

There are no material changes in the system of governance during the period.

B.1.C ADEQUACY AND APPROPRIATENESS OF THE SYSTEM OF GOVERNANCE

As mentioned above, the AHEL Board delegates the governance of its subsidiaries to the Boards of AEL, AIG Life, AIG Israel and its two other non-insurance entities, Laya Group and AIG Advisors SRL. The simplified governance structure has been designed to ensure that management are able to provide the appropriate levels of oversight whilst allowing decisions to be made more quickly and ensuring that the employees of each subsidiary are empowered to make decisions at the right levels.

Each insurance subsidiary continues to align its management and governance structure to proactively respond to the business and regulatory needs.

The various Board-level committees of each subsidiary have clearly defined responsibilities which have been delegated by their Boards. These committees are in turn supported by the relevant working groups, forums and sub-committees whose members and attendees have specific experience and expertise, allowing them to provide more detailed review and oversight. These bodies are empowered to make decisions and take actions within the limits of their delegated authority, thereby allowing each subsidiary, and consequently the European Group, to adapt to changes in an agile and flexible manner.

The governance structure therefore provides a mechanism for the European Group to anticipate and respond to potential changes in the business environment or risk profile within an appropriate period of time. The governance structure is also designed to facilitate the formulation, scrutiny and once approved, implementation of strategy. As a member of a wider group, the broad strategic direction of the European Group as a whole is set by AIG, Inc.'s executive operating committee. The ExCo formulates a detailed strategy for the European Group in the form of the annual business plan, taking account of AIG Group strategic direction. The plan is presented to the Board who scrutinise it to assess its benefits and risks to determine whether its implementation would be in accordance with:

- The European Group's risk appetite;
- The European Group's short-term and longer-term strategy and business plan;
- The European Group's legal and regulatory duties in each jurisdiction;
- The fair treatment of those who are (or may become) the policyholders of its insurance subsidiaries; and
- The safety and soundness of the European Group.

The AHEL Board's terms of reference give it overall responsibility for setting the European Group's strategy and it will not approve any strategy that it does not consider meets the above criteria.

B.1.D EUROPEAN GROUP REMUNERATION POLICY

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

Principles of the remuneration policy

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

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

Performance criteria

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

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

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

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

Human Resources

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

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

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

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

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

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

Compensation

The total Direct Compensation consists of the following elements:

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

Risk and Compensation Plans

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

B.1.E MATERIAL TRANSACTIONS DURING THE PERIOD

There were no material remuneration transactions during the reporting period between AIG Holdings Europe Limited and its direct and indirect subsidiaries, the Board members and members of the administrative, management or supervisory body.

B.2 FIT AND PROPER

The 'Fit and Proper' subsection of the report aims to provide a description of the processes for assessing the fitness and propriety for persons who effectively run the European Group or have other key functions. Each of AHEL and its subsidiaries classified as an insurance company are required under Group Governance Policy to complete skills assessment (where relevant) training and development plans, and succession plans for their Board of Directors and Executive Committees.

Assessment of fit and proper

Persons who effectively run the European Group or have other key functions are required to meet the fit and proper requirements. the European Group has established fit and proper policies and processes which comply with the current Approved Persons regime. The process comprises of two stages:

1. PRE-APPOINTMENT

- References - reasonable steps are taken to obtain appropriate references from the person's previous employer(s) CRB checks: Following receipt of the person's consent the European Group obtains and assesses any disclosures contained within a UK criminal records bureau check (or overseas equivalent if applicable).
- Credit checks - As an additional means to the person's financial soundness, the European Group carries out a credit records check through a recognised agency.
- Other due diligence from publically available sources - This includes such other due diligence as may be appropriate in order to form an assessment of the person's fitness and propriety, including from publicly available sources such as the Financial Services Register and Companies House (in relation to testing the accuracy of declarations around directorships).
- Pre-appointment questionnaire against which the findings of the above can be cross-checked.
- Qualifications - Request and review evidence of relevant qualifications as appropriate.
- Application - Require a formal application with CV (containing the candidate's full employment history accounting for any gaps, and the reasons for leaving each employer) and ensure that the person is interviewed at an appropriate level in order to assess his or her competence, knowledge, experience and training (including the person's training needs and requirements), taking into account the duties that will be expected of that person as set out in the role profile for the position.

2. ONGOING POST-APPOINTMENT

The European Group gathers the information it has collected as part of the recruitment process on the person's skills gaps and where appropriate develops a learning and development plan and induction programme.

The assessment for the pre-appointment stage is carried out by the Human Resources department and the person's proposed manager in the European Group. Where the appointment is to a Board or ExCo level position, the proposed appointee is also interviewed by one or more non-executive directors. In this case, the assessment will take account of the qualifications, knowledge and experience already existing within these bodies in order to ensure an appropriate diversity of these attributes among management.

The ongoing assessments of suitability are carried out through the annual review and appraisal process. Human Resources, working with Compliance, will provide Approved Persons with an annual training programme of legal and regulatory briefings. Human Resources will also require annual self-certification by its Approved Persons as to their fitness and propriety.

An Annual Self Certification is required to be submitted by all Approved Persons at the European Group and its Appointed Representatives to ensure that they remain fit and proper. Findings are reported to HR, and the Profit Centre Manager. Company Secretariat will undertake this process in March of each year.

Retrospective criminal checks are carried out on existing Approved Persons who have not been previously subjected to a criminal records check.

Senior Insurance Managers' Regime

The Senior Insurance Managers' Regime (SIMR) came into force on 7 March 2016 and replaces the Approved Persons regime. The regime applies to the most senior executive management and directors who are subject to regulatory approval. Under section 59 of the Financial Services and Markets Act 2000 (FSMA), authorised firms are required to ensure that individuals seeking to perform one or more of the PRA–designated Senior Management Functions seek PRA approval prior to taking up their position.

Training of the Board Members

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

B.3 EUROPEAN GROUP RISK MANAGEMENT SYSTEM

Risk Management Overview, Strategy and Objectives

The Risk Management Framework of AHEL builds on the strength and depth of the risk management processes undertaken in each of the insurance subsidiaries, overseen by the respective subsidiary Boards.

At AHEL level the focus is on assessing the major cross cutting risks and risk concentrations which exist across the three insurance subsidiaries. The Group therefore leverages output from the key risk management deliverables from each of these firms, including their ORSAs, risk monitoring of key concentrations and the results of stress testing to support the identification of shared risk areas or accumulations of risk which could impact the group as a whole.

Each component of the insurance subsidiaries' risk management frameworks are delivered by both first and second line of defence teams, the outputs of these activities are critical feeds into the Group Own Risk and Solvency Assessment in this report.

Risk Culture

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

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

This structure allows for each function and individual to have a clear understanding of their risk management responsibilities and aids embedding an effective risk culture across the European Group. The current risk governance structure provides an oversight and decision-making framework within which material risks are continually identified, assessed, monitored and managed at a regional level.

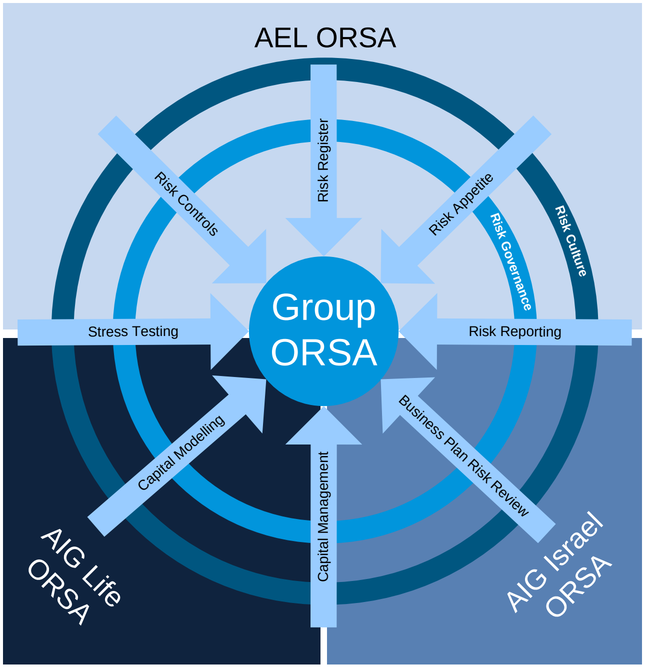
GROUP OWN RISK AND SOLVENCY ASSESSMENT

The AHEL Group ORSA looks at the current and forward looking risk profile of AHEL and its insurance subsidiaries; AEL, AIG Life and AIG Israel. The AHEL Group ORSA is performed, reviewed and approved annually.

AEL, AIG Life and AIG Israel apply a number of governance processes over their respective ORSA, in order to ensure that risk management processes and the risk and solvency positions are appropriately defined, assessed and managed.

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

The AEL ERM function prepares an ORSA report annually as do AIG Life and AIG Israel's risk management function.The ORSA reports are reviewed, challenged and ultimately signed off by each of their respective Boards. In addition, a further interim update of the ORSA may be produced in cases where an event occurs that results in a material change to its Risk Profile, Internal Model or Business Plan. The ORSA process and report is used and embedded in the first line of defence.



The ORSA Report is a distillation of the key outputs from these processes into a key document for management and the regulator.

For more information on the ORSAs of AEL and AIG Life, these are disclosed in Section B.3 on page 32 of AEL 2016 SFCR and pages 24-25 of AIG Life's 2016 SFCR. The AEL and AIG Life 2016 SFCRs are available for download and viewing from the AIG website at https://www.aiglife.co.uk/.

B.4 INTERNAL CONTROL SYSTEM

The Managements of AEL, AIG Life and AIG Israel are responsible for establishing and maintaining adequate internal controls over Solvency II reporting. The internal controls over Solvency II, under the supervision of their respective Boards, are designed to provide reasonable assurance that the SF-SCR calculation is complete, accurate and are underpinned by an appropriate level of data governance.

AEL, AIG Life and AIG Israel's internal control over Solvency II reporting includes procedures that:

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

B.5 INTERNAL AUDIT FUNCTION

The Boards of AHEL, AEL, AIG Life and AIG Israel, senior management, Internal Audit, other second line functions, business managers and all colleagues have a shared commitment to maintain and enhance the integrity of the control environment. Within the context of the control framework, auditing is an independent risk assessment function established within the organisation to evaluate, test, and report on the adequacy and effectiveness of management's systems of internal control, providing third line of defence.

The purpose of these evaluations and tests is to:

- Assist the Audit Committee in executing their oversight responsibilities and,
- Provides an independent assessment of the system of internal control, through reviewing how effectively key risks are being managed, and assists management in the effective discharge of its responsibilities by carrying out independent appraisals and making recommendations for improvement.

The Internal Audit function is responsible for establishing, implementing and maintaining an effective and efficient audit programme, taking into account its activities, system of governance and risk management processes.

Maintaining audit independence

The Head of Internal Audit reports on the audit program, its status, and the condition of the control environment directly to the Boards of AHEL, AEL, AIG Life and AIG Israel through their respective Audit Committees. This reporting relationship which also includes audit plans, financial budgets and staffing considerations is designed to ensure the ongoing independence of the internal audit function in order to provide for the objectivity of its findings, recommendations and opinions.

The Head of Internal audit is authorised by the Audit Committees of the European Group and its subsidiaries to have full and complete access to any of the organisation's records, properties and personnel.

The Head of Internal Audit is also authorized to designate members of the audit staff to have such full and complete access in the discharging of their responsibilities.

Consistent with generally accepted professional internal auditing standards relating to independence, objectivity and authority, internal auditors are not to engage in developing or installing procedures or preparing records, or in any other activity which would normally be the subject of audits. Internal auditors are not to have direct responsibility or any authority over any of the activities or operations that they review. Internal auditors will assist management in maintaining adequate and effective systems of controls through objective appraisals, recommendations and control consultations.

B.6 ACTUARIAL FUNCTION

As described in Section B.1A on page 17 of this report, the AHEL Board delegates the governance of its insurance subsidiaries to the Boards of AEL, AIG Life and AIG Israel. The underlying insurance subsidiaries have appropriate and adequate governance structures including properly constituted sub committees in compliance with local laws and regulation.

For more information on the actuarial functions of AEL and AIG Life, these are disclosed in Section B.6 – Actuarial Function on page 33 of AEL 2016 SFCR and page 29 of AIG Life's 2016 SFCR. The AEL and AIG Life 2016 SFCRs are available for download and viewing from the AIG website at https://www.aiglife.co.uk/.

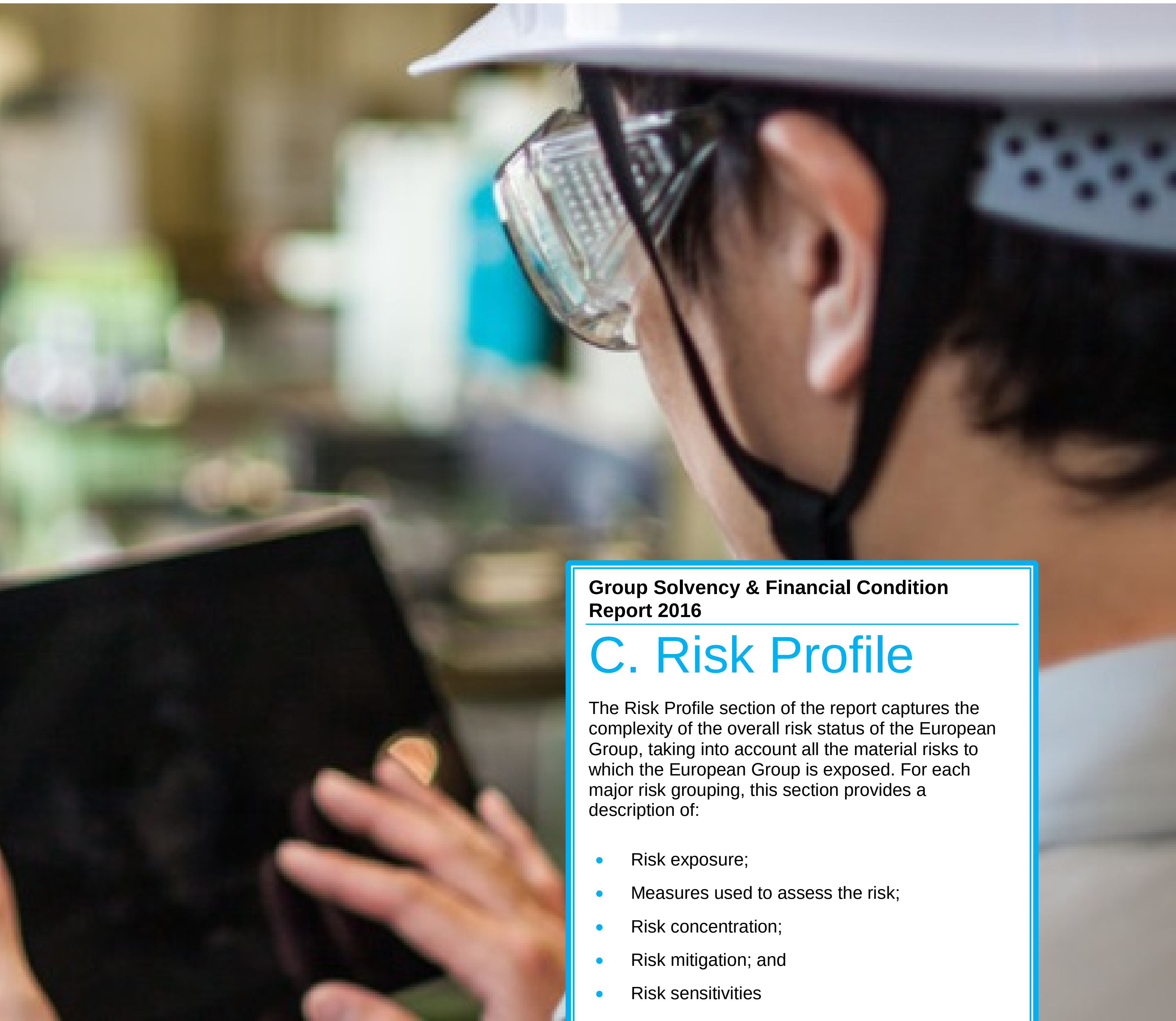
B.7 OUTSOURCING ARRANGEMENTS

There are no significant outsourcing arrangements for AHEL during the period.

For more information on the outsourcing arrangements of AEL and AIG Life, these are disclosed in Section B.7 – Outsourcing Arrangement on page 33 of AEL 2016 SFCR and page 30-31 of AIG Life's 2016 SFCR. The AEL and AIG Life 2016 SFCRs are available for download and viewing from the AIG website at https://www.aiglife.co.uk/.

B.8 ANY OTHER MATERIAL INFORMATION

The information presented in Section B provides a true and fair view of the system of governance of the European Group during the period.



Group Solvency & Financial Condition Report 2016

C. Risk Profile

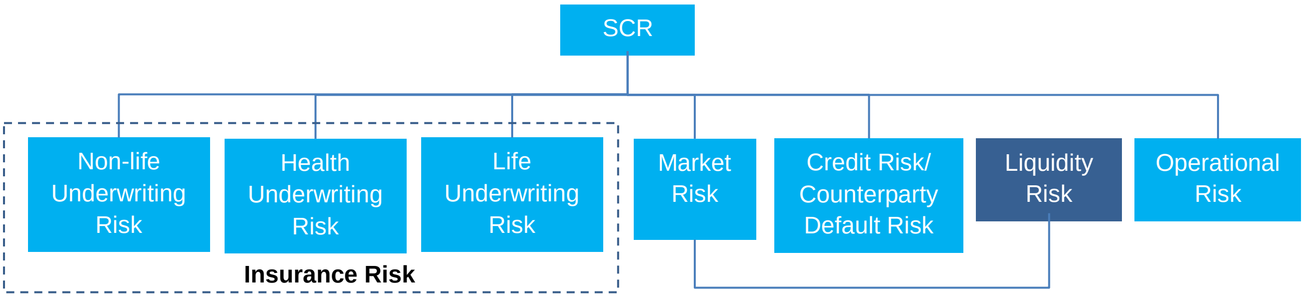
The Risk Profile section of the report captures the complexity of the overall risk status of the European Group, taking into account all the material risks to which the European Group is exposed. For each major risk grouping, this section provides a description of:

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

C. RISK PROFILE

The European Group believes that a strong, effective and embedded risk management framework is crucial to maintaining successful business operations and delivering sustainable, long-term profitability. However, to ensure efficient escalation of decision making and effective delegation of responsibilities the European Group has maintained a simple governance structure, detailed in section B above, that allows risk assessment, monitoring and management at the level of its subsidiaries.

The European Group's Solvency Capital Requirement (SCR) is calculated using the Standard Formula. Management intend for the European Group's SCR to be calculated using a bespoke partial internal economic capital model (the Solvency II Internal Model), pending approval from the PRA.



Risk Profile, Measurement and Assessment

Each insurance subsidiary's Risk Management Framework supports the identification, measurement, management, monitoring and reporting of the five major risk groupings the European Group is exposed to, including:

- Insurance risk (Underwriting Risk);
- Market Risk;
- Credit Risk (Counterparty Default Risk);
- Liquidity Risk; and
- Operational Risk

The European Group's Risk Profile is a point in time measurement of the risks that the European Group is exposed to mainly due to business activities of its subsidiaries. Risk management processes are well established at each subsidiary and they take into account available Management Information and Key Risk Indicators (KRIs) to assess, measure and monitor current and forward looking risks.

KRI results of each subsidiary, particularly those that breach an agreed trigger level, are discussed within the appropriate risk committee within the risk management governance structure to identify the root cause and to approve remedial actions for the relevant risk owners to execute.

Where key risk hotspots are identified, being either those that have crystallised or may potentially emerge, the assessments will quantify their potential or actual impact and propose remediation actions for specific Risk Owners and management to take note of and, if agreed, execute.

The European Group has identified a number of risks - mostly related to AEL, that may potentially impact on the successful execution of the its business plan and ability to generate sustainable profits during 2017 and beyond.

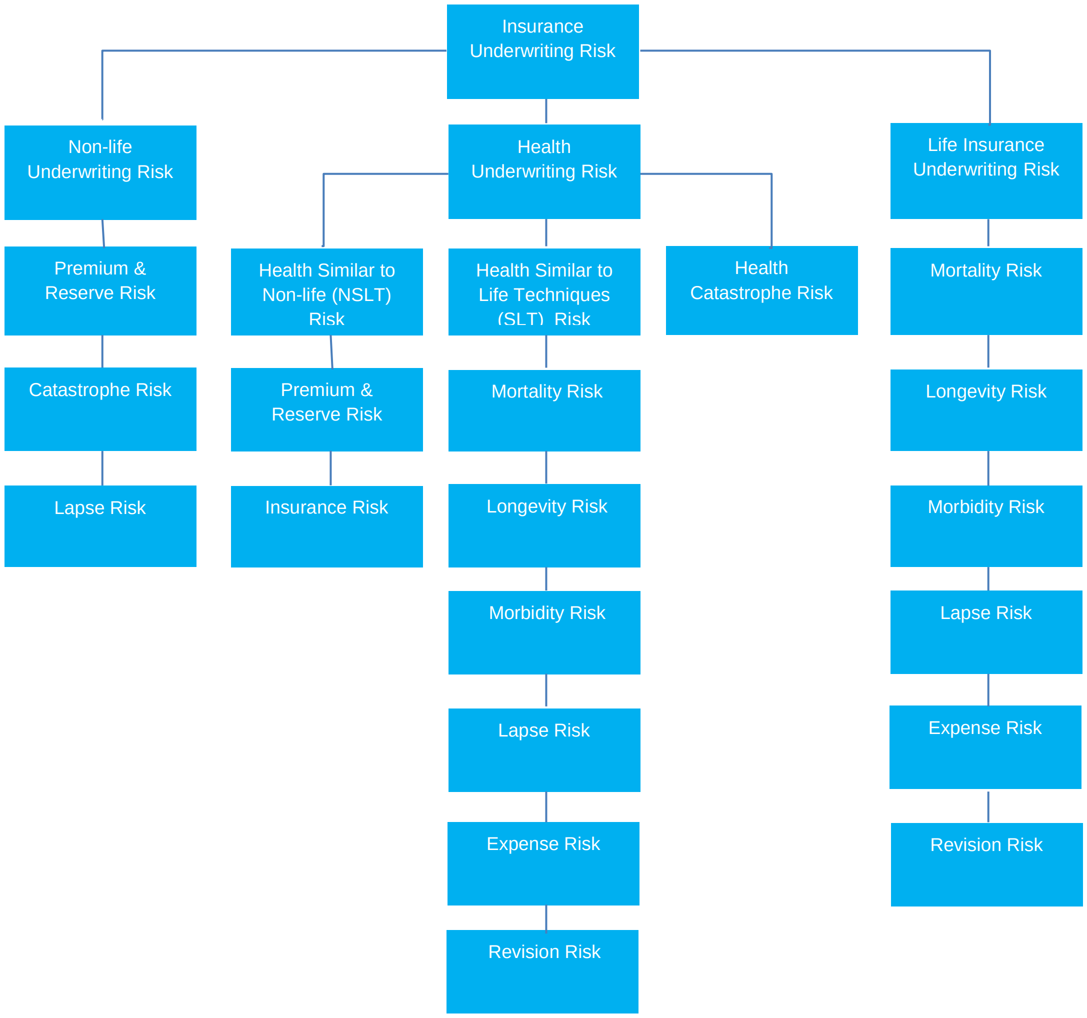
These risks are assigned to one or more of its Top Ten Risks and ranked in order of materiality, based on the potential impact of each risk on the balance sheet and on the likelihood of each risk occurring.

Top Ten risks on the European Group's Risk Watch List

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

C.1 INSURANCE RISK (UNDERWRITING RISK)

Insurance Risk encompasses the risks the European Group is exposed to that arise from the insurance underwriting operations of AEL, AIG Israel and AIG Life and is broadly split and assessed between the following risk categories:



INSURANCE RISK EXPOSURES

Non-Life Underwriting Risk, Health Underwriting Risk and Life Underwriting Risk comprise c. 76%, 9% and 4% respectively of the European Group's SF-SCR.

Non-Life Underwriting Risk

Non-Life Underwriting Risk of the European Group relates to AEL (contributes c. 98%) and AIG Israel. It comprises of:

1. PREMIUM RISK

Premium Risk arises from the failure of pricing, product or strategy. It encompasses the risk of loss due to the potential timing, frequency and severity of covered loss events differing from that assumed at the time of underwriting and pricing a risk. Premium Risk arises during market and/or investment cycles where there is pressure on pricing margins, which results in being unable to charge an appropriate price without undermining its market position.

Premium Risk is driven by changes in actual earned premiums and forecast premiums.

2. RESERVE RISK

Reserve risk arises from adverse reserve development through failing to set sufficient cash reserves or through failing to adopt a robust and consistent reserve strategy offered to insureds and countries. It represents the difference between the actual versus expected variability in the timing or amount (size/severity and count/ frequency) of loss costs including indemnity, legal and loss adjustment expenses.

Reserve Risk is influenced by changes in Claims Provisions.

3. NATURAL CATASTROPHE RISK

Natural Catastrophe Risk arises from the failure to manage risk aggregation or accumulation that may result in an increased exposure to natural catastrophe losses (e.g. hurricanes, earthquakes, floods etc.). If insured risks are overly correlated due to say, geographical concentration, losses can occur and affect multiple lines of business.

4. MAN MADE CATASTROPHE RISK

Man Made Catastrophe Risk arises from failure to manage risk aggregation or accumulation that may result in increased exposure to man-made catastrophe losses (e.g. terrorism, explosion, systemic financial losses, latent disease, pandemic etc.).

5. LAPSE RISK

Non-Life lapse risk reflects the risk of loss, or of adverse change in the value of insurance liabilities, resulting from a discontinuance of insurance policies.

AEL's exposure to Non-Life Insurance Risks is the largest contributor to its capital requirement under Standard Formula and the details are given in section E below.

Health Underwriting Risk

Health Underwriting Risk relates to all insurance subsidiaries of the European Group. It comprises of:

1. HEALTH NSLT RISK

It is the risk of loss or of adverse changes in health insurance liabilities that are similar to non-life insurance in nature. It relates to AEL (contributes c. 99%) and AIG Israel and arises from:

- differing timing, frequency and severity of insured events compared to that assumed at the time of underwriting and not having sufficient cash reserves to pay claims due to differing timing and amount of claim settlements (premium and reserve risk).
- discontinuance of health insurance policies (lapse risk).

2. HEALTH SLT RISK

It is the risk of loss, or of adverse change in the value of health insurance liabilities that are similar to life insurance in nature.

It relates to AIG Israel (contributes c. 76%) and AIG Life (contributes c. 24%). It arises from changes in the level, trend, or volatility of mortality rates; disability, sickenss and morbidity rates; lapses, terminations and surrenders; expenses and revision rates applied to annuities.

3. HEALTH CATASTROPHE RISK

It is the risk of loss, or of adverse change in the value of health insurance liabilities of AEL (contributes c. 98%), AIG Israel and AIG Life. It arises from:

- having many people in one location at the same time, causing mass accidental deaths, disabilities and injuries with a high impact on the cost of medical treatment sought.
- having concentrated exposures due to densely populated locations, causing concentrations of accidental deaths, disabilities and injuries.
- having a large number of non-lethal disability and income protection claims and where victims are unlikely to recover as a result of a pandemic.

Life Underwriting Risk

For the European Group, Life Underwriting Risk relates to AIG Life (contributes c. 66%), AIG Israel (contributes c.28%) and AEL.

It arises from adverse change in the value of insurance liabilities of life insurance products and of annuities arising from non-life insurance products, due to changes in the level, trend, or volatility of mortality rates, longevity rates, disability/ sickness /morbidity rates, lapses or surrender, expenses and revision rates.

MEASURES USED TO ASSESS INSURANCE RISK

Each insurance subsidiary of the European Group use various techniques to measure and assess its insurance risks. Details of such methods are availble in Section C of Solo SFCRs.

INSURANCE RISK CONCENTRATION

Insurance risk concentration occurs due to the concentration of insurance operations of the European Group in a particular geographic area, industry or insurance peril and subsidiary. It may also occur as a result of a correlation between individual insured perils. As mentioned earlier, non-life insurance risk of AEL represents the largest source of insurance risks for the European Group.

The European Group has the largest exposures by premiums and by reserves to AEL's SII LoBs of General Liability, Fire and other Property Damage and Marine, Aviation and Transport. Therefore, these LoBs of AEL contribute significantly to Premium and Reserve risk of the European Group. Even a single event in a business segment or industry may have a material impact on re-payment capacity. Particular attention is paid to events with a low frequency and a high impact, for example storms, hail and floods.

The European Group's has material expsoure to natural perils of windstorm, earthquake, flood, hail and subsidence and most of it relates to AEL. Natural Catastrophe results are aggregated at the region/peril combination where region is a particular major geographical territory such as Europe, United Kingdom or North America and peril is the natural catastrophe hazard.

Material risk concentrations of man made catastrophe risks of the European Group arise from AEL's exposure to liability and fire risk perils.

INSURANCE RISK MITIGATION TECHNIQUES

Each insurance subsidiary of the European Group use various techniques to mitigate its insurance risks and the details are availble in Section C of Solo SFCRs.

PROCESS FOR MONITORING THE EFFECTIVENESS OF INSURANCE RISK MITIGATION TECHNIQUES

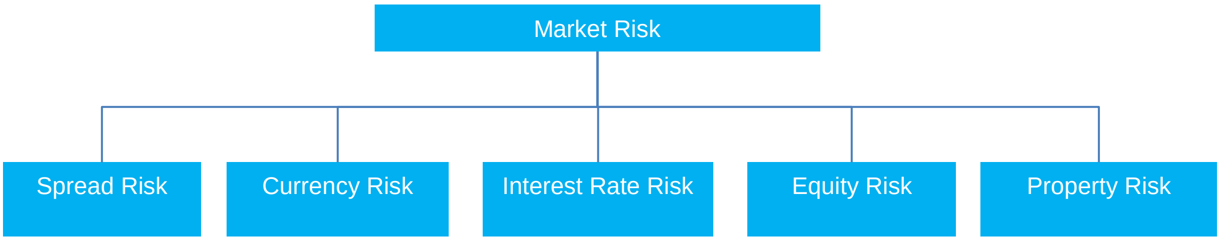
Each insurance subsidiary of the European Group monitors the effectiveness of insurance risk mitigation techniques and details are availble in Section C of Solo SFCRs.

C.2 MARKET RISK

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

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

- Assets in the European Group's investment portfolio including, but not limited to, bonds, loans, structured products, equity, alternative investments and real estate;
- Capital markets transactions, such as exchange-traded and over-the-counter derivatives;
- The European Group's insurance businesses providing services to clients that can generate assets and liabilities with valuations linked to Market Risk Factors;
- Operating Subsidiaries that maintain their financial records in a currency other than the British Pound, generating Forex translation risk;
- Transactions that require cash-flow settlement in a currency other than the functional currency, generating Forex transaction risk; and
- Investment assets within the European Group's defined benefit pension schemes



MARKET RISK EXPOSURE

A description of the European Group's components of Market Risk are shown below:

Market Risk Components	Description
Spread risk	The potential financial loss due to the increase in the spread that an asset trades at relative to a comparable government bonds hence a decrease in the asset's market value.
Currency risk	The potential financial loss arising from the change in value of currency exchange rates or from closing out a currency position at a loss due to adverse movements in exchange rates.
Interest rate risk	The potential financial loss arising from the reduction in the value of the investment portfolio and liabilities due to changes in the level of interest rates.
Equity risk	The potential financial loss arising from the reduction in the value of the investment portfolio due to changes in prices of equities, mutual funds and equity-linked capital market instruments. The European Group's exposure to Equity risk is immaterial because holdings in underlying equity securities are not significant.
Property risk	The potential financial loss arising from the reduction in the value of the investment portfolio due to changes in real estate prices. The European Group's exposure to Property risk is immaterial because holdings in properties are not significant.

MEASURES USED TO ASSESS MARKET RISK

Market risks of the European Group mainly relate to its insurance subsidiaries and each insurance subsidiary of the European Group use various techniques to measure and assess its market risks. Details of such methods are availble in Section C of Solo SFCRs.

The European Group's exposure to Market Risks is the second largest contributor to its capital requirement under Standard Formula (c. 33%) and the details are given in section E of this document.

MARKET RISK CONCENTRATION

The European Group holds and maintains a diversified investment portfolio that comprises of investments in corporate bonds, government bonds, securitisations, loans and mortgages, equities, mutual funds, investments in group undertakings (participations) and short-term deposits – see Section D for details.

Each insurance subsidiary of the European Group has a well-defined Risk Appetite for Market Risk (and its Investment activities) and manages its Investment portfolio so that the Total Return is maximized and risks do not breach the concentration limits.

Market Risk Concentration – by Credit Rating

Bonds (government, corporate and securitised assets) comprise the largest portion of the European Group's investment portfolio out of which c. 80% were either rated AAA, AA or A in 2016. Therefore, the European Group's exposures to the increase in corporate spreads and downgrade in ratings are concentrated within bonds rated A and above.

Bond Ratings	Market Risk Concentration £m	Market Risk Concentration %
AAA	2,457.6	25.1%
AA	2,637.3	27.0%
A	2,723.4	27.8%
BBB	1,049.5	10.7%
BB	424.4	4.3%
B	241.5	2.5%
CCC	4.9	0.0%
Not Rated	246.5	2.5%
Total	**9,785.1**	**100.0%**

Market Risk Concentration – by Issuer

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

Issuer names	Market Risk Concentration £m	Market Risk Concentration %
Federal Republic of Germany	531.7	5.4%
UK Government	526.3	5.4%
European Investment Bank	235.9	2.4%
Kingdom of Denmark	205.5	2.1%
Kreditanstalt fuer Wiederaufbau	130.6	1.3%

Each of the issuer above is either a government, government agency or a supranational body and therefore, the associated market risks are considered to be low.

Market Risk Concentration – by Currency

Other than British Pound, the European Group has large net exposures to Euro and US Dollars. Currency Risk capital charge under Standard Formula is based on net assets denominated in foreign currencies. The split of excess of assets over liabilities by major foreign currencies is as follows:

Currency	Market Risk Concentration £m
Euro	1,369.7
US Dollar	750.8
Other	378.6
Total Net Assets denominated in foreign currencies	**2,499.1**

MARKET RISK MITIGATION TECHNIQUES

Insurance subsidiaries of the European Group manage their investment portfolios with respect to the market risk profile of their liabilities in order to minimise the impact on solvency position due to adverse market movements. Risk mitigation of market risk is executed through the combined use of investment limits, guidelines and principles – in line with the requirements of Prident Person Principle, at subsidiaries' level and details are available in Solo SFCR.

PROCESS FOR MONITORING THE EFFECTIVENESS OF MARKET RISK MITIGATION TECHNIQUES

Each insurance subsidiary of the European Group monitors the effectiveness of market risk mitigation techniques and details are availble in Section C of Solo SFCRs.

C.3 COUNTERPARTY DEFAULT RISK (CREDIT RISK)

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

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

CREDIT RISK EXPOSURE

The European Group is exposed to Credit Risk on both asset and liability side of its balance sheet and its Credit Risk is categorised into two components below:

- Type 1 exposures that include risk mitigating contracts like reinsurance arrangements, securitisations, derivatives, deposits with ceding and credit institutions, cash at bank and letters of credit that are not diversifiable but are likely to be rated.
- Type 2 exposures that include diversifiable and unrated exposures such as receivable from intermediaries, policyholder debtors etc.

The European Group's exposure to Credit Risks is the fourth largest contributor to its capital requirement under Standard Formula and the details are given in section E below.

MEASURES USED TO ASSESS CREDIT RISK

Credit Risks of the European Group mainly relate to its insurance subsidiaries and each insurance subsidiary of the European Group use various techniques to measure and assess its credit risks. Details of such methods are availble in Section C of Solo SFCRs.

CREDIT RISK CONCENTRATION

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

The European Group's most material Credit Risk concentration relates to type 1 exposure of reinsurance arrangements (reinsurance recoverable and reinsurance receivables) that amounted to £2,557.1m at 2016.

Amongst Type 2 exposures, the European Group's most material Credit Risk concentration relates to Receivables due from intermediaries and arising out of insurance operations and it amounts to £10.0m at 2016 and this exposure is well diversified.

The largest reinsurance balance is with AIG Group and the details of top five reinsurer balances are as follows:

Reinsurer Name	£m
American International Group, Inc.	977.5
Pacific Mutual Holding Company	141.6
Unilever	137.4
Deutsche Post AG	108.2
Swiss Re Ltd	106.9

The details of top 5 cash balances by counterparties are:

Counterparty Name	£m
Citigroup Inc.	101.6
Kingdom of Netherlands	67.9
American International Group, Inc.	64.4
VIVAT N.V.	39.9
The Bank of Ireland	22.9

CREDIT RISK MITIGATION TECHNIQUES

Each insurance subsidiary of the European Group use various techniques to mitigate its credit risk and the details are availble in Section C of Solo SFCRs.

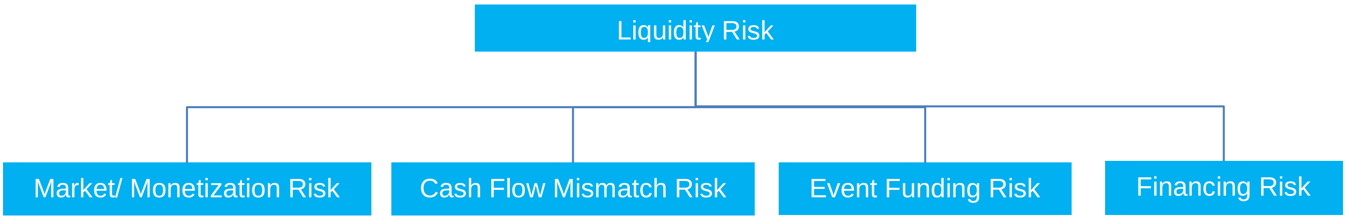
PROCESS FOR MONITORING THE EFFECTIVENESS OF CREDIT RISK MITIGATION TECHNIQUES

Each insurance subsidiary of the European Group monitors the effectiveness of credit risk mitigation techniques and details are availble in Section C of Solo SFCRs.

C.4 LIQUIDITY RISK

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

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



LIQUIDITY RISK EXPOSURE

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

Cash flow Mismatch Risk: The risk of discrete and cumulative cash flow mismatches or gaps over short-term horizons under both expected and adverse business conditions that may create future liquidity shortfalls.

Event Funding Risk: The risk that additional funding will be required as the result of a trigger event. Event funding risk comes in many forms and may result from a downgrade in credit rating, a market event, or some other event that created a funding obligation or limits existing funding options.

Financing Risk: The risk that the European Group will not be able to raise additional cash on a secured or unsecured basis due to unfavourable market conditions, company-specific issues or any other issue that impedes access to additional funding.

MEASURES USED TO ASSESS LIQUIDITY RISK

Most of the Liquidity Risk of the European Group arises from AEL because of short-term and seasonal nature of its business. Each subsidiary of the European Group has various techniques to measure and assess its liquidity risk and details can be found in Solo SFCR.

LIQUIDITY RISK CONCENTRATION

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

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

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

The composition of the European Group's investment portfolio is broadly similar to the investment portfolio of AEL. AEL, being a non-life insurer has made all of its financial investments in assets designated as available for sale except for loans and mortgages, and therefore, can be sold when needed. However, AIG Life holds some long-term investments to back its technical provisions that are of mainly long-term in duration.

Similarly, due to an overall short-term and seasonal nature of the European Group's business, most of the insurance related liabilities are due for payment within five years with the largest concentration of insurance liabilities in its second year.

LIQUIDITY RISK MITIGATION TECHNIQUES

Each insurance subsidiary of the European Group use various techniques to mitigate its Liquidity Risk and the details are availble in Section C of Solo SFCRs.

PROCESS FOR MONITORING THE EFFECTIVENESS OF LIQUIDITY RISK MITIGATION TECHNIQUES

Each insurance subsidiary of the European Group monitors the effectiveness of Liquidity Risk mitigation techniques and details are availble in Section C of Solo SFCRs.

EXPECTED PROFIT IN FUTURE PREMIUMS (EPIFP)

Each insurance subsidiary of the European Group calculates EPIFP in line with Article 260(2). The European Groups' EPIFP is the sum of EPIFP of all insurance subsidiaries.

EPIFP arising from life and non-life businesses amounted to £329.7m and £294.5m respectively and the total EPIFP amounted to £624.5m.

C.5 OPERATIONAL RISK

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

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

OPERATIONAL RISK EXPOSURES

The European Group has the exposure to the following types of Operational risks:

Operational Risk Components	Description
Execution, Delivery & Process Management	Risks associated with the failure to execute or process transactions timely and accurately with clients, counterparties and/or external vendors/suppliers.
Clients, Products & Business Practices	Risks associated with the unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements) or from the nature or design of a product. It also includes non-compliance with laws, rules, regulations, agreements, prescribed practices and ethical standards.
Employment Practices & Workplace Safety	Risks associated with acts inconsistent with employment relation, health and safety and anti-discrimination laws or agreements.
Business Disruption & Systems Failure	Risks associated with the interruption of business activity due to system or communication failures, the inaccessibility of information or the unavailability of utilities.
Financial Integrity & Reporting	Risks associated with the disclosure of materially incorrect or untimely information, whether financial or non-financial, or the failure to disclose information to external or internal stakeholders or to the general public.
External Fraud	Risks associated with acts intended to defraud, misappropriate property or circumvent regulations or the law by one or more third party.
Internal Fraud	Risks associated with acts intended to defraud, misappropriate property or circumvent regulations, the law or company policy which involves at least one internal party.
Damage to Physical Assets	Risks associated with the damage or unavailability of physical assets as a result of a natural disaster or other traumatic event.

The European Group's exposure to Operational Risks is the third largest contributor to its capital requirement under Standard Formula and the details are given in section E below.

MEASURES USED TO ASSESS OPERATIONAL RISK

Each insurance subsidiary of the European Group has various techniques to measure and assess its Operational Risk and details can be found in Solo SFCR.

OPERATIONAL RISK CONCENTRATION

General Liability, Fire and Other Damage to Property, Marine, Aviation and Transport and Motor Vehicle Liability lines represent the largest concentration of operational risk under SF-SCR.

OPERATIONAL RISK MITIGATION TECHNIQUES

Each insurance subsidiary of the European Group has various techniques to mitigate its Operational Risk and details can be found in Section C of Solo SFCR.

PROCESS FOR MONITORING THE EFFECTIVENESS OF OPERATIONAL RISK MITIGATION TECHNIQUES

Each insurance subsidiary of the European Group monitors the effectiveness of Operational Risk mitigation techniques and details are availble in Section C of Solo SFCRs.

C.6 RISK SENSITIVITIES

AHEL management are keen to maintain a long term view of the financial business model and capital management strategy of the European Group and where possible will look to avoid short term potentially sub optimal profitability decisions. AEL represents c.90% of the capital requirement of the European Group and as such the focus is on ensuring that sufficient sensitivity analysis and contingency planning is undertaken within AEL to ensure the European Group's capital position is protected.

STRESS AND SENSITIVITIES TESTING

AEL's stress and sensitivities testing plays a principal part in managing the European Group's capital levels. Stress and scenario testing is conducted to inform the Board risk appetite and assist management to manage AEL's capital levels and to make recommendations to the Board regarding dividend payments.

In a stress event, AEL will be able to implement a range of capital management actions, consistent with its Contingency plan, to restore AEL's capital position to above the regulatory minimum requirement. This includes cancellation of all future target dividends and drawing down upon the Capital Maintenance Agreements (CMA) AEL has in place with its ultimate parent, AIG Inc. Details regarding the stress testing carried out by AEL can be found in Section C of AEL's SFCR that is available on AEL's website.

Both AIG Life and AIG Israel conduct their own stress testing based on known and emerging risks to support the defined risk appetite and also assess funding needs. Details of stress testing carried out by AIG Life can be found in Section C of AIG Life's SFCR that is available on its website.

This information of solo entities' stress and sensitivity tests is reviewed by AHEL management when assessing the adequacy of the European Group's capital levels.

Enhanced Standard Formula solvency monitoring

Apart from stress testing at solo entity level, AHEL Management is implementing a monthly monitoring process to capture the key sensitivities to the balance sheet (and hence to the SF-SCR). This principally focuses on AEL but also looks to capture any key factors that will materially impact the European Group. This covers investment market movements, claims activities, reserve movements, Standard Formula model updates (if applicable) and other areas that will materially impact capital.

AHEL Management have identified that the SF-SCR for AEL and the European Group is particularly sensitive to the following factors:

- Severe insurance losses
- Credit spreads volatility
- Interest rates volatility
- Foreign exchange volatility

Should any of the above sensitivities occur, placing the European Group's compliance with the SF-SCR at risk, management would consider the following default actions (this is not an exhaustive list):

- Suspend BAU and special dividends out of AHEL
- Introduce additional LoC and analysis and potential introduction of other AOF
- Implement additional reinsurance programmes
- Issue additional qualifying subordinated debt
- Capital injections from the parent group (in the absence of other solutions)

As part of their ongoing business planning and capital forecasting processes, both AIG Life and AIG Israel monitor the development of their capital position throughout the year. As part of this process, local management assess whether any sensitivities are likely to materially impact their future capital needs and as such the capital position of the European Group. This information is shared with AHEL Management who reviews the impact on AHEL and takes necessary actions as mentioned above.

C.7 OTHER MATERIAL RISKS

The information presented in Section C provides a true and fair view of the risk profile of the European Group during the period.

Group Solvency & Financial Condition Report 2016

D. Valuation for Solvency Purposes

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

Key elements of the section include:

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

D. VALUATION FOR SOLVENCY PURPOSES

Under section 401 of the Companies Act 2006, the European Group is exempt from having to produce group consolidated IFRS annual accounts. The statutory accounts values below represent the values as presented in AHEL's standalone financial statements. The valuation differences therefore arise from moving from IFRS standalone basis to Solvency II Group consolidated basis.

The European Group Solvency II Balance Sheet, Own Funds and SF-SCR are prepared using Method 1 Accounting Consolidation prescribed under the Solvency II regulations and PRA rules.

The European Group and the majority of its subdiaries have a 30 November year end, however AIG Life, AIG Israel and Laya Healthcare have 31 December as their year end. The latter entities are consolidated on a 2 month lag basis. For the YE2016 European Group Solvency II calculations, the quarter-lag entities are consolidated using their financials as at 30 September 2016.

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

Solvency II Balance Sheet as at 30 November 2016, £m	Notes	Statutory Value - Solo	SII Value - Consolidated
Assets			
Deferred Acquisition Costs	8		-
Intangible Assets	9		-
Deferred tax assets	7		116.6
Pension benefit surplus	10		21.0
Property, plant & equipment held for own use	6		152.6
Investments	1	4,080.1	10,010.2
Property (other than for own use)			59.9
Participations		4,080.1	0.3
Equities			7.6
Bonds			9,785.1
Government Bonds			3,153.0
Corporate Bonds			6,314.7
Structured notes			2.7
Collateralised securities			314.7
Investment funds			56.8
Deposits other than cash equivalents			100.6
Loans & mortgages	2		358.6
Reinsurance recoverable from:	D.2		2,241.6
Non-life excluding health			2,014.5
Health similar to non-life			9.2
Health similar to life			17.7
Life excluding Health and index- linked and unit-linked			200.3
Insurance & intermediaries receivables	11		10.0
Reinsurance receivables	4		223.8
Receivables (trade, not insurance)	3	4.9	483.5
Cash and cash equivalents	5	1.7	328.0
Total assets		**4,086.7**	**13,945.8**
Liabilities			
Technical Provisions			
Technical provisions – non-life	D.2		(9,337.5)
Non-life excluding health			(9,006.8)
Health similar to non-life			(330.6)
Technical provisions – life	D.2		(153.8)
Life excluding health			(252.0)
Health similar to life			98.2
Liabilities other than Technical Provisions			
Provisions other than technical provisions	13		(72.0)
Pension benefit obligations	14		(126.3)
Deposits from reinsurers	17		(53.2)
Deferred tax liabilities	16		(75.0)
Financial Liabilities (incl. debt owed to credit institutions)			(0.3)
Insurance & intermediaries payables			(2.9)
Reinsurance payables	18		(12.3)
Payables (trade, not insurance)	12	(26.3)	(609.1)
Subordinated liabilities	15	(1,100.0)	(1150.0)
Subordinated liabilities not in BOF			(12.8)
Subordinated liabilities in BOF			(1,137.2)
Total Liabilities		**(1,126.3)**	**(11,592.5)**
Excess of Assets over Liabilities		**2,960.4**	**2,353.3**

D.1 ASSETS

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

All of the European Group's assets categories apart from participations are measured at fair value in line with IFRS 13, therefore no measurement differences arise.

The European Group's investments are segregated into the following categories:

- Participations
- Equities
- Bonds (incl. Government Bonds, Corporate Bonds, Structured Products, Collaterlised Securities)
- Collective Investment Undertakings (Investment Funds)
- Deposits other than cash equivalents

The accrued interest is reclassified from other receivables under IFRS and local GAAP to the value of the underlying investment under Solvency II. The reclassification adjustments are posted at the individual subsidiary level.

Participations: The European Group's non-controlling interest in participations is held at cost less impairment under IFRS and local GAAP. For Solvency II, these participations are valued using the adjusted equity method by applying Article 75 valuation principles on the individual assets and liabilities of the European Group's subsidiaries.

£m	Bonds	Deposits other than cash equivalents	Property (other than for own use)	Investment Funds	Equities	Participations	Total
AHEL Solo	-	-	-	-	-	3,504.5	3,504.5
AEL	9,336.0	80.2	-	3.6	7.6	60.0	9,487.4
Other Subsidiaries	449.0	20.3	59.9	53.2	-	0.2	582.8
Consolidation Adjustments	-	-	-	-	-	(3,564.3)	(3,564.3)
AHEL Consolidated	**9785.1**	**100.6**	**59.9**	**56.8**	**7.6**	**0.3**	**10,010.2**

At 30 November 2016 the SII value of the European Group's investments amounted to £10,010.2m and that comprised of:

- £9,785.1m bonds
- £100.6m short-term deposits
- £59.9m properties
- £56.8m investment funds
- £7.6m equities; and
- £0.3m participations.

£0.3m of European Group's participations arisen from:

- £3,504.5m of AHEL Solo participations
- £60.0m of AEL participations
- £0.2m of other subsidiaries' participations; and
- £3,564.3m consolidation adjustment to eliminate controlling interest in AHEL and AEL's participations.

Effectively, the European Group's participations represent non-controlling interest in other subsidiaries that are not eliminated in the consolidation process.

NOTE 2: LOANS AND MORTGAGES

Alternative valuation method

Loans and Mortgages are measured at fair value using the Income Approach through the discounted cash flow method for the purpose of Solvency II.

The European Group's discounted cash flow method relies on the use of unobservable market inputs to reflect the assumptions market participants would use in pricing the asset or liability based on sources independent of the entity pricing the asset or liability. Based on the characteristics of inputs available in the marketplace, the fair value estimates of the loans and mortgages are classified as level 3 under the fair value hierarchy.

Unobservable inputs reflect the European Group's own assumptions in regards to the assumptions market participants use in pricing the asset or liability (including assumptions about risks inherent in the asset or liability or inherent in the model used to estimate the price of the asset or liability).

Unobservable inputs are developed based on the best information available in the circumstances, which might include the European Group's own data and should take into account all information about market participant assumptions that is reasonably available. In developing unobservable inputs, it does not need to undertake all possible efforts to obtain information about market participant assumptions in pricing the asset or liability.

The European Group's own data used to develop unobservable inputs is adjusted if information indicating that market participants would use different assumptions is reasonably available without undue cost and effort. The unobservable valuation inputs are updated only when corroborated by evidence such as market transactions.

The accrued interest is reclassified from other receivables under IFRS and local GAAP to the Solvency II values of loans and mortgages.

The adjustments for the differences in valuation under IFRS and local GAAP to Solvency II and reclassifiaction of accrued interest are posted at the individual subsidiary level.

Loans and Mortgages	£m
AHEL Solo	15.0
AEL	408.9
Other Subsidiaries	0.9
Consolidation Adjustment	(66.1)
AHEL Consolidated	**358.6**

At 30 November 2016 the SII value of European Group's investment in loans and mortgages amounted to £358.6m. It mainly comprised of AEL's investment in loans of £408.9m and took into account consolidation adjustment of £66.1m to eliminate:

- intragroup loans from AEL to its directly held subsidiaries; and
- subordinated debt from AHEL to AIG Life.

NOTE 3: RECEIVABLES (TRADE, NOT INSURANCE)

The receivables (trade, not insurance balances) relate to prepayments and other receivables which are due within 1 year and the IFRS and local GAAP carrying values are taken to approximate fair values under Solvency II using mark-to-model income approach.

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

The accrued interest on investments and loans and mortgages are disclosed as other receivables under IFRS and local GAAP. These are reclassified to the appropriate lines of investments and loans and mortgages under Solvency II as mentioned in Notes 1 and 2 above.

Receivables (Trade, Not Insurance)	£m
AHEL Solo	4.9
AEL	420.8
Other Subsidiaries	140.3
Consolidation Adjustment	(82.5)
AHEL Consolidated	**483.5**

At 30 November 2016 the SII value of trade receivables was £483.5m. The SII value mainly comprised of AEL's trade receivables of £420.8m and consolidation adjustment of £82.5m to eliminate intra-group balances.

NOTE 4: REINSURANCE RECEIVABLES

Reinsurance receivables comprise amounts past-due by reinsurers and linked to reinsurance business that are not included in reinsurance recoverable. This includes:

- Receivables from reinsurers that relate to settled claims of policyholders or beneficiaries.
- Receivables from reinsurers in relation to other than insurance events or settled insurance claims (e.g. commissions).

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

Reinsurance Receivables	£m
AEL	216.9
Other Subsidiaries	6.9
AHEL Consolidated	**223.8**

At 30 November 2016 the SII value of reinsurance receivables were £223.8m and it mainly comprised of AEL's reinsurance receivables of £216.9m.

NOTE 5: CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprises of cash on hand and demand deposits with banks together with short-term highly liquid investments that are readily convertible into known amounts of cash and that are not subject to a significant risk of change in value.

Such investments are classified as cash equivalents where they have maturity dates of three months or less from the date of acquisition.

Cash and cash equivalents are considered to be held at fair value under Solvency II.

Cash and Cash Equivalents	£m
AHEL Solo	1.7
AEL	210.0
Other Subsidiaries	116.3
AHEL Consolidated	**328.0**

At 30 November 2016 the SII value of cash amounted to £328.0m it mainly comprised of AEL's cash balances of £210.0m.

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

Property, plant and equipment held for own use are defined as tangible assets and are measured at fair values.

Alternative valuation method

Properties held for own use are held at revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses and this method is used as an approximation to derive Solvency II values.

Properties held for own use are revalued on a regular basis at open market valuation by independent, professionally qualified valuers. These valuations are in accordance with the requirements of the International Valuation Standards Committee, the revaluation model within IAS 16, *'Property, Plant and Equipment'* and IFRS 13, *'Fair Value Measurement'*.

Property and equipment are depreciated to their residual values over their useful lives. Depreciation is calculated on a straight line basis to reduce the carrying value to the residual amount over the following years:

- Land Not depreciated
- Property 40 years
- Leasehold improvements 5 years
- Fixtures and fittings 4 years

The residual values, length of the economic lives and depreciation method applied are reviewed on a regular basis, and at least at every reporting date, and adjusted as appropriate. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

In addition, the European Group conducts a market valuation analysis of each property in the interim period to look for indicators if the market values have moved significantly. The assessments are based on future cash flows and current rental yields.

Property, Plant and Equipment Held for Own Use	£m
AEL	141.6
Other Subsidiaries	11.0
AHEL Consolidated	**152.6**

At 30 November 2016 the SII value of property, plant and equipment amounted to £152.6m and it mainly comprised of AEL's property, plant and equipment of £141.6m.

NOTE 7: DEFERRED TAX ASSET

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

Deferred tax comprise the amounts of income taxes recoverable in future periods in respect of:

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

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

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

Deferred tax asset or liability is calculated by jurisdiction such that applicable national tax rates are used for these calculations.

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

Deferred Tax Assets	£m
AEL	90.6
Other Subsidiaries	38.2
Consolidation Adjustment	(12.2)
AHEL Consolidated	**116.6**

At 30 November 2016 the SII value of Deferred Tax Assets (DTA) amounted to £116.6m and it mainly comprised of AEL's DTA of £90.6m. The Consolidation Adjustment of £12.2m related to difference between Deferred Tax Assets and Deferred Tax Liabilities at the country level.

NOTE 8: DEFERRED ACQUISITION COST

Deferred acquisition costs are defined as acquisition costs relating to contracts in force at the balance sheet date which are carried forward from one reporting period to subsequent reporting periods, relating to the unexpired periods of risks. In accordance with Article 12 of the Solvency II Delegated Acts, deferred acquisition costs are valued at nil for Solvency II purposes.

All cash-flows arising from expenses that will be incurred in servicing all recognised insurance and reinsurance obligations over the lifetime should, therefore, be considered in determining the best estimate technical provisions. The relevant adjustment is made in the EBS under technical provisions.

NOTE 9: INTANGIBLE ASSETS

Intangible assets are measured at fair value, where an active market exists. An active market is a market in which all of the following conditions exist:

- The items traded in the market are homogenous.
- Willing buyers and sellers can normally be found at any time.
- Prices are available to the public.

Intangible assets are valued at zero unless the intangible asset can be sold separately and the values can be derived using quoted prices in active markets.

The European Group's intangible assets include capitalised software costs and acquired brands which are carried at historical cost under IFRS and in the absence of an active market, these assets are measured at zero under Solvency II.

Goodwill is defined as the intangible asset that arises as a result of a business combination and that represents the economic value of assets that cannot be individually identified or separately recognised in a business combination. Under Article 12 of the Solvency II Delegated Acts, goodwill is not recognised.

NOTE 10: PENSION BENEFIT SURPLUS

AEL and two non-insurance subsidiaries of the European Group operate a number of pension schemes for their employees, the most significant of which are for employees based in the United Kingdom, Germany, the Netherlands and Ireland. The assets of the schemes are held separately from those of the individual entities, being invested with external investment managers, to meet long term pension liabilities of past and present members. The investment managers make investment decisions, based on guidelines laid down by the Trustees.

Under Solvency II, pension obligations and associated surplus and deficit are determined in accordance with IAS 19. The valuations calculated for the purposes of IAS 19 have been based upon the most recent full actuarial valuation.

Pension Benefit Surplus	£m
AEL	21.0
AHEL Consolidated	**21.0**

At 30 November 2016 the SII value of pension surplus amounted to £21.0m and it solely arised from AEL's pension scheme of UK branch.

NOTE 11: INSURANCE AND INTERMEDIARIES RECEIVABLES

This represents debtor balances which are past due. Insurance and intermediaries balances that are not past due are future cash flows and hence are reclassified to Solvency II Technical Provisions. The reclass to Solvency II Technical Provisions amounted to £1,450.5m at 30 November 2016.

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

Insurance and Intermediaries Receivables	£m
AEL	9.7
Other Subsidiaries	1.0
Consolidation Adjustment	(0.7)
AHEL Consolidated	**10.0**

At 30 November 2016 the SII value of insurance receivables amounted to £10.0m and c.97% comprised of AEL's insurance receivables. £0.7m Consolidation Adjustment related to intra-group insurance receivables.

D.2 TECHNICAL PROVISIONS

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

Technical provisions are grouped into the following key components:

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

VALUATION BASIS, METHODS AND MAIN ASSUMPTIONS

The Technical Provisions methodology, including the valuation basis, methods and main assumptions for AEL and AIG Life is described in Section D - "Valuation for Solvency Purposes" of their respective SFCRs, which are available on the AIG website.

Currently the European regulations do not apply to AIG Israel and therefore it is not required to produce an annual SFCR. However, the Israeli regulator has been moving steadily towards implementing a prudential regime similar to Solvency II. The technical provisions valuation methodology for AIG Israel is in line with Solvency II regulations.

At the European Group level, the consolidated Best Estimate of technical provisions is calculated as the sum of Solvency II Best Estimates of AEL, AIG Life and AIG Israel. Where there are intra-group reinsurance contracts, the following adjustments will be made:

- The best estimate of the undertaking that accepts risks shall not include the cash flows arising from the obligations of the intra-group reinsurance contracts; and
- The undertaking that cedes the risk will not recognize the amounts recoverable from the intra-group reinsurance contracts.

There were no material intra-group reinsurance contracts at 30 November 2016.

The European Group's Risk Margin is the sum of solo Risk Margins for AEL, AIG Life and AIG Israel.

NOTES TO ECONOMIC BALANCE SHEET

The European Group's Technical Provisions are categorised as:

- Non-life Excluding Health is the largest category of technical provisions (c. 94% of gross technical provisions) and it relates to the following SII LoBs:
  - General Liability (AEL and AIG Israel)
  - Motor Vehicle Liability (AEL and AIG Israel)
  - Fire and Other Damage to Property (AEL and AIG Israel)
  - Other Motor Insurance (AEL and AIG Israel)
  - Marine, Aviation and Transport (AEL)
  - Credit and Suretyship (AEL)
  - Miscellaneous Financial Loss (AEL)

  AEL represents c. 97.2% of Gross Technical Provisions of this category.

- Health Similar to Non-life Techniques (Health NSLT) is the second largest category of technical provisions of the European Group and it relates to the following SII LoBs:
  - Medical Expense (AEL and AIG Israel)
  - Income Protection (AEL and AIG Israel)
  - Workers' Compensation (AEL)

  AEL represents c. 98.3% of Gross Technical Provisions of this category.

- Life excluding health, unit-linked and index-linked relates to following SII LoBs:
  - Other Life Insurance that represents life protection products (AIG Israel and AIG Life)
  - Annuities stemming from non-life insurance contracts and relating to health insurance obligations namely Periodic Payment Orders or PPOs that arise from General Liability and Motor Vehicle Liability lines of AEL.

  AIG Life represents c. 99.4% of Gross Technical Provisions of this category.

- Health Similar to Life Techniques (Health SLT) relates to critical illness and income protection products of AIG Life and AIG Israel. AIG Israel constitutes c. 79.8% of Gross Technical Provisions of this category.

The sum of technical provisions of Non-life Excluding Health and Health NSLT represents the total non-life technical provisions. Similarly, the sum of Life excluding health, unit-linked and index-linked and Health SLT represents the Total Life Technical Provisions.

£'m	Non-life excluding health	Health Similar to Non-life Techniques (Health NSLT)	Non-life Total	Life excluding health, index-linked and unit-linked	Health Similar to Life Techniques (HSLT)	Life Total
Best Estimate	(8,437.9)	(302.6)	(8,740.6)	(167.0)	152.7	(14.3)
Risk Margin	(569.0)	(27.9)	(597.0)	(85.0)	(54.5)	(139.5)
Gross Technical Provision	**(9,006.9)**	**(330.6)**	**(9,337.5)**	**(252.0)**	**98.2**	**(153.8)**
Reinsurance Recoverable	2,014.5	9.2	2,023.6	200.3	17.7	218.0
Net Technical Provision	**(6,992.4)**	**(321.4)**	**(7,313.9)**	**(51.7)**	**116.0**	**64.2**

GROUP TECHNICAL PROVISION BY MATERIAL SOLVENCY II LINE OF BUSINESS

General Liability, Fire and Other Damage to Property, Motor Vehicle Liability and Marine, Aviation and Transport business represent c.90% of the European Group's gross technical provisions.

£'m	General Liability	Fire & Other Damage to Property	Motor Vehicle Liability	Marine, Aviation and Transport
Best Estimate	5,366.7	1,159.3	746.4	716.5
Risk Margin	364.2	69.7	55.6	44.7
Gross Technical Provision	**5,730.9**	**1,228.9**	**802.0**	**761.3**
Reinsurance Recoverable	1,139.1	405.3	191.6	195.4
Net Technical Provision	**4,591.9**	**823.7**	**610.4**	**565.9**

General Liability Insurance

General Liability lines made up c. 60.4% of the European Group's SII gross technical provisions and 98.3% of it relates to AEL and the rest relates to AIG Israel.

AEL's uses IFRS reserves of Liability and Financial lines that represent casualty (general liability), D&O and Professional Indemnity business as the starting point for the calculation of technical provisions and apply Solvency II adjustments to AEL's IFRS reserves to get Solvency II technical provisions of this line. The most material adjustments that result in reduction of AEL's IFRS reserves are for the UEPR profit which amounts to £243.0m and future premium (receivables and payables) of £314.0m.

Fire and Other Damage to Property Insurance

Fire and Other Damage lines represents c. 12.9% of the European Group's SII gross technical provisions and 98.4% of it relates to AEL and the reamining bit relates to AIG Israel.

AEL uses IFRS reserves of Property and Energy business as the starting point for the calculation of SII technical provisions and apply Solvency II adjustments to IFRS reserves to get Solvency II technical provisions of this line. The most material adjustments that result in reduction of AEL's IFRS reserves are for the UEPR profit which amounts to £166.6m and future premium (receivables and payables) of £166.4m.

Motor Vehicle Liability Insurance

Motor Vehicle Liability insurance represents c. 8.4% of the European Group's Solvency II gross technical provisions and 86.4% of it relates to AEL and remaining 13.6% relates to AIG Israel.

AEL uses IFRS reserves of Casualty (Auto) and Personal Auto Liability business as the starting point for the calculation of SII technical provisions and apply Solvency II adjustments to IFRS reserves to get Solvency II technical provisions. The most material adjustments that result in reduction of AEL's IFRS reserves are for the UEPR profit which amounts to £37.4m and future premium (receivables and payables) of £51.7m.

Marine, Aviation and Transport Insurance

Marine, Aviation and Transport represents c. 8.0% of the European Group's SII gross technical provisions and all of this relates to AEL.

AEL uses IFRS reserves of Marine and Aerospace business as the starting point for the calculation of technical provisions and pply Solvency II adjustments to IFRS reserves to get Solvency II Technical Provisions of this line. The most material adjustments that result in reduction of AEL's IFRS reserves are for the UEPR profit which amounts to £50.3m and future premium (receivables and payables) of £73.1m

D.3 OTHER LIABILITIES

NOTE 12: PAYABLES (TRADE, NOT INSURANCE)

Payables (trade, not insurance) are carried at amortised cost using the effective interest method. Trade payables include amounts due to employees, suppliers, public entities, etc. and which are not insurance-related, parallel to receivables (trade, not insurance) on the asset side of the balance sheet.

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

Payables (Trade, Not Insurance)	£m
AHEL Solo	(26.3)
AEL	(450.5)
Other Subsidiaries	(215.5)
Consolidation Adjustment	83.2
AHEL Consolidated	**609.1**

At 30 November 2016 the SII value of trade payables amounted to £609.1m. It mainly comprised of AEL's trade payables of £450.5m and took into account consolidation adjutsment of £83.2m to eliminate intra-group balances.

NOTE 13: PROVISIONS OTHER THAN TECHNICAL PROVISIONS

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

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

Provisions Other Than Technical Provisions	£m
AEL	(72.0)
AHEL Consolidated	**(72.0)**

At 30 November 2016 the SII value of provisions other than technical provisions amounted to £72.0m and it solely comprised of AEL's balances.

NOTE 14: PENSION BENEFIT OBLIGATIONS

Pension benefit obligations are disclosed together with pension surplus in the asset section D.1 note 8.

Pension Benefit Obligations	£m
AEL	(70.5)
Other Subsidiaries	(55.8)
AHEL Consolidated	**(126.3)**

At 30 November 2016 the SII value of pension deficit amounted to £126.3m and it mainly arised from penison schemes of AEL's Netherlands, Germany and Ireland branches.

NOTE 15: SUBORDINATED LIABILITIES

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

Subordinated Liabilities	£m
AHEL Solo	(1,100.0)
AEL	(50.0)
Other Subsidiaries	(15.0)
Consolidation Adjustment	15.0
AHEL Consolidated	**(1,150.0)**

The European Group has the following subordinated liabilities in issue at 30 November 2016:

- £1,100m sub debt issued by AHEL to AIG International Holdings GmbH (AIGIH)
- £50m sub debt issued by AEL to AIGIH

It is after consolidation adjustment of £15m that related to sub-debt issued by AIG Life to AHEL.

NOTE 16: DEFERRED TAX LIABILITIES

Deferred tax liabilities are disclosed together with deferred tax assets in the asset section under note 7.

Deferred Tax Liabilities	£m
AEL	(37.3)
Other Subsidiaries	(49.9)
Consolidation Adjustment	12.2
AHEL Consolidated	**(75.0)**

At 30 November 2016 the SII value of Deferred Tax liabilities (DTL) amounted to £75.0m and it mainly related to AEL and other subsidiaries of the European Group. The Consolidation Adjustment of £12.2m related to difference bewteen Deffered Tax Assets and Deffered Tax Liabilities at the country level.

NOTE 17: DEPOSIT FROM REINSURERS

Deposits from reinsurers are carried on a loans and receivables basis of IFRS (i.e. amortised cost) as that is considered to be a fair approximation fo fair value under Solvency II.

Amortised Cost is worked out using the effective interest method that allocates the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Deposits from Reinsurers	£m
AEL	(6.8)
Other Subsidiaries	(46.4)
AHEL Consolidated	**(53.2)**

At 30 November 2016 the SII value of Deposits from reinsurers amounted to £53.2m and it mainly comprised of AIG Israel deposits.

NOTE 18: REINSURANCE PAYABLE

Reinsurance payable represents the sum of creditors arising out of direct insurance operations and creditors arising out of reinsurance operations. These liabilities are measures as the amount due, which represents the amount expected to be paid.

This is considered a fair market value of this liability and no allowance is made for “own credit risk”.

Reinsurance Payables	£m
Other Subsidiaries	(12.3)
AHEL Consolidated	**(12.3)**

At 30 November 2016 the SII value of Reinsurance Payables amounted to £12.3m and it mainly related to AIG Life.

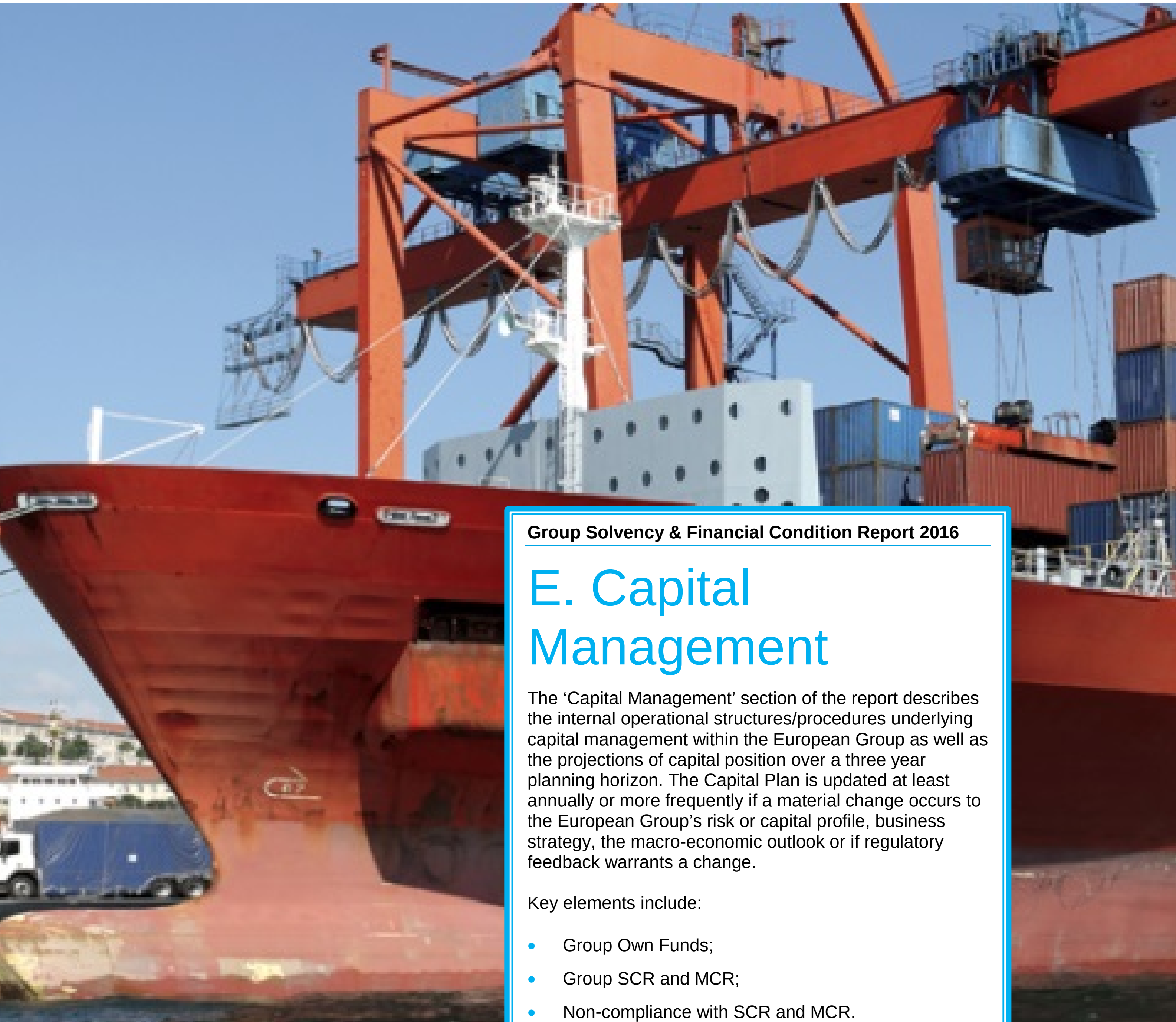
D.4 ALTERNATIVE VALUATION METHODS

As there are no quoted market prices for the European Group’s holdings in loans and mortgages and property, plant and equipment, alternative valuation methods, as defined in the Solvency II regulations, are used to determine the fair values of these assets.

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

D.5 OTHER MATERIAL INFORMATION

The information presented in Section D provides a true and fair view of the valuation for Solvency Purposes of the European Group during the period.



Group Solvency & Financial Condition Report 2016

E. Capital Management

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

Key elements include:

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

E. CAPITAL MANAGEMENT

E.1 OWN FUNDS

The European Group uses a combination of basic and ancillary own funds to meet its Solvency II capital requirements:

- Basic own funds – net assets on the balance sheet and subordinated debt.
- Ancillary own funds - off balance sheet items that may be called up to absorb losses (e.g. letters of credit).

COMPOSITION AND QUALITY OF OWN FUNDS

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

The composition and total available own funds for the European Group as at 30 November 2016 is provided below:

£'m	Tier 1 Unrestricted	Tier 1 Restricted	Tier 2	Tier 3	Total
Ordinary Share Capital	59.3	-			59.3
Share Premium Account related to Ordinary Share Capital	3,899.8	-			3,899.8
Reconciliation Reserve	(1,647.5)	-			(1,647.5)
Subordinated Liabilities	-	-	1,137.2		1,137.2
Letters of Credit (Ancillary Own Funds)	-	-	529.4		529.4
Net Deferred Tax Assets	-	-	-	41.6	41.6
Total Own Funds	**2,311.8**	**-**	**1,666.6**	**41.6**	**4,019.9**

Tier 1 basic own funds

At 30 November 2016, the European Group had £2,311.8m of Tier 1 Basic Own Funds made up of the following items:

- Ordinary share capital and related share premium.
- Solvency II reconciliation reserve.

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

The reconciliation reserve is made up of the remainder of the excess of assets over liabilities and is classified as Tier 1 capital in accordance with the Solvency II regulations:

Reconciliation Reserve	£'m
Excess of assets over liabilities	2,353.3
Less:	
Ordinary Share Capital	59.3
Share Premium Account	3,899.8
Net Deferred Tax Assets	41.6
Reconciliation Reserve	**(1,647.5)**

Tier 2 basic own funds

At 30 November 2016, the European Group had £1,137.2m of Tier 2 Basic Own Funds made up of the following subordinated debt notes:

Subordinated Debt	Maturity	£'m
Subordinated Debt of £50m issued by AEL to AIGIH	17 August 2019	37.2
Subordinated Debt of £1,100m issued by AHEL to AIGIH	2 June 2026	1,100.0
Tier 2 Basic Own Funds		**1,137.2**

The £50m subordinated debt falls under the transitional provisions to be classified as Tier 2 Basic Own Funds under Solvency II. The transitional provisions allow for £37m of the subordinated debt to be treated as Tier 2 Basic Own Funds, this being the amortised cost valuation ascribed to it when Solvency II came into effect on 1 January 2016.

The £1,100m subordinated debt was issued on 1 June 2016, replacing £895m of subordinated debt previously in place.

Tier 2 ancillary own funds

Own funds that do not fall within the definition of basic own funds are known as ancillary own funds.

These are off balance sheet items, e.g. letters of credit or commitments to provide funds to an insurer, which if called upon, would increase basic own funds. Such items can only be used to cover the Group SCR and are not eligible to cover the Group MCR.

At 30 November 2016, the European Group has in place £580.0m of Letters of Credit:

- £500m LOCs issued to AEL.
- £80m LOCs issued to AIG Life.

All the LOCs are provided by external banks. The terms of the LOCs enable AEL and AIG Life to call in up to the agreed guarantee amounts on demand. The banks in turn recover funds from AIG, Inc. in its capacity as applicant and guarantor.

The sum of Tier 2 and Tier 3 own funds can only cover up to 50% of the SCR of a Solo or Group undertaking. At 30 November 2016, £50.6m of AIG Life's £80.0m of LOCs were not eligible to cover its Solo SCR as it exceeded the 50% threshold. Consequently, only £529.4m of the £580.0m of LOCs can be counted towards the Tier 2 ancillary own funds for the European Group.

Letters of Credit	PRA approval period	£'m
£300m of LOCs issued to AEL (£100m each)	19 October 2015-1 January 2020	300.0
£200m of LOCs issued to AEL (£100m each)	17 June 2016-17 June 2017	200.0
£45m of LOCs issued to AIG Life	14 June 2016-1 January 2020	45.0
£35m of LOCs issued to AIG Life	15 November 2016-1 January 2020	35.0
Total Letters of Credit		**580.0**

Tier 3 basic own funds

Tier 3 capital resources consist of net residual deferred tax assets after taking into account intra geographical offsets.

At 30 November 2016, the European Group has net deferred tax assets of £41.6m which count towards Tier 3 basic own funds.

ELIGIBLE OWN FUNDS

As per Article 98 of the Solvency II Directive, own funds are subject to certain eligiblity limits in relation to the SCR and MCR. At 30 November 2016, the European Group met all the applicable eligibility limits.

Eligible Own Funds, £'m	Total	Tier 1 (unrestricted)	Tier 1 (restricted)	Tier 2	Tier 3
Total eligible own funds to meet the SCR	4,019.9	2,311.8	-	1,666.6	41.6
Total eligible own funds to meet the MCR	2,557.6	2,311.8	-	245.8	-

GROUP SOLVENCY CAPITAL POSITION

As at 30 November 2016, the SF-SCR of £3,423.2m was covered by £4,019.9m of eligible capital resources, providing a Solvency II surplus of £596.7m. The table below presents the ratio of eligible own funds that the European Group holds to cover its SCR and MCR:

Surplus over SCR and MCR	£'m
Ratio of Eligible own funds to SCR	117.4%
Ratio of Eligible own funds to MCR	**208.0%**

Management are of the view that the Standard Formula overstates the Group's 1-in-200 loss scenario and therefore, SF-SCR is an inherently prudent reflection of its risk profile.

FUNGIBILITY AND TRANSFERABILITY OF GROUP OWN FUNDS

In determining if any own fund items are not available at Group level, the following are considered:

- Any minority interest in a subsidiary exceeding the Solo contribution to Group SCR.
- Ancillary own funds exceeding the Solo contribution to Group SCR.
- Preference shares, subordinated mutual members account and subordinated liabilities exceeding the Solo contribution to Group SCR.
- Net deferred tax assets exceeding the Solo contribution to Group SCR.
- Any restricted own funds item in a ring-fenced fund, e.g. due to local regulations.

Where an own fund item at Solo level cannot be effectively be made available to cover the Group SCR, this own fund item may only be included in the Group available own funds to the extent that it does not exceed the Solo entity's contribution to Group SCR.

At 30 November 2016, the amount of own funds not available at group level due to fungibility and transferability restrictions is £nil.

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

The European Group has taken advantage of the Section 401 of Companies Act 2006 exemption from the requirement to produce consolidated financial statements. Therefore, the requirement to disclose material differences between equity in financial statements and the excess of assets over liabilities is not applicable to the European Group.

E.2 GROUP SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

E.2.1 SOLVENCY CAPITAL REQUIREMENT

The European Group uses Method 1: Accounting Consolidation to calculate it Solvency Capital Requirement (SCR).

The Group SCR is based on a modular approach consisting of Life, Non Life, Market, Health and Counterparty default risks and their associated sub-modules. These are aggregated in the standard formula using correlation matrices, and an intangible asset module (uncorrelated) is added on to give the Basic SCR. By adding the operational risk component and then allowing for the risk absorbing effect of future profit sharing and deferred taxes, the overall SCR is derived.

A diversification benefit is achieved between the separate Solo entities to arrive at the Group SCR figure.

The Group SCR calculation has not taken into account any Undertaking Specific Parameters (USPs) and simplied calculations.

At 30 November 2016, the European Group SCR is calculated as £3,423. 2m. This is c. 92% of the sum of Solo SCRs of all the entities in the European Group. The remaining 8% is attributable to £285.0m of diversification benefits available to the Group.

The table below summarises the European Group SCR as at 30 November 2016 by risk module and by entity:

Capital Requirement for each Risk Module, £'m	AHEL Solo	AEL	AIG Israel	AIG Life	ASUs	Diversification	Group
Market risk	32.2	1,052.2	47.8	3.8	42.5	(61.5)	1,116.9
Counterparty default risk	0.9	174.9	10.1	7.6	26.5	(22.9)	197.1
Life underwriting risk	-	11.5	47.9	114.1	-	(43.8)	129.7
Health underwriting risk	-	221.8	90.5	29.3	-	(42.2)	299.4
Non-life underwriting risk	-	2,577.1	51.6	-	-	(34.6)	2,594.2
Diversification	(0.7)	(895.7)	(93.9)	(26.5)	(3.2)	(77.9)	(1,097.9)
Intangible asset risk	-	-	-	-	-	-	-
Basic Solvency Capital Requirement	**32.5**	**3,141.9**	**153.9**	**128.3**	**65.7**	**(282.9)**	**3,239.5**
Operational risk	-	255.5	7.1	6.2	-	(6.4)	262.4
Loss absorbing capacity of technical provisions	-	-	-	-	-	-	-
Loss absorbing capacity of deferred taxes	-	(37.0)	(40.8)	(5.2)	-	4.3	(78.7)
Diversification effects due to RFF n SCR aggregation for article 304	-	-	-	-	-	-	-
Solvency Capital Requirement	**32.5**	**3,360.5**	**120.3**	**129.2**	**65.7**	**(285.0)**	**3,423.2**

At 30 November 2016, the European Group benefited from £285.0m of diversification benefits, these being attributed to:

- £61.5m of diversification benefit in Group Market risk driven by a decrease in concentration risk due to a more diverse asset portfolio at group level.
- £43.8m of diversification benefit in Group Life Underwriting risk driven by the offseting behaviours of AIG Israel's and AIG Life's biting lapse scenarios.
- £42.2m of diversification benefit in Group Health Underwriting risk as the Group portfolio includes both Health SLT and Non SLT risks written by AEL, AIG Life and AIG Israel.
- £34.6m of diversification benefit in Group Non Life Underwriting risk on consolidation of premium and reserve volumes, reflecting the diversity of the Group's product offering.
- £77.9m of overall diversification benefit across all the risk modules.

E.2.1.A INSURANCE RISK MODULE (UNDERWRITING RISK MODULE)

Non Life Underwriting Risk sub module:

Non Life Underwriting Risk is the largest component of the European Group SF-SCR and mainly arises from:

- £1,860.2m of Premium and Reserve Risk driven by earned premiums, forecast premiums and claims provisions of AEL's Non Life lines. Reserve strengthening and growth in earned and forecast premiums contributed to an increase in this risk sub module.
- £1,394.3m of Catastrophe Risk driven by AEL's exposure to man-made catastrophe and natural catastrophe risks. The largest exposures to man-made catastrophe arise from fire, liability and marine risks and those to natural catastrophe from windstorms, floods and earthquake risks. AEL's Catastrophe Risk has reduced during the year due to aggregate XOL cover.

Non-Life Underwriting Risk	£'m
Non-life premium and reserve risk	1,860.2
Non-life lapse risk	169.1
Non-life catastrophe risk	1,394.3
Diversification benefit	(829.4)
Non-Life Underwriting Risk	**2,594.2**

Health Underwriting Risk Sub-module:

The Health Underwriting Risk SF-SCR mainly arises from:

- £165.4m of Health NSLT risk driven by AEL's earned/forecast premiums and claims provisions, in particular for the Medical Expense, Income Protection and Workers Compensation lines.
- £117.9m Health SLT risk driven by AIG Israel's premiums and claims provisions.
- £113.3m Health Catastrophe risk driven by AEL's accident concentration risk.

Health Underwriting Risk	£'m
Health SLT risk	117.9
Health NSLT risk	165.4
Health catastrophe risk	113.3
Diversification benefit	(97.2)
Health Underwriting Risk	**299.4**

Life Underwriting Risk Sub-module:

The Life Underwriting Risk SF-SCR mainly relates to AIG Life's business.

Life Underwriting Risk	£'m
Mortality risk	7.8
Longevity risk	10.9
Lapse risk	102.0
Expense risk	31.0
Revision risk	1.3
Catastrophe risk	14.7
Diversification benefit	(38.1)
Life Underwriting Risk	**129.7**

E.2.1.B MARKET RISK MODULE

The Market Risk SF-SCR is driven by risks inherent within the European Group's assets and liabilities portfolio.

The sub risk modules are:

- £694.5m of Spread Risk driven by the European Group's investments in bonds, securitised assets and loans.
- £621.1m of Currency Risk driven by the European Group's foreign currency denominated net assets.
- £71.6m of Equity Risk driven by equity investments within the European Group's pension schemes.
- £43.3m of Property Risk driven by the European Group's real estate investments.
- £34.0m of Interest Rate Risk driven by changes in assets and liabilities due to changes in discount rates.

Market Risk	£'m
Spread risk	694.5
Currency risk	621.1
Interest rate risk	34.0
Equity Risk	71.6
Property Risk	43.3
Diversification benefit	(347.7)
Market Risk	**1,116.9**

E.2.1.C COUNTERPARTY DEFAULT RISK MODULE (CREDIT RISK MODULE)

Counterparty Default Risk (Credit Risk)	£'m
Counterparty Default risk	197.1

£197.1m of Counterparty Default Risk SF-SCR arises from the European Group's reinsurance recoveries and cash balances on its balance sheet.

E.2.1.D OPERATIONAL RISK SCR

Operational Risk	£'m
Operational risk	262.4

£262.4m of Operational Risk SF-SCR reflects the level of technical provisions and earned premium across all lines of business.

E.2.2 MINIMUM CAPITAL REQUIREMENT (MCR)

The Group MCR represents a minimum level below which The inputs used for the calculation of Group MCR are provided in the table below:

the amount of resources should not fall. It is calculated in accordance with the standard formula, which is subject to a defined floor and cap based on the risk-based Solvency Capital Requirement.

The European Group MCR for the reporting period is £1,229.0m. This is simply the sum of the respective Solo MCRs of AEL, AIG Life and AIG Israel.

The inputs used for the calculation of Group MCR are provided in the table below:

MCR Components	£'m
AEL Solo MCR	1,088.0
AIG Life Solo MCR	32.1
AIG Israel Solo MCR	108.9
Group MCR	**1,229.0**

APPROACH TO CAPITAL MANAGEMENT

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

CAPITAL MANAGEMENT PLAN

The European Group's insurance subsidiaries are regulated and capitalised individually in order to meet their respective regulatory and other capital needs. Each insurance subsidiary produces an Individual Capital Plan at least annually, on which the European Group Capital Plan is built.

The European Group Capital Plan covers the following:

- Regulatory and target minimum capital levels.
- Capital structure.
- Capital projections under baseline and stressed scenarios.
- Stress and scenario analysis.

The European Group Capital Plan is updated and approved by the Board annually, or more frequently if there are material changes in circumstances.

The Capital Plan covers a three-year planning horizon that takes into consideration:

- Multiple macroeconomic and financial market scenarios.
- Business and Strategic Plan, budget and goals.
- The European Group's overall capital level relative to its risk tolerance.
- Applicable regulations.
- Multiple future scenarios involving capital resources and requirements under the Solvency II Internal Model and Standard Formula views.

CAPITAL MANAGEMENT PROCESS AND POLICY

The European Group has an active capital management process which aims to ensure it meets regulatory capital requirements while optimising capital efficiency.

The Capital Management Policy document establishes a formal capital assessment and management framework encompassing the following aspects of capital management:

- Ensuring adequate capital is maintained within the European Group to meet regulatory requirements and ensuring capital is available to support strategic plans.
- Optimising the European Group's sources and usage of capital.
- Ensuring any excess capital is returned to AIG Group on a timely basis without compromising the other objectives, as above.

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

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

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

The European Group uses the Standard Formula in the calculation.of its Solvency Capital Requirement.

E.5 NON-COMPLIANCE

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

F. APPENDICES TO THE GROUP SOLVENCY AND FINANCIAL CONDITION REPORT

F.1 GLOSSARY

A

AIG	American Insurance Group
A&H	Accident and Health
AAMEL	AIG Asset Management (Europe) Limited
ADP	Tool to support Multinational Business
AEL	AIG Europe Limited (the Company)
AFS	Available for Sale
AHEL	AIG Holdings Europe Limited
ALAE	Allocated Loss Adjustment Expenses
ALM	Asset Liability Matching
AMG	Asset Management Group
AOF	Ancillary Own Funds
AP/RP	Adjusted Premiums/Risk Premiums
APCEFL	AIG Property Casualty Europe Financing Ltd.
APCIL	AIG Property Casualty International Ltd.
AQI	Account Quality Index
AY	Accident Year
AYLR	Accident Year Loss Ratio

B

BAU	Business as Usual
BBNI	Bound But Not Yet Incepted
BCAR	A.M. Best Capital Adequacy Ratio
BCM	Business Continuity Management
BoE	Bank of England
BTA	Business Travel Assistance

C

CAT	Catastrophe
CCAR	Comprehensive Capital Analysis and Review
CDO	Collateralised Debt Obligation
CEE	Central and Eastern Europe
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CMA	Capital Maintenance Agreement
CMBS	Commercial Mortgage Backed Security
CML	Council of Mortgage Lenders
COO	Chief Operating Officer
CoR	Combined Operating Ratio
CP	Commercial Property
CPL	Compulsory Personal Liability
CPR	Constant Prepayment Rates
CRO	Chief Risk Officer
CTOM	Commercial Target Operating Model

D

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

E

EBS	Economic Balance Sheet
ECB	European Central Bank
ECM	Economic Capital Model
ECR	Enhanced Capital Requirement
EEA	European Economic Area
EFTA	European Free Trade Association
EIOPA	European Insurance and Occupational Pensions Authority
EL	Employer's Liability
EMEA	Europe, Middle East and Africa
ENID	Events not in Data
ERM	Enterprise Risk Management
EU	European Union
EUT	End User Tools
ExCo	Executive Committee

F

FAC	Facultative Reinsurance
FCA	Financial Conduct Authority
FI	Financial Indemnity
FL	Financial Lines
FOE	Freedom of Establishment

FOS	Freedom of Services
FOS	Financial Ombudsman Service
FSR	Financial Strength Ratings
FX	Foreign Exchange

G

GAAP	Generally Accepted Accounting Principles
GAVM	Global Actuarial and Value Management
GDP	Gross Domestic Profit
GIST	General Insurance Stress Test
GL	General Liability
GOE	Gross Operating Expenses
GPE	Gross Premiums Earned
GPW	Gross Premium Written
GRC	Global Risk Committee

H

HSBC	

I

IAG	Internal Audit Group
ICAS	Individual Capital Adequacy Standards
ICG	Individual Capital Guidance
IHG	International Holding Company
ILS	Insurance Linked Securities
IM	Internal Model
IMAP	Internal Model Approval Process
ING	
IOT	Internet of Things

K

KRI	Key Risk Indicator

L

LAC - DT	Loss Absorbing Capacity of Deferred Taxes
LFL	Liability & Financial Lines
LoC	Letters of Credit
LTA	Long-term Average

M

M&A	Mergers & Acquisitions
MCR	Minimum Capital Requirement
MGA	Managing General Agent
MMC	Man-made Catastrophe

N

NB	New Business
NII	Net Investment Income
NLC&LG	Non-Life Capital and Liquidity Group
NPE	Net Premiums Earned
NPW	Net Premiums Written

O

ORR	Obligor Risk Rating
ORSA	Own Risk Solvency Assessment

P

P&L	Profit and Loss
PBT	Profit before tax
PI	Personal Insurance
PP	Personal Property
PPI	Payment Protection Insurance
PPO	Periodic Payment Orders
PRA	Prudential Regulatory Authority
PSR	Property & Special Risks
PWC	Pricewaterhousecoopers
PYD	Prior Year Development

Q

QE	Quantitative Easing

R

RCC	Risk and Capital Committee
RDS	Realistic Disaster Scenario
RF	Risk Free
RGDP	Real Gross Domestic Profit
RI	Reinsurance
RM	Risk Management
RMBS	Residential Mortgage Backed Security
ROE	Return on Equity
RRP	
RT	Risk transfer

S

S&P	Standard and Poor's
SAA	Strategic Asset Allocation
SCB	
SCR	Solvency Capital Requirement
SF-SCR	Standard Formula - Solvency Capital Requirement
SII	Solvency II
SIMR	Senior Insurance Managers Regime
SMBC	
SME	Small Medium Enterprise

T

TDC	Total Direct Compensation
TOM	Target Operating Model

U

UK	United Kingdom
ULAE	Unallocated Loss Adjustment Expenses
UW	Underwriting
UWP	Underwriting Profit

V

VAT	Value Added Tax
VBG	Value Based Geographies
VBM	Value Based Management

W

WAM	Willis/AON/Marsh

X

XoL	Excess of Loss
XS	Excess

Y

YTD	Year to Date

F.2 PUBLIC QRTS

S.02.01.02
Balance Sheet

		Solvency II Value
Assets		**C0010**
Intangible assets	**R0030**	-
Deferred tax assets	**R0040**	116,605
Pension benefit surplus	**R0050**	20,994
Property, plant & equipment held for own use	**R0060**	152,554
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	10,010,172
Property (other than for own use)	**R0080**	59,901
Holdings in related undertakings, including participations	**R0090**	282
Equities	**R0100**	7,561
Equities - listed	**R0110**	-
Equities - unlisted	**R0120**	7,561
Bonds	**R0130**	9,785,054
Government Bonds	**R0140**	3,152,979
Corporate Bonds	**R0150**	6,314,730
Structured notes	**R0160**	2,684
Collateralised securities	**R0170**	314,661
Collective Investments Undertakings	**R0180**	56,805
Derivatives	**R0190**	-
Deposits other than cash equivalents	**R0200**	100,570
Other investments	**R0210**	-
Assets held for index-linked and unit-linked contracts	**R0220**	-
Loans and mortgages	**R0230**	358,607
Loans on policies	**R0240**	-
Loans and mortgages to individuals	**R0250**	454
Other loans and mortgages	**R0260**	358,153
Reinsurance recoverables from:	**R0270**	2,241,634
Non-life and health similar to non-life	**R0280**	2,023,634
Non-life excluding health	**R0290**	2,014,457
Health similar to non-life	**R0300**	9,177
Life and health similar to life, excluding health and index-linked and unit-linked	**R0310**	218,000
Health similar to life	**R0320**	17,716
Life excluding health and index-linked and unit-linked	**R0330**	200,284
Life index-linked and unit-linked	**R0340**	-
Deposits to cedants	**R0350**	-
Insurance and intermediaries receivables	**R0360**	9,981
Reinsurance receivables	**R0370**	223,783
Receivables (trade, not insurance)	**R0380**	483,517
Own shares (held directly)	**R0390**	-
Amounts due in respect of own fund items or initial fund called up but not yet paid in	**R0400**	-
Cash and cash equivalents	**R0410**	327,983
Any other assets, not elsewhere shown	**R0420**	-
Total assets	**R0500**	**13,945,829**
Liabilities		**C0010**
Technical provisions - non-life	**R0510**	9,337,541
Technical provisions - non-life (excluding health)	**R0520**	9,006,972
TP calculated as a whole	**R0530**	-
Best estimate	**R0540**	8,437,949
Risk margin	**R0550**	569,023
Technical provisions - health (similar to non-life)	**R0560**	330,569
TP calculated as a whole	**R0570**	-
Best estimate	**R0580**	302,630
Risk margin	**R0590**	27,939
TP - life (excluding index-linked and unit-linked)	**R0600**	153,788
Technical provisions - health (similar to life)	**R0610**	(98,240)
TP calculated as a whole	**R0620**	-
Best estimate	**R0630**	(152,704)
Risk margin	**R0640**	54,465
TP - life (excluding health and index-linked and unit-linked)	**R0650**	252,027
TP calculated as a whole	**R0660**	-
Best estimate	**R0670**	167,022
Risk margin	**R0680**	85,005
TP - index-linked and unit-linked	**R0690**	-
TP calculated as a whole	**R0700**	-
Best estimate	**R0710**	-
Risk margin	**R0720**	-
Other technical provisions	**R0730**	-
Contingent liabilities	**R0740**	-
Provisions other than technical provisions	**R0750**	72,042
Pension benefit obligations	**R0760**	126,289
Deposits from reinsurers	**R0770**	53,150
Deferred tax liabilities	**R0780**	75,033
Derivatives	**R0790**	-
Debts owed to credit institutions	**R0800**	285
Financial liabilities other than debts owed to credit institutions	**R0810**	0
Insurance & intermediaries payables	**R0820**	2,946
Reinsurance payables	**R0830**	12,294
Payables (trade, not insurance)	**R0840**	609,122
Subordinated liabilities	**R0850**	1,150,000
Subordinated liabilities not in BOF	**R0860**	12,849
Subordinated liabilities in BOF	**R0870**	1,137,151
Total liabilities	**R0900**	**11,592,490**
Excess assets over liabilities	**R1000**	**2,353,339**

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

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of Business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-Proportional Health	Non-Proportional Casualty	Non-Proportional Marine, aviation and transport	Non-Proportional Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
Premiums written																		
Gross - Direct Business	R0110	76,872	371,490	811	358,492	101,232	387,546	1,298,931	1,613,921	94,281	-	41,710	112,937	-	-	-	-	4,458,223
Gross - Proportional reinsurance accepted	R0120	3,795	10,021	-	7,211	4	122,413	299,033	42,661	0	-	58	7,849	-	-	-	-	493,045
Gross - Non-proportional reinsurance accepted	R0130	-	-	-	-	-	-	-	-	-	-	-	-	-	51,127	8,073	38,392	97,593
Reinsurers' share	R0140	5,447	42,541	9	70,949	4,062	181,715	580,311	299,343	38,025	-	1,470	38,643	-	1,569	114	2,831	1,267,029
Net	R0200	75,220	338,971	801	294,754	97,174	328,244	1,017,653	1,357,239	56,257	-	40,297	82,143	-	49,558	7,959	35,562	3,781,831
Premiums earned																		
Gross - Direct Business	R0210	74,446	365,190	766	326,802	97,391	536,377	1,236,424	1,598,486	90,942	-	41,174	104,463	-	-	-	-	4,472,461
Gross - Proportional reinsurance accepted	R0220	3,788	10,027	-	7,466	3	129,699	315,730	41,624	0	-	50	7,567	-	-	-	-	515,953
Gross - Non-proportional reinsurance accepted	R0230	-	-	-	-	-	-	-	-	-	-	-	-	-	55,177	8,480	40,302	103,960
Reinsurers' share	R0240	4,910	40,637	-	61,478	10,043	249,044	543,963	269,409	35,665	-	1,194	34,740	-	2,140	121	2,355	1,255,698
Net	R0300	73,324	334,580	766	272,790	87,352	417,032	1,008,191	1,370,701	55,277	-	40,029	77,290	-	53,037	8,359	37,948	3,836,675
Claims incurred																		
Gross - Direct Business	R0310	21,880	165,927	2,925	402,717	66,441	241,565	769,934	1,328,435	78,890	-	25,449	39,745	-	-	-	-	3,143,907
Gross - Proportional reinsurance accepted	R0320	(746)	2,055	-	6,157	12	133,467	281,744	5,300	4	-	212	3,970	-	-	-	-	432,175
Gross - Non-proportional reinsurance accepted	R0330	-	-	-	-	-	-	-	-	-	-	-	-	-	(12,039)	5,490	28,341	21,792
Reinsurers' share	R0340	82	7,985	39	171,387	3,017	110,960	408,665	160,692	27,284	-	341	13,927	-	1,830	82	164	906,455
Net	R0400	21,052	159,996	2,885	237,487	63,436	264,072	643,013	1,173,043	51,610	-	25,320	29,789	-	(13,870)	5,408	28,177	2,691,420
Changes in other technical provisions																		
Gross - Direct Business	R0410	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross - Proportional reinsurance accepted	R0420	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross - Non-proportional reinsurance accepted	R0430	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reinsurers' share	R0440	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net	R0500	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Expenses incurred	R0550	39,976	158,608	2,285	106,965	21,143	122,291	507,520	530,774	21,229	-	27,645	42,727	-	6,710	2,455	4,754	1,595,084
Other expenses	R1200	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total expenses	R1300	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,595,084

		Line of Business for: life insurance obligations						Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
Premium written										
Gross	R1410	88,982	-	-	132,740	-	-	-	-	221,722
Reinsurers' share	R1420	19,542	-	-	46,846	-	-	-	-	66,388
Net	R1500	69,440	-	-	85,894	-	-	-	-	155,334
Premium earned										
Gross	R1510	88,982	-	-	132,770	-	-	-	-	221,752
Reinsurers' share	R1520	19,542	-	-	46,846	-	-	-	-	66,388
Net	R1600	69,440	-	-	85,924	-	-	-	-	155,364
Claims incurred										
Gross	R1610	41,255	-	-	54,099	39,937	-	-	-	135,291
Reinsurers' share	R1620	23,891	-	-	44,309	-	-	-	-	68,200
Net	R1700	17,364	-	-	9,790	39,937	-	-	-	67,091
Changes in other technical provisions										
Gross	R1710	-	-	-	-	-	-	-	-	-
Reinsurers' share	R1720	-	-	-	-	-	-	-	-	-
Net	R1800	-	-	-	-	-	-	-	-	-
Expenses incurred	R1900	42,434	-	-	69,623	5,801	-	-	-	117,858
Other expenses	R2500	-	-	-	-	-	-	-	-	-
Total expenses	R2600	-	-	-	-	-	-	-	-	117,858

S.05.02.01
Premiums, claims and expenses by Country

		Home Country	Top 5 countries (by amounts of gross premiums written) - non-life obligations					Total Top 5 and home country
			France	Germany	Italy	Ireland	Netherlands	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070
	R0010							
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
Premium written								
Gross - Direct Business	R0110	1,426,527	530,771	426,399	348,301	238,577	179,997	3,150,572
Gross - Proportional reinsurance accepted	R0120	174,422	23,664	27,417	8,534	1	335	234,374
Gross - Non-proportional reinsurance accepted	R0130	49,808	3,203	6,280	2,015	0	40	61,346
Reinsurers' share	R0140	509,944	67,369	95,758	44,874	27,165	34,234	779,343
Net	**R0200**	**1,140,813**	**490,269**	**364,339**	**313,975**	**211,413**	**146,139**	**2,666,948**
Premium earned								
Gross - Direct Business	R0210	1,456,546	528,446	425,215	344,445	220,623	181,739	3,157,015
Gross - Proportional reinsurance accepted	R0220	180,215	23,575	22,581	8,964	(28)	458	235,765
Gross - Non-proportional reinsurance accepted	R0230	53,201	3,543	5,744	2,113	0	43	64,644
Reinsurers' share	R0240	500,705	65,362	87,997	42,966	29,833	33,402	760,264
Net	**R0300**	**1,189,257**	**490,203**	**365,543**	**312,556**	**190,762**	**148,838**	**2,697,159**
Claims incurred								
Gross - Direct Business	R0310	1,226,812	305,705	398,565	216,686	175,158	147,915	2,470,841
Gross - Proportional reinsurance accepted	R0320	376,822	3,980	27,861	4,572	-	353	413,588
Gross - Non-proportional reinsurance accepted	R0330	29,051	473	3,286	280	-	(132)	32,958
Reinsurers' share	R0340	595,856	98,818	94,527	26,876	3,172	5,099	824,348
Net	**R0400**	**1,036,829**	**211,340**	**335,185**	**194,662**	**171,986**	**143,037**	**2,093,038**
Changes in other technical provisions								
Gross - Direct Business	R0410	-	-	-	-	-	-	-
Gross - Proportional reinsurance accepted	R0420	-	-	-	-	-	-	-
Gross - Non-proportional reinsurance accepted	R0430	-	-	-	-	-	-	-
Reinsurers' share	R0440	-	-	-	-	-	-	-
Net	**R0500**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Expenses incurred	**R0550**	389,412	251,831	70,276	91,539	44,506	31,132	878,697
Other expenses	**R1200**	-	-	-	-	-	-	-
Total expenses	**R1300**							**878,697**

		Home Country	Top 5 countries (by amounts of gross premiums written) - life obligations	Total Top 5 and home country
			Israel	
		C0150	C0160	C0210
	R0010			
		C0220	C0230	C0280
Premium written				
Gross - Direct Business	R1410	151,763	67,369	219,132
Reinsurers' share	R1420	60,278	5,081	65,359
Net	**R1500**	**91,486**	**62,288**	**153,773**
Premium earned				
Gross - Direct Business	R1510	151,763	67,400	219,163
Reinsurers' share	R1520	60,278	5,082	65,360
Net	**R1600**	**91,486**	**62,318**	**153,803**
Claims incurred				
Gross - Direct Business	R1610	110,120	24,674	134,794
Reinsurers' share	R1620	65,177	2,562	67,739
Net	**R1700**	**44,943**	**22,112**	**67,055**
Changes in other technical provisions				
Gross - Direct Business	R1710	-	-	
Reinsurers' share	R1720	-	-	
Net	**R1800**	**-**	**-**	
Expenses incurred	**R1900**	87,619	28,843	116,462
Other expenses	**R2500**	-	-	-
Total expenses	**R2600**			**116,462**

S.23.01.22
Own funds

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basis own funds before deduction for participations in other financial sector						
Ordinary share capital (gross of own shares)	R0010	59,392	59,392		-	
Non-available called but not paid in ordinary share capital at group level	R0020	-	-		-	
Share premium account related to ordinary share capital	R0030	3,899,826	3,899,826		-	
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040	-	-		-	
Subordinated mutual member accounts	R0050	-		-	-	-
Non-available subordinated mutual member accounts at group level	R0060	-		-	-	-
Surplus funds	R0070	-	-			
Non-available surplus funds at group level	R0080	-	-			
Preference shares	R0090	-		-	-	-
Non-available preference shares at group level	R0100	-		-	-	-
Share premium account related to preference shares	R0110	-		-	-	-
Non-available share premium account related to preference shares at group level	R0120	-		-	-	-
Reconciliation reserve	R0130	(1,647,451)	(1,647,451)			
Subordinated liabilities	R0140	1,137,151		-	1,137,151	-
Non-available subordinated liabilities at group level	R0150	-		-	-	-
An amount equal to the value of net deferred tax assets	R0160	41,572		-	-	41,572
The amount equal to the value of net deferred tax assets not available at the group level	R0170	-				
Other items approved by supervisory authority as basic own funds not specified above	R0180	-	-	-	-	-
Non available own funds related to other own funds items approved by supervisory authority	R0190	-	-	-	-	-
Minority interests (if not reported as part of a specific own fund item)	R0200	-	-	-	-	-
Non-available minority interests at group level	R0210	-	-	-	-	-
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220	-	-			
Deductions						
Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities	R0230	-	-	-	-	
whereof deducted according to art 228 of the Directive 2009/138/EC	R0240	-	-	-	-	-
Deductions for participations where there is non-availability of information (Article 229)	R0250	-	-	-	-	-
Deduction for participations included by using D&A when a combination of methods is used	R0260	-	-	-	-	-
Total of non-available own fund items	R0270	-	-	-	-	-
Total deductions	R0280	-	-	-	-	-
Total basic own funds after deductions	R0290	3,490,490	2,311,767	-	1,137,151	41,572
Ancillary Own Funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300	-			-	
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310	-			-	
Unpaid and uncalled preference shares callable on demand	R0320	-			-	-
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350	-				
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340	529,433			529,433	
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360	-			-	
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370	-			-	-
Non available ancillary own funds at group level	R0380	-			-	-
Other ancillary own funds	R0390	-			-	-
Total ancillary own funds	R0400	529,433			529,433	-
Own Funds of other financial sectors						
Credit institutions, investment firms, financial institutions, alternative investment fund managers, UCITS management companies	R0410	-	-	-	-	
Institutions for occupational retirement provision	R0420	-	-	-	-	-
Non regulated entities carrying out financial activities	R0430	-	-	-	-	
Total own funds of other financial sectors	R0440	-	-	-	-	
Own Funds when using the D&A, exclusively or in combination of Method 1						
Own funds aggregated when using the D&A and combination of method	R0450	-	-	-	-	-
Own funds aggregated when using the D&A and a combination of method net of IGT	R0460	-	-	-	-	-
Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	R0520	4,019,923	2,311,767	-	1,666,584	41,572
Total available own funds to meet the minimum consolidated group SCR	R0530	3,448,918	2,311,767	-	1,137,151	
Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	R0560	4,019,923	2,311,767	-	1,666,584	41,572
Total eligible own funds to meet the minimum consolidated group SCR	R0570	2,557,576	2,311,767	-	245,809	
Minimum consolidated Group SCR	R0610	1,229,043				
Ratio of Eligible own funds to Minimum Consolidated Group SCR	R0650	208.09%				
Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A)	R0660	4,019,923	2,311,767	-	1,666,584	41,572
Group SCR	R0680	3,423,190				
Ratio of Eligible own funds to SCR including other financial sectors' own funds and capital requirements	R0690	117.43%				

		C0060				
Reconciliation reserve						
Excess of assets over liabilities	R0700	2,353,339				
Own shares (held directly and indirectly)	R0710	-				
Foreseeable dividends, distributions and charges	R0720	-				
Other basic own fund items	R0730	4,000,790				
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	-				
Other non available own funds	R0750	-				
Reconciliation reserve before deduction for participation in other financial sector	R0760	(1,647,451)				
Expected Profits						
Expected profits included in future premiums (EPIFP) - Life Business	R0770	329,691	-			
Expected profits included in future premiums (EPIFP) - Non- life business	R0780	294,850	-			
Total Expected profits included in future premiums (EPIFP)	R0790	624,541	-			

S.25.01.22

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0080	C0090
Market risk	R0010	1,116,952		-
Counterparty default risk	R0020	197,132		
Life underwriting risk	R0030	129,728	-	-
Health underwriting risk	R0040	299,432	-	-
Non-life underwriting risk	R0050	2,594,173	-	-
Diversification	R0060	(1,097,920)		
Intangible asset risk	R0070	-		
Basic Solvency Capital Requirement	R0100	3,239,496		

Calculation of Solvency Capital Requirement		C0100
Operational risk	R0130	262,368
Loss-absorbing capacity of technical provisions	R0140	-
Loss-absorbing capacity of deferred taxes	R0150	(78,673)
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	-
Solvency capital requirement excluding capital add-on	R0200	3,423,190
Capital add-on already set	R0210	-
Solvency capital requirement	R0220	3,423,190
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	-
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	-
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	-
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	-
Diversification effects due to RFF nSCR aggregation for article 304	R0440	-

S.32.01.22
Undertakings in the scope of the group

Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	Yes/No	Date of decision if art. 214 is applied	Method used and under method 1, treatment of the undertaking
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
IT	213800O2FDYYBZDQD444	1 - LEI	AIG ADVISORS S.R.L.	10 - Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company Limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		1 - Method 1: Full consolidation
JE	2138002A16KNCV1SJ138	1 - LEI	AVONDHU LIMITED	10 - Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company Limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		1 - Method 1: Full consolidation
IE	213800M34RBQ4MWQ5262	1 - LEI	LAYA HEALTHCARE LIMITED	10 - Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		1 - Method 1: Full consolidation
LU	222100FLEPQ30YWX4720	1 - LEI	Habitus Holdings Sarl	10 - Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares	2 - Non-mutual		50.00%	50.00%	50.00%		2 - Significant	50.00%	1 - Included in the scope		2 - Method 1: Proportional consolidation
GB	213800QOW312BVT1VA98	1 - LEI	AIG LIFE LIMITED	1 - Life insurance undertaking	Company limited by shares	2 - Non-mutual	The Prudential Regulation Authority	100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		1 - Method 1: Full consolidation
GB	2138009EFBD5FYGFGB20	1 - LEI	AIG Holdings Europe Ltd (Stand alone)	5 - Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC	Company limited by shares	2 - Non-mutual								1 - Included in the scope		1 - Method 1: Full consolidation
LU	222100DTH57SEH3TUO19	1 - LEI	Privilege Southampton Holding Sarl	10 - Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company Limited by shares	2 - Non-mutual		50.00%	50.00%	50.00%		2 - Significant	50.00%	1 - Included in the scope		2 - Method 1: Proportional consolidation
DE	213800VBMGDOCR41WD18	1 - LEI	HANSA GRUNDSTUCKVERWALTUNGS GMBH & CO KG	10 - Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company Limited by shares	2 - Non-mutual		94.45%	100.00%	94.45%		1 - Dominant	94.45%	1 - Included in the scope		2 - Method 1: Proportional consolidation
DE	213800QSEAOAJ3CHSA28	1 - LEI	HANSA GMBH	10 - Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company Limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		1 - Method 1: Full consolidation
LU	222100P21M88QRDWSY06	1 - LEI	Privilege Holdings Sarl	10 - Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares	2 - Non-mutual		50.00%	50.00%	50.00%		2 - Significant	50.00%	1 - Included in the scope		2 - Method 1: Proportional consolidation
LU	222100GZ406KHTGHNN97	1 - LEI	Privilege Cardiff Holdings Sarl	10 - Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company Limited by shares	2 - Non-mutual		50.00%	50.00%	50.00%		2 - Significant	50.00%	1 - Included in the scope		2 - Method 1: Proportional consolidation
BE	2138003C7C74UEACHH37	1 - LEI	AIG GLOBAL REINSURANCE OPERATIONS	10 - Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		1 - Method 1: Full consolidation
GB	213800NUVVGD1YYLI181	1 - LEI	AIG EUROPE (SERVICES) LIMITED	10 - Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		1 - Method 1: Full consolidation
DE	213800MB7KXDDAR1AN15	1 - LEI	AIG GERMANY HOLDING GMBH	10 - Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company Limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		1 - Method 1: Full consolidation
IL	213800YIPBN5ZRMBRV45	1 - LEI	AIG ISRAEL INSURANCE COMPANY LTD.	4 - Composite undertaking	Company limited by shares	2 - Non-mutual	Insurance, and Savings Authority	100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		1 - Method 1: Full consolidation
DE	213800CE35MC328R5J39	1 - LEI	WYNONA 1837 GMBH	10 - Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		1 - Method 1: Full consolidation
GB	XWPHK4S1M3QRJ1MIR482	1 - LEI	AIG EUROPE LIMITED	4 - Composite undertaking	Company limited by shares	2 - Non-mutual	The Prudential Regulation Authority	100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		1 - Method 1: Full consolidation
GB	XWPHK4S1M3QRJ1MIR48200049	2 - Specific Code	CI Group	99 - Other	Company limited by shares	2 - Non-mutual		20.00%	20.00%	20.00%		2 - Significant	20.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800QX9RASDO6GIF38	1 - LEI	AIG Medical Management Services UK Limited	10 - Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		1 - Method 1: Full consolidation
GB	2138009M8A3W8LNMRK07	1 - LEI	AIG Receivables Management Limited	10 - Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		1 - Method 1: Full consolidation
GB	213800UHTS5BFWPQVQ02	1 - LEI	AIG Trade Finance Limited	10 - Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		1 - Method 1: Full consolidation