BY YOUR SIDE

AIG EUROPE LIMITED
ANNUAL REPORT &
FINANCIAL STATEMENTS 2017

YOUR TRUSTED INSURER

About Us

AIG Europe Limited ("AEL") is one of the largest property casualty insurance companies by gross written premium in the UK. The Company is the largest US headquartered property casualty insurer in Europe.

AIG's businesses have over 65 years of experience in Europe and are proud to offer AIG's innovative and tailored products and solutions to our customers across the region.

American International Group, Inc. ("AIG") is a leading global insurance organisation. Founded in 1919, today AIG member companies provide a wide range of property casualty insurance, life insurance, retirement products, and other financial services to customers in more than 80 countries and jurisdictions.

These diverse offerings include products and services that help businesses and individuals protect their assets, manage risks and provide for retirement security. AIG common stock is listed on the New York Stock Exchange and the Tokyo Stock Exchange.

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DELIVERING ON OUR PROMISES

Financial Highlights

Net Premiums Written	Total Equity
£3,919.7m	£3.2bn

At AIG we work with our customers to help them prepare for the future with confidence. Through collaboration with our clients and partners we are able to develop products and services that meet their specific needs. By embracing diversity of all kinds – be it race, gender, sexuality or religion – we ensure that we remain innovative and relevant.

LIABILITY AND FINANCIAL LINES

The Liability and Financial Lines business provides insurance solutions to the full spectrum of enterprises, from large multinational and mid-sized companies to small businesses, entrepreneurs and non-profit organisations.

Net Premiums Written

Total Insurance

£1,715.9m

2016: £**1,580.4**m

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PROPERTY AND SPECIAL RISKS

The Property and Special Risks business provides comprehensive cover for a range of businesses across a multitude of industries for both commercial property, energy and engineered risks together with targeted solutions for specific insurance risks.

Net Premiums Written

Total Insurance

£1,148.9m

2016: £**1,118.6**m

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PERSONAL INSURANCE

In Personal Insurance we offer products and services that help people around the world live healthier and safer lives, plan for the future, as well as understand and minimise risk to their possessions and finances.

Net Premiums Written

Total Insurance

£1,054.9m

2016: £**962.3**m

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ZONES

UK, North, South

Three

EMPLOYEES

Over

4,300

NET PREMIUMS WRITTEN

£3.9bn

BY YOUR SIDE

1

BLOCKCHAIN

Contracts Get Smart

AIG has been at the forefront of utilising Blockchain technology to meet the changing needs of our clients. Blockchain provides an immutable, secure and transparent shared digital ledger that provides a single view for all participants. In June we announced that we had piloted the first multinational "smart contract" based insurance policy on the Blockchain working with Standard Chartered plc and IBM.

In October, AIG partnered with TradeIX Limited to complete the first Blockchain-enabled trade finance transaction for a global logistics company with financing provided by Standard Chartered. AIG is also part of the B3i, the Blockchain Insurance Industry Initiative.

TO MEET YOUR CHANGING NEEDS

CHIEF EXECUTIVE'S STATEMENT

In a year where a series of natural catastrophes laid waste to livelihoods and homes, we were able to stand side by side with our clients and help them to get back on their feet, offering immediate support.

BY YOUR SIDE

FOR THE FUTURE

OUR STRATEGY IS UNDERPINNED BY FIVE KEY PILLARS

1 **Value Based Management**
We focus on those segments where we have the greatest ability to create value.

2 **Customer**
Putting our customer at the centre of everything that we do and delivering an improved client and partner experience.

3 **Operational Efficiency**
Focusing on process and operational excellence.

4 **Technology/IT**
Modernising, digitising and mobilising our technology capabilities to better serve our customers and empower our people.

5 **People**
We seek to develop, attract and engage with a diverse workforce.

AIG in Europe

2017 was a year that demonstrated the importance of insurance as an industry, the resilience of our business, and the validity of our focus on our core business lines and on our clients.

In a year where a series of natural catastrophes laid waste to livelihoods and homes, we were able to stand side by side with our clients and help them to get back on their feet, offering immediate support. This combination of unprecedented catastrophes, combined with adverse claims development in other lines of business, impacted performance. However, it is testament to our financial strength that we are able not just to withstand, but also to rebound from these events.

During 2017 we have continued to improve our business mix, increasing the importance of our more profitable lines of business.

We have emphasised the importance of our claims service offering this year and have had ample opportunity to demonstrate our ability to support our clients in their time of need. I'm proud of our teams and the response they have provided our clients.

We continue to listen to our clients and to create new products and solutions with them and for them. We have been able to customise risk solutions to meet their needs and take on challenges that others may have found too complex. I'm proud of the work we've done to innovate during 2017 and to utilise new technologies to increase efficiency and make it easier for clients to benefit from our products and services.

New Management Team at AIG

In 2017 we welcomed Brian Duperreault back to AIG as Chief Executive Officer of AIG Inc. Brian's return to the business is a testament to the strength and potential of AIG. Brian has appointed a new senior management team including Peter Zaffino who is responsible for the General Insurance business, which includes AIG Europe Limited. We also welcome back former colleague Chris Townsend to AIG who joins as head of International in 2018.

The focus of this new senior management team is on making AIG the best company it can be. Our aim is to be an industry leader and to provide products and services to our customers that help them navigate an increasingly complex future. We need to increase our relevance to our clients by meeting their needs in a constantly evolving world.

This means focusing on profitable underwriting. In the year to come we will be blending the art and the science of underwriting and ensuring that we truly understand our clients and are providing service excellence. Underwriting will be enhanced by best-in-class data and claims analytics.

CHIEF EXECUTIVE'S STATEMENT
(CONTINUED)

WE SEE TARGETED GROWTH OPPORTUNITIES ACROSS EUROPE TO PARTNER WITH OUR CUSTOMERS TO HELP THEM ACHIEVE THEIR AMBITIONS.

Anthony Baldwin
Chief Executive Officer

2017 Company Performance

In 2017 the wider insurance environment remained challenging. Alongside our peers, performance was impacted by a combination of natural catastrophes, continued competitive rate pressure and low investment returns.

These challenges validate our strategy to focus on underwriting discipline and on those business lines and geographic areas that are most profitable. We grew our most profitable business lines in 2017, notably in Personal Insurance and Financial Lines, whilst continuing to focus on improving returns and reducing volatility across the whole product portfolio.

Our business mix has continued to improve towards more profitable lines of business and net premium written during 2017 rose thanks to growth in these more profitable lines as well as favourable currency movements.

The key loss events during the year were hurricanes Harvey, Irma and Maria during which we were able to support our clients when they needed us most, demonstrating the value of our market-leading claims service, backed by our capital strength. We also saw a number of low-frequency high value claims in the year, arising from prior underwriting years which impacted our loss ratio in 2017.

The losses experienced in the 2017 results come primarily from strategic decisions made in previous years to take on more net risk exposures. Through the second half of last year, we took steps to reduce our overall net exposures to these types of losses by focussing on risk selection, lowering overall risk limits and the targeted use of reinsurance.

We also continue to focus on our operating efficiency, and have invested in a number of strategic projects to underpin the effectiveness of our operating platform and build a solid platform for future growth.

Our capital position remains robust. This year, AEL received approval of its internal model for Solvency II purposes which meant that capital surplus rose to 145.7%. Total equity at 30 November 2017 was £3.2 billion.

We continue to focus on our core capabilities, including claims, 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:

- 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;
- Operational Efficiency, which means focusing on process and operational excellence;
- 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.

A summary of our financial performance can be found in the Strategic Report.

By Your Side at AIG

Handling claims is central to our business. We introduced Claims First during 2017 and we have better defined what clients should expect from our claims service during their time of need. We also used our claims insights to partner with our clients to help them better understand the risks they might face.

During the year our teams have held workshops to help clients plan for various types of crises. We have also continued to dive into the wealth of claims data that we hold to provide insight into claims trends on diverse subjects ranging from environmental liability to mergers and acquisitions to cyber attacks

I'm also really proud of the actions taken by our teams in response to the three Atlantic hurricanes. As soon as Hurricanes Harvey, Irma and Maria occurred, AIG Europe's Property Claims team leapt into action, identifying clients at risk and forming a CAT Response team to support them. We had feet on the ground within days and our team were able to ensure business continuity measures were in place, losses were assessed, and interim cash flow payments were released as necessary. Practical support included sourcing generators and a fuel supply for clients in Puerto Rico who would otherwise have gone without power.

Innovation at AIG

We have continued to innovate at AIG and in 2017 we have led the way in utilising Blockchain technology to meet the changing needs of our clients. Blockchain provides an immutable, secure and transparent shared digital ledger that provides a single view for all participants. In June our multinational team were able to pilot the first multinational "smart contract" based insurance policy on the Blockchain working with Standard Chartered plc and IBM. We converted a master policy written in the UK, and three local policies in the US, Singapore and Kenya, into a "smart contract" that provides a shared view of policy data and documentation in real time.

In a separate project just a few months later our Trade Credit team partnered with TradeIX Limited to complete the first Blockchain-enabled trade finance transaction for a global logistics company with financing provided by Standard Chartered. By using the Blockchain our client was able to have real time visibility to manage customer terms and credit risk. This new use of the digital ledger will make it easier for companies to benefit from trade finance.

Both innovations highlight the collaborative way that we are pursuing these initiatives as they involved partnering both with a client and with a technology partner. Only by collaborating and learning with our clients will we be able to solve the problems of the future.

Outlook for 2018

The macro-economic outlook for 2018 remains challenging. Uncertainty about the outcome of the Brexit negotiations and the future shape of the relationship between the UK and EU continues to weigh on the economic environment and is likely to lead to further currency instability.

AIG began planning for Brexit prior to the UK referendum and in March 2017 we announced our decisive move to locate a new European insurance company in Luxembourg. We are now in the advanced stages of restructuring our business and our solution will be fully operational on 1 December 2018, subject to applicable legal and regulatory approvals. As a result of this restructuring, we will not be dependent on grandfathering legislation or transitional arrangements.

We have created a new European insurance company ("AIG Europe SA") which will have licensed branches across 19 countries, and a new UK insurance company ("American International Group UK Limited"). The inforce book for each of the UK and EEA operations will transfer to the relevant entity. This will eliminate Brexit risks around servicing of claims.

Following the restructure, AIG will have one entity in the UK to write UK business and one in Luxembourg to write business in EEA countries and Switzerland through its branch network. Further information on our Brexit restructure can be found at www.aig.com/brexit.

Our parent group announced in January the acquisition of Validus, a leading provider of reinsurance, primary insurance, and asset management services. This is a significant step forward in our strategy to make AIG a growing, profitable leader in the insurance industry. Validus is an excellent strategic fit for AIG, bringing a great set of franchises across specialised products and regions to our General Insurance business, including an important presence within Lloyd's. It will also expand the bench of our management team and deepen our underwriting expertise.

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 help our clients to prepare so they can face the future with confidence.

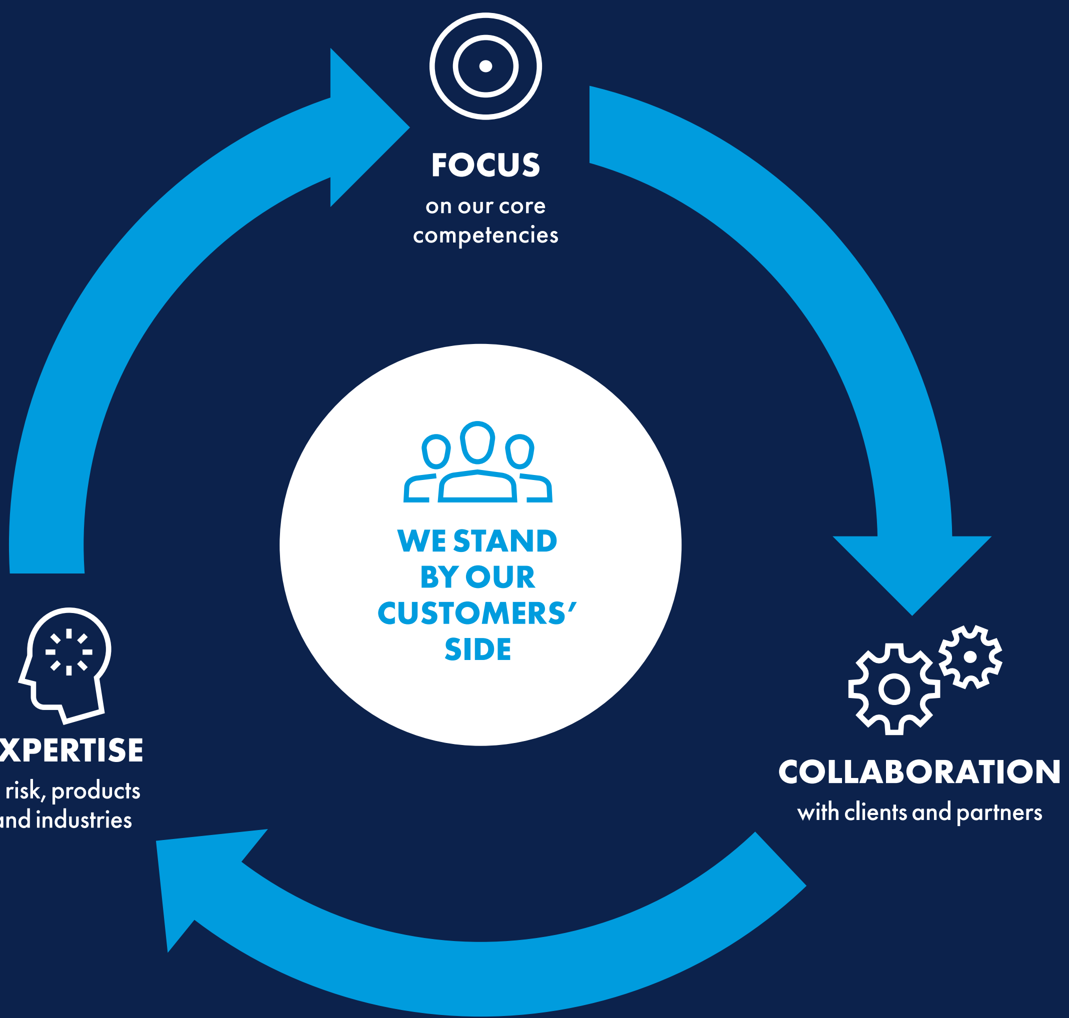
Anthony Baldwin

A Baldwin
Chief Executive Officer
22 March 2018

The Directors present their Strategic Report on the Company for the year ended 30 November 2017.

HOW WE CREATE VALUE

Our customers are at the centre of everything we do, from the services we provide, to the investments we make in technology and data, to the structure of our business.



OUR STRATEGIC PILLARS

The Company's business strategy, which is aligned to AIG's global strategy, has five key themes:

1. Value Based Management

We will make business decisions based on the long-term benefits and costs rather than short-term thinking, to ensure that we pursue a sustainable business model. This means our focus is on retention, customer segmentation and portfolio optimisation.

2. Customer

We must empathise with clients in order to fully understand their challenges. We will work together with them to solve their problems, through collaboration and applying different perspectives as well as using AIG's risk expertise and financial strength.

Through focus, expertise and collaboration we can deliver the following services:

RISK TRANSFER
The backbone of our business remains to provide cover for loss with best-in-class claims handling expertise.

RISK ADVICE
We use our vast experience of claims to advise our customers on risk.

CO-CREATION
We work in partnership with our customers to create bespoke products that fit their exact risk profile.

INNOVATION
We invest in innovation and embrace new technology to keep our customers safe.

DATA ANALYTICS
We help our customers take better risks through the use of data, both external and in-house.

INDUSTRY EXPERTISE
We are developing industry practice groups to give us better understanding of our customers' risks.

WE HELP OUR CUSTOMERS TO PREPARE SO THEY CAN FACE THE FUTURE WITH CONFIDENCE.

3. Operational Efficiency
We must operate more simply to bring us closer to our customers. Our focus is on service excellence. This means we can make decisions more quickly and will ensure our employees are empowered to make decisions to meet our customers' needs.

4. Technology/IT
We must continue to improve our use of technology to better serve customers and distribution partners, increase productivity, reduce expenses and better position us against our competitors.

5. People
We must continue to recruit and retain the right people in the right places with the right skills. Only by ensuring we have a diverse range of abilities and experiences will we be able to empathise and engage with our clients, meet their needs and solve their problems.

NET PREMIUMS WRITTEN

The Company's operations are organised into three key segments, with a diverse product offering sold via a multitude of sales channels. The chart below illustrates the mix of Net Premiums Written in 2017.

44%	LIABILITY AND FINANCIAL LINES
29%	PROPERTY AND SPECIAL RISKS
27%	PERSONAL INSURANCE

LIABILITY AND FINANCIAL LINES

The Liability and Financial Lines business provides insurance solutions to the full spectrum of enterprises, from large multinational and mid-sized companies to small businesses, entrepreneurs and non-profit organisations.

The product and service offerings encompass both traditional product types such as general liability and financial lines and highly specialised ones for cyber security, M&A, healthcare, and crisis management.

Liability and Financial Lines Net Premiums Written

Total Insurance

£1,715.9m

2016: £**1,580.4**m

Casualty

£742.6m

2016: £**720.1**m

Casualty provides both traditional and complex insurance solutions on a primary and/or excess basis for diverse businesses with local or global risk exposures.

Dedicated Casualty underwriting, Risk Consultant and claims teams operate in all key regional insurance markets, as well as at Lloyd's.

AIG Casualty is a worldwide leader in Primary and Excess liability markets, offering public and production, motor fleet and employer's liability cover, with market-leading capacity.

Casualty also includes Crisis Management insurance for Product Contamination/Recall, providing both asset and liability protection following a product recall, malicious product tamper or extortion event.

Financial Lines

£926.6m

2016: £**819.2**m

Financial Lines provides protection for a diverse range of organisations worldwide.

Management liability products include Directors' and Officers' Liability, Employment Practices Liability, Pension Trustee Liability, and Crime insurance, offering protection for claims brought against directors, officers and senior employees for actual or alleged breach of duty, neglect, misstatements, errors or omissions, as well as protection for losses suffered by organisations due to crime.

Cyber insurance provides protection against liability arising from computer hacking, viruses, and data breaches in addition to covering income loss, cyber extortion, and forensic/notification/public relation costs after a cyber incident.

M&A insurance includes Warranties & Indemnities insurance, which offers buyers and sellers involved in mergers, acquisitions, divestitures or other business transactions protection from financial loss due to inaccuracies in representations and warranties, as well as Tax insurance and Contingent Liability insurance.

Kidnap & Ransom protection aims to support our clients against threats that may impact a business or person anywhere in the world. These include various forms of extortion, detention, hijack, and evacuation. We offer a range of solutions including preventative advice, financial reimbursement and access to leading crisis consultants.

Professional Liability protects professionals in the event of claims arising from errors and omissions while providing professional services to others. Professionals include architects, engineers, accountants, lawyers, media, technology and insurance brokers.

Financial Institutions includes Professional Liability, Directors' and Officers' Liability and Crime cover provided to banks, insurance companies and other financial institutions to cover claims alleging failure to render professional services and commitment of errors and omissions in the execution of professional services, claims brought against directors, officers and senior employees for actual or alleged breach of duty, neglect, misstatements, errors or omissions as well as protection for losses suffered by financial institutions due to crime.

Environmental

£46.7m

2016: £**41.1**m

Includes third party liability and first party on and off-site clean-up costs, biodiversity damage plus defence and mitigation costs.

NET PREMIUMS WRITTEN
(CONTINUED)

PROPERTY AND SPECIAL RISKS

The Property and Special Risks business provides comprehensive cover for a range of businesses across a multitude of industries for both commercial property, energy and engineered risks together with targeted solutions for specific insurance risks.

Property and Special Risks Net Premiums Written

Total Insurance

£1,148.9m

2016: £**1,118.6**m

Global Property

£613.6m

2016: £**616.5**m

Global Property

Includes commercial property, energy and engineered risks. Commercial property offers insurance cover for material damage and business interruption on an all risks and specific perils basis. The business insures some of the world's largest and most complex organisations. The Energy and Engineered Risk segment provides comprehensive property insurance cover for offshore and onshore oil exploration, power generation, oil and petrochemical, chemicals and pharmaceuticals, mining and construction.

Special Risks

£535.3m

2016: £**502.1**m

Special Risks
Comprises of the following businesses:

Aerospace – insurance solutions for the global aviation and space industry, encompassing the spectrum of coverage required by aircraft operators, manufacturers and ground service providers.

Marine – cargo transportation products and handling services worldwide; policies include cargo, hull and marine liability.

Package – products are designed for the SME market and provide an extensive ranges of covers, the most purchased being property and casualty.

Political Risk – risk transfer solutions to enable companies to manage the risk of disruption/loss after a political event that may be associated with their international business operations.

Surety – provides protection by way of guarantee to public and private sector clients against the inability of contractors and service providers to fulfil their contractual obligations.

Trade Credit – is a leading Excess of Loss Credit Insurer protecting corporates and trade finance funders against non-payment of trade receivable for goods and services supplied on credit due to buyer default.

NET PREMIUMS WRITTEN
(CONTINUED)

PERSONAL INSURANCE

The Personal Insurance business comprises Group Accident & Health, Voluntary Employee Benefits, Individual Personal Accident, Individual Travel, and Direct Marketing which is in run-off in some markets/countries, Personal Auto, Service Programmes, and Private Client Group. Today AIG is a specific segment player with the majority of business sold via corporates or sponsors. As such, AIG principally provides a 'wholesale proposition', retail broker or direct to customer in select markets. The value proposition and distribution models vary across lines and countries.

Personal Insurance Net Premiums Written

Total Insurance

£1,054.9m

2016: £**962.3**m

Personal Accident

£463.6m

2016: £**453.9**m

Includes voluntary and sponsor-paid personal accidental and supplemental health products for individuals, employees, associations and other organisations. It also includes travel insurance products and services for leisure and business travellers.

Personal Lines

£591.3m

2016: £**508.4**m

Comprises the following pillars:

Personal Property: Offers a very wide suite of products for individual consumers – ranging from 'simple contents' policies for renters to high net-worth solutions for the wealthiest of clients. Cover is provided for buildings, contents, personal possessions, art and jewellery collections, as well as marine insurance for privately owned boats of any size.

Personal Auto: Consists of a mixture of personal insurance offerings for private passenger autos, small commercial vehicles, motorcycles and a limited amount of fleet business. In all the countries personal auto operates, auto is the subject of compulsory insurance in respect of third party liability. In addition to third party liability we offer cover for damages to the vehicles and additional services such as roadside assistance.

Service Programmes: Includes a diverse range of personal 'value added' insurances. This includes extended warranty (for both electronics and furniture), mobile phone insurance, spectacle and hearing aid insurance, crash damage waiver excess, tyre damage cover, lost keys, wallet guard, handbag cover, identity theft and others.

FINANCIAL PERFORMANCE

Overview

During 2017 we reported a loss ratio of 82.5% driven primarily by losses resulting from hurricanes Harvey, Irma and Maria and a number of large losses arising on prior underwriting years. We have taken steps to reduce the future impact of these types of losses through a focus on risk selection, reduction in net policy limits and the deployment of targeted reinsurance.

The underwriting loss for the year, together with investment income and foreign exchange losses, resulted in a loss before tax of £431.5 million (2016: £171.1 million). The full results of the Company are on page 50. The total comprehensive loss for the year of £423.9 million (2016: income of £142.7 million) has been transferred to equity. At 30 November 2017, total equity of the Company, on page 51, totalled £3.2 billion (2016: £3.4 billion).

Company Profitability

Net Premium Written improved to £3,919.7 million (2016: £3,661.3 million) supported by favourable currency movements and underlying business growth in our chosen profitable product lines. Expenses increased to £1,527.3 million (2016: £1,445.3 million) driven by foreign exchange movements and investments in strategic change programmes. Adverse current and prior underwriting year claims experience, coupled with catastrophic losses noted above, saw higher net claims of £3,220.3 million (2016: £,2,920.0 million) leading to a higher combined ratio and adverse underwriting result, which was a loss of £569.9 million (2016: loss of £439.5 million).

Financial Strength

The loss for the year, offset by a capital injection in the year, reduced the equity position to £3,163.9 million (2016: £3,372.0 million). Following the approval of the Company's Internal Model during the year, the regulatory capital surplus was 145.7% (2016: 108.4%).

Key Performance Indicators

The Board has identified the following as being the Key Performance Indicators ("KPIs") for the business. These KPIs are reviewed through the quarterly Board meetings.

	2017	2016
Net Premiums Written[1]	£3,919.7m	£3,661.3m
Loss Before Tax	(£431.5m)	(£171.1m)
Net Loss Ratio[2]	82.5%	78.5%
Combined Ratio (COR)[3]	114.6%	111.8%
Underwriting Result[4]	(£569.9m)	(£439.5m)

1. Net Premiums Written is derived from the Gross Premium Written in period less premium ceded to reinsurers in period.
2. The Net Loss Ratio is derived from Net insurance claims as a percentage of Net earned insurance premium revenue.
3. The COR is derived from the Net insurance claims, Commissions (which include acquisition costs, change in deferred acquisition costs, reinsurance commissions receivable, change in deferred reinsurance commissions and policy fee income), and Administration expenses as a percentage of Net earned insurance premium revenue.
4. The Underwriting Result is a sum of the Net earned insurance premium revenue, less Net insurance claims, Commissions (as detailed above) and Administration expenses.

RISKS TO OUR BUSINESS

The Company is exposed to a range of financial and other risks in carrying out its core business of the provision of insurance and related activities. The policies and framework that the Company has put in place to identify, monitor and manage these risks are set out in the Risk Management Report on page 20.

In addition, quantitative and qualitative information regarding the components of insurance, financial, credit, liquidity and operational risk are set out in Note 6 to the Financial Statements on page 66. In particular the Company's exposures to currency risk, credit risk and liquidity risk are separately disclosed in that note. The Company's exposure to cash flow risk is addressed under the headings of 'Credit Risk' and 'Liquidity Risk'.

An analysis of the critical accounting estimates and judgements made by the directors in determining the results and Statement of Financial Position of the Company is presented in Note 4 on page 64.

On behalf of the Board.

Anthony Baldwin

Anthony Baldwin
Chief Executive Officer
22 March 2018

BY YOUR SIDE

CLAIMS FIRST

Helping Clients Every Step of the Way

Handling claims is central to our business. During 2017 we better defined what clients should expect from our claims service during their time of need, and we also used our claims insights to partner with our clients to help them better understand the risks they might face. We have worked behind the scenes to bring the claims teams into the heart of the business. Our claims teams have a wealth of knowledge from dealing with losses – from simple to complex.

We can help clients to know how their policy will stand up, and crucially, how to mitigate or avoid the loss in the first place. During 2017 our claims experts have held workshops to help Risk Managers scenario-plan for various types of crises. Thanks to our wealth of claims data we have been able to provide insight into claims trends on subjects as diverse as environmental liability to M&A to cyber attacks. And in our offices, we're putting claims teams alongside their underwriting colleagues. This will enable us to fully capitalise on our claims expertise and continue to put Claims First.

2

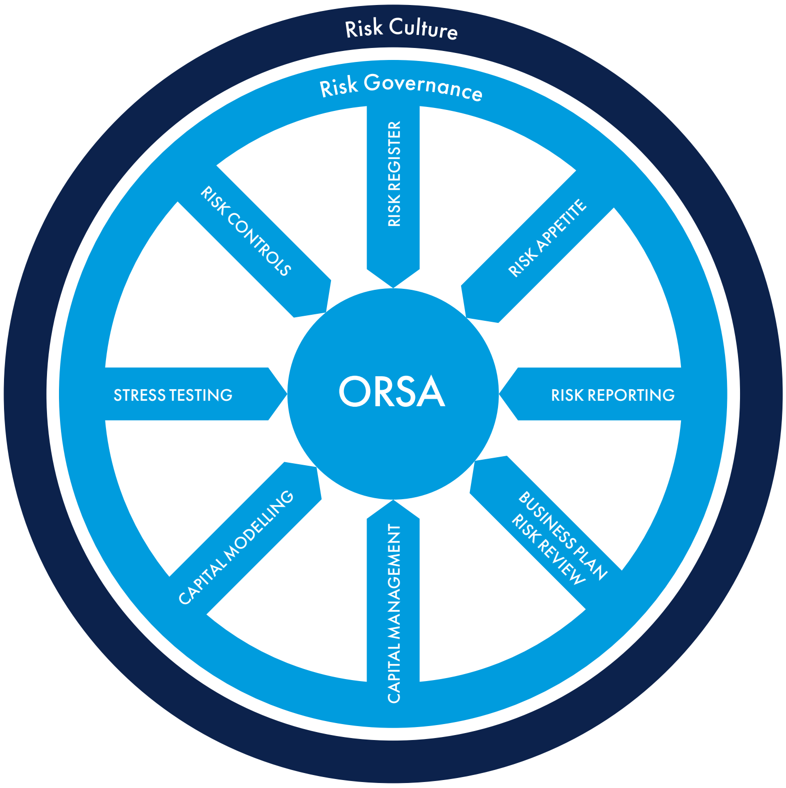
FOR WHEN YOU NEED US MOST

HOW WE MANAGE RISK

A strong, effective and embedded risk management framework is crucial. At AIG we have a strong risk culture which ensures that we continue to manage our business to deliver sustainable long-term profitability.

RISK MANAGEMENT FRAMEWORK

The Company believes that a strong, effective and embedded risk management framework is crucial to maintaining successful business operations and delivering sustainable, long-term profitability. We achieve this through a strong risk culture articulated by effective Enterprise Risk Management ("ERM") senior leadership and embodied by management at all levels through our governance structure and risk management processes.



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

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

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

The Company's Board, through its sister committee, the Board Risk Committee, has ultimate responsibility for development and oversight of the risk management framework; the Board delegates the management of risks within the Company's risk appetite and the risk governance framework to the Risk and Capital Committee ("RCC"). The RCC escalates matters of importance to the Board as needed. A diagram covering the key aspects of AIG Europe Limited's Risk Management Framework is provided. A diagram covering the key aspects of AIG Europe Limited's Risk Management Framework and how they feed into the 'Own Risk & Solvency Assessment' ("ORSA"), is provided above.

The Risk Management Framework supports the identification, measurement, management, monitoring and reporting of our major risk groupings, which include but are not limited to:

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

Further detail can be found in Note 6, Management of Insurance and Financial Risk.

HOW WE MANAGE RISK
(CONTINUED)

RISK CULTURE

The Company has an ongoing commitment towards maintaining an effective risk culture, as it is critical to our 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. The Company defines a framework of risk committees, risk reporting and controls embedded throughout the business. The principal risk committees of the Board and management are designed to support the Company's efforts in embedding a strong risk culture through the integration of risk management with business activities.
- **Communication**
  Internal communication to all levels of management and staff to describe and inform (to an appropriate level of detail) the risk framework (strategy, governance), risk policies/procedures and the Company risk profile. The Company's risk governance framework strives to provide information on the impact of risk management operations and the current risk profile. Without effective communication of the risk profile, key stakeholders within the business will not be able to make appropriate decisions required to manage the Company as a risk-aware business.
- **Involvement**
  Appropriate contribution at all levels of management and staff to the processes of identifying, assessing, managing, monitoring and reporting risks. All employees have a responsibility to manage risk. The Company utilises the "Three Lines of Defence" model for risk management:

1. First Line of Defence
   Composed of those profit centres and corporate functions that originate risks and have primary responsibility for managing risks, including identifying, assessing, controlling, monitoring, and reporting risk quantities;
2. Second Line of Defence
   Composed of ERM and other assurance functions, such as AIG Compliance, which perform independent risk assessments; ERM, as an independent function, undertakes a review and challenge covering the First Line of Defence;
3. Third Line of Defence
   The Company's Internal Audit Department ("IAD") comprises the independent assurance provided to the Audit Committee of the Board. IAD undertakes a program of risk-based audits covering aspects of the First and Second Lines of Defence.

- **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.

The Company believes that an effective risk culture must achieve an effective blend of both constraints and incentives.

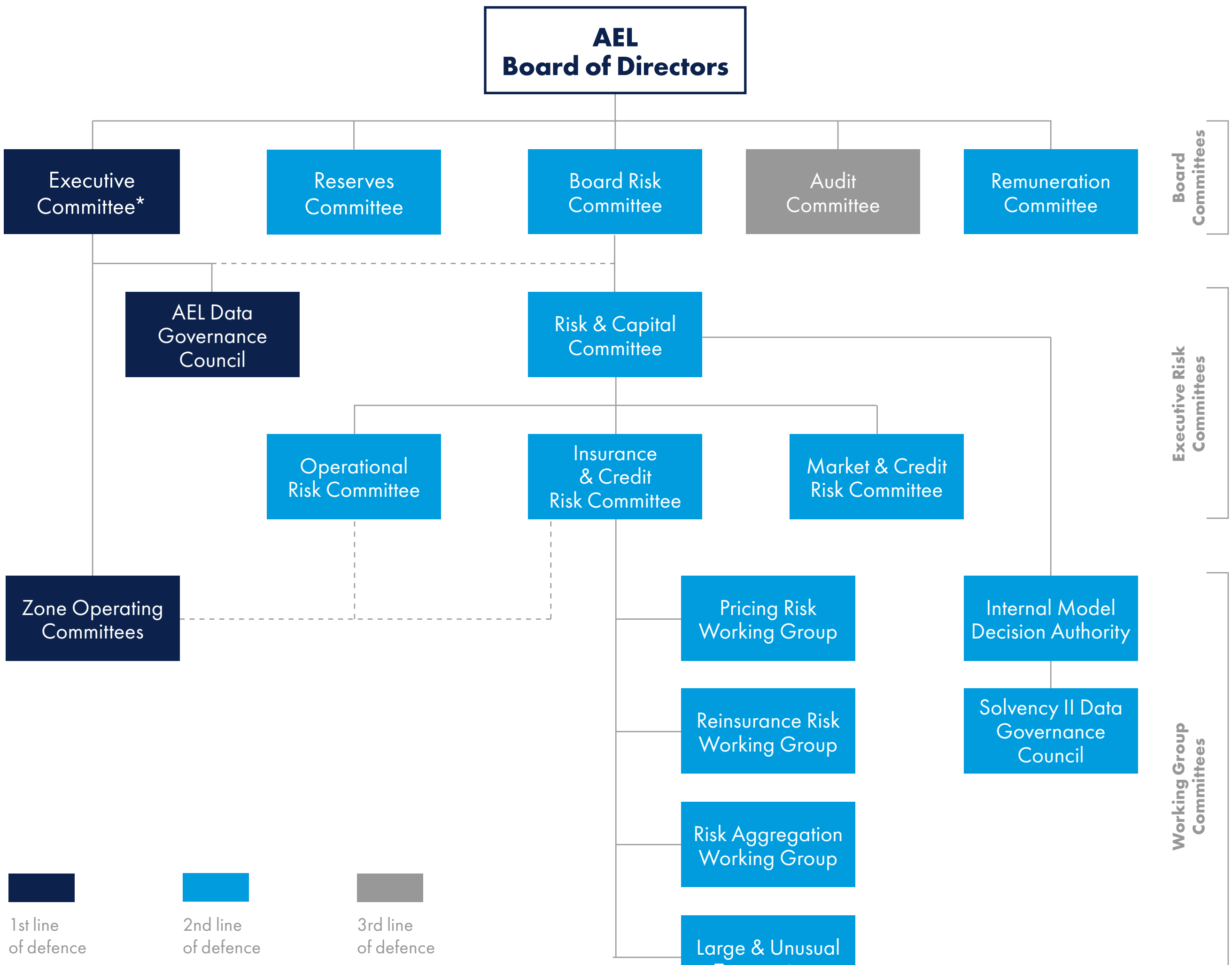
RISK GOVERNANCE STRUCTURE

Underpinning the Company's risk culture is a risk governance structure that encompasses its principal business operations and risk areas and defines a framework of risk committees, risk reporting and risk controls embedded throughout the business.

The current risk governance structure provides an oversight and decision-making framework within which material risks are continually identified, assessed, monitored and managed at a regional level, utilising outputs from the Economic Capital Model ("ECM"), where appropriate. The organisation chart below provides a high level overview of AIG Europe Limited's risk governance structure:

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

Risk Governance Structure – Risk Committees



* Matrix reporting line to AEL Data Governance Council

HOW WE MANAGE RISK
(CONTINUED)

The Executive Committee
The Executive Committee ("ExCo") is responsible to the Board for the day-to-day management of the Company. It develops strategy (for example, through annual business and capital plans), proposes the strategy to the Board and, once approved, implements it. As an executive body, ExCo forms part of the first line of defence.

RESPONSIBILITIES OF THE EXECUTIVE RISK COMMITTEE

The Executive Risk Committees currently comprise the Risk and Capital Committee ("RCC"), which reports to the ExCo and the Board, via the Board Risk Committee ("BRC"). The RCC is authorised by the ExCo to implement, manage and control the risk management framework of the Company.

In order to fulfil this wide-ranging responsibility, the RCC has delegated responsibility to three risk specific committees (Insurance, Market and Operational) to monitor and manage the Company's risk profile in each of these areas at a more granular level. Each committee is chaired by a member of the ExCo. Other members include relevant European business heads, risk experts from Enterprise Risk Management ("ERM") and actuarial expertise from the ECM team.

The Executive Risk Committees share three core responsibilities:

General Risk Oversight: Responsibility for the identification of new and emerging risks, reviewing risk management information ("MI") to determine the likelihood of risks crystallising, continually reviewing and updating risks and associated mitigating controls within the risk register and discussing loss events, with a view to determining remediation plans in order to minimise the severity and frequency of such events.

Internal Model Oversight and Validation: Responsibility for providing oversight over the ECM, with a view to ensuring that the model's design, implementation and resultant outputs are and continue to be appropriate for direct business decision making and are in alignment with business knowledge and recent experience. In addition, the Executive Risk Committees also share a responsibility for providing oversight over the Standard Formula, with a view to ensuring that the standard formula expert judgements and resultant outputs are in line in expectations based on business performance as well as making recommendations on the maintenance of and changes to the Standard Formula.

Monitoring of the Risk Profile: Responsibility for monitoring and taking business decisions on the current and future risk profile that relates to their respective risk area, in order to maintain compliance with the Company's risk appetite.

The RCC also delegates responsibility to the Internal Model Decision Authority ("IMDA") to cover specific aspects of risk management that is concerned with the effective operation and utilisation of the ECM:

The IMDA acts as an advisory panel for the RCC, providing detailed technical oversight of ECM related activities and any issues that may emerge. The IMDA also advises the RCC on technical aspects of the ECM to aid in shaping the risk profile of the Company.

In addition, the RCC also delegates oversight responsibility to the Product Development Forums over profit centres' adherence to product development controls and processes, thus helping to ensure that associated Conduct Risk issues pertaining to development and launch of new products are appropriately managed. ERM is also represented and has voting rights in these forums.

RESPONSIBILITIES OF WORKING GROUP COMMITTEES

There are a number of working group committees that focus on particular aspects of Insurance Risk and report up to the Insurance Risk Committee on any recommendations and findings undertaken as a result of the execution of their responsibilities. The responsibilities of each committee are as follows:

- Pricing Sub Group: To ensure underwriting adherence to technical pricing, to drive improvements in rating strength and pricing integrity and to monitor and analyse the pricing risk profile of the Company.

- Reinsurance Sub Group: To set the reinsurance strategy and to determine reinsurance treaty structures.
- Risk Aggregation Sub Group: The aggregation and analysis of risk accumulation of key perils.

In addition, the Company has a Large and Unusual Transaction ("LUT") referral group in place, which convenes to consider transactions that meet or exceed set trigger levels in relation to the risk profile before the Company becomes committed. The LUT is an ad-hoc meeting of the Risk and Capital Committee.

LOCAL RISK FORUMS

Local offices play a key part in the risk framework, being a source of emerging issues, which have the potential to impact upon the risk landscape of the Company. Each of these local country branch offices are aligned to a networked zone led by a Zone Operating Committee, which has a responsibility to manage the business of the Zone within the limits of the mandate delegated to it by the ExCo.

In order to achieve this objective, each Zone Operating Committee is supported by a local country Senior Management Team ("SMT"), which acts as a "Country Risk Forum", with responsibility for the monitoring and management of controls of all risk types arising at country level, most notably operational risk and insurance risk. Country SMTs are also responsible for identifying emerging risks that could affect the business in that country, and analysis of large losses/risk events.

ERM's Zone Risk Officer are responsible for co-ordinating the escalation of risk reporting, including the production of Zone Risk Hydras, from the local country SMT to the Zone Operating Committee, who will then consider application of executive action to address risks or to escalate issues to the ExCo as appropriate. To ensure that risk lessons are learned regionally from the outputs of country SMTs, key risk items, such as risk events and new emerging risks, are reported by the Zone Risk Officer to the relevant Executive Risk Committee.

RISK APPETITE

The Company's risk appetite statement defines the level of risk that it is prepared to accept in pursuit of its business objectives. In particular, it describes the relationship between risk and reward.

In approving the risk appetite statement, the Board defines parameters within which the Company should operate. It provides a framework against which the business must report to the Board and lower level risk committees on the current risk profile of the Company. This in turn provides assurance that the current risk profile sits within appetite and where this is not the case to identify the breach, explain the causes and propose remediation.

The Risk Appetite Framework integrates stakeholder interests, strategic business goals and available financial resources.

HOW WE MANAGE RISK
(CONTINUED)

The Company intends to balance these interests, goals and resources by taking measured risks that generate repeatable, sustainable earnings and produce long-term value.

The Risk Appetite Framework includes a Statement of Risk Appetite and a set of supporting tools employed to manage its risk profile and financial resources. Specifically:

- A Statement of Risk Appetite that articulates the Company's philosophy and principles of risk taking in relation to its strategic and business objectives;
- A set of Risk Tolerances on capital and liquidity measures as quantitative measures of its aggregate risk taking;
- A Risk Limits Framework to quantitatively monitor, measure and control risks that are core to our operations; and
- Control measures including policies and procedures that set standards on practices for the taking and management of risks, including risks that are inherent to its operations but are not compensated for. The Company has adopted policies and procedures from AIG Inc.

RISK REGISTER

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

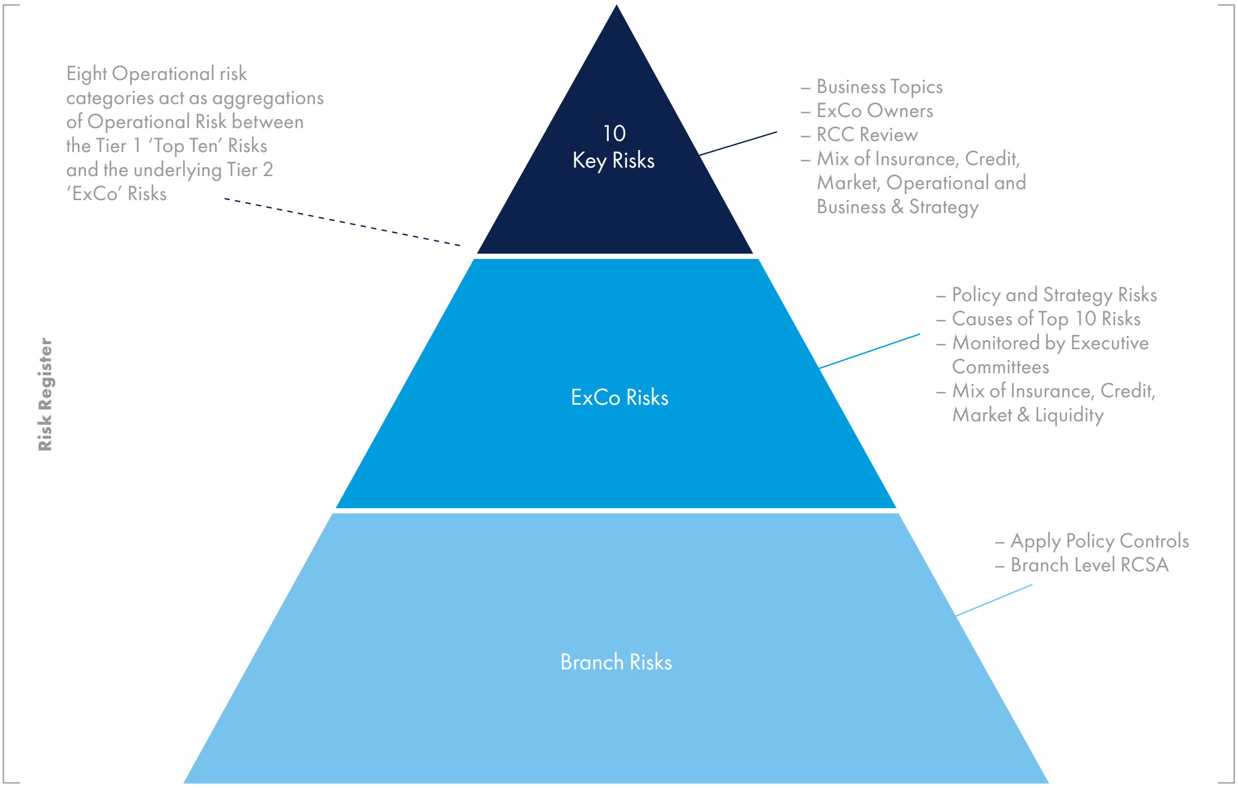
Tier 1: Comprised of the entity level or 'Top Ten' key risks, spanning the whole of the Company's operations. These risks are owned at RCC level.

Tier 2: Comprised of granular ExCo risks owned and managed through the Executive Risk Committees that report up to the RCC (being the Insurance, Market and Credit Risk and Operational Risk Committees).

Tier 3: Comprised of country level risks; these are managed at local country branch level through country Senior Management Teams ("SMT").

The risks identified at Tier 2 and Tier 3 levels are designed to align to the 'Top Ten' key risks identified for Tier 1. This enables the Company to maintain a dynamic, interactive risk register structure, where issues or developments within specific risks at a certain level are discussed and taken into account for relevant risks within the other tiers, regardless of whether they are at a Europe-wide or local level. This also allows the Company to better reflect the dynamic, ever-changing risk landscape that it currently operates within. A diagram of the three levels of risk is provided on page 27 for illustration purposes.

Risk Register Structure



NOTES

Tier 1: The 'Top Ten' Key Risks

The 'Top Ten' risks' are designed to align to the five main risk categories of Insurance, Market, Operational, Credit and Business/Strategy Risk. This allows AEL to produce risk dashboards for the RCC, ExCo and BRC covering all of these key risks, as well as a more detailed report for each relevant Risk Committee.

Tier 2: The 'ExCo' Risks

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

Tier 3: Branch Level Risks

Material Branch level risks are escalated to the Head of Insurance or Operational Risk, who will then assess, monitor and help manage them through one of the Tier 2 (ExCo) level risks. Through this method, key risk issues at a zone level are managed into the risk register.

BY YOUR SIDE

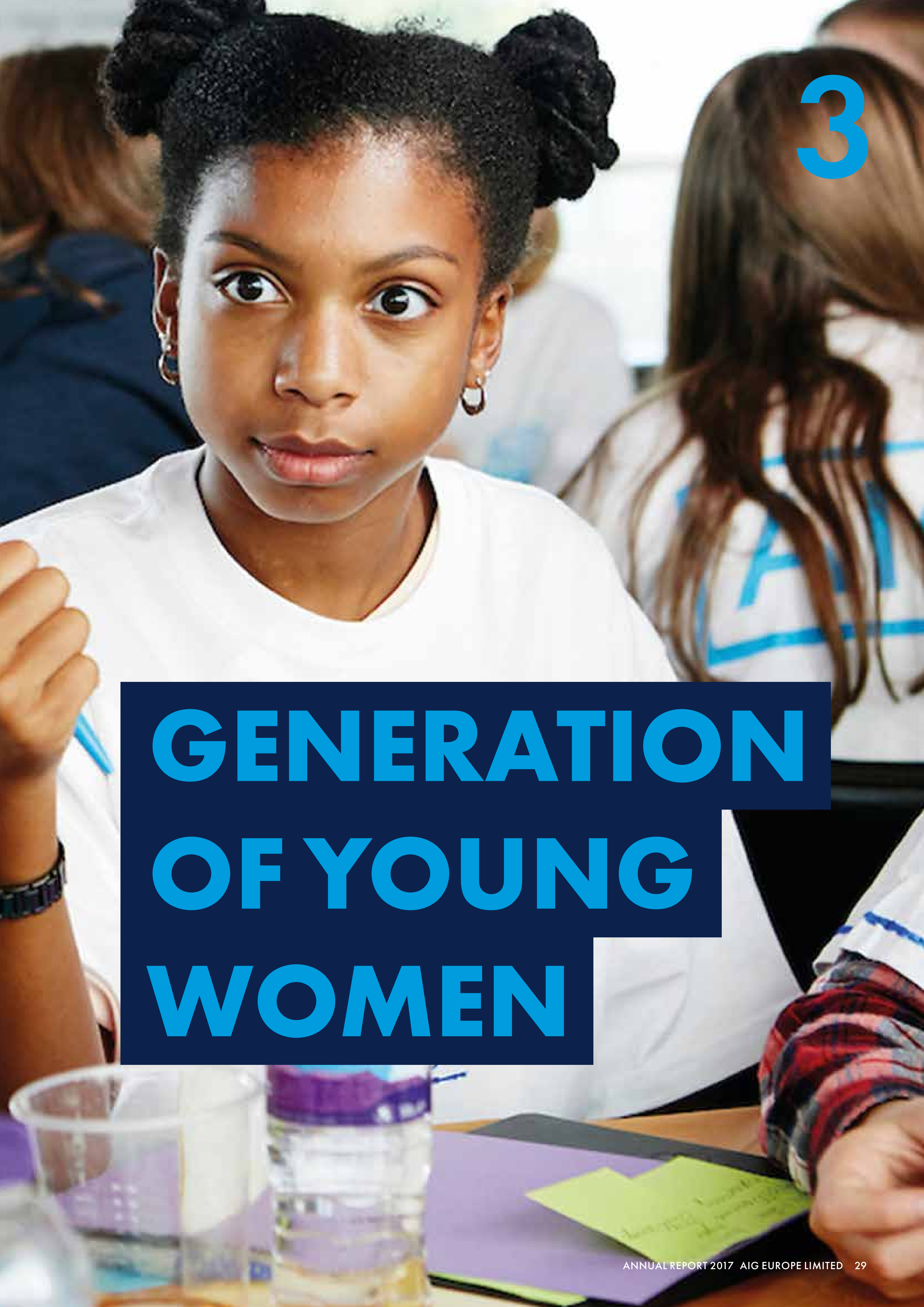
TO INSPIRE THE NEXT

GREENLIGHT4GIRLS

Hacking Into Creativity

Inspiring young women to study Science, Technology, Engineering and Maths ("STEM") is something about which AIG is passionate. We partner with greenlight for girls (g4g), an organisation dedicated to encouraging girls of all ages and backgrounds to pursue STEM subjects.

During 2017 we helped them to run a 'Design Hackathon' at London's Southbank Centre. It was an energising event where 60 girls, aged 12 to 18, had the opportunity to interact with professional role models and face up to the challenge of using creativity and science to build a solution for a societal issue – how to secure strong financial futures for women and girls from all backgrounds. Using the design-thinking process to develop creative ideas in only a few hours, these 60 girls developed 10 projects to address the issue of securing strong financial futures for women and girls from all backgrounds. The winning team designed an educational app, demonstrating creativity, collaboration and strong research skills.



3

GENERATION OF YOUNG WOMEN

MEET THE BOARD OF DIRECTORS AND ADVISERS

The Board of Directors exhibit a broad balance of skills and experience. As at the date of this report the Board comprises the Chairman and Independent Non-Executive Director, four Executive Directors and four additional Independent Non-Executive Directors ("INEDs"). Biographical details of current directors are set out below.

Mr A. Hope
Chairman and Independent Non-Executive Director

Anthony Hope joined the AIG Europe Limited Board on 1 December 2007 and has also served as Chairman of the Audit Committee. He became Chairman of the Company on 1 October 2014.

Mr Hope served 35 years in different positions at HSBC in its insurance division, including his most recent position as Chairman of HSBC Insurance Holdings, which he held from 1987 until 2007.

He also served on the board of Ping An Insurance Group of China until 2008. Prior to HSBC, Mr Hope served at Anthony Gibbs Sage Limited and Glanvill Enthoven & Co Ltd. Mr Hope has over 40 years' experience working in the insurance industry and drives a culture of openness in the boardroom.

Mr A. Baldwin
Chief Executive Officer

Anthony Baldwin has been at AIG for over 20 years, and joined the Board on 30 October 2015 as the new Chief Executive Officer.

Mr Baldwin brings extensive experience from beginning his AIG career as an underwriter for Financial Institutions to leading the international financial lines business. In 2008 he was appointed as the Senior Vice President of Global Financial Lines with responsibility for the international portfolio of businesses.

More recently, he worked with the EMEA country management teams and the distribution teams as the Managing Director of Distribution, with direct responsibility for sales, client engagement and marketing across the EMEA region.

Prior to joining AIG, Mr Baldwin worked for Deloitte & Touche in the UK.

Mr J. Lenton
Chief Financial Officer

James Lenton joined the Board on 12 November 2014. He is the Chief Financial Officer for Europe and leads the finance relationship with regulators and rating agencies and oversees the leadership of business partnering and planning, capital management, controlling, reinsurance, taxation, corporate actuarial and treasury together with the enterprise-wide transformation of finance capabilities.

Prior to joining AIG in 2013, Mr Lenton was with Ernst & Young LLP where he was co-ordinating partner for the global insurance assurance practice. Whilst there he advised and audited a number of the largest publicly listed and private equity backed insurers. Prior to this, Mr Lenton started his career at Price Waterhouse (latterly PwC) in 1996 where he worked in the UK and the U.S.

Mr M. Bowers
Senior Independent
Non-Executive Director

Martin Bowers joined the Board on 19 September 2005. He has held a number of executive positions in leading insurers. He was previously a senior insurance manager at Gulf Oil, a Director of CT Bowring (Insurance Ltd), a managing director at Marsh, and was responsible for setting up an energy business development operation for Europe, and the Middle and Far East regions, an operation that subsequently opened offices in Dubai and Singapore.

While at Johnson & Higgins, Mr Bowers was responsible for creating a major new energy group and subsequently became Chairman of the J&H Global Energy practice. Additionally, he has previously offered consultancy services to various U.S. loss adjusters, major insurance buyers and London brokers.

Ms C. Kampmann
Independent
Non-Executive Director

Camilla Kampmann joined the Board on 23 July 2013, bringing extensive marketing and IT infrastructure knowledge from her global business experience.

Ms Kampmann has acquired over 20 years' experience gained in roles within the international technology sector. She was the architect of change at Oracle, transforming the marketing function from in-country to an EMEA structure, creating a shared resource model. More recently, she developed a pan-EMEA marketing function at Oracle, with a particular focus on professionalising the Eastern European and CIS region in line with U.S. standards. Ms Kampmann has a strong customer focus and has achieved considerable customer communication improvements in other roles.

Mr J-M. Nessi
Independent
Non-Executive Director

Jean-Marie Nessi joined the Board on 25 June 2012.

He previously worked at AXA where he developed the reinsurance business streamlining the high volatility risk businesses of AXA into one entity alongside the cultural, administrative and capital exposure elements associated with such a project, turning the new business into a triple A rated division of AXA Re.

Following previous roles at PartnerRe and AON, Mr Nessi currently also sits on the board and Audit and Risk Committee of Validus Re. He has considerable board and Non-Executive direct experience and provides significant insight into actuarial and compliance issues.

MEET THE BOARD OF DIRECTORS AND ADVISERS
(CONTINUED)

Mr P. Tromp
Independent
Non-Executive Director

Philippe Tromp joined the board on 25 June 2012 and offers over 30 years' experience across the financial services industry. Mr Tromp has a broad range of experience gained in debt capital markets, asset-backed securitisation, infrastructure finance, market infrastructure, financial technology, and general insurance.

Recently, he led a start-up behind the development of a multi-dealer institutional electronic trading platform for credit products. Previously, he ran the international business of Financial Security Assurance and has led international operations through downsizing following the financial crisis. Mr Tromp also serves on the board of Euroclear UK and is a member of the Senior Advisory Board of Solum Financial Limited, with both roles utilising his understanding of commercial, risk management, regulatory and governance issues.

Mr N. Minnich
Executive Director

Neil Minnich joined AIG in 2007 and was appointed to the Board on 21 April 2016 serving as Senior Vice President and Head of Personal Insurance. In this role, Mr Minnich is responsible for the strategy and growth of the accident and health, auto, home high net-worth clients, affinity and travel business for Europe, Middle East and Africa.

Prior to this role, he began his AIG career in New York, as Vice President of Field Operations specialising in personal lines. With considerable experience in various environments, connecting strategic goals to successful performance, Mr Minnich started his career at Allstate Insurance. At this Company, he gained exposure to all 50 U.S. states through six major roles over a successful 22-year period.

Mr C. Newby
Executive Director

Chris Newby joined AIG Europe in January 2006 and was promoted to General Counsel for EMEA and Company Secretary in October 2012. He was appointed Chief Operating Officer in March 2017 and joined the Board on 25 July 2017.

He is responsible for the legal, regulatory and compliance functions in the EMEA region, spanning 46 countries with products ranging from personal lines to the largest corporate risks.

Prior to joining AIG, Mr Newby spent seven years in Norton Rose's Insurance Corporate Finance and Regulatory Team working on acquisitions, mergers and other regulatory projects within the insurance sector.

CORPORATE GOVERNANCE

The Company believes a strong system of governance supports the delivery of its strategic objectives and provides an effective and controlled decision making process for the benefit of its customers, staff and all stakeholders.

An established risk governance structure exists which provides oversight over the Company's decision making framework within which material risks are continually identified, assessed, monitored and managed. The Board delegates clearly defined responsibilities to various committees. The Company believes that good governance is about much more than committees: it is about ensuring the stability, consistency and innovativeness of our business in order to make sure our customers' expectations are met and exceeded.

COMMITTEE MEMBERSHIP

Members of the Board of Directors serve on a broad range of committees and councils forming the AEL Governance Structure as illustrated and discussed on page 23.

Key ● = Membership of Committee C = Chairmanship	Anthony Hope	Anthony Baldwin	James Lenton	Martin Bowers	Camilla Kampmann	Jean-Marie Nessi	Philippe Tromp	Neil Minnich	Christopher Newby
AEL Board	C	●	●	●	●	●	●	●	●
Audit Committee	●			●	●	●	C		
Board Risk Committee	●	●		C	●	●	●		
ExCo		C	●					●	●
Reserves Committee	●		●	●		C	●	●	
Remuneration Committee	C			●	●	●	●		
Data Governance Council		●	●						
Risk and Capital Committee			●						●
Market and Credit Risk Committee			C						

COMPANY ADVISERS

Company Secretary
Ms K. Hillery

Company Registration Number
The Company number for AIG Europe Limited is 01486260

Registered Office
The AIG Building
58 Fenchurch Street
London EC3M 4AB

Independent Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London SE1 2RT

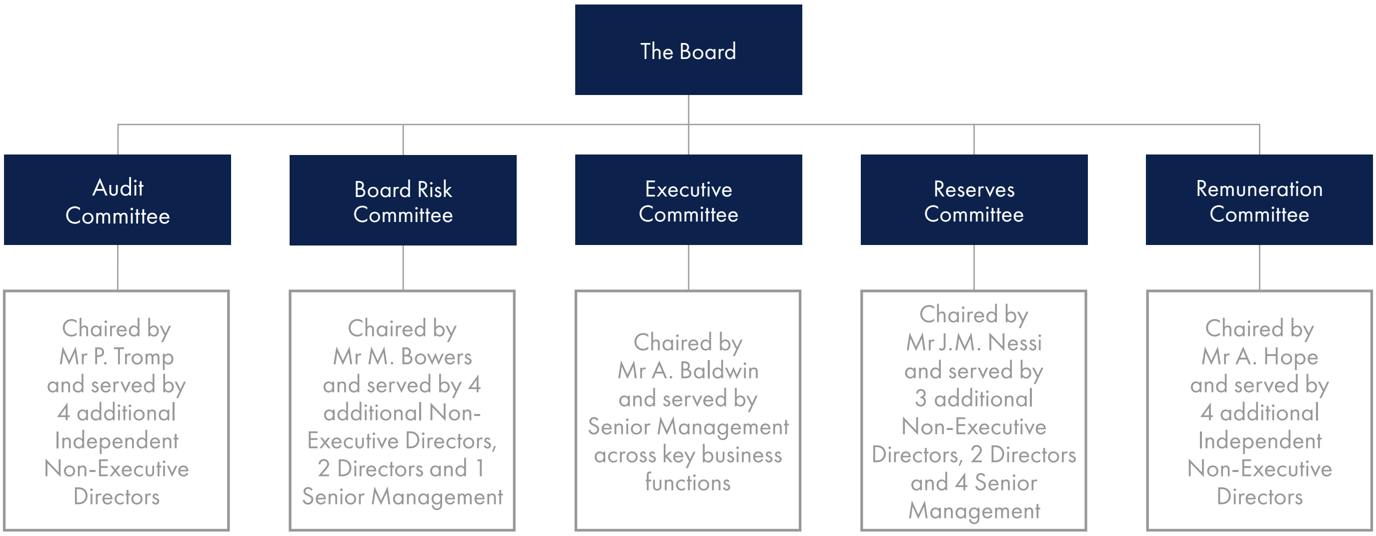
Investment Advisers
AIG Asset Management (Europe) Limited
The AIG Building
58 Fenchurch Street
London EC3M 4AB

Principal Bankers
Citibank NA
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB

GOVERNANCE REPORT

1. PRINCIPAL COMMITTEES

The AEL Board and the five key committees are listed below and provides an overview of the governance arrangements for the Company.



THE BOARD

Fundamental Purpose

The Board has overall responsibility for the management of AIG Europe Limited. Its role is to provide entrepreneurial leadership of the Company within a framework of prudent and effective controls which enables each of the risks faced by the Company to be assessed and managed. The Board is responsible for promoting the long-term success of the Company whilst securing an appropriate degree of protection for policyholders and, in particular, for setting the Company's strategic aims, monitoring management's performance against those strategic aims, setting the Company's risk appetite, ensuring the Company is adequately resourced and that effective controls are in place.

Composition and Frequency of Meetings

The Board meets at least six times a year (quarterly plus additional meetings to review the Annual Report and the following year's business plan and budget), with more frequent meetings as required. It is composed of a mix of Executive Directors and Independent Non-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.

Agenda and Management Information

There are various core standing items that form the Board's agenda. These include:

- Business Review
- Strategy
- Finance
- Investments
- Actuarial & Reserving
- Risk
- Audit
- Legal & Compliance
- Human Resources
- Data Management

Other ad hoc items can be added as business needs require by way of prior co-ordination with Company Secretariat.

AUDIT COMMITTEE

Fundamental Purpose

The role of the AIG Europe Limited Audit Committee is to:

- Assist the Board in discharging its responsibilities for the integrity of the Company's Financial Statements;

- Provide independent and objective assurance and oversight of the effectiveness of the systems of internal controls (financial, operational, compliance and risk management), including those systems and controls reviewed by Internal Audit;
- Provide oversight of the qualifications, independence and performance of External Audit; and
- Monitor the Company's compliance with legal and regulatory requirement.

The Audit Committee is part of the third line of defence.

Composition and Frequency of Meetings
The Audit Committee is composed of five Independent Non-Executive Directors. The CFO, GC, Head of Internal Audit and lead partner of AIG Europe Limited's External Auditors are standing invitees. The Committee meets at least quarterly, with more frequent meetings as required.

Agenda and Management Information
The regular reports provided to the Audit Committee to enable it to fulfil its terms of reference are:

- Finance
- Internal Audit
- External Audit
- Internal Control & Risk Management
- Governance
- Private Sessions for the Committee to meet with the External Auditor and Executive Management being the CEO, CFO, Head of Internal Audit and Head of Compliance

BOARD RISK COMMITTEE

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

Composition and Frequency of Meetings
The Board Risk Committee is composed of each of the Independent Non-Executive Directors plus the Chief Executive Officer and Chief Operating Officer. Its standing attendees include the Chief Risk Officer and General Counsel. It meets quarterly to ensure that risks to the business plan and the capital implications are adequately identified and assessed as part of the business planning process and that appropriate mitigants are in place.

Agenda and Management Information
The regular reports provided to the Board Risk Committee to enable it to fulfil its terms of reference are:

- Capital Management
- Risk & Capital Report
- Enterprise Risk Management Report
- Operational Risk
- Credit Risk
- Market Risk
- Insurance Risk
- Stress & Scenario Testing Reports
- IT & Systems Update
- Internal Model Update

EXECUTIVE COMMITTEE

Fundamental Purpose
The Executive Committee ("ExCo") has responsibility for developing and implementing strategy for, and managing operational issues relating to, AIG Europe Limited. ExCo is responsible to the Board for day-to-day management of the Company. It develops strategy (for example, through annual business and capital plans), proposes the strategy to the AEL Board and, once approved, implements it. As an executive body, ExCo forms part of the first line of defence.

Composition and Frequency of Meetings
Typically, ExCo meets twice monthly, and a minimum of monthly. It is composed of the CEO and a mix of senior executives including the Zone Managing Directors. The Independent Non-Executive Directors of AEL may interview proposed candidates for positions prior to their appointment.

Agenda and Management Information
Generally, the first meeting in each month focuses on hot topics of the day and core Governance standing items, whilst the second focuses on performance against the business plan and core Financial standing items that form the ExCo's agenda. Other ad hoc items can be added as business needs require by way of prior co-ordination with Company Secretariat. In particular, ExCo receives reports from each core business unit to enable it to monitor progress against the strategic plan, and where applicable develop and propose material adjustments to the Board. It also maintains an oversight of transformation projects and other strategic initiatives.

RESERVES COMMITTEE

Fundamental Purpose
The role of the Reserves Committee is to ensure that the Company maintains reasonable and adequate technical reserves and to oversee and manage all forms of reserving risk assumed or accepted by the Company. The Reserves Committee is part of the second line of defence

Composition and Frequency of Meetings
The Reserves Committee is composed of four Independent Non-Executive Directors, the Chief Risk Officer, CFO, Chief Actuary, Head of Claims and Heads of Consumer and one of the four key Commercial Lines Executives. The Committee meets at least quarterly, with more frequent meetings as required. The CEO, GC, AIG P&C International Chief Actuary, profit centre Actuarial Heads, Head of Insurance Risk and Internal Audit are standing invitees.

Agenda and Management Information
Core components of the regular feeds into the Reserves Committee to enable it to fulfil its terms of reference include input from:

- Internal and external actuaries (e.g. on assumptions used to calculate technical reserves and sensitivity of projections);
- Underwriting on changes to areas such as policy conditions and pricing that could affect reserving levels;
- Claims on large loss events, weather events and other catastrophes; and
- Reports on social, legal and economic environmental changes that could impact future reserving levels.

REMUNERATION COMMITTEE

Fundamental Purpose

The Remuneration Committee has delegated responsibility from the Board to oversee the ongoing appropriateness of the AIG Compensation Philosophy and its application to the Company, pay and benefits of each of the executive directors, the Executive Committee and other key function holders in line with the remuneration policy of the AIG Group. The oversight by the Committee allows the Chair to fulfil the duties owed as the Senior Insurance Manager 12 – Chair of the Remuneration Committee and Prescribed Responsibility 11, being the 'Responsibility for developing and overseeing the firm's remuneration policies and practice'.

The Remuneration Committee also considers and advises the Board on the application of the remuneration policy in relation to the executive directors and other Material Risk Takers specifically ensuring avoidance of incentive programmes that encourage employees to take unnecessary or excessive risk.

The Remuneration Committee also considers and advises the Board on the application of the remuneration policy of the AIG Group generally.

Composition and Frequency of Meetings

The Remuneration Committee is composed of five Independent Non-Executive Directors. The General Counsel, Head of HR and Head of Compensation and Benefits are standing invitees. The Committee meets at least twice per year, with more frequent meetings as required.

Agenda and Management Information

The Remuneration Committee reviews the design of the applicable AIG Group remuneration structure to ensure it is designed to:

- promote the long-term success of the Company;
- ensure performance related elements are transparent, stretching and rigorously applied;
- be in accordance with standard market practice;
- be consistent with good risk management;
- meet regulatory requirements; and
- match the current financial situation and future prospects of the Company.

Core components of the regular feeds into the Remuneration Committee to enable it to fulfil its terms of reference include input:

- reviewing and endorsing on behalf of the Board the application of the AIG Group's approved remuneration policy relating to the total remuneration (and its individual components) paid to the executive directors and Material Risk Takers;
- reviewing the AIG Group remuneration policy from time to time as approved by the AIG Group parent;
- monitoring the management, level and structure of remuneration for Executive Committee and other Material Risk Takers;
- considering the policy and principles designed by the AIG Group parent to be applied by management in relation to any annual performance related pay schemes, including Long Term Incentive Plans ("LTIP"), operated by the Company.
- reviewing and considering reports from the Human Resources Executive on the operation of the AIG Group's remuneration policy and its effectiveness as it affects AEL;
- reviewing reports from the HR Executive concerning the operation of the HR Department in relation to the setting of objectives and the monitoring of performance to support the application of the compensation philosophy particularly in terms of good risk management;
- ensuring Material Risk Takers remuneration in all its forms compares appropriately with the equivalent markets in their countries of employment;
- reporting to the Board at regular intervals on the matters it has reviewed making recommendations when requested or when they consider appropriate.

2. INTERNAL AUDIT

The Board, 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 Company's 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 its oversight responsibilities and,
- Provide an independent assessment of the Company's system of internal control, through reviewing how effectively key risks are being managed, and assist 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 the Company's activities, system of governance and risk management processes.

The Internal Audit function reports to the Audit Committee.

Maintaining Audit Independence

The Internal Audit function reports on the audit programme, its status, and the condition of the control environment directly to the Board through the Audit Committee. 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 Committee to have full and complete access to any of the organisation's records, properties and personnel and is authorised 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.

3. MANAGEMENT OF ACCOUNTING POLICIES AND SIGNIFICANT AREAS OF FOCUS

Principal Accounting Policies

The Company actively manages and reviews its accounting policies in order to prepare its Financial Statements in accordance with company law. The principal accounting policies of the Company are:

1. Basis of Preparation
2. Business Combinations
3. Foreign Currency
4. Insurance Contracts

Further detail on all the adopted accounting policies can be found in Note 3 on page 56.

Principal Areas of Management Focus

The Company, largely through the Board Risk and Audit Committee, consider the following issues of most significance in the management of its business.

Loss Reserves

The Company's reserves provide for the estimated value of unsettled and unreported claims at the reporting date based on a thorough evaluation process undertaken using market-wide actuarial techniques and expert judgement, informed by historical data, claims expertise and external benchmarks.

The Company has ensured that management exercised appropriate judgement and control in estimating insurance contract liabilities including assessing the impact of claims trends and other influencing factors, and continuing to enhance the analytics underlying the reserve estimates.

However, the nature of these liabilities is inherently uncertain both in timing of reporting, settlement and quantum, and therefore it is likely that the final outcome will prove to be different from the original liability established, perhaps materially so. This uncertainty manifests significantly in lines of business with longer reporting and settlement delays as well as those for which low-frequency large or catastrophic losses can occur, including new products. There is also systemic uncertainty arising from exposure to economic inflation, financial market movements, medical and technological developments, legislative changes and changes in policyholder behaviour.

We also note that the following specific areas of reserve uncertainty for the Company are as follows:

- Financial Lines: This is a key area of uncertainty given the current macro environment, and increased market and regulatory scrutiny of the banks which the Company insures;
- Liabilities: Recent legal changes such as the Ogden discount rate, Ministry of Justice reforms and LASPO (Legal Aid, Sentencing and Punishment of Offenders Act), PPO claims, abuse and disease claims;
- General volatility in respect of specific large claims;
- Claims experience is subject to natural catastrophes across the world given the global exposure of risks underwritten by the Company. The frequency and severity of such events have a high degree of uncertainty associated with them; and
- There is a higher level of uncertainty for the more recent accident years given their early stage in development.

Valuation of Investments

The majority of the Company's financial investments are carried at fair value. The fair value of a financial instrument is the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly arm's length transaction between willing and knowledgeable market participants at the measurement date. This policy applies to all available for sale debt instruments. For equity securities, short-term investments and loans receivable, amounts are reported at cost in accordance with IAS 39. Further details can be found in Note 8.

Revenue Recognition

Insurance contracts are recognised, measured and reported in accordance with IFRS 4 'Insurance Contracts'.

A contract is recognised as an insurance contract if it involves the assumption by the Company of significant insurance risk. Insurance risk is transferred to the Company where it agrees to compensate a policyholder if a specified uncertain event, other than those caused by changes in a financial variable, such as interest and foreign exchange rates, adversely affects the policyholder. Once a contract has been classified as an insurance contract, it remains an insurance contract until derecognised, even if the insurance risk becomes insignificant during this period.

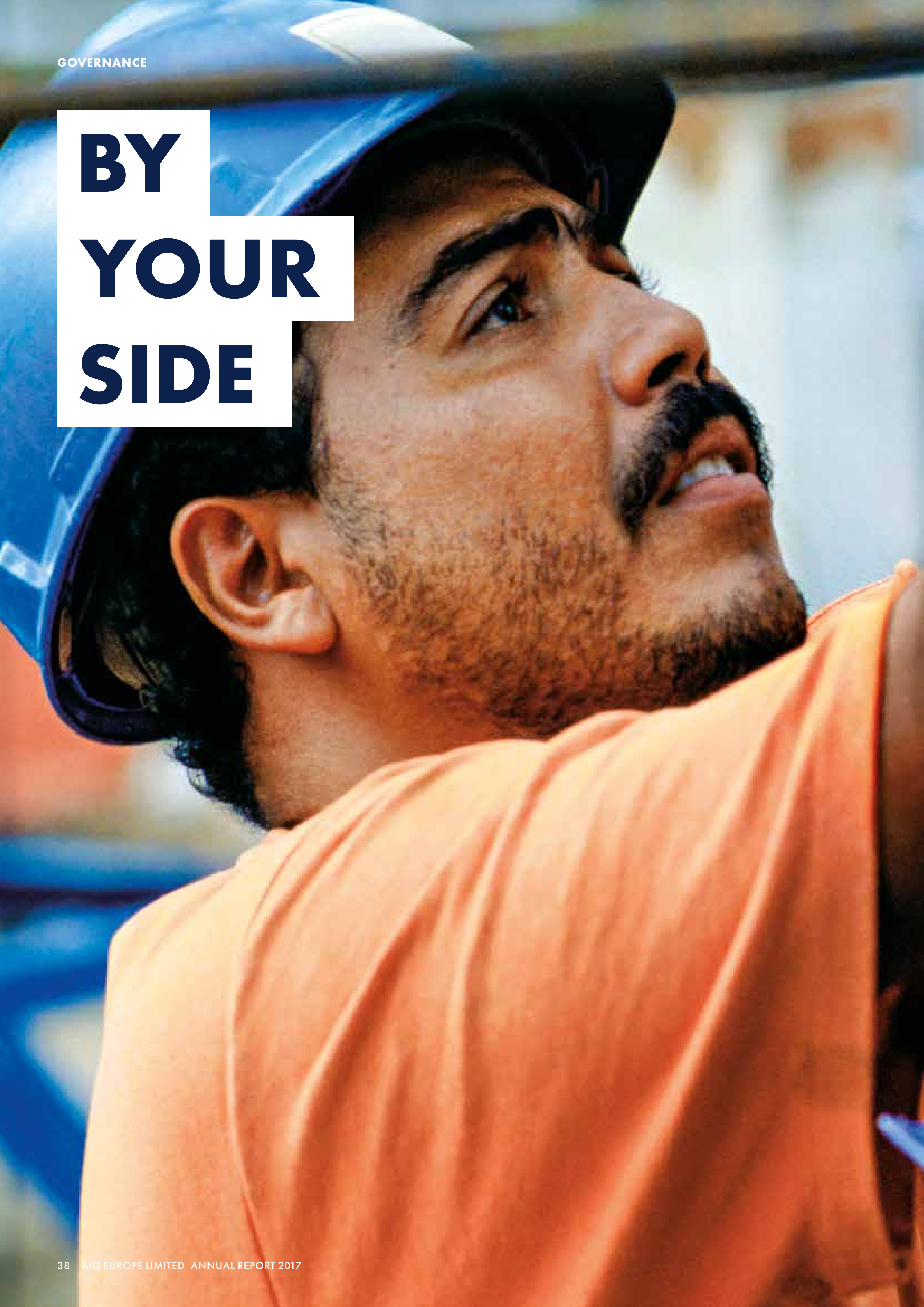
Premiums written relate to business incepted during the year, together with any difference between premiums booked for prior years and those previously accrued. Premiums are stated net of insurance premium taxes and duties levied. Unearned premiums represent the proportion of premiums written that relate to periods of insurance coverage to be provided in periods subsequent to the reporting date. Unearned premiums are earned as revenue over the period of the contract and are principally calculated on a daily pro rata basis, unless there is a marked unevenness in the incidence of risk over the coverage period. In these cases, premiums are recognised based on the assessed incidence of risk.

Further detail can be found in Note 3.4.

The Company makes an estimate of premiums written during the year that have not yet been notified by the financial year end based on prior year experience and current year business volumes. The pipeline premium is booked together with an assessment of the related unearned premium reserve and an estimate of claims incurred but not reported. A test is performed of actual premium received against prior year pipeline premium accruals and the estimation process adjusted if necessary to increase the accuracy of the current year estimate.

4. RELATIONSHIP WITH EXTERNAL AUDITORS

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



BY YOUR SIDE

PUERTO RICO RESPONSE

Going to the Hardest Hit Areas

2017 saw three Atlantic hurricanes make landfall in the United States. As soon as Hurricanes Harvey, Irma and Maria occurred, our Property Claims team worked through their exposure listings to identify which of their clients could have been impacted by events. The Property Claims immediately formed a CAT Response team to support our clients.

As a priority, our most senior Property & Energy loss adjusters made several trips to the worst hit locations including Houston, various locations in Florida and Puerto Rico. The team was on the ground for our clients to ensure business continuity measures were in place, losses assessed, and interim cash flow payments released as necessary. Understanding the challenges that our clients face in this type of a crisis is key to enabling us to support clients with their business continuity.

With only 10-20% of power working on Puerto Rico when the team arrived, our clients were reliant on generators so we were actively involved in sourcing these generators for the island. The necessity for generators also caused a high demand for fuel and we were able to successfully negotiate a supply of fuel that our clients could use. The presence of our claims adjusters in Puerto Rico meant that we could really make a difference to our clients and help them to recover.

IN SUPPORTING COMMUNITIES

DIRECTORS' REPORT

The Directors present their report and the audited Financial Statements for the year ended 30 November 2017.

Directors
The names of the current directors are listed on page 30. During the year, the following resignations and appointments took place:

C. Newby	Appointed 25 July 2017
R. Schimek	Resigned 31 October 2017

Dividends
There were no dividends declared or paid in the year (2016: £nil).

Statement of Directors' Responsibilities
The directors are responsible for preparing the Strategic Report, Directors' Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Financial Statements for each financial year. Under that law the directors have prepared the Financial Statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. Under company law the directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these Financial Statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

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 Company'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 Company's auditors are aware of that information.

Financial Investments
The Company's financial risk management objectives and policies are set out in Note 6 to the Financial Statements on page 66.

European Branches
The Company operates a branch structure with active underwriting operations in 21 (2016: 27) territories across Europe, plus a further 6 in runoff. A zonal structure is in place for internal management with countries organised across three zones by geographic location.

Future Developments
The Company believes that the depth and breadth of our business will allow us to find targeted growth opportunities in selected business lines or particular geographies, helping us to earn high value business, devote capital to the right opportunities and advance trust in AIG with all of our stakeholders.

Brexit
We are restructuring the Company in response to the UK's decision to leave the European Union. By restructuring, we will ensure that we can continue to service

policyholders in the UK and across Europe after Brexit, whatever form the future relationship between the UK and the EU takes.

In March 2017, we announced our decisive move to locate a new European insurance company in Luxembourg. From 1 December 2018, AIG proposes to have two insurance companies in Europe – one in the UK ("American International Group UK Limited") to write UK business, and one in Luxembourg ("AIG Europe SA") to write EEA and Swiss business, which will have branches across the EEA and Switzerland.

The restructure will be undertaken by means of a combined insurance business transfer under Part VII of the Financial Services and Markets Act 2000 and a cross-border merger under the European Cross-Border Merger Directive. As a result of this transaction, AIG Europe Limited will be dissolved by operation of law on 1 December 2018.

Events After the Reporting Year

For known events occurring after 30 November 2017, details can be found in Note 39.

Employees

AIG Europe Limited is committed to attracting, developing and retaining a diverse and inclusive workforce in order to enhance our competitive position in the global marketplace. We will accomplish this by preparing our leaders to lead an inclusive workforce, enhancing the diversity and cultural competence of our employees and building an inclusive, respectful and productive workplace.

Respecting Others

As part of our inclusive culture we commit to treat others with respect; this means that we do not discriminate on the basis of race, colour, religion, sex, national origin, age, disability, military service, marital status, gender identification or sexual orientation. We make reasonable adjustments to our standard working practices to overcome barriers caused by an employee's disability, and provide training and career development opportunities for all.

Corporate Social Responsibility

Making a positive impact in the communities where we live and do business has always been a top priority of AIG. As a responsible corporate citizen, we support a number of charitable partnerships with financial assistance and support through programmes and partnerships that leverage the skills, experience, knowledge and enthusiasm of our employees and the businesses they represent. Throughout the year, we also provide opportunities for AIG employees to demonstrate their willingness to help others through our Volunteer Time Off programme, with two paid volunteer days a year.

With our charitable contributions combined with employees' passion for giving back, AIG is able to create enduring partnerships that improve lives and transform communities.

Independent Auditors

PricewaterhouseCoopers LLP are deemed to be re-appointed as the Company's auditors in accordance with Section 487 of the Companies Act 2006.

On behalf of the Board.

James Lenton
Chief Financial Officer
AIG Europe Limited
Company Registration No: 01486260
22 March 2018

INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AIG EUROPE LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion, AIG Europe Limited's Financial Statements:

- give a true and fair view of the state of the Company's affairs as at 30 November 2017 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the Financial Statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 30 November 2017; the Statement of Profit or Loss and Other Comprehensive Income, the statement of cash flows, the statement of changes in equity for the year ended 30 November 2017; and the notes to the Financial Statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

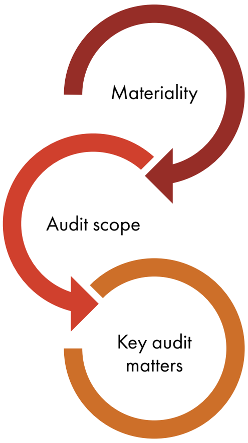
We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company.

Other than those disclosed in Note 17 to the Financial Statements, we have provided no non-audit services to the Company in the period from 1 December 2016 to 30 November 2017.

Our Audit Approach

Overview



- Overall materiality: £40.1 million (2016: £38.0 million), based on the total that net operating expenses and net claims incurred would have to fluctuate to move the combined operating ratio ("COR") by 1%.

- We performed full scope audit procedures over any component which individually contributes to more than 15% to the Company's total gross written premiums. The UK branch was the only component exceeding this threshold.
- We identified a further six components where account balances are considered to be significant in size in relation to the Company, and scoped our audit to include detailed testing of those account balances, including but not limited to: gross written premiums, reinsurance recoveries and insurance loss reserves.
- Procedures over key areas of focus are centralised and conducted by the group audit team in the UK.

- Appropriateness of methodologies and assumptions applied in the valuation of loss reserves.
- Risk of inappropriate revenue recognition (including fraud risk).
- Valuation of investments.

The Scope of our Audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the Financial Statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates, and considered the risk of acts by the Company which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the Company Financial Statements, including but not limited to, the Companies Act 2006, the Prudential Regulation Authority's regulations, UK tax legislation and regulations applicable to significant component teams. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of correspondence with the regulators, enquiries of management, review of significant components auditors' work and review of internal audit reports in so far as they related to the Financial Statements. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the Financial Statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key Audit Matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

INDEPENDENT AUDITORS' REPORT
(CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Appropriateness of methodologies and assumptions applied in the valuation of loss reserves The loss reserves are a material balance within the Financial Statements which are also highly judgemental and complex to calculate. These reserves are a best estimate of all claims incurred but not settled at a given date, regardless of whether these have been reported to the Company. There are varying methods which can be adopted in the determination of these reserves which are underpinned by a series of assumptions selected by the Company. These can rely on a large degree of judgement and relatively small changes in these assumptions can lead to significant movements in loss reserves. Particular areas of focus for this year have been: ▪ Impact of legislative changes on the reserves (e.g. change to the Ogden discount rate within UK casualty portfolio). ▪ Emerging large loss experience on Financial and Casualty lines of business.	We conducted the following procedures: ▪ We tested on a sample basis the underlying source data to supporting documentation; no material exceptions were found. ▪ We performed independent re-projections on selected classes of business. For those classes, we compared our re-projected claims reserves to those booked by management, and in all cases obtained satisfactory responses. ▪ For other higher risk classes of business we sought to understand the methodology used by the directors as well as the rationale for key assumptions and judgements made. We applied our industry knowledge and experience to determine whether these were in line with recognised actuarial techniques and best practices. No material exceptions were identified. ▪ For the remainder of classes we have performed a diagnostic review (such as actual versus expected analysis and movement in ultimate loss ratios) and obtained satisfactory responses for all unexpected variances. ▪ We considered the Company's previous estimates through examination of prior year development. From the evidence obtained we found the assumptions and methodology used to be appropriate. Based on the work performed we found that the assumptions used were supported by the evidence we obtained.
Risk of inappropriate revenue recognition (including fraud risk) AEL recognises a material amount of pipeline premiums in its Financial Statements. To estimate pipeline premiums, AEL applies an actuarial technique (the 'chain ladder method') to historic written premium data in order to derive written premium development factors. For certain lines of business, judgemental adjustments are made to the derived written premium development factors.	Procedures over pipeline premiums and non-standard earning patterns are conducted centrally by the group engagement team. Our testing procedures included: ▪ We understood, assessed and tested the design and operating effectiveness of the governance and controls over the monitoring of pipeline premiums. In particular we have focused on management's monitoring controls of pipeline premium forecasts and premiums received to date. We additionally perform a substantive 'look back' test to assess the accuracy of management's previous estimates. No material exceptions were found.

Key audit matter	**How our audit addressed the key audit matter**
Risk of inappropriate revenue recognition (including fraud risk) (continued) Additionally AEL utilises non-standard premium earning patterns for certain classes of business which are recorded by manual adjustment.	■ We have reviewed the methodology adopted in the calculation of pipeline premiums including recalculation of development factors; no material issues were found. ■ We have understood all material adjustments made to development factors in the determination of pipeline premiums and considered whether these have been made appropriately. No material exceptions were noted. ■ We have tested all material manual adjustments recorded to premium earnings. We have assessed the reasonableness of the adjustments made giving consideration to the nature of the underlying policies and concluded that no material exceptions were noted.
Valuation of investments The AEL investment portfolio is predominantly made up of Level 1 investments which are liquid with clearly observable market prices. AEL does however hold some Level 2 and 3 investments which require some additional audit focus as they require a greater degree of judgement to value.	We coordinated with our central PwC testing teams based in both New York and Dublin. In particular, our procedures have included: ■ We have recalculated/re-performed the valuations of investments to independent pricing sources and assessed the data inputs using recognised market data providers. We found no material exceptions from this testing. ■ For Level 2 and 3 investments we have engaged with internal experts to assess the reasonableness of the methodologies and assumptions adopted in the valuations and in all cases concluded the investments were appropriately valued.

How We Tailored the Audit Scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the Financial Statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which it operates.

AIG Europe Limited ("AEL") is a UK domiciled insurer, comprised of 27 branches across Europe. Each branch of AEL operates as a separate insurance undertaking which is operationally distinct, supported by overarching AEL group and regional level governance, risk and finance functions. We have determined that each branch represents a separate financial component and have used this as the basis of our scoping. AEL has also established certain operational shared service centres, including the Manila centre of excellence, which primarily is responsible for premium data input, the Sofia claims centre of excellence and the India finance centre in Bangalore. We have incorporated consideration of procedures required at each of these locations when determining our audit scope. Additionally we rely on procedures performed by PwC New York in relation to the centralised investments function.

We scoped the audit based on contribution of gross written premium ("GWP") to the Company. We consider GWP to be the primary indicator of the size of each of the determined components as it is directly linked to the volume of business transacted and is comparable across all branches. We consider a component to be financially significant, and to require full scope audit, if it individually contributes to more than 15% of AEL's total GWP. The UK branch was the only component to meet this threshold. In addition we have identified a further six components where account balances are considered to be significant in size in relation to the Company and have conducted detailed testing of those account balances. Those components are: France, Germany, Italy, Belgium,

INDEPENDENT AUDITORS' REPORT
(CONTINUED)

the Netherlands and the UK Lexington Branch; these components give 67% coverage of GWP. All other components were subject to analytical procedures.

Audit procedures over certain key areas of focus, which include late travelling premiums, non-standard earning patterns and claims incurred but not reported, are centralised and conducted by the group audit team.

Where work was performed by component auditors, we ensured sufficient involvement of our team to be able to conclude that sufficient and appropriate audit evidence had been obtained as a basis for our opinion on the Financial Statements as a whole. This included regular communication, both written and verbal with those teams as well as issuing written instructions. We instructed teams to carry out specified procedures at key shared service centres to support the group audit and have incorporated a group visit to the India finance centre in 2017 as part of our audit procedures.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the Financial Statements as a whole.

Based on our professional judgement, we determined materiality for the Financial Statements as a whole as follows.

Overall Materiality	£40.1 million (2016: £38.0 million)
How we determined it	This represents the total by which net operating expenses and net claims incurred would have to fluctuate to move the combined operating ratio ("COR") by 1%.
Rationale for benchmark applied	COR is the key profit metric which is analysed by both internal and external users of the Financial Statements and is generally accepted auditing benchmark.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £2.0 million (2016: £1.9 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions Relating to Going Concern

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

- the directors' use of the going concern basis of accounting in the preparation of the Financial Statements is not appropriate; or
- the directors have not disclosed in the Financial Statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the Financial Statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Reporting on Other Information

The other information comprises all of the information in the Annual Report other than the Financial Statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the Financial Statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 November 2017 is consistent with the Financial Statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the Financial Statements and the audit

Responsibilities of the directors for the Financial Statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 40, the directors are responsible for the preparation of the Financial Statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the Financial Statements

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

A further description of our responsibilities for the audit of the Financial Statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

OTHER REQUIRED REPORTING

Companies Act 2006 Exception Reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the Financial Statements are not in agreement with the accounting records and returns.

We have no exceptions to reporting arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were first appointed by the directors to audit the Financial Statements for the year ended 30 November 1985 and subsequent financial periods. The period of total uninterrupted engagement is 33 years, covering the years ended 30 November 1985 to 30 November 2017.

Mark Bolton
Senior Statutory Auditor
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
22 March 2018

BY YOUR SIDE

ALL BLACKS

Teaming Up to Raise Awareness

AIG's commitment to collaboration and partnership extends to its relationships with its sporting and charity partners. We look to bring our partners together in ways that provide mutual benefit. In 2017, AIG united the New Zealand All Blacks rugby team with its UK charity partners the Royal National Institute of Blind People ("RNIB") and the Endeavour Fund, which supports wounded, injured and sick servicemen and women.

We invited five members of the New Zealand All Blacks rugby team to experience sport with a visual impairment by competing in the Paralympic sport of Goalball. The rugby players wore eyeshades and were pitted against players from RNIB, the Endeavour Fund, as well as AIG employees. Goalball is a team sport for athletes with visual impairments, originally devised in 1946 as a means of assisting the rehabilitation of visually impaired World War II veterans. It is played by two teams of three using a ball with bells inside.

The object of the game is to throw the ball into the opposing team's net, while defenders attempt to block it with their bodies. With all players wearing eyeshades in order for them to compete on an equal footing, four teams went head-to-head in a thrilling series of matches, to raise awareness of the power of sport as a tool for recovery and rehabilitation.

4

IN BRINGING OUR PARTNERS TOGETHER

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 November 2017

	Notes	2017 £'m	2016 £'m
Income			
Insurance premium revenue	10	5,315.2	4,946.5
Insurance premium ceded to reinsurers	10	(1,411.0)	(1,225.7)
Net earned insurance premium revenue	10	**3,904.2**	**3,720.8**
Net investment income	11	168.3	216.8
Net realised gains on financial assets	12	59.0	84.8
Other income	13	184.6	171.8
Total income		**4,316.1**	**4,194.2**
Expenses			
Insurance claims	14	(4,365.6)	(3,875.3)
Insurance claims recoverable from reinsurers	14	1,145.3	955.3
Net insurance claims	14	**(3,220.3)**	**(2,920.0)**
Net operating expenses	15	(1,527.3)	(1,445.3)
Total expenses		**(4,747.6)**	**(4,365.3)**
Loss before tax		**(431.5)**	**(171.1)**
Income tax expense	16	5.7	(21.1)
Loss for the year		**(425.8)**	**(192.2)**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains/(losses) on defined benefit pension plans	31	10.2	(3.8)
		10.2	**(3.8)**
Tax on actuarial gains/(losses) on defined benefit pension schemes	16	(6.1)	5.7
Items that will not be reclassified subsequently to profit or loss after tax		**4.1**	**1.9**
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		36.0	394.2
Net fair value losses on available-for-sale investments		(78.9)	(38.8)
		(42.9)	**355.4**
Tax on fair value gains/(losses) on available-for-sale investments	16	40.7	(22.4)
Items that may be reclassified subsequently to profit or loss after tax		**(2.2)**	**333.0**
Other comprehensive income for the year		**1.9**	**334.9**
Total comprehensive (loss)/income for the year		**(423.9)**	**142.7**

Total comprehensive income for the year is entirely attributable to equity shareholders of the Company and is derived from continuing operations. All amounts included within other comprehensive income, with the exception of actuarial gains and losses on defined benefit schemes and gains on revaluation of property, and associated tax, are potentially items that may be reclassified subsequently to the Statement of Profit or Loss.

The notes on pages 54 to 112 form an integral part of these Financial Statements.

STATEMENT OF FINANCIAL POSITION

As at 30 November 2017

	Note	30 November 2017 £'m	30 November 2016 £'m
Assets			
Intangible assets	18	19.7	25.7
Investments in group undertakings	19	46.6	45.6
Investments in joint ventures		30.8	–
Property and equipment	20	136.8	141.6
Financial investments	21	10,021.8	9,651.9
Insurance contracts:			
Reinsurance assets	22	2,811.1	2,662.9
Deferred acquisition costs	23	305.5	288.6
Deferred tax assets	32	102.0	81.4
Current tax assets	32	79.6	92.2
Other receivables, including insurance receivables	24	1,973.7	2,032.9
Cash and cash equivalents	25	445.6	290.2
Total assets		**15,973.2**	**15,313.0**
Equity			
Share capital	26	197.1	197.1
Share premium	26	1,460.3	1,260.3
Other reserves	27	289.3	291.5
Retained earnings	28	1,217.2	1,623.1
Total equity		**3,163.9**	**3,372.0**
Liabilities			
Insurance liabilities	29	11,466.1	10,550.4
Borrowings	30	50.4	50.0
Pension obligations	31	70.2	70.5
Deferred tax liabilities	32	44.2	77.5
Current tax liabilities	32	14.5	49.0
Other payables, including insurance payables	33	1,163.9	1,143.6
Total liabilities		**12,809.3**	**11,941.0**
Total equity and liabilities		**15,973.2**	**15,313.0**

The notes on pages 54 to 112 form an integral part of these Financial Statements.

The Financial Statements on pages 50 to 112 were approved by the Board of Directors on 22 March 2018 and signed on its behalf by:

James Lenton
Chief Financial Officer
AIG Europe Limited
Company number 01486260
22 March 2018

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 November 2017

	Share capital £'m	Share premium £'m	Other reserves £'m	Retained earnings £'m	Total equity £'m
At 1 December 2015	197.1	1,260.3	(41.5)	1,795.2	**3,211.1**
Loss for the year	–	–	–	(192.2)	**(192.2)**
Other comprehensive income for the year	–	–	333.0	1.9	**334.9**
Total comprehensive income for the year	**–**	**–**	**333.0**	**(190.3)**	**142.7**
Capital contribution from group undertaking (Note 28)	–	–	–	5.2	**5.2**
Share-based payments (Note 36)	–	–	–	13.0	**13.0**
At 30 November 2016	**197.1**	**1,260.3**	**291.5**	**1,623.1**	**3,372.0**
Loss for the year	–	–	–	(425.8)	**(425.8)**
Other comprehensive income for the year	–	–	(2.2)	4.1	**1.9**
Total comprehensive income for the year	**–**	**–**	**(2.2)**	**(421.7)**	**(423.9)**
Capital contribution from group undertaking (Note 26)	–	200.0	–	–	**200.0**
Share-based payments (Note 36)	–	–	–	15.8	**15.8**
At 30 November 2017	**197.1**	**1,460.3**	**289.3**	**1,217.2**	**3,163.9**

The notes on pages 54 to 112 form an integral part of these Financial Statements.

STATEMENT OF CASH FLOWS

For the year ended 30 November 2017

	Notes	2017 £'m	2016 £'m
Cash flows from operating activities			
Loss before tax		**(431.5)**	**(171.1)**
Adjustments for:			
Depreciation of property and equipment	20	9.5	14.4
Amortisation of intangible assets	18	8.6	10.7
Interest income		(241.5)	(282.5)
Finance costs		1.9	1.9
Dividend income	11	(0.4)	(0.3)
Impairment charge on available-for-sale financial assets	11	0.1	6.1
Net realised gains on financial investments	12	(59.0)	(84.8)
Foreign currency exchange losses		89.6	33.8
Other non-cash movements	36	15.8	13.0
Changes in working capital:			
Increase in reinsurance assets		(219.5)	(68.0)
(Increase) in deferred acquisition costs		(10.9)	(14.5)
Decrease in other receivables, including insurance receivables		11.9	12.5
Increase in insurance liabilities		926.3	607.7
Increase/(decrease) in other payables, including insurance payables		59.1	(21.5)
Decrease in net amounts receivable/payable to related parties		(17.2)	30.4
Cash generated from operations		**142.8**	**87.8**
Interest received		254.7	289.6
Interest paid		(1.9)	(1.9)
Income tax paid		(25.9)	(24.6)
Net cash generated from operating activities		**369.7**	**350.9**
Cash flows from investing activities			
Net (purchases)/sales of financial investments		(648.9)	2.2
Purchases of property and equipment		(4.1)	(16.1)
(Purchases)/disposal of intangible assets		(2.4)	27.5
Net cash (used in)/generated from investing activities		**(655.4)**	**13.6**
Cash flows from financing activities			
Proceeds from other financing activities	26	200.0	(27.2)
Net cash generated from/(used in) financing activities		**200.0**	**(27.2)**
Net increase in cash and cash equivalents		(85.7)	337.3
Cash and cash equivalents at 1 December of previous year		290.2	184.5
Effect of exchange rate changes on cash and cash equivalents		240.7	(231.6)
Cash and cash equivalents at 30 November	25	**445.2**	**290.2**

The notes on pages 54 to 112 form an integral part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2017

1. GENERAL INFORMATION

AIG Europe Limited (the "Company") is incorporated in the United Kingdom and registered in England and Wales. The Financial Statements are presented in millions of pounds sterling, which is the Company's presentational currency. The functional currency of the UK operation is pounds sterling. As detailed in Note 3.3 the Company's branches and separate and distinct divisions determine their own functional currencies.

The Company's immediate and ultimate parents are AIG Holdings Europe Limited (2016: AIG Holdings Europe Limited) and American International Group, Inc. ("AIG") respectively. The Company is a multiple line insurance company writing substantially all lines of property and casualty insurance. Major lines of insurance written include commercial, personal and consumer, accident and health and specialty coverage.

The registered office and principal place of business is: The AIG Building, 58 Fenchurch Street, London EC3M 4AB. These Financial Statements have been authorised for issue by the Board of Directors on 22 March 2018.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

2.1 New and revised IFRSs affecting amounts reported and/or disclosed in the Financial Statements

There were no new and revised IFRSs issued by the International Accounting Standards Board ("IASB") that were relevant for the Company for the year ended 30 November 2017.

2.2 New and revised IFRSs in issue but not yet effective

New standards, amendments and interpretations issued by the IASB but which are not effective for the financial year beginning on 1 December 2016 and have not been adopted early by the Company are listed below.

Financial Instruments

On 24 July 2014, the IASB issued IFRS 9 'Financial Instruments', marking the conclusion of the IASB's project to replace IAS 39 'Financial Instruments: Recognition and Measurement', which sets out new requirements for the classification, measurement and recognition of financial instruments in the following areas:

- Classification and measurement – financial assets are classified into one of three measurement categories: fair value through profit or loss; fair value through other comprehensive income; or amortised cost. The classification is determined with reference to the business model for managing and holding financial assets and the contractual cash flow characteristics of the financial instruments held. The classification requirements for financial liabilities remain largely unchanged from the existing requirements of IAS 39 with the exception of financial liabilities measured under the fair value option where changes in fair value arising from changes in the entity's own credit risk are excluded from recognition within income for the year.
- Impairment – a new 'expected credit loss' impairment model is introduced for the measurement of impairment of financial assets classified as fair value through other comprehensive income or at amortised cost. This replaces the 'incurred credit loss' model under IAS 39.
- Hedge accounting – a new hedge accounting model designed to more closely align with an entity's risk management policies for the hedging of financial and non-financial risk exposures.

On its adoption, the Company will be required to consider the business model objective for holding financial instruments and the nature of the cash flow characteristics of the financial instruments held. These may be impacted by the basis of measurement of the Company's insurance liabilities at the time when IFRS 9 is adopted, the exact nature of which is currently uncertain.

IFRS 9 and its Interaction with IFRS 4

On 12 September 2016, the IASB issued *'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)'* which provides optional relief to insurers meeting certain criteria from any adverse impact that may arise from the different effective dates of IFRS 9 and any resulting standard from the IASB's ongoing insurance contracts project. The two options for entities that issue contracts within the scope of IFRS 4 permit an entity to either:

- Reclassify from profit or loss to other comprehensive income some of the income or expenses arising from designated financial assets; referred to as the 'overlay approach'; or
- For entities whose predominant activity is issuing contracts within the scope of IFRS 4, defer the application of IFRS 9 entirely; referred to as the 'deferral approach'.

The application of both approaches would be optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied, and would not be permitted to adopt the 'deferral approach' beyond the accounting period commencing on or after 1 January 2021.

The Company has initially determined that it meets the criteria set out in Amendments to IFRS 4 for temporary exemption from applying IFRS 9 on its effective date. The Company will defer the application of IFRS 9 and will continue to apply the requirements of IAS 39, *'Financial Instruments: Recognition and Measurement'*, when accounting for its financial instruments until the earlier of the effective date of the new insurance contracts standard or 1 January 2021. The Company will re-assess its eligibility for the temporary exemption, when deemed necessary. Therefore, the Company has not yet determined whether the impact of IFRS 9 will be material on the Company.

Revenue from Contracts with Customers

On 28 May 2014, the IASB issued IFRS 15, *'Revenue from Contracts with Customers'*, which introduces a five-step model applied to all contracts with customers within its scope. The Company's insurance contracts will continue to be measured in accordance with the provisions of IFRS 4 *'Insurance Contracts'*.

The five steps in the revenue model are:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to performance obligations in the contract; and
- Recognise revenue as and when the entity satisfies a performance obligation.

As originally issued, IFRS 15 had an effective date for accounting periods beginning on or after 1 January 2017 with early adoption permitted. However, on 11 September 2015, the IASB issued *'Amendment to IFRS 15: (Effective Date of IFRS 15)'*, confirming the decision to defer the effective date to accounting periods commencing on or after 1 January 2018, with early adoption still permitted.

In April 2016, the IASB issued *'Clarifications to IFRS 15'* which amends IFRS 15 providing clarification to some requirements and additional practical expedients to aid transition. These clarifications have the same effective date as the main IFRS 15 and are to be applied retrospectively as if they had always been included in the main Standard. The Company is currently assessing the impact of the standard, including the subsequent amendments, to its results and financial position.

Leases

On 13 January 2016, the IASB issued IFRS 16, *'Leases'*, which introduces a single reporting model for all lease contracts held as a lessee replacing the distinction between finance leases and operating leases in IAS 17, *'Leases'*. Under this new model, subject to optional exemptions for leases of short duration and for assets of low value when new, all assets held under a lease by the Company will be recognised in the Statement of Financial Position with a corresponding lease liability representing its future obligation to make lease payments under the contract.

IFRS 16 has an effective date for accounting periods beginning on or after 1 January 2019 with early adoption permitted provided the Company has also adopted IFRS 15. The Company has not yet determined whether the impact of the standard will have a material impact on the Company.

IFRS 16 was endorsed for use in the EU on 9 November 2017 with an effective date of 1 January 2019.

Other New and Revised IFRSs

In addition to the above, the IASB has issued the following revisions and amendments to existing standards that are not expected to have any material impact on the Company's results or financial position:

- *IFRS 14 'Regulatory Deferral Accounts' (issued January 2014);*
- *'Accounting for Acquisitions of Interests in Joint Operations' Amendments to IFRS 11 (issued May 2014);*
- *'Clarification of Acceptable Methods of Depreciation and Amortisation' Amendments to IAS 16 and IAS 38 (issued May 2014);*
- *'Equity Method in Separate Financial Statements' Amendments to IAS 27 (issued August 2014);*
- *'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)' (issued September 2014) The effective date for this amendment has been deferred indefinitely;*
- *'Annual Improvements 2012-2014 Cycle' (issued September 2014);*
- *'Disclosure Initiative' Amendments to IAS 1 (issued December 2014); and*
- *'Investment Entities: Applying the Consolidation Exception' Amendments to IFRS 10, IFRS 12 and IAS 28 (issued December 2014);*
- *'Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)' (issued January 2016);*
- *'Disclosure Initiative (Amendments to IAS 7)' (issued January 2016); and*
- *'Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)' (issued June 2016).*

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2017 (continued)

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these Financial Statements are set out below.

3.1 Basis of preparation

The Financial Statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards as adopted in the European Union (EU) ("IFRS"). The Financial Statements also comply with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The Financial Statements have been prepared under the historical cost basis except that certain assets and liabilities are measured at revalued amounts or fair values, as described in the accounting policies below. These policies have been applied on a consistent basis for all years presented.

The Financial Statements are separate Financial Statements and contain financial information related to the Company as an individual Company and do not contain consolidated financial information related to the Company being the parent of a group.

The Company has taken advantage of section 401 of the Companies Act 2006, which exempts an intermediate parent company that is a subsidiary of a parent established outside the European Economic Area ("EEA"), from the requirement to prepare consolidated Financial Statements if it is included in the consolidated Financial Statements of a larger group drawn up in a manner equivalent to consolidated Financial Statements produced in accordance with the provisions of the EU Seventh Directive as modified, where relevant, by the provisions of the Bank Accounts Directive or Insurance Accounts Directive (the EU Seventh Directive). The Company and all of its subsidiary undertakings are included in the consolidated Financial Statements of AIG, a company incorporated in the State of Delaware, United States of America. It has been determined that, for the years presented, these consolidated Financial Statements, prepared in accordance with US GAAP, are drawn up in a manner equivalent to the EU Seventh Directive. The Company has therefore not prepared consolidated Financial Statements.

3.2 Combinations of entities or businesses under common control

A combination of entities or businesses under common control is a combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. Combinations of entities or businesses under common control are not included in the scope of IFRS 3, *'Business Combinations'*, and, as such and in accordance with the requirements of IAS 8, *'Accounting Policies, Changes in Accounting Estimates and Errors'*, the Company has opted to use the 'carry-over' ('predecessor accounting') method to account for combinations of entities or businesses under common control. The values that the transferee ascribes to the assets and liabilities transferred are determined based on the carrying values of those assets and liabilities in the Financial Statements of the transferor immediately prior to the combination, amended where applicable to comply with the transferee's accounting policies.

3.3 FOREIGN CURRENCIES

3.3.1 Functional Currencies

The Company has a number of overseas branches. Each overseas branch determines its own functional currency based on factors specific to its operations and is the currency of the primary economic environment in which it operates. Transactions and balances in currencies other than the functional currency are treated as foreign currency items.

3.3.2 Foreign Currency Transactions and Balances

Foreign currency transactions during the year are translated into the functional currency using the rates of exchange prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rates of exchange ruling at the reporting date. Non-monetary assets and liabilities are translated into functional currency at the rates of exchange prevailing at the date of the transaction or most recent date of valuation where they are held at fair value.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and the translation of foreign currency denominated monetary assets and liabilities at year end exchange rates are recognised in the Statement of Profit or Loss, except as noted below.

For foreign currency denominated monetary assets designated as available-for-sale, such as debt securities, translation differences calculated with reference to the asset's amortised cost are recognised in the Statement of Profit or Loss, whereas foreign exchange differences arising on the cumulative fair value gains and losses are recognised in other comprehensive income and included within the fair value reserve within equity. Translation differences on non-monetary available-for-sale financial assets, such as equity securities, are recognised within other comprehensive income as part of the fair value gains and losses in the year.

3.3.3 Translation to Presentational Currency

The operating results and financial position of each non-sterling functional currency branch are translated into sterling as follows:

- assets and liabilities for each Statement of Financial Position presented are translated at the exchange rate at the date of each Statement of Financial Position;
- income and expenses for each Statement of Profit or Loss and Other Comprehensive Income presented are translated at the average exchange rates for each year; and
- all resulting exchange differences are recognised in other comprehensive income and accumulated as a separate component of equity.

For large, one-off transactions, such as branch acquisitions, the transactions are recorded at the exchange rates prevailing at the date of the transaction.

3.4 Insurance contracts

In accordance with IFRS 4, *'Insurance Contracts'*, insurance contracts continue to be recognised and measured in accordance with existing accounting policies as extant at the date of transition to IFRS. For UK companies and their overseas branches, the accounting policy for insurance contracts was grandfathered at the date of transition to IFRS from the provisions of the Association of British Insurers' Statement of Recommended Practice on Accounting for Insurance Business issued in December 2005 and amended in December 2006 ("ABI SORP"). The ABI SORP was subsequently withdrawn by the ABI in 2015.

3.4.1 Product Classification

A contract is recognised as an insurance contract if it involves the assumption by the Company of significant insurance risk. Insurance risk is transferred to the Company where it agrees to compensate a policyholder if a specified uncertain event, other than those caused by changes in a financial variable, such as interest and foreign exchange rates, adversely affects the policyholder. Once a contract has been classified as an insurance contract, it remains an insurance contract until derecognised, even if the insurance risk becomes insignificant during this period.

Any contract that does not involve the transfer of significant insurance risk is accounted for as an investment contract. Transactions under investment contracts are not recognised through the Statement of Profit or Loss, with the exception of any fee income and related claims handling costs associated with these contracts, but are included within other receivables or payables as appropriate.

3.4.2 Premiums Written

Premiums written relate to business incepted during the year, together with any difference between premiums booked for prior years and those previously accrued. Premiums are stated net of insurance premium taxes and duties levied. As premium refunds become payable, they are accounted for as adjustments to gross premiums written in the year in which the refund is payable. Premiums collected by intermediaries but not remitted to the Company are determined based on estimates from underwriting or prior experience and are included in premiums written during the year.

3.4.3 Unearned Premiums

Unearned premiums represent the proportion of premiums written that relate to periods of insurance coverage to be provided in periods subsequent to the reporting date. Unearned premiums are earned as revenue over the period of the contract and are principally calculated on a daily pro rata basis, unless there is a marked unevenness in the incidence of risk over the coverage period. In these cases, premiums are recognised based on the assessed incidence of risk.

3.4.4 Insurance Claims

Insurance claims recognised in the year comprise claims paid in the year, changes in the provisions for outstanding claims, whether reported or not, any related loss adjustment expenses less, where applicable, an allowance for salvage and other recoveries, together with any adjustments to claims outstanding from previous years.

3.4.5 Acquisition Costs

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

3.4.6 Claims Provisions and Related Reinsurance Recoveries

Provision is made at the year end for the estimated cost of claims incurred but not settled at the reporting date, including the cost of claims incurred but not yet reported to the Company. Although the Company takes all reasonable steps to ensure that it has appropriate information regarding its claim exposures, given the uncertainty in establishing claims provisions, it is likely that the final outcome will be different from the original liability established.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2017 (continued)

Claims provision is made for the full cost of settling outstanding claims at the Statement of Financial Position date, including claims incurred but not yet reported at that date, net of salvage and subrogation recoveries. Outstanding claims provisions are not discounted for the time value of money except for claims to be settled by Periodical Payment Orders ("PPOs") established under the UK Courts Act 2003 and Future Policy Benefits relating to long-duration contracts.

The Incurred But Not Reported ("IBN") reserve is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available. It includes an allowance for any consistent under or over-estimation in the case reserves. The IBNR review is conducted on a class of business basis. The in-house actuarial team conducts the assessment which is subject to an internal peer review process. Standard actuarial methodologies are used to evaluate and determine the IBNR reserves for all areas of the business including loss development methods and the analysis of individual cases in more volatile lines as appropriate. The Company's actuaries determine and select the most appropriate actuarial method to adopt for each business class. They also determine the appropriate segmentation of data from which the adequacy of the reserve can be established. A point estimate is determined from these detailed reviews and the sum of these point estimates for each class of business provides the overall actuarial point estimate for the IBNR reserve for the Company.

The ultimate process by which the actual carried reserves are determined takes into account both the actuarial point estimate and numerous other internal and external factors such as claims initiatives and economic conditions in the respective country. The majority of the IBNR reserve relates to the longer-tail classes of business and the actuaries conduct sensitivity analysis so that senior management understand the key areas of uncertainties which could potentially lead to the final actual outcome being materially different. The Company's actuaries determine their best estimate of the undiscounted IBNR reserve and report to the Reserves Committee.

The general insurance loss reserves can generally be categorised into two distinct groups. One group is short-tail classes of business consisting mainly of property, consumer lines, marine and energy. The other group is long-tail commercial lines of business which includes excess and primary liability, Directors' and Officers' ("D&O"), professional liability, employers' liability, general liability and related classes.

Short-tail classes do not have a significant delay from the date of accident to date of report to the Company and then settled by the Company. The estimates for these classes are more reliant on the case estimate on individual claims and utilises loss development methodologies in the projection of the future development of these case estimates.

Long-tail classes generally relate to claims where liability has to be established or where there is an element of bodily injury. For these classes it may take some time from the date of accident for the claim to emerge and for claims to be settled from notification date due to the time taken to establish liability. Estimation of ultimate net indemnity losses and loss expenses for long-tail lines of business is a complex process and depends on a number of factors, including the class and volume of business involved as well as premium rate changes, changes in exposure and claim inflation. The actuarial methods used by the Company for most long-tail commercial lines include loss development methods and expected loss ratio methods, including the Bornhuetter-Ferguson method. Exceptional large claims or events, to the extent that these distort the historical development, are removed from the analysis and considered separately.

3.4.7 Liability Adequacy

At each reporting date, the Company reviews its unexpired risks and performs a liability adequacy test. Provision is made for any unexpired risks arising where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the reporting date exceeds the unearned premium provision in relation to such policies after the deduction of any deferred acquisition costs. The expected value is determined by reference to recent experience and allowing for changes to the premium rates. The provision for unexpired risks is calculated separately by reference to classes of business that are managed together and after taking account of relevant investment returns.

3.4.8 Reinsurance

The Company cedes reinsurance in the normal course of business, with retention limits set for each line of business. The contracts entered into by the Company with reinsurers, under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts, are classified as reinsurance contracts. Onwards reinsurance premiums are recognised in the same accounting year as the related premium income. Reinsurance claims recoveries are recognised in the same accounting year as the related insurance claims are accounted for.

The amounts recoverable from reinsurers are estimated based upon the gross provisions, having due regard to their collectability. The reinsurance recoveries in respect of estimated claims incurred but not reported are assumed to be consistent with the historical pattern of such recoveries, adjusted to reflect changes in the nature and extent of the reinsurance programme over time. The recoverability of reinsurance recoveries is assessed having regard to market data on the financial strength of each of the reinsurers. The reinsurers' share of claims incurred in the Statement of Profit or Loss reflects the amounts received or receivable from reinsurers in respect of those claims incurred during the year.

The reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised in the Statement of Profit or Loss as outward reinsurance premiums when due.

Reinsurance contracts that principally transfer financial risk are accounted for directly through the Statement of Financial Position and are not included in reinsurance assets or liabilities. A deposit asset or liability is recognised, based on the consideration paid or received less any explicitly identified premiums or fees to be retained by the reinsured.

3.5 Property and equipment

Owner occupied properties are held at revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Other items of property and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Owner occupied properties 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'*.

Any revaluation increase arising on revaluation is recognised in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in the Statement of Profit or Loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on a revaluation is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

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. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount.

3.6 Intangible assets

Intangible assets include capitalised software costs and acquired brands.

Capitalised software costs represent costs directly related to obtaining, developing or upgrading internal use software. Such costs are capitalised and amortised on a straight line basis over the software's useful life which is a period not exceeding five years. Acquired brands are classified with an indefinite useful life and are shown at historical cost. Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

3.7 Investments in group undertakings

Investments in group undertakings are stated at cost less impairment. An impairment review is carried out whenever there is an indication of impairment. Where the carrying amount is more than the recoverable amount, an impairment charge is recognised in the Statement of Profit or Loss and Other Comprehensive Income.

3.8 Investments in joint ventures

Joint arrangements are arrangements of which the Company has joint control, established by contracts requiring unanimous consent for decisions about the activities that significantly affect the arrangements' returns. They are classified as joint operations when the Company has rights to the assets, and obligations for the liabilities, relating to an arrangement or as joint ventures when the Company has rights only to the net assets of the arrangements. For joint ventures, the Company accounts for its interest at cost less impairment.

3.9 Financial assets and liabilities

A financial asset is initially recognised on the date the Company becomes committed to purchase the asset at its fair value plus directly related acquisition costs, except for those assets classified as fair value through income where acquisition costs are recognised immediately in the Statement of Profit or Loss. A financial asset is derecognised when the rights to receive cash flows have been transferred and the risks and rewards of ownership have been substantially transferred by the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2017 (continued)

On initial recognition, the Company classifies its financial assets into one of the following categories: financial assets at fair value through income; loans and receivables; or available-for-sale financial assets. For financial instruments classified in categories that require them to be measured at their fair value at the reporting date, fair value is determined with reference to the quoted market bid prices, or by using an appropriate valuation model as described in Note 8.

Financial Assets at Fair Value Through Income

Financial assets may be classified on initial recognition as being at fair value through profit or loss if such designation: (a) eliminates or significantly reduces a measurement or recognition inconsistency; (b) applies to a group of financial assets, financial liabilities or both that the Company manages and evaluates on a fair value basis; or (c) relates to an instrument that contains an embedded derivative which is not closely related to the host contract.

Gains and losses on financial assets designated at fair value through income are recognised directly in the Statement of Profit or Loss and Other Comprehensive Income.

Loans and Receivables

Non-derivative financial assets with fixed or determinable repayments that are not quoted in an active market are classified as loans and receivables, except for those that are classified as available-for-sale or designated as at fair value through income. They are subsequently measured at amortised cost using the effective interest method less any impairment losses.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating 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.

Available-For-Sale

Non-derivative financial assets that are not classified as designated at fair value through income or loans and receivables are classified as available-for-sale. Financial assets can be designated as available-for-sale on initial recognition. They are subsequently measured at fair value with changes in fair value reported in a separate component of shareholders' equity until disposal, when the cumulative gain or loss is recognised in the Statement of Profit or Loss. Impairment losses and exchange differences resulting from the retranslation of the amortised cost of foreign currency monetary available-for-sale financial assets are recognised in income together with interest calculated using the effective interest method.

Financial Liabilities

A financial liability is initially recognised on the date the Company becomes a party to the contractual provisions of the instrument. Financial liabilities are initially recognised at fair value including, other than for financial liabilities at fair value through profit or loss, transaction costs directly attributable to the issue of the instrument. Other than derivatives which are subsequently measured at fair value, all other financial liabilities are subsequently measured at amortised cost using the effective interest method.

A financial liability is derecognised from the Statement of Financial Position when the obligation is discharged, cancelled, or expires.

3.10 Derivative financial instruments

Derivative financial instruments include forward currency swaps that derive their value from movements in underlying foreign exchange rates. Derivatives are initially recognised and subsequently measured at fair value with movements in fair value recognised in income. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. Derivatives are carried as assets where their fair value is positive and as liabilities where the fair value is negative.

The Company has collateral agreements in place with the counterparties of derivative financial instruments held. The accounting policy for collateral received and paid is as set out in accounting policy 3.16 below.

3.11 Hedge accounting

Transactions are classified as hedging transactions when the following conditions for hedge accounting are met:

- There is a formal designation and documentation of the hedging relationship and the Company's risk management objective and strategy for undertaking the hedge;
- The hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistent with the originally documented risk management strategy for that particular hedging relationship;
- The effectiveness of the hedge can be reliably measured; and
- The hedge is assessed on an ongoing basis and determined to be highly effective.

Where a foreign exchange derivative is designated as a hedging instrument against a net investment in foreign branches, the effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the Statement of Profit or Loss. Gains and losses accumulated in equity are included in the Statement of Profit or Loss when the underlying hedged item is derecognised.

There were no such derivatives in place as at 30 November 2017 (2016: £nil).

3.12 Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

3.13 Net investment return

Net investment income recognised in the Statement of Profit or Loss and Other Comprehensive Income includes investment income (comprising of interest, dividends and the amortisation of any discount or premium on available-for-sale debt securities). The net investment return also includes realised gains and losses and movements in unrealised gains and losses on financial assets held at fair value through profit or loss, net of interest payable, investment expenses and impairment losses on financial assets.

Interest income is recognised as accrued based on the effective interest method. Dividend income is recognised as the Company's right to those dividends becomes unconditional. Rental income is recognised on a straight line basis.

3.14 Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets classified as either loans and receivables or available-for-sale is impaired. A financial asset or group of financial assets is impaired, and an impairment loss recognised, if there is objective evidence tthat an event, or events, has/have occurred subsequent to the initial recognition of the financial asset or group of financial assets that has adversely affected the amount or timing of future cash flows from the asset.

Loans and Receivables

Where there is evidence that the contractual cash flows of a financial asset classified as loans and receivables will not be received in full, an impairment charge is recognised in income to reduce the carrying value of the financial asset to its recoverable amount.

Available-For-Sale Financial Assets

Where a decline in the fair value of a financial asset classified as available-for-sale has been recognised in the fair value reserve and there is objective evidence that the asset is impaired, the cumulative loss is transferred out of the fair value reserve in equity and recognised in the income statement. The cumulative impairment loss recognised is the difference between the acquisition cost (net of principal repayments and amortisation for debt securities) and its current fair value, less any impairment loss previously recognised in profit or loss. Impairment losses previously recognised for debt securities are reversed if there is a subsequent increase in their fair value and that this increase can be objectively linked to an event subsequent to the recognition of the impairment. Impairment losses on available-for-sale equity instruments are not reversed.

3.15 Borrowings

Borrowings are initially recognised at their issue proceeds and are subsequently measured at amortised cost. Borrowing costs are recognised using the effective rate method in the Statement of Profit or Loss as incurred.

3.16 Collateral

The Company receives and pays collateral in the form of both cash and non-cash assets in respect of certain derivative contracts and reinsurance assets in order to reduce the credit risk attaching to these transactions.

Cash collateral received is recognised as an asset in the Statement of Financial Position with a corresponding liability for the ultimate repayment of the financial liability, unless the Company has a legally enforceable right of set off in which case the collateral liability and the related asset are shown net. Non-cash collateral received is not recognised in the Statement of Financial Position unless the Company obtains substantially all the risks and rewards from ownership of the collateral pledged, such as in cases where the counterparty defaults on their obligations under the contract.

Non-cash collateral pledged is not derecognised in the Statement of Financial Position where the Company retains substantially all of the risks and rewards of ownership of the pledged non-cash assets. These assets continue to be recognised in the relevant asset classification. The Company receives and pays collateral in the form of both cash and non-cash assets in respect of certain derivative contracts and reinsurance assets in order to reduce the credit risk attaching to these transactions. Further details can be found in Note 21.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2017 (continued)

3.17 Employee benefits and share-based payments

Short-term Employee Benefits

Short-term employee benefits, including compensated absences, are benefits to be paid within one year after the end of the reporting year in which the related services are rendered. A liability and expense are recognised for the undiscounted amount expected to be paid for short-term employee benefits in the year in which the employee renders services in exchange for the benefits.

Other Long-Term Employee Benefits

Other long-term employee benefits are accounted for similarly to short-term employee benefits. However, unlike short-term employee benefits, the amounts are discounted in the measurement of the liability.

Termination Benefits

A liability for termination benefit is recognised at the earlier of when the Company can no longer withdraw from the offer of the termination benefit and when the entity recognises any related restructuring costs.

Employee Share-Based Payments

Equity-settled plans are measured at fair value of the equity instruments on the grant date and recognised as an expense, with a corresponding increase to shareholders' equity, on a straight line basis, over the vesting period. In determining the expense, the Company estimates the number of equity instruments that are expected to eventually vest. Such estimates are revised at the end of each reporting year, with the impact of any revisions recognised in profit or loss, with a corresponding adjustment to the equity-settled employee benefits reserve.

3.18 Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Operating lease payments, where the lessors effectively retain substantially all of the risk and benefits of ownership of the leased items, are recognised as an expense in the Statement of Profit or Loss in accordance with the patterns and benefits derived from the leased items. Payments made relating to operating leases are charged to the Statement of Profit or Loss on a straight line basis over the lease term. Any lease incentives, such as rent free periods, are amortised on a straight line basis over the lease term.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease, not exceeding seven years.

3.19 Taxation

The charge for tax is based on the results for the year determined in accordance with the relevant tax laws and regulations in each jurisdiction, together with adjustments to provisions for prior years.

Deferred tax is provided in full on all temporary differences arising between the carrying amounts in the Financial Statements and the tax bases of the assets and liabilities. Deferred tax assets are recognised to the extent that it is regarded as probable that they will be recovered. Deferred tax is calculated based on the tax rates that have been enacted or substantially enacted at the end of the reporting period and which are expected to be in force when the relevant deferred tax asset is realised or the relevant deferred tax liability is settled. Deferred tax balances are not discounted.

Current and deferred tax assets and liabilities are shown gross to reflect the fact that they can only be offset where there is a legally enforceable right to do so, particularly in respect of taxes relating to the same fiscal authority.

3.20 Pension costs

The Company operates a number of pension benefit plans. These plans include both defined benefit and defined contribution plans.

Payments to defined contribution plans and state-managed retirement benefit plans, where the Company's obligations under the plans are equivalent to a defined contribution plan, are charged as an expense as the employees render service. The defined benefit pension costs and the present value of defined benefit obligations are calculated at the reporting date by the plans' actuaries using the Projected Unit Credit Method.

Amounts charged (or credited) in the Statement of Profit or Loss and Other Comprehensive Income for post retirement benefits in respect of defined benefit plans include:

- The current service cost – representing the present value of additional benefits accruing in relation to employee services provided during the year;
- Past service costs – arising from plan amendments and curtailments. Such costs are recognised in the Statement of Profit or Loss at the earlier of the effective date of the plan amendment or curtailment, or when the group recognises the related restructuring costs or termination benefits;
- Administration costs of operating the pension plans; and
- Net interest on the net deferred pension obligation liability (asset) – determined by applying the discount rate to the net defined benefit liability (asset) at the start of the reporting year and any movements in the net defined benefit liability (asset) during the year from contributions made and benefits paid.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred), as well as the effects of changes in actuarial assumptions. Actuarial gains and losses are recognised in other comprehensive income in the year in which they arise.

The defined benefit liability recognised in the Statement of Financial Position represents the present value of defined benefit obligations adjusted for unrecognised past service costs and reduced by the fair value of plan assets. Any net defined benefit surplus is limited to unrecognised past service costs plus the present value of available refunds and reductions in future contributions to the plan.

3.21 Provisions and contingent liabilities

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

A contingent liability is an obligation where it is more likely than not that an outflow of resources will be required or the amount of the obligation cannot be reasonably estimated. Contingent liabilities are disclosed if there is more than a remote possibility that an outflow of resources will be required to settle the obligation.

In many cases, it is not possible to determine whether a liability has been incurred or to estimate the ultimate or minimum amount of that liability until years after the contingency arises, in which case no accrual is made until that time.

3.22 Statement of cash flows

Basis of Preparation

The Company has applied the indirect method for preparing the Statement of Cash Flows. This statement shows the movement in cash and cash equivalents for the year.

Cash and Cash Equivalents

Cash and cash equivalents comprises 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 a 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.

For the purposes of preparing the Statement of Cash Flows, cash and cash equivalents include bank overdrafts.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2017 (continued)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Company exercises judgement in selecting each of the Company's accounting policies. IFRS requires management to select suitable accounting policies, apply them consistently and make judgements and estimates which are reasonable and prudent when preparing the Financial Statements. These judgements and estimates are based on management's knowledge of current factors and circumstances and prediction of future events and actions. Actual results may differ from those estimates, possibly significantly.

The table below illustrates the accounting estimates and judgements for the reporting year and the relevant accounting policy and note disclosure.

Accounting Estimates	Accounting Policy	Disclosure Note
4.1 – Liability for unpaid claims and loss adjustment expenses	3.4.6	15
4.2 – Pipeline premiums and associated loss reserve	3.4.2	10
4.3 – Estimate of reinsurance recoveries	3.4.6	22
4.4 – Pension	3.20	31
4.5 – Taxation	3.19	32
4.6 – Other accounting estimates	–	–

Judgements	Accounting Policy	Disclosure Note
4.7 – Deferred acquisition costs	3.4.5	23
4.8 – Impairment of available for sale financial instruments	3.14	21
4.9 – Impairment of investment in group undertakings	3.7	19

Management considers the accounting estimates and assumptions discussed below to be its critical accounting estimates and, accordingly, provide an explanation of each below.

4.1 Liability for unpaid claims and loss adjustment expenses

Provision is made at year end for the estimated cost of claims incurred but not settled at the reporting date. The liability for outstanding claims includes the cost of claims reported but yet to be paid, claims incurred but not reported ("IBNR"), and the estimated expenses to be incurred in settling claims.

The process of establishing liability estimates is subject to considerable variability as it requires the use of informed estimates and judgements. These estimates and judgements are based on numerous factors, and may be revised as additional experience becomes available or as regulations change. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company. Classes of business which have a longer reporting tail and where the IBNR proportion of the total reserve is therefore higher than classes of business with a shorter reporting tail will typically display greater variations between initial estimates and final outcomes. For the short-tailed classes, claims are typically reported soon after the claim event, and tend to have less uncertainty within the unpaid liability estimate. In calculating the required levels of provisions, the Company uses a variety of estimation techniques used widely across the market, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. In arriving at booked claims provisions, management also make allowance for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in patterns of claim incidence, reporting, processing, finalisation and payment;
- changes in the legal environment;
- the impact of inflation (both economic/wage and superimposed);
- changes in the mix of business;
- the impact of large losses;
- movements in industry benchmarks;
- number of claims that have a high likelihood of becoming periodic payment orders;
- current accident year experience;
- medical and technological developments; and
- changes in policyholder behaviour.

The methods used to analyse past claim experience and to project future claim experience are largely determined by the available data and the nature of the portfolio. The projections given by the different methodologies assist in setting the range of possible outcomes. The most appropriate estimation technique, or combination of techniques, is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Large claims impacting each relevant business class are considered on a case by case basis and projected separately, where appropriate, in order to allow for the possible distortive effect of the development and incidence of these large claims.

We also note that the following specific areas of reserve uncertainty for the Company are as follows:

- Financial Lines: This is a key area of uncertainty given the current macro environment, and increased market and regulatory scrutiny of the banks which the Company insures;
- Liabilities: Recent legal changes such as the Ogden discount rate, Ministry of Justice reforms and LASPO (Legal Aid, Sentencing and Punishment of Offenders Act), PPO claims, abuse and disease claims;
- General volatility in respect of specific large claims;
- Claims experience is subject to natural catastrophes across the world given the global exposure of risks underwritten by the Company. The frequency and severity of such events have a high degree of uncertainty associated with them; and
- There is a higher level of uncertainty for the more recent accident years given their early stage in development.

4.2 Pipeline premiums and associated loss reserve

The Company makes an estimate of premiums written during the year that have not yet been notified by the financial year end based on prior year experience and current year business volumes. The pipeline premium is booked together with an assessment of the related unearned premium reserve and an estimate of claims incurred but not reported as well as any associated acquisition costs. A test is performed of actual premium received against prior year pipeline premium accruals and the estimation process adjusted if necessary to increase the accuracy of the current year estimate.

4.3 Estimate of reinsurance recoveries

The Company's estimate of reinsurance recoveries is based on the relevant reinsurance programme in place for the calendar year in which the related losses have been incurred. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim reserves associated with the reinsured policy. An estimate for potential reinsurance failure and possible disputes is provided to reduce the carrying value of reinsurance assets to their net recoverable amount.

4.4 Pensions

The Company operates a number of pension schemes, whose members receive benefits on either a defined benefit or defined contribution basis. The defined benefit obligation is calculated by independent actuaries using the projected unit credit method.

The pension obligation is measured as the present value of the estimated future cash outflows, using a discount rate based on market yields for high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability. The sensitive nature of key assumptions, such as discount and mortality rates, can have a material impact on the closing valuation of the schemes and these rates are subject to judgement to ensure reasonableness and accuracy. The resultant net surplus or deficit recognised as an asset or liability on the Statement of Financial Position is the present value of the defined benefit obligation at the end of the reporting year less the fair value of plan assets.

4.5 Taxation

The Company's tax charge on ordinary activities is the sum of the total current and deferred tax charges. The calculation of the Company's total tax charge necessarily involves a degree of estimation and judgement in respect of certain items whose tax treatment cannot be finally determined until resolution has been reached with the relevant tax authority.

The recognition of deferred tax assets is based upon whether it is probable that sufficient and suitable taxable profits will be available in the future against which the reversal of temporary differences can be deducted. Where the temporary differences relate to tax losses, the availability of the losses to offset against forecast taxable profits is also considered. Recognition therefore involves judgement regarding the future financial performance of the tax group in which the deferred tax asset has been recognised.

4.6 Other accounting estimates

These accounting estimates require the use of assumptions about matters, some of which are highly uncertain at the time of estimation. To the extent actual experience differs from the assumptions used, the Company's financial position, results of operations and cash flows could be materially affected.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 November 2017 (continued)

The Financial Statements also include allocation of certain general overhead and other expenses that have been incurred by AIG on behalf of the Company. For further information see Note 39. The Company's management considers these costs, along with the costs previously charged by AIG to the Company, to be a reasonable reflection of the costs incurred by AIG's corporate office on behalf of the Company. The Financial Statements of the Company may not be indicative of the Company's future performance and may not necessarily reflect what its financial position, results of operations and cash flows would have been had the Company operated as a separate, stand-alone legal entity during the years presented.

4.7 Deferred acquisition costs
The amount of acquisition costs to be deferred is dependent on judgements as to which issuance costs are directly related to and vary with the acquisition of policies.

4.8 Impairment of available-for-sale financial instruments
The Company determines that available-for-sale financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Company evaluates among other factors, the normal volatility in share price, the financial health of the investee, industry and sector performance, changes in technology, and operational and financing industry and sector performance, changes in technology, and financing and operational cash flows.

4.9 Impairment of investments in group undertakings
The Company reports the value of its investments in group undertakings at cost less any impairment. A decision on a potential impairment is taken when there is an indication of impairment in accordance with the guidelines of IAS36.

5. GROUP RECONSTRUCTIONS
There were no significant group reconstruction transactions were completed by the Company in the year.

Prior year group reconstructions
In the prior year, AIG carried out a re-organisation of its European operations, centred on the establishment of a new international holding company, AIG International Holdings Limited, based in Switzerland. As a result, through a series of transactions, the Company became a wholly owned subsidiary of AIG Holdings Europe Limited.

6. MANAGEMENT OF INSURANCE AND FINANCIAL RISK
The management of risk is a fundamental concern of the Company's management. This note, together with the Risk Management Report, summarises the key risks to the Company and the policies and procedures put in place by management to manage them. The Risk Management Report sets out a high level overview of the risk governance structure adopted by the Company.

The components of insurance, financial, credit, liquidity and operational risk are considered below:

Insurance Risk
Insurance Risk refers to fluctuations in the timing, frequency, and severity of insured events relative to the expectations at the time of underwriting. Insurance Risk can also refer to fluctuations in the timing and amount of claim settlements and reserves.

Insurance Risk is historically the single most significant risk area within the Company. It is split between four principal key risks which are all managed through the application of controls, as well as the use of reinsurance to offset exposures through the transfer of risk. These four key risks are as follows:

- Failure of Pricing, Product or Strategy: The Company's underwriting operations inherently carry the risk of inappropriately pricing of products resulting in financial losses or reduced profit through being set too high (therefore losing market share) or too low (therefore resulting in an unacceptable profit contribution for that product). It also covers scenarios where an inappropriate strategy or product is introduced or continued for a specific business line or the Company as whole there is an increased risk that material financial and reputational losses will occur. The Company seeks to manage this through the setting and review of pricing guidelines relevant to each business line and the application of a strict hierarchy of pre-binding rules and underwriting authorities to ensure that policies are underwritten with management oversight. In addition, annual processes and controls are in place over the production, review and analysis of annual business plans and the introduction of new products for each line of business, prior to launch. The Product Development Forum plays a key role in ensuring that product development controls and processes are adhered to. Large and unusual transactions are referred to the Large and Unusual Transactions ("LUT") referral group, primarily comprised of members of the Company's Insurance Risk Committee, for consideration from a Statement of Financial Position, liquidity and risk portfolio point of view before the Company becomes committed. This helps to ensure compliance with the Board approved risk appetite. The Company also mitigates exposures to pricing risk through the purchase of reinsurance.

- **Failure to Manage Natural Catastrophe Risk Aggregation/Accumulation:** The Company may be exposed to an increased likelihood of disproportionate Natural Catastrophe losses for specific perils if insured risks are overly focused on a specific geographical area or type of policy cover. The Company seeks to manage this through the use of pre-bind rules and authorities to manage significant within line and cross-line exposures, as well as Realistic Disaster Scenario runs to determine whether aggregate exposures are being adequately managed within the parameters of approved business plans for each line of business. In addition, large and unusual transactions that may have a material impact on risk aggregation exposures for an individual line of business are referred to the LUT for further consideration.
- **Failure to Manage Man-Made Catastrophe Risk Aggregation/Accumulation:** The Company may be exposed to an increased likelihood of disproportionate man-made losses for specific perils if insured risks are overly focused on a specific geographical area or type of policy cover. The Company seeks to manage this through the use of pre-bind rules and authorities to manage significant within line and cross-line exposures, as well as Realistic Disaster Scenario runs to determine whether aggregate exposures are being adequately managed within the parameters of approved business plans for each line of business. In addition, large and unusual transactions that may have a material impact on risk aggregation exposures for an individual line of business are referred to the LUT for further consideration.
- **Adverse Reserve Development:** The Company may be exposed to reserve shortfalls or distortions through failing to set sufficient case reserves or through failing to adopt a robust and consistent reserve strategy across products offered to insureds and countries. The Company seeks to manage this through monitoring adherence to established policies and procedures in place governing claims reserving practices. In addition, the Company's Actuarial Team conducts quarterly reserve reviews of the Company's overall book to determine appropriate reserve levels and quarterly reviews of the Company's expected IBNR adequacy. The Company also employs external consultants to perform reviews of its reserves to provide an independent review of their adequacy.

Financial Risk

Market Risk

Market risk is the risk that the Company 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. A description of the Company's principal risk relating to Market Risk is shown below; along with a summary description of controls the Company applies in seeking to mitigate this risk:

- **Unexpected Loss in Fair Value of Investment Portfolio:** The adequacy of investment assets held by the Company may be adversely affected as a result of interest rate, inflation, foreign exchange, equity, real estate and credit spread movements and the deterioration in the credit quality of invested assets, impacting on the Company's capital position and liquidity profile. The Company seeks to manage this risk through the monitoring of adherence to established set of investment guidelines, which are reviewed and updated periodically by the Market Risk Committee. The guidelines contain restrictions on areas such as asset class concentrations, business sector concentrations, the duration of investments against our insurance liabilities, the level of assets held with single obligors with a credit rating lower than AAA and the overall average credit rating target of the investment portfolio. The Company's Treasury Department also has processes and procedures in place in order to review, assess and, if necessary, take action on foreign exchange rate movements.

Liquidity Risk

Liquidity risk is defined as the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities, primarily insurance claims, as they fall due. This risk is mitigated through investment in predominately tradable financial assets and constant monitoring of expected asset and liability maturities. The Company further manages this risk through reviews of Liquidity Risk Management Reports provided by the Treasury function, as well as review and approval of stress scenarios designed by Treasury to assess liquidity risk of the Company in extreme situations. The Company's Treasury department is also operationally responsible to ensure that sufficient funding required for a stressed scenario is available and that the sources of funding are appropriately diversified. The Company's Treasury department maintains a Contingent Funding Plan that is triggered in the event of breaches in the liquidity risk limits. There has been no material change in the Company's processes in respect of liquidity risk over the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2017 (continued)

Maturity Analysis of Financial Liabilities

Below is an analysis of the maturity profile of financial liabilities, including insurance liabilities, which are subject to fixed and variable interest rates.

At 30 November 2017	Less than one year £'m	One to two years £'m	Two to three years £'m	Three to four years £'m	Four to five years £'m	Five to ten years £'m	Over ten years £'m	Carrying value in the Statement of Financial Position £'m
Insurance liabilities:								
Outstanding claims	3,306.5	1,817.2	1,220.3	827.6	578.8	1,178.3	423.3	**9,352.0**
Unearned premiums	1,627.7	332.6	48.1	31.2	26.6	44.6	3.3	**2,114.1**
Borrowings	–	50.0	–	–	–	–	–	**50.0**
Other payables, including insurance payables	1,159.1	4.8	–	–	–	–	–	**1,163.9**
Total	**6,093.3**	**2,204.6**	**1,268.4**	**858.8**	**605.4**	**1,222.9**	**426.6**	**12,680.0**

At 30 November 2016	Less than one year £'m	One to two years £'m	Two to three years £'m	Three to four years £'m	Four to five years £'m	Five to ten years £'m	Over ten years £'m	Carrying value in the Statement of Financial Position £'m
Insurance liabilities:								
Outstanding claims	2,857.5	1,616.6	1,070.8	755.1	542.8	1,166.7	421.9	**8,431.4**
Unearned premiums	1,932.1	73.1	36.7	25.8	20.4	27.4	3.5	**2,119.0**
Borrowings	–	–	50.0	–	–	–	–	**50.0**
Other payables, including insurance payables	1,136.8	6.8	–	–	–	–	–	**1,143.6**
Total	**5,926.4**	**1,696.5**	**1,157.5**	**780.9**	**563.2**	**1,194.1**	**425.4**	**11,744.0**

Credit Risk

Credit risk is defined as the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company has exposure to credit risk principally through its holdings of debt securities, structured assets and reinsurance assets. There has been no material change in the Company's processes in respect of credit risk over the year. A description of each of the Company's principal risks attached to credit risk is shown below; along with a summary description of controls the Company applies in seeking to mitigate these risks:

- **Unexpected Credit Loss Owing to Reinsurer Failure:** The Company faces a risk of material losses if their main reinsurers fail or are unable to pay their contractual share of claims payable. The Company seeks to manage this through annual review of the financial strength and creditworthiness of reinsurance counterparties, as well as tracking overall exposures to individual reinsurers. In addition, a list of approved reinsurers is maintained and an established process is in place to ensure that approval is obtained before reinsurance cover is taken out with a reinsurer not on the approved list (this may include requiring collateralisation).
- **Unexpected Credit Loss (All Other Counterparties Including Group):** The Company faces a risk of material losses and cash flow issues if other internal (intra-group) or third party obligors are unable to pay amounts due. The Company seeks to manage this risk through the utilisation of processes and procedures to ensure that the Company only utilises approved bank operating accounts and investment counterparties. In addition, the Company has controls in place to ensure that third party service providers and brokers used are subject to credit checks prior to and during the year where they provide services to the Company, where it is possible to do so.

The following table provides an analysis of the major categories of financial assets with credit risk exposure and the credit rating of those financial assets based upon the ratings published by Standard & Poor's or equivalent nationally recognised statistical rating organisation ("NRSRO").

At 30 November 2017	AAA £'m	AA £'m	A £'m	BBB £'m	Below investment grade £'m	Not rated £'m	Total £'m
Financial investments							
Debt securities	2,916.7	2,315.7	2,522.9	1,206.2	532.3	–	**9,493.8**
Equity instruments	–	–	–	–	–	8.2	**8.2**
Loan participations	–	–	247.8	109.2	101.1	57.9	**516.0**
Mutual funds	–	–	–	–	–	3.8	**3.8**
Deposits with credit institutions	–	–	–	–	–	–	**–**
Reinsurance assets	0.7	180.7	669.6	1,232.4	244.9	482.8	**2,811.1**
Other receivables, including insurance receivables	107.2	483.6	224.9	155.0	15.2	888.3	**1,874.2**
Accrued interest and rent	19.4	17.4	26.0	16.5	7.3	2.7	**89.3**
Other prepayments and accrued income	–	–	–	–	–	10.2	**10.2**
Short-term deposits	–	–	71.0	–	–	45.3	**116.3**
Cash in bank	–	10.1	292.1	6.1	21.0	–	**329.3**
Total	**3,044.0**	**3,007.5**	**4,054.3**	**2,725.4**	**921.8**	**1,499.2**	**15,252.2**

At 30 November 2016	AAA £'m	AA £'m	A £'m	BBB £'m	Below investment grade £'m	Not rated £'m	Total £'m
Financial investments							
Debt securities	2,420.9	2,106.6	2,903.1	1,143.5	663.4	–	**9,237.5**
Equity instruments	–	–	–	–	–	9.2	**9.2**
Loan participations	–	–	140.1	176.0	36.8	48.7	**401.6**
Mutual funds	–	–	–	–	–	3.6	**3.6**
Deposits with credit institutions	–	–	–	–	–	–	**–**
Reinsurance assets	–	122.9	1,570.9	197.9	116.7	654.5	**2,662.9**
Other receivables, including insurance receivables	238.0	455.7	301.5	96.3	9.9	816.8	**1,918.2**
Accrued interest and rent	19.6	17.5	35.1	18.6	9.9	2.3	**103.0**
Other prepayments and accrued income	–	–	–	–	–	11.7	**11.7**
Short-term deposits	–	–	78.1	–	–	2.1	**80.2**
Cash in bank	2.6	5.9	187.7	8.7	5.1	–	**210.0**
Total	**2,681.1**	**2,708.6**	**5,216.5**	**1,641.0**	**841.8**	**1,548.9**	**14,637.9**

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For the year ended 30 November 2017 (continued)

The following table analyses the credit quality of financial assets with credit risk exposure that are neither past due nor impaired and those that have been impaired by category of asset.

At 30 November 2017	Neither past due nor impaired £'m	Financial assets that are past due but not impaired: 1-30 days £'m	31-60 days £'m	61-90 days £'m	Over 90 days £'m	Financial assets that have been impaired £'m	Carrying value in the Statement of Financial Position £'m
Financial investments							
Debt securities	9,493.8	–	–	–	–	–	**9,493.8**
Equity instruments	8.2	–	–	–	–	–	**8.2**
Loan participations	516.0	–	–	–	–	–	**516.0**
Mutual funds	3.8	–	–	–	–	–	**3.8**
Reinsurance assets	2,811.1	–	–	–	–	–	**2,811.1**
Other receivables, including insurance receivables	1,077.5	743.8	10.8	3.8	38.3	–	**1,874.2**
Accrued interest and rent	89.3	–	–	–	–	–	**89.3**
Other prepayments and accrued income	10.2	–	–	–	–	–	**10.2**
Short-term deposits	116.3	–	–	–	–	–	**116.3**
Cash in bank	329.3	–	–	–	–	–	**329.3**
Total	**14,455.5**	**743.8**	**10.8**	**3.8**	**38.3**	**–**	**15,252.2**

At 30 November 2016	Neither past due nor impaired £'m	Financial assets that are past due but not impaired: 1-30 days £'m	31-60 days £'m	61-90 days £'m	Over 90 days £'m	Financial assets that have been impaired £'m	Carrying value in the Statement of Financial Position £'m
Financial investments							
Debt securities	9,204.6	–	–	–	–	32.9	**9,237.5**
Equity instruments	9.2	–	–	–	–	–	**9.2**
Loan participations	401.6	–	–	–	–	–	**401.6**
Mutual funds	3.6	–	–	–	–	–	**3.6**
Reinsurance assets	2,662.9	–	–	–	–	–	**2,662.9**
Other receivables, including insurance receivables	1,042.9	798.1	16.1	13.9	47.1	0.1	**1,918.2**
Accrued interest and rent	103.0	–	–	–	–	–	**103.0**
Other prepayments and accrued income	11.7	–	–	–	–	–	**11.7**
Short-term deposits	80.2	–	–	–	–	–	**80.2**
Cash in bank	210.0	–	–	–	–	–	**210.0**
Total	**13,729.7**	**798.1**	**16.1**	**13.9**	**47.1**	**33.0**	**14,637.9**

Interest Rate Risk

Interest rate risk arises primarily from the Company's fixed maturity securities and discounted claims provisions which are exposed to fluctuations in interest rates. The Company mitigates this risk by matching the duration between assets and liabilities with the asset duration exceeding the liability duration up to half a year and the surplus implied duration remaining positive. At 30 November 2017, the effective duration for the Company's fixed maturity portfolio was 3.2 years (2016: 3.3 years).

At 30 November 2017, the sensitivity of the carrying value of the Company's fixed maturity portfolio to a movement of 100 basis points in interest rates was as follows. Subject to any impairment charges that may result under the scenarios, the fair value reserve would be reduced by £304 million (2016: £296 million) for a 100 basis point increase in interest rates. Conversely, a 100 basis point decrease in interest rates would increase the fair value reserve by £317 million (2016: £309 million). With respect to discounted claims provisions a 100 basis point increase in interest rates would reduce net claims provisions by £12 million (2016: £11 million) while a 100 basis point decrease in interest rates would increase net claims provisions by £17 million (2016: £16 million).

Currency Risk

Currency risk arises where assets and liabilities are settled in currencies other than the functional currency of the Company, including the Company's overseas branches which all have non-sterling functional currencies. The Company mitigates this risk by actively matching its financial assets with liabilities in the same currency. It also seeks to manage currency volatility on the excess capital (capital resources less capital requirements), by holding its capital resources proportionately split by the currencies in which the Company's business and risks are written. The analysis of the Company's shareholders equity by currency is shown below:

Sensitivity analysis of shareholders' equity and total comprehensive income to changes in foreign exchange rates for the three largest currency risks (euro, Swiss franc and US dollar):

	Pound sterling £'m	Euro £'m	Swiss franc £'m	United States dollar £'m	Other £'m	Total £'m
Total equity at 30 November 2017	1,389.8	1,308.5	120.1	264.4	81.1	**3,163.9**
Total equity at 30 November 2016	1,545.2	1,171.8	92.9	520.4	41.7	**3,372.0**

	10% increase in sterling/ EUR rate £'m	10% decrease in sterling/ EUR rate £'m	10% increase in sterling/ CHF rate £'m	10% decrease in sterling/ CHF rate £'m	10% increase in sterling/ USD rate £'m	10% decrease in sterling/ USD rate £'m
Total equity at 30 November 2017	(119.0)	145.4	(10.9)	13.3	(24.0)	29.4
Total equity at 30 November 2016	(106.5)	130.2	(8.4)	10.3	(47.3)	57.8

Business & Strategy Risk

Whilst AIG Europe Limited does identify and manage its Insurance, Market (including Liquidity Risk), Credit and Operational Risks, the Company is aware that these individual risk types are framed to some degree by the Company's and AIG Group's business operations and strategic direction. The Company's operations and strategy also influence or are impacted by Group Risks arising from its participation in the wider AIG Group and the pan-European scope of the Company. A description of each of the Company's principal risk components attached to Business and Strategy Risk is shown below along with a summary description of controls the Company applies in seeking to mitigate these risks:

- **Strategic Risk:** This represents the risk of losses due to the inability to implement appropriate business plans and strategies, make decisions, allocate resources, or adapt to changes in the business environment. The risks include general macro-economic pressures, misalignment of the Company's objectives to those of AIG Group, as well as risks associated with one off business specific events, such as significant mergers and acquisitions. The Company seeks to manage this risk through the application of a business planning process to ensure that the Company has a sustainable strategy that is aligned to AIG's global objectives, as well as post-date monitoring of the Company's performance against its set budget and adherence to its strategic objectives. AIG Europe Limited Enterprise Risk Management also actively supports this process through conducting risk assessments of the business planning process, monitoring identified risks from these assessments and conducting scenario analysis and stress testing on the Company's one and five year budgets.
- **Capital Adequacy Risk:** This represents the risk of not maintaining the capital levels required to meet both regulatory and rating agency standards and the impacts of breaches in these capital requirements. Intra-group transactions, such as dividend payments to the AIG Group parent, and ceding insurance risk to internal counterparties are also connected to this risk. Key controls in the management of this risk revolve around the application of and adherence to a clearly defined capital management policy and an annual Capital Management Plan, which sets out target capital parameters and a strategy to maintain this over the life of the Company's business planning period, in order to meet rating agency requirements, as well as meeting dividend payments to the AIG Group parent. In addition, AIG Europe Limited utilises capital support agreements between the Company and its ultimate parent.

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For the year ended 30 November 2017 (continued)

- Reputational Risk (Including Group Reputational Risk): This represents the risk that adverse publicity regarding business practices and associations, whether accurate or not, will cause a loss of confidence in the integrity of AIG Group, which includes AIG Europe Limited. The Company seeks to manage this risk through the application of and adherence to a suite of corporate policies in place to control AIG Europe Limited's exposure to scenarios that could damage the AIG brand or AIG Europe Limited's immediate reputation as a company, as well as subjecting activities that carry material reputational risk to additional levels of governance and oversight.

Operational Risk

Operational Risk is defined by the Company as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. It is intrinsic to the Company's operations but is actively mitigated and managed. A description of each of the Company's eight categories of Operational Risk is shown below. There has been no material change in the Company's processes in respect of operational risk over the year.

The Company has no appetite for operational risks related to regulatory breaches and internal fraud. The Company expects to incur other operational risks (including conduct risk) in the course of conducting business, such as inadvertent errors that may occur in day-to-day operations. We strive to reduce the probability and impact of operational risks as much as reasonably practicable while maintaining the ability to conduct a viable business.

AIG categorises Operational Risk in the following Level 1 risk categories:

- Execution, Delivery & Process Management: Risks associated with the failure to execute or process transactions timely or 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.
- 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.
- External Fraud: Risks associated with acts intended to defraud, misappropriate property or circumvent regulations or the law by one or more third party.
- Employment Practices & Workplace Safety: Risks associated with acts inconsistent with employment relations, health, safety and/or anti-discrimination laws or agreements.
- Business Disruption & Systems Failure: Risks associated with the interruption of business activity due to system and/or communication failures, the inaccessibility of information and/or the unavailability of utilities.
- 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.

Each risk category divides further into Level 2 sub-categories for more detailed capture and analysis of risk events, assessments, scenarios and monitoring. Key operational risks are monitored in a risk register. AIG's Operational Risk Management ("ORM") Framework, which AIG Europe Limited aligns to, facilitates the identification, assessment, monitoring and measurement of operational risk and promotes a culture where each employee has responsibility for managing and reporting operational risk. The ORM Framework establishes a structure within which the ORM process evolves commensurate with changes in the regulatory and business environment. The risk management process is supported by pro-active risk assessments (including Risk and Control Self Assessments), as well as reactive risk event analysis. These processes and oversight is embedded throughout the operational Zones of AEL, with a thorough Governance structure to report and review the risk profiles.

7. CAPITAL RISK MANAGEMENT

The Company maintains robust and sufficient capital to ensure the safety and stability of the Company whilst meeting regulatory, rating agency and other business needs.

The Company is regulated by the UK regulator, the Prudential Regulatory Authority ("PRA") under the Solvency II regime. Solvency II is a comprehensive programme of regulatory requirements for insurers covering authorisation, corporate governance, supervisory reporting, public disclosure and risk assessment and management, as well as solvency and reserving. Entities have the option to calculate their Solvency Capital Requirement ("SCR") using either the Standard Formula, as prescribed in the regulations, or through an internally developed capital model (the latter must be approved by the PRA).

In July 2017, the PRA approved the use of the Company's Internal model to calculate the SCR. The Company views the Internal Model to be a true representation of its risk profile. Prior to the 2017 Internal Model approval, the Company used the Standard Formula to calculate its SCR.

The Internal Model SCR is lower than the Standard Formula SCR as the Standard Formula is applied across all firms and as such there is a degree of prudency built into the calculation in an effort to ensure that the model works across the industry. The Internal Model is tailored towards AIG Europe Limited and calculates a more bespoke capital requirement which takes into account the Company's specific risk profile.

The table below provides an analysis of the Own Funds of the Company under Solvency II.

	30 November 2017 £'m	30 November 2016 £'m
Basic own funds		
Ordinary share capital (gross of own shares)	197.1	197.1
Share premium account related to ordinary share capital	1,460.3	1,260.3
Reconcilation reserve	1,272.2	1,595.1
Subordinated liabilities	37.2	37.2
An amount equal to the value of net deferred tax assets	92.5	53.2
Total basic own funds	**3,059.3**	**3,142.9**
Ancillary own funds		
Letters of credit	616.7	500.0
Total ancillary own funds	**616.7**	**500.0**
Available and eligible own funds		
Total available own funds to meet the SCR	3,676.0	3,642.9
Total eligible own funds to meet the SCR	3,676.0	3,642.9
SCR – 2017 IM[1]; 2016 SF[2]	**2,523.6**	**3,360.5**
Ratio of eligible own funds to SCR	**145.7%**	**108.4%**

1 Internal Model SCR

2 Standard Formula SCR

The Company has been fully compliant with Solvency II since its commencement.

The Company also maintains sufficient capital to support a single A rating from A.M. Best and Fitch, an A+ from Standard & Poor's and an A2 from Moody's. In addition, to provide against material shocks, the Company would normally expect to hold sufficient capital to maintain a significant economic surplus. Available capital comprises total equity, subordinated loans and letters of credit.

Management information to monitor the Company's available capital and solvency position is produced and presented to the relevant Committees and the Board on a regular basis. In the event of failure of the Company to meet any of its regulatory requirements, the Company can draw on a Capital Maintenance Agreement it has with the ultimate parent company, AIG Inc.

The Company is also the beneficiary of £616.7 million of Letters of Credit ("LoC") provided by five well rated banks. £300.0 million of these LoC's will expire in January 2020 and £316.7 million have expired in February 2018. The Company is able to draw down upon this facility on demand. Should a failure occur, the PRA have authority to require or take various regulatory actions including limiting or prohibiting the issue of new business, prohibiting the payment of dividends, or in extreme cases, putting the Company into rehabilitation or insolvency proceedings.

8. FAIR VALUE MEASUREMENT

The Company carries certain of its financial instruments at fair value. The fair value of a financial instrument is the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly arm's length transaction between willing and knowledgeable market participants at the measurement date.

The degree of judgement used in measuring the fair value of financial instruments generally correlates with the level of observable valuation inputs. Financial instruments with quoted prices in active markets generally have more pricing observability and less judgement is used in measuring fair value. Conversely, financial instruments for which no quoted prices are available have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgement. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, and the characteristics specific to the transaction, liquidity and general market conditions.

Fair value hierarchy

Financial assets recorded at fair value in the Statement of Financial Position are measured and classified in a hierarchy for disclosure purposes consisting of three levels based on the characteristics of inputs available in the marketplace that are used to measure the fair values as noted below:

Level 1

Financial assets included in this category are measured at fair value with reference to publically available quoted prices in active markets that the Company has the ability to access for identical assets. A financial instrument is regarded as being quoted in an active

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 November 2017 (continued)

market if quoted prices are readily available from an exchange, dealer, broker, pricing service or regulatory agency and the prices quoted represent actual and regularly occurring market transactions conducted at an arm's length basis. Level 1 assets held by the Company include certain government and governmental agency securities, actively traded derivative contracts, and mutual funds.

Level 2
Financial assets included in this category are measured at fair value based on inputs other than quoted prices included in Level 1 above, that are observable for the asset either directly or indirectly. Level 2 inputs include quoted market prices for similar assets in active markets, and other inputs other than quoted prices that are observable for the asset, such as interest rates and yield curves that are observable at commonly quoted intervals. Assets measured at Level 2 include certain government and governmental agency securities, most investment grade and high yield corporate bonds, certain residential mortgage backed securities ("RMBS"), commercial mortgage backed securities ("CMBS") and collateralised debt obligations/asset backed securities ("CDO/ABS") and certain derivative contracts.

Level 3
Financial assets included in this category are measured at fair value based on prices provided by brokers derived from valuation techniques (models) that use significant inputs that are unobservable. These measurements include circumstances in which there is little, if any, market activity for the asset or liability. Assets measured at Level 3 include certain RMBS, CMBS and CDO/ABS, corporate bonds, and certain derivative contracts. The Company's non-financial instrument assets that are measured at fair value on a non-recurring basis generally are classified as Level 3.

The following is a description of the valuation methodologies used for instruments carried at fair value:

Valuation Methodologies

Fixed maturity securities
Whenever available, the Company obtains quoted prices in active markets for identical assets at the financial position date to measure fixed maturity securities at fair value in its available-for-sale portfolios. Market price data is generally obtained from dealer markets.

Management is responsible for the determination of the value of the investments carried at fair value and the supporting methodologies and assumptions. The Company employs independent third party valuation service providers to gather, analyse and interpret market information, and derive fair values based upon relevant methodologies and assumptions for individual instruments. When the Company's valuation service providers are unable to obtain sufficient market observable information upon which to estimate the fair value for a particular security, fair value is determined either by requesting brokers who are knowledgeable about these securities to provide a quote, which is generally non-binding, or by employing widely accepted internal valuation models.

Valuation service providers typically obtain data about market transactions and other key valuation model inputs from multiple sources and through the use of widely accepted valuation models provide a single fair value measurement for individual securities for which a fair value has been requested under the terms of service agreements. The inputs used by the valuation service providers include, but are not limited to, market prices from recently completed transactions and transactions of comparable securities, benchmark yields, interest rate yield curves, credit spreads, currency rates, quoted prices for similar securities and other market observable information, as applicable. The valuation models take into account, among other things, market observable information as of the measurement date as well as the specific attributes of the security being valued including its term, interest rate, credit rating, industry sector, and when applicable, collateral quality and other security or issuer-specific information. When market transactions or other market observable data is limited, the extent to which judgement is applied in determining fair value is greatly increased.

The Company has processes designed to ensure that the values received are accurately recorded, that the data inputs and the valuation techniques utilised are appropriate and consistently applied, and that the assumptions are reasonable and consistent with the objective of determining fair value. The Company assesses the reasonableness of individual security values received from valuation service providers through various analytical techniques. In addition, the Company may validate the reasonableness of fair values by comparing information obtained from the Company's valuation service providers to other third party valuation sources for selected securities. The Company also validates prices for selected securities obtained from brokers through reviews by members of management who have relevant expertise and who are independent of those charged with executing investing transactions.

The methodology described above is relevant for all fixed maturity securities. The following paragraphs set out certain procedures unique to specific classes of securities.

Fixed maturity securities issued by Government entities
For most debt securities issued by government entities, the Company obtains fair value information from independent third party valuation service providers, as limited quoted prices in active markets are available for debt securities issued by government entities. The fair values received from these valuation service providers may be based on a market approach using matrix pricing, which considers a security's relationship to other securities for which a quoted price in an active market may be available, or alternatively based on an income approach, which uses valuation techniques to convert future cash flows to a single present value amount.

Fixed maturity securities issued by corporate entities

For most debt securities issued by corporate entities, the Company obtains fair value information from third party valuation service providers. For certain corporate debt securities, the Company obtains fair value information from brokers.

RMBS, CMBS, CDOs and other ABS

Third party valuation service providers also provide fair value information for the majority of the Company's investments in RMBS, CMBS, CDOs and other ABS. Where pricing is not available from valuation service providers, the Company obtains fair value information from brokers. Broker prices may be based on an income approach, which converts expected future cash flows to a single present value amount, with specific consideration of inputs relevant to structured securities, including ratings, collateral types, geographic concentrations, underlying loan vintages, loan delinquencies, and weighted average coupons and maturities. Broker prices may also be based on a market approach that considers recent transactions involving identical or similar securities. When the volume or level of market activity for an investment in RMBS, CMBS, CDOs or other ABS is limited, certain inputs used to determine fair value may not be observable in the market.

Equity securities

Equity securities held by the Company relate to investments in unquoted entities where the Company does not have any significant influence. Since these equity investments do not have a quoted market price in an active market and fair values cannot be reliably measured, they are held at cost in accordance with IAS 39.

Short-Term investments

Short-Term investments are held at amortised cost in line with their classification as loans and receivables under IAS 39. Amortised cost is calculated using the effective interest method, which allocates interest income/expense over the relevant period by applying the effective interest rate to the carrying amount of the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial instrument.

Loans receivable

The Company holds loans receivable at amortised cost in line with their classification as loans and receivables under IAS 39. Amortised cost is calculated using the effective interest method, which allocates interest income/expense over the relevant year by applying the effective interest rate to the carrying amount of the asset. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial instrument.

At 30 November 2017 the estimated fair value of the loans receivable held at amortised cost was £507 million (2016: £397 million) which represents a £9 million decrease (2016: £4 million decrease) on the carrying amount at that date. The carrying amount of the short term investments measured at amortised cost at 30 November 2017 is deemed to be a reasonable estimate of the fair value at that date. Based on the characteristics of inputs available in the marketplace, the fair value estimates of these financial assets are classified as Level 3 at 30 November 2017.

Mutual funds

Quoted prices in active markets for these assets are obtained at the Statement of Financial Position date to measure at fair value of these marketable equity securities in our available for sale portfolios. Market price data is generally obtained from exchange or dealer markets.

Derivatives

Derivative assets and liabilities can be exchange-traded or traded over-the-counter ("OTC"). We generally value exchange-traded derivatives such as futures and options using quoted prices in active markets for identical derivatives at the Statement of Financial Position date.

OTC derivatives are valued using market transactions and other market evidence whenever possible, including market-based inputs to models, model calibration to market clearing transactions, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. When models are used, the selection of a particular model to value an OTC derivative depends on the contractual terms of, and specific risks inherent in, the instrument, as well as the availability of pricing information in the market. We generally use similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices and rates, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs. For OTC derivatives that trade in liquid markets, such as generic forwards, swaps and options, model inputs can generally be corroborated by observable market data by correlation or other means, and model selection does not involve significant management judgement.

Transfers of certain investments in RMBS, CMBS and CDO/ABS out of Level 3 assets were based on consideration of market liquidity as well as related transparency of pricing and associated observable inputs for these investments. Transfers of certain investments in private placement corporate debt and certain ABS out of Level 3 assets were primarily the result of using observable pricing information that reflects the fair value of those securities without the need for adjustment based on our own assumptions regarding the characteristics of a specific security in the current liquidity market.

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For the year ended 30 November 2017 (continued)

The following table shows an analysis of financial instruments at fair value by each level within the fair value hierarchy:

At 30 November 2017	Level 1 £'m	Level 2 £'m	Level 3 £'m	Total £'m
Assets:				
Available-for-sale debt securities:				
Fixed maturity securities issued by Government entities	12.7	4,203.7	–	**4,216.4**
Fixed maturity securities issued by corporate entities	–	5,216.6	6.5	**5,223.1**
CMBS	–	54.3	–	**54.3**
Total available-for-sale debt securities (Note 21)	**12.7**	**9,474.6**	**6.5**	**9,493.8**
Available-for-sale equity securities				
Mutual funds	3.8	–	–	**3.8**
Total available-for-sale equity securities (Note 21)	**3.8**	**–**	**–**	**3.8**
Total Assets	**16.5**	**9,474.6**	**6.5**	**9,497.6**

At 30 November 2016	Level 1 £'m	Level 2 £'m	Level 3 £'m	Total £'m
Assets:				
Available-for-sale debt securities:				
Fixed maturity securities issued by Government entities	41.3	3,233.7	–	**3,275.0**
Fixed maturity securities issued by corporate entities	–	5,647.4	–	**5,647.4**
RMBS	–	29.6	224.8	**254.4**
CMBS	–	60.7	–	**60.7**
Total available-for-sale debt securities (Note 21)	**41.3**	**8,971.4**	**224.8**	**9,237.5**
Available-for-sale equity securities				
Mutual funds	3.6	–	–	**3.6**
Total available-for-sale equity securities (Note 21)	**3.6**	**–**	**–**	**3.6**
Total Assets	**44.9**	**8,971.4**	**224.8**	**9,241.1**

Transfers of Level 1 and Level 2 Assets and Liabilities

The Company's policy is to record transfers of assets and liabilities between Level 1 and Level 2 at their fair values as of the end of each reporting period, consistent with the date of the determination of fair value. Assets are transferred out of Level 1 when they are no longer transacted with sufficient frequency and volume in an active market. During the year ended 30 November 2017, the Company transferred certain debt securities issued by various Governments with a carrying value of £20.4 million (2016: £36.2 million) from Level 1 to Level 2. Conversely, assets are transferred from Level 2 to Level 1 when transaction volume and frequency are indicative of an active market. During the year ended 30 November 2017, there were no transfers of assets from Level 2 to Level 1 (2016: £nil).

Reconciliation of Movements in Level 3 Financial Investments at Fair Value

A reconciliation of the movements during the year of financial assets measured using inputs not based on observable market data is shown below:

	30 November 2017 £'m	30 November 2016 £'m
Fair value at beginning of year (1 December)	224.8	237.1
Additions	–	33.6
Disposals	(211.4)	(53.9)
Total gains and losses recognised in loss for the year	0.5	2.7
Total gains and losses recognised in other comprehensive income	(6.9)	3.3
Foreign exchange movements	(0.5)	2.0
Fair value at end of year (30 November)	**6.5**	**224.8**

Both observable and unobservable inputs may be used to determine the fair values of positions classified in Level 3 in the tables above. As a result, the net unrealised gains and losses on instruments held at 30 November 2016 and 2017 may include changes in fair value that were attributable to both observable (e.g. changes in market interest rates) and unobservable inputs (e.g. changes in unobservable long-dated volatilities).

Transfers of Level 3 Assets and Liabilities

The Company's policy is to transfer assets and liabilities into Level 3 when a significant input cannot be corroborated with market observable data. This may include circumstances in which market activity has dramatically decreased and transparency to underlying inputs cannot be observed, current prices are not available and substantial price variances in quotations among market participants exist. Assets are transferred out of Level 3 when circumstances change such that significant inputs can be corroborated with market observable data. This may be due to a significant increase in market activity for the asset, a specific event, one or more significant input(s) becoming observable, or when a long-term interest rate significant to a valuation becomes short-term and thus observable.

Sensitivity to Changes in Unobservable Inputs

The Company considers unobservable inputs to be those for which market data is not available and that are developed using the best information available to the Company about the assumptions that market participants would use when pricing the asset or liability. Relevant inputs vary depending on the nature of the instrument being measured at fair value. The following is a general description of sensitivities of significant unobservable inputs along with interrelationships between and among the significant unobservable inputs and their impact on the fair value measurements. The effect of a change in a particular assumption in the sensitivity analysis below is considered independently of changes in any other assumptions. In practice, simultaneous changes in assumptions may not always have a linear effect on the inputs discussed below. Inter-relationships may also exist between observable and unobservable inputs. Such relationships have not been included in the discussion below. For each of the individual relationships described below, the inverse relationship would also generally apply.

RMBS

The significant unobservable inputs used in fair value measurements of RMBS valued by third party valuation service providers are constant prepayment rates ("CPR"), constant default rates ("CDR"), loss severity and yield. A change in the assumptions used for the probability of default will generally be accompanied by a corresponding change in the assumption used for the loss severity and an inverse change in the assumption used for prepayment rates. In general, increases in yield, CPR, CDR, and loss severity, in isolation, would result in a decrease in the fair value measurement. Changes in fair value based on variations in assumptions generally cannot be extrapolated because the relationship between the directional change of each input is not usually linear.

9. EXCHANGE RATES

The Company's overseas branches during the year were located within the European continent. Branch operations and associated cash flows of European overseas branches have been translated into pounds sterling at the average rate for the year and their assets and liabilities at the closing rate for the year. The euro, Swiss franc and US dollar functional currency branch operations were converted at the rates set out below:

	2017	2016
EUR		
Average rate (€1 equals)	£0.873	£0.806
Closing rate (€1 equals)	£0.880	£0.847
CHF		
Average rate (CHF 1 equals)	£0.791	£0.739
Closing rate (CHF 1 equals)	£0.751	£0.786
USD		
Average rate (USD 1 equals)	£0.780	£0.726
Closing rate (USD 1 equals)	£0.740	£0.799

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2017 (continued)

10. NET EARNED INSURANCE PREMIUM REVENUE

	2017 £'m	2016 £'m
Premium revenue from insurance contracts issued:		
Gross written premium in period	5,295.5	4,898.8
Change in unearned premium provision	19.6	47.7
Insurance premium revenue	**5,315.1**	**4,946.5**
Premium revenue ceded to reinsurers on insurance contracts issued:		
Premium ceded to reinsurers in period	(1,375.8)	(1,237.5)
Change in unearned premium provision	(35.2)	11.8
Insurance premium ceded to reinsurers	**(1,411.0)**	**(1,225.7)**
Net earned insurance premium revenue	**3,904.1**	**3,720.8**

Gross written premiums and premium ceded to reinsurers transferred in on the acquisition of the branches during the years ended 30 November 2017 and 30 November 2016 represents the balance of outstanding unearned premiums written and ceded by those branches at the date of their acquisition by the Company.

Net premium written, being gross written premium for the year less premium ceded to reinsurers in the year, was £3,919.7 million (2016: £3,661.3 million).

11. NET INVESTMENT INCOME

	2017 £'m	2016 £'m
Interest income from debt securities:		
Available-for-sale financial assets	225.1	268.5
Interest income:		
From loans and receivables	13.1	11.2
From cash and cash equivalents	2.3	2.0
Net amortisation of premium on purchase of financial assets	(55.6)	(43.7)
Impairment charge for the year (Note 17)	(0.1)	(6.1)
Dividend income (Note 38)	0.4	0.3
Investment management expenses	(16.9)	(15.4)
	168.3	**216.8**

12. NET REALISED GAINS ON FINANCIAL ASSETS

	2017 £'m	2016 £'m
Net realised gains on financial assets – available for sale:		
Debt securities	59.0	84.8
	59.0	**84.8**

13. OTHER INCOME

	2017 £'m	2016 £'m
Reinsurance commissions receivable	170.5	163.7
Change in deferred reinsurance commissions	(15.9)	0.2
Rental income from property	1.0	0.7
Net realised gain/(loss) on sale of property, plant and equipment	(0.3)	–
Policy fee income	29.3	7.2
	184.6	**171.8**

14. NET INSURANCE CLAIMS

	2017 Gross £'m	2017 Reinsurance £'m	2017 Net £'m
Gross claims paid and reinsurance recoveries receivable	3,419.7	(890.6)	2,529.1
Movement in claims provision	945.9	(254.7)	691.2
	4,365.6	**(1,145.3)**	**3,220.3**

	2016 Gross £'m	2016 Reinsurance £'m	2016 Net £'m
Gross claims paid and reinsurance recoveries receivable	3,219.9	(899.1)	2,320.8
Movement in claims provision	655.4	(56.2)	599.2
	3,875.3	**(955.3)**	**2,920.0**

An analysis of the movement in claims provisions is provided in Note 29.

15. NET OPERATING EXPENSES

	2017 £'m	2016 £'m
Acquisition costs	777.3	732.7
Change in deferred acquisition costs	(26.8)	(14.4)
Administrative expenses	687.2	693.2
Net foreign exchange losses	89.6	33.8
	1,527.3	**1,445.3**

Net operating expenses include £126.7 million (2016: £163.1 million) charged to the Company by related parties. Refer to Note 38 for an analysis of these amounts. Finance costs of £1.9 million (2016: £1.9 million) were incurred during the year on subordinated debt. Refer to Note 30 for these borrowings.

16. INCOME TAX EXPENSE

A) Tax (Credit)/Charge to the Loss for the Year

i) Analysis of the tax (credit)/charge for the year

The income tax expense for the year is further analysed as follows:

	2017 £'m	2016 £'m
Current tax:		
For the current year	38.2	(15.2)
Adjustments in respect of previous years	3.0	(6.0)
Total current tax	41.2	(21.2)
Deferred tax:		
Effect of taxation treatment of technical reserves	(37.1)	(27.1)
Capital allowances lower than depreciation	1.2	8.8
Net operating losses	(74.5)	5.2
Effect of taxation treatment for pension	1.2	1.1
Effect of changes in tax rate	1.5	4.1
Deferred acquisition costs	(5.8)	(35.1)
Share-based payments	(3.4)	(1.7)
Other	(1.7)	(12.3)
Adjustments in respect of previous years	(4.8)	20.7
Derecognition of deferred tax attributes	76.5	78.6
Total deferred tax (credit)/charge	(46.9)	42.3
Income tax expense for the year	**(5.7)**	**21.1**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2017 (continued)

The income tax expense for the year is further analysed as follows:

	2017 £'m	2016 £'m
UK tax	(58.7)	(30.0)
Overseas tax	53.0	51.1
Total (credit)/charge	**(5.7)**	**21.1**

ii) Analysis of the Factors Affecting the Tax (Credit)/Charge for the Year

The tax assessed for the year is higher than the standard rate of corporation tax for the UK. The differences are explained below:

	2017 £'m	2016 £'m
Loss on ordinary activities before tax	**(431.5)**	**(171.1)**
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.33% (2016: 20.00%)	(83.4)	(34.2)
Effects of:		
Other discrete items	2.0	(0.4)
Permanent differences	6.1	(1.9)
Adjustments to taxation charge in respect of previous years	3.0	(26.7)
Effect of tax rate differences	(5.1)	(14.9)
Adjustment for prior year deferred tax balances	(4.8)	20.7
Deferred tax attributes not recognised	76.5	78.5
Tax (credit)/charge for the year	**(5.7)**	**21.1**

The Finance Act 2016 (enacted on 15 September 2016) reduces the UK tax rate to 17% from 1 April 2020.

B) Tax (Credit)/Charge to Other Comprehensive Income

	2017 £'m	2016 £'m
Current tax:		
Items that may be reclassified subsequently to profit and loss		
In respect of fair value movements on financial assets	(16.5)	16.3
In respect of translation of overseas branches	(0.2)	7.1
Total current tax	**(16.7)**	**23.4**
Deferred tax:		
Items that may be reclassified subsequently to profit and loss		
In respect of fair value movements on financial assets	(24.0)	(1.0)
Items that will not be reclassified subsequently to profit and loss		
In respect of pensions	6.1	(5.7)
Total deferred tax	**(17.9)**	**(6.7)**
Tax (credit)/charge to other comprehensive income	**(34.6)**	**16.7**

17. LOSS FOR THE YEAR

	2017 £'m	2016 £'m
Loss for the year is stated after charging:		
Amortisation of intangible assets (Note 18)	8.6	10.7
Depreciation charge for the year (Note 20)	9.5	14.4
Impairment charges for the year (Note 11)	0.1	6.1
Operating leases	19.4	23.6

Impairment charges for the year comprise an impairment of £0.1 million (2016: £6.1 million) on debt securities (Note 11).

Auditors' Remuneration

Remuneration paid to the Company's auditors, PricewaterhouseCoopers LLP, included within net operating expenses, is set out below:

	2017 £'m	2016 £'m
Fees paid to the Companys' Auditors and their associates for the audit of the Financial Statements	1.9	2.2
Fees paid to the Companys' Auditors and their associates for other services:		
The audit of Companys' subsidiaries	0.2	0.2
Audit related assurance services	0.8	0.4
Other assurance services	0.3	0.4
Tax compliance services	–	0.1
	3.2	**3.3**

The US AIG entity pays for some non-audit services for which AEL is the primary beneficiary. The amounts incurred during the financial year 2017 are not material to the Financial Statements; however for 2018 financial year these non-audit services will shift to be paid and settled in the UK and AEL will continue to be the primary beneficiary.

Employee Costs

The table below sets out the staff costs incurred directly by AIG Europe Limited.

	2017 £'m	2016 £'m
Wages and salaries	284.3	292.3
Social security costs	36.5	39.8
Post retirement benefits:		
Defined benefit schemes	6.3	5.8
Defined contribution schemes	19.1	20.0
Termination benefits	52.2	7.4
	398.4	**365.3**

The average number of persons employed directly by the Company (including directors) during the year were:

	2017 Number	2016 Number
Europe	**4,543**	**5,245**

Directors' Emoluments

	2017 £'m	2016 £'m
Aggregate emoluments	4.7	9.7
Aggregate value of contributions in respect of money purchase pension scheme	0.1	0.1
Highest paid director:		
Emoluments of the highest paid director	1.3	2.5
Contributions to money purchase pension scheme of the highest paid director	–	–

For both years presented, no directors were members of the defined benefits pension scheme operated by the Company. Amounts paid in the year to directors in respect of long-term incentive schemes for qualifying service was £1.1 million (2016: £1.9 million).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2017 (continued)

18. INTANGIBLE ASSETS

	Software development £'m	Acquired brands and other £'m	Total £'m
Cost			
Balance at 1 December 2015	40.0	19.4	**59.4**
Additions	7.1	4.2	**11.3**
Disposals	(0.6)	(0.6)	**(1.2)**
Fair value adjustment/(impairment)	–	(5.6)	**(5.6)**
Foreign exchange movements	2.3	3.8	**6.1**
Balance at 30 November 2016	**48.8**	**21.2**	**70.0**
Additions	0.4	2.1	**2.5**
Foreign exchange movements	0.5	0.7	**1.2**
Balance at 30 November 2017	**49.7**	**24.0**	**73.7**
Amortisation and impairment			
Balance at 1 December 2015	15.9	13.7	**29.6**
Amortisation charge for the year	9.6	1.1	**10.7**
Disposals	(0.7)	–	**(0.7)**
Foreign exchange movements	1.7	3.0	**4.7**
Balance at 30 November 2016	**26.5**	**17.8**	**44.3**
Amortisation charge for the year	7.1	1.5	**8.6**
Foreign exchange movements	0.4	0.7	**1.1**
Balance at 30 November 2017	**34.0**	**20.0**	**54.0**
Carrying amount			
At 30 November 2017	15.7	4.0	**19.7**
At 30 November 2016	22.3	3.4	25.7

19. INVESTMENTS IN GROUP UNDERTAKINGS

	30 November 2017 £'m	30 November 2016 £'m
At beginning of year (1 December)	45.6	70.5
Transfers out on group restructuring	–	(1.2)
Fair value adjustment	–	(32.6)
Foreign exchange movements	1.0	8.9
At end of year (30 November)	**46.6**	**45.6**

			Proportion of ownership interest/voting power held by the Company	
Subsidiary	Principal activity	Registered office	2017	2016
AIG Europe (Services) Limited	Administrative Services	The AIG Building, 58 Fenchurch Street, London EC3M 4AB	100.0%	100.0%
AIG Germany Holding GmbH	Non Insurance Holding Company	Karlstrasse 68-72, 74076 Heillbronn, Germany	100.0%	100.0%
AIG Global Reinsurance	Reinsurance Administration	Boulevard de la Plaine 11, 1050 Ixelles, Brussells, Belgium	100.0%	100.0%
Hansa GmbH	Property Management	Karlstrasse 68-72, 74076 Heillbronn, Germany	100.0%	100.0%
Hansa Grundstuckverwaltungs GmbH & Co KG	Real Estate Company	Karlstrasse 68-72, 74076 Heillbronn, Germany	94.5%	94.5%

The Company's indirect subsidiaries are Wynona 1837 GmbH, AIG Medical Management Services, AIG Receivables Management and AIG Trade Finance Limited.

In the prior financial year, the fair value adjustment was a result of an impairment of the AIG Germany Holdings GmbH subsidiary following an impairment review using the discounted cash flow model.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2017 (continued)

20. PROPERTY AND EQUIPMENT

	Land and buildings £'m	Leasehold improvements and fixtures & fittings £'m	Total £'m
Cost or valuation			
Balance at 1 December 2015	113.0	74.2	**187.2**
Additions	–	18.8	**18.8**
Disposals	(1.8)	(2.2)	**(4.0)**
Foreign exchange movements	1.4	11.0	**12.4**
Balance at 30 November 2016	**112.6**	**101.8**	**214.4**
Additions	–	6.8	**6.8**
Disposals	–	(2.4)	**(2.4)**
Movements in fair value	–	(0.2)	**(0.2)**
Foreign exchange movements	0.2	2.4	**2.6**
Balance at 30 November 2017	**112.8**	**108.4**	**221.2**
Accumulated depreciation and impairment			
Balance at 1 December 2015	3.0	47.9	**50.9**
Charge for the year	2.9	11.5	**14.4**
Disposals	(0.1)	(1.2)	**(1.3)**
Foreign exchange movements	0.3	8.5	**8.8**
Balance at 30 November 2016	**6.1**	**66.7**	**72.8**
Charge for the year	2.8	6.7	**9.5**
Disposals	0.2	–	**0.2**
Foreign exchange movements	–	1.9	**1.9**
Balance at 30 November 2017	**9.1**	**75.3**	**84.4**
Carrying amount			
At 30 November 2017	**103.7**	**33.1**	**136.8**
At 30 November 2016	**106.5**	**35.1**	**141.6**

The Company's property portfolio is located in the United Kingdom, Greece and Cyprus. The Group's land and buildings are stated at their revalued amounts, representing the fair value at the date of revaluation, less any subsequent depreciation and accumulated impairment losses.

In the prior year, the owner occupied office in the Netherlands was sold for £1.9 million resulting in a gain of £0.2 million. An independent valuation, in accordance with IAS 16, was performed in 2015 of all properties by qualified external valuers.

Under the revaluation model applied, the portfolio is regularly reviewed so that the carrying value of the assets do not differ materially from the fair value.

Cost Model

The carrying amount of land and buildings that would have been recognised in the Statement of Financial Position under the cost model at 30 November 2017 was £80.2 million (30 November 2016: £83.5 million).

The Company's land and buildings are stated at their revalued amounts, representing the fair value at the date of revaluation, less any subsequent depreciation and accumulated impairment losses. The Company's land and buildings across the regions were last valued as follows:

Country	Valuation Date	Valuation Company
Cyprus	30/11/2015	Cleon Lacovides & Associates Ltd
Greece	20/05/2015	Axies SA
UK (Croydon)	18/05/2015	CBRE Limited
UK (London)	20/05/2015	CBRE Limited

The valuation methods utilised include the comparable method which compares the subject asset with similar assets for which information is available, and the hard core traditional method, which measures the value of property by an estimate of current market rental value plus any capital costs for fittings. The valuations have been adjusted by taking consideration of interest rates and yield curves observable, as well as implied risk and mitigating factors.

Details of the Company's land and buildings and information regarding the fair value hierarchy as at 30 November 2017 are as follows. There were no transfers between Level 1 and Level 2 during the year.

	Level 1 £'m	Level 2 £'m	Level 3 £'m	Fair Value £'m
At 30 November 2017	–	103.7	–	**103.7**
At 30 November 2016	–	106.5	–	**106.5**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2017 (continued)

21. FINANCIAL INVESTMENTS

Analysis of Fair Value

The following is an analysis of the cost/amortised cost, unrealised gains and losses, impairments and fair value of financial investments.

	Amortised cost or cost £'m	Unrealised gains £'m	Unrealised losses and impairments £'m	Total £'m
At 30 November 2017				
Available-for-sale debt securities:				
Government and governmental agencies	4,092.9	154.2	(30.7)	**4,216.4**
Corporate debt	4,932.8	318.8	(28.5)	**5,223.1**
RMBS	–	–	–	**–**
CMBS	52.7	1.6	–	**54.3**
Total debt securities at available-for-sale	**9,078.4**	**474.6**	**(59.2)**	**9,493.8**
Available-for-sale equity instruments:				
Mutual funds	3.5	0.3	–	**3.8**
Total equity securities at available-for-sale	**3.5**	**0.3**	**–**	**3.8**
Loans and receivables:				
Loan participations	516.0	–	–	**516.0**
Total loans and receivables at cost	**516.0**	**–**	**–**	**516.0**
Cost:				
Equity instruments	8.2	–	–	**8.2**
Total cost	**8.2**	**–**	**–**	**8.2**
Total	**9,606.1**	**474.9**	**(59.2)**	**10,021.8**
At 30 November 2016				
Available-for-sale debt securities:				
Government and governmental agencies	3,156.4	127.8	(9.2)	**3,275.0**
Corporate debt	5,391.7	273.7	(18.0)	**5,647.4**
RMBS	248.7	9.6	(3.9)	**254.4**
CMBS	59.8	0.9	–	**60.7**
Total debt securities at available-for-sale	**8,856.6**	**412.0**	**(31.1)**	**9,237.5**
Available-for-sale equity instruments:				
Mutual funds	3.4	0.2	–	**3.6**
Total equity securities at available-for-sale	**3.4**	**0.2**	**–**	**3.6**
Loans and receivables:				
Loan participations	401.6	–	–	**401.6**
Total loans and receivables at cost	**401.6**	**–**	**–**	**401.6**
Cost:				
Equity instruments	9.2	–	–	**9.2**
Total cost	**9.2**	**–**	**–**	**9.2**
Total	**9,270.8**	**412.2**	**(31.1)**	**9,651.9**

Included in the analysis of fair value of financial investments are tied assets required for regulatory purposes as restricted assets against insurance liabilities. The debt securities pledged as restricted assets are held in separate custodian accounts; however, as substantially all of the risks and rewards of ownership of these investments have been retained by the Company, the investments have not been derecognised. The total amount of debt securities pledged at 30 November 2017 was £577.5 million (2016: £578.1 million).

Impairment of Financial Investments – Evaluating Investments for Impairment

Fixed Maturity Securities

The evaluation of impairment of fixed maturity securities is a two-step process. First, AIG performs an impairment review of the debt security on an instrument-by-instrument basis at each Statement of Financial Position date. The aim of this review is to determine whether there is objective evidence that impairment exists for a fixed maturity security. Secondly, if there is objective evidence of impairment, AIG measures and records the impairment loss in that reporting year. A fixed maturity security is impaired and impairment losses are recognised at the Statement of Financial Position date only if there is objective evidence of impairment as a result of a past event that occurred subsequent to the initial recognition of the asset.

It may not always be possible to identify a single, discrete event that causes an impairment. Rather, the combined effect of several events may cause an impairment. The loss event must have a reliably measurable effect on the present value of estimated future cash flows and be supported by current observable data. Losses expected as a result of future events (as opposed to past events), no matter how likely, are not recognised. That is, the impairment model for fixed maturity income securities is based on the "incurred loss" model and not on an "expected loss" model.

Objective evidence includes observable data that comes to AIG's attention as the holder of the security. Indicators that a fixed maturity security is impaired include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- A lender, for economic or legal reasons relating to the issuer's financial difficulty, granting to the issuer a concession that the lender would not otherwise consider;
- It becoming probable that the issuer will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that security because of financial difficulties;
- Changes in the issuer's financial environment evidenced by changes in factors such as liquidity;
- Worsening credit rating, profitability, cash flow, debt/equity ratio and level of dividend payment;
- Length of time fair value has been below cost; and
- Subsequent sales of similar securities at a loss.

The disappearance of an active market or the downgrade of an entity's credit rating is not in itself evidence of impairment, although it may be evidence of impairment when considered with other information.

For available for sale fixed maturity securities, if there is objective evidence that an impairment loss on the security has been incurred and a decline in the fair value of an AFS security has been recognised in OCI, the cumulative loss that has been recognised in OCI is be reclassified to profit or loss (i.e. realised capital gains and losses). The cumulative loss is the difference between the amortised cost and the current fair value of the security, less any impairment loss on the security previously recognised in profit or loss (i.e. realised capital gains and losses).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2017 (continued)

22. REINSURANCE ASSETS

In the ordinary course of business, the Company places reinsurance with affiliated and unaffiliated reinsurance and insurance companies in order to manage exposures by limiting its maximum net loss arising from large risks or catastrophic events.

A variety of traditional reinsurance products are used in connection with the Company's risk management strategy. These products include excess of loss treaties which are designed to limit exposure to potentially substantial losses, and quota share treaties which cover specific lines of business. Facultative reinsurance is also used to manage large policy specific individual risk exposures. The Company utilises catastrophe reinsurance treaties to manage its exposure to losses resulting from natural catastrophes and other events which may result in significant losses.

Ceded premiums for prospective reinsurance contracts are considered prepaid insurance premiums and are recognised as a reduction of premiums earned over the contract period, which approximates the period of risk over which insurance protection is provided, in proportion to the coverage received. Amounts recoverable from reinsurers are estimated in a manner consistent with the loss reserves associated with the reinsurance and presented as a component of reinsurance assets.

	30 November 2017 £'m	30 November 2016 £'m
Reinsurers' share of provisions for claims	2,279.1	2,077.4
Reinsurers' share of unearned premiums	532.0	585.5
Total reinsurance assets	**2,811.1**	**2,662.9**
Amounts to be settled within one year	1,025.9	1,017.9
Amounts to be settled after one year	1,785.2	1,645.0
	2,811.1	**2,662.9**

An analysis of movements in reinsurance assets is included in Note 29.

23. DEFERRED ACQUISITION COSTS

	30 November 2017 £'m	30 November 2016 £'m
Carrying amount at beginning of year (1 December)	288.6	247.8
Net movement in the year	26.8	14.4
Foreign exchange movements	(9.9)	26.4
Carrying amount at end of year (30 November)	**305.5**	**288.6**
Amounts to be settled within one year	225.6	285.8
Amounts to be settled after one year	79.9	2.8
	305.5	**288.6**

There were no impairments of deferred acquisition costs for the years ended 30 November 2016 and 2017.

24. OTHER RECEIVABLES, INCLUDING INSURANCE RECEIVABLES

	30 November 2017 £'m	30 November 2016 £'m
Receivables arising out of direct insurance operations:		
Due from intermediaries	647.7	1,221.8
Due from policyholders	632.7	116.0
Due from related parties	12.7	25.7
	1,293.1	**1,363.5**
Receivables arising out of reinsurance operations	222.6	216.9
Other receivables:		
Accrued interest and rent	89.3	103.0
Prepayments	10.2	11.7
Pension asset (Note 31)	31.0	21.0
Other receivables	327.5	316.8
	1,973.7	**2,032.9**
Amounts to be settled within one year	1,971.0	2,011.8
Amounts to be settled after one year	2.7	21.1
	1,973.7	**2,032.9**

The fair value of other receivables, including insurance receivables, does not differ materially from their amortised cost. There is no concentration of credit risk with respect to other receivables, including insurance receivables, as the Company has a large number of dispersed debtors.

25. CASH AND CASH EQUIVALENTS

	30 November 2017 £'m	30 November 2016 £'m
Cash at bank and in hand	329.3	210.0
Short-term deposits	116.3	80.2
	445.6	**290.2**

The effective interest rate on short-term deposits with credit institutions was 0.97% (2016: 0.6%) and has an average maturity of 6.4 days (2016: 16.2 days).

For the purposes of presenting the Statement of Cash Flows, Cash and Cash Equivalents comprise the following:

	30 November 2017 £'m	30 November 2016 £'m
Cash and cash equivalents, as above	445.6	290.2
Less: bank overdrafts (Note 30)	(0.4)	–
	445.2	**290.2**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2017 (continued)

26. SHARE CAPITAL AND SHARE PREMIUM

Ordinary shares at £1 each	Number	Share Capital £'m	Share Premium £'m
At 1 December 2015	197,118,479	197.1	1,260.3
Shares issued in year	–	–	–
At 30 November 2016	**197,118,479**	**197.1**	**1,260.3**
Shares issued in year	200	–	200.0
At 30 November 2017	**197,118,679**	**197.1**	**1,460.3**

27. OTHER RESERVES

	Currency Translation Reserve £'m	AFS Fair Value Reserve £'m	Other Reserves £'m	Total Other Reserves £'m
At 1 December 2015	**(234.7)**	**177.2**	**16.0**	**(41.5)**
Fair value gains and losses	–	(67.3)	–	**(67.3)**
Foreign exchange movements	394.2	–	–	**394.2**
Impairment transferred to Statement of Profit or Loss	–	6.1	–	**6.1**
At 30 November 2016	**159.5**	**116.0**	**16.0**	**291.5**
Fair value gains and losses	–	(38.3)	–	**(38.3)**
Foreign exchange movements	36.0	–	–	**36.0**
Impairment transferred to Statement of Profit or Loss	–	0.1	–	**0.1**
At 30 November 2017	**195.5**	**77.8**	**16.0**	**289.3**

28. RETAINED EARNINGS

	Retained Earnings £'m
At 1 December 2015	**1,795.2**
Loss for the year	(192.2)
Capital contribution from group undertakings	5.2
Other comprehensive income	1.9
Equity-settled share-based payment schemes	13.0
At 30 November 2016	**1,623.1**
Loss for the year	(425.8)
Other comprehensive income	4.1
Equity-settled share-based payment schemes	15.8
At 30 November 2017	**1,217.2**

During 2017, dividends of £nil (2016: £nil) per ordinary share amounting to £nil (2016: £nil), were declared and paid by the Board of Directors.

29. INSURANCE LIABILITIES

	30 November 2017 £'m	30 November 2016 £'m
Gross		
Claims reported	4,821.1	4,470.9
Claims incurred but not reported (IBNR)	4,266.6	3,666.6
Loss adjustment expenses	264.3	293.9
Unearned premiums	2,114.1	2,119.0
Total insurance liabilities gross	**11,466.1**	**10,550.4**
Recoverable from reinsurers		
Claims reported	(1,329.6)	(1,295.9)
Claims incurred but not reported (IBNR)	(904.1)	(706.1)
Loss adjustment expenses	(45.4)	(75.4)
Unearned premiums	(532.0)	(585.5)
Total insurance liabilities recoverable from reinsurers	**(2,811.1)**	**(2,662.9)**
Net		
Claims reported	3,491.5	3,175.0
Claims incurred but not reported (IBNR)	3,362.5	2,960.5
Loss adjustment expenses	218.9	218.5
Unearned premiums	1,582.1	1,533.5
Total insurance liabilities, net	**8,655.0**	**7,887.5**

Included within Claims Incurred But Not Reported ("IBNR") above is £231.9 million (2016: £228.4 million) of unallocated loss adjustment expenses.

The Company establishes claim reserves, which are estimates of future payments of reported and unreported claims and claim adjustment expenses, with respect to insured events that have occurred. Reserving is a complex process dealing with uncertainty, requiring the use of informed estimates and judgements. Any changes in estimates or judgements are reflected in the results of operations in the year in which estimates and judgements are changed.

Significant delays may occur in the notification and settlement of claims, and a substantial measure of experience and judgement is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty as of the financial position date. The reserves for claims and claims adjustment expenses are determined on the basis of information currently available; however, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments.

Outstanding claims provisions based on undiscounted estimates of future claims payments totalling £241.9 million (2016: £253.3 million) are subject to discounting under AIG policy. Discount rates of 3.5% (2016: 3.5%) (Periodical Payment Orders) and 1.6% (2016: 1.6%) (Future Policy Benefits) were applied in 2017 resulting in discounted reserves of £113.0 million (2016: £101.2 million).

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 November 2017 (continued)

Movements in insurance liabilities and reinsurance assets:
Claims liabilities (Claims Reported and Loss Adjustment Expenses)

	Gross £'m	Reinsurance £'m	Net £'m
Notified claims	3,941.5	(1,145.9)	**2,795.6**
Incurred but not reported	2,788.7	(621.3)	**2,167.4**
At 1 December 2015	**6,730.2**	**(1,767.2)**	**4,963.0**
Claims settled in the year	(3,219.8)	899.1	**(2,320.7)**
Increase/(decrease) in liabilities			
Arising from current year claims	3,809.8	(1,097.0)	**2,712.8**
Arising from prior year claims	(136.6)	113.6	**(23.0)**
Foreign exchange movements	1,247.8	(225.9)	**1,021.9**
At 30 November 2016	**8,431.4**	**(2,077.4)**	**6,354.0**
Comprising:			
Reported claims	4,764.8	(1,371.3)	**3,393.5**
Incurred but not reported	3,666.6	(706.1)	**2,960.5**
At 1 December 2016	**8,431.4**	**(2,077.4)**	**6,354.0**
Claims settled in the year	(3,419.7)	890.6	**(2,529.1)**
Increase/(decrease) in liabilities			
Arising from current year claims	3,779.3	(988.7)	**2,790.6**
Arising from prior year claims	586.3	(156.6)	**429.7**
Foreign exchange movements	(25.3)	53.0	**27.7**
At 30 November 2017	**9,352.0**	**(2,279.1)**	**7,072.9**
Comprising:			
Reported claims	5,085.4	(1,375.0)	**3,710.4**
Incurred but not reported	4,266.6	(904.1)	**3,362.5**
At 30 November 2017	**9,352.0**	**(2,279.1)**	**7,072.9**

Loss Development Tables

The loss development tables presented below show the cumulative provisions for insurance claims, whether reported or not, and related loss adjustment expenses arising for each accident year from 2008 onwards. The historical net insurance claims provision for all outstanding claims arising for accident years prior to 2008 are shown cumulatively as one figure in the right hand column. All amounts shown in the tables have been stated at constant exchange rates based on the rates prevailing at 30 November 2017.

The top half of each table shows the estimated ultimate insurance claims losses and related loss adjustment expenses for each accident year presented as at the end of each reporting year. Movements in these provisions arise as additional information becomes available upon which more accurate estimates of the ultimate insurance claims losses can be made.

The lower half of each table shows the cumulative amounts paid against those claims provisions at the end of each reporting year.

Insurance Claims – Gross

Accident year	2008 £'m	2009 £'m	2010 £'m	2011 £'m	2012 £'m	2013 £'m	2014 £'m	2015 £'m	2016 £'m	2017 £'m	Total £'m
Estimate of ultimate claims costs											
At end of accident year	1,607.4	1,747.2	1,466.0	1,851.6	2,125.7	6,529.4	3,312.2	3,084.1	3,604.7	3,731.7	
One year later	1,661.9	2,121.8	1,670.3	1,689.7	1,880.0	6,273.9	3,100.2	3,136.9	3,887.4		
Two years later	1,658.5	2,172.4	1,639.6	1,485.0	1,737.1	6,244.8	3,108.0	3,158.3			
Three years later	1,672.2	1,971.8	1,573.2	1,490.8	1,718.3	6,314.9	3,079.6				
Four years later	1,640.3	1,944.5	1,545.5	1,465.4	1,733.3	6,396.7					
Five years later	1,628.5	1,927.2	1,530.2	1,498.0	1,764.2						
Six years later	1,597.0	1,909.1	1,506.9	1,515.0							
Seven years later	1,583.5	1,906.0	1,522.5								
Eight years later	1,575.6	1,920.7									
Nine years later	1,571.0										
Cumulative claims payments											
At end of accident year	(295.6)	(310.2)	(366.2)	(349.0)	(397.3)	(1,613.2)	(567.9)	(656.5)	(861.3)	(731.9)	
One year later	(756.9)	(732.8)	(912.2)	(875.1)	(849.2)	(2,980.3)	(1,500.9)	(1,522.2)	(2,102.7)		
Two years later	(1,033.0)	(1,004.4)	(1,162.7)	(1,066.9)	(1,090.5)	(3,804.1)	(2,020.2)	(1,983.3)			
Three years later	(1,192.9)	(1,252.4)	(1,284.1)	(1,220.4)	(1,263.0)	(4,378.9)	(2,251.1)				
Four years later	(1,349.4)	(1,376.4)	(1,368.2)	(1,290.5)	(1,405.0)	(4,807.8)					
Five years later	(1,427.7)	(1,485.2)	(1,424.7)	(1,355.1)	(1,484.3)						
Six years later	(1,470.3)	(1,704.4)	(1,431.0)	(1,402.3)							
Seven years later	(1,488.3)	(1,721.1)	(1,457.0)								
Eight years later	(1,508.6)	(1,754.5)									
Nine years later	(1,514.1)										
Current estimate of cumulative claims	1,571.0	1,920.7	1,522.5	1,515.0	1,764.2	6,396.7	3,079.6	3,158.3	3,887.4	3,731.7	**28,547.1**
Cumulative payments to date	(1,514.1)	(1,754.5)	(1,457.0)	(1,402.3)	(1,484.3)	(4,807.8)	(2,251.1)	(1,983.3)	(2,102.7)	(731.9)	**(19,489.0)**
Claims liability outstanding	**56.9**	**166.2**	**65.5**	**112.7**	**279.9**	**1,588.9**	**828.5**	**1,175.0**	**1,784.7**	**2,999.8**	**9,058.1**
Claims liability for prior years											**293.9**
Total liability included in Statement of Financial Position											**9,352.0**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2017 (continued)

Insurance Claims – Net of Reinsurance

Accident year	2008 £'m	2009 £'m	2010 £'m	2011 £'m	2012 £'m	2013 £'m	2014 £'m	2015 £'m	2016 £'m	2017 £'m	Total £'m
Estimate of ultimate claims costs											
At end of accident year	719.4	870.5	853.7	867.5	1,034.4	4,642.5	2,294.4	2,435.9	2,613.7	2,750.0	
One year later	711.4	923.6	883.3	835.4	922.0	4,545.4	2,195.9	2,507.4	2,783.0		
Two years later	734.3	983.6	867.6	744.7	931.1	4,556.2	2,266.2	2,541.3			
Three years later	731.3	967.3	838.3	769.5	913.3	4,616.2	2,259.5				
Four years later	723.6	949.7	822.7	765.0	928.3	4,684.6					
Five years later	726.9	954.2	820.0	794.4	935.6						
Six years later	713.7	959.3	821.1	804.9							
Seven years later	708.7	966.6	836.4								
Eight years later	709.7	983.0									
Nine years later	704.1										
Cumulative claims payments											
At end of accident year	(119.5)	(166.6)	(204.2)	(163.2)	(217.1)	(1,117.5)	(447.0)	(541.9)	(588.5)	(585.4)	
One year later	(291.4)	(371.2)	(420.8)	(351.8)	(461.1)	(2,096.2)	(1,102.3)	(1,218.2)	(1,424.5)		
Two years later	(413.9)	(522.7)	(545.9)	(468.4)	(596.0)	(2,690.3)	(1,452.6)	(1,603.8)			
Three years later	(490.8)	(643.8)	(632.1)	(571.1)	(694.6)	(3,126.2)	(1,626.0)				
Four years later	(570.7)	(723.7)	(696.8)	(620.4)	(763.4)	(3,441.9)					
Five years later	(615.2)	(768.2)	(739.5)	(672.3)	(801.9)						
Six years later	(641.7)	(814.6)	(759.0)	(712.9)							
Seven years later	(655.7)	(843.3)	(781.0)								
Eight years later	(668.7)	(870.8)									
Nine years later	(673.0)										
Current estimate of cumulative claims	704.1	983.0	836.4	804.9	935.6	4,684.6	2,259.5	2,541.3	2,783.0	2,750.0	**19,282.4**
Cumulative payments to date	(673.0)	(870.8)	(781.0)	(712.9)	(801.9)	(3,441.9)	(1,626.0)	(1,603.8)	(1,424.5)	(585.4)	**(12,521.2)**
Claims liability outstanding	**31.1**	**112.2**	**55.4**	**92.0**	**133.7**	**1,242.7**	**633.5**	**937.5**	**1,358.5**	**2,164.6**	**6,761.2**
Claims liability for prior years											**311.7**
Total liability included in Statement of Financial Position											**7,072.9**

The large increase in the gross and net ultimate claims cost in 2013 pertains to the merger of the Chartis Europe SA businesses into the Company which occurred at 1 December 2012. During 2014, the merger of the Chartis Excess business into the Company which occurred in 2014 had less of an impact given this business is much smaller. There was a general reduction in gross ultimates during 2014 largely driven by refinements to the gross-to-reinsurance view of the ultimates which largely impacted the gross results. This is shown mostly in 2013 as the prior year reductions for the Continental European business are reflected in this year. There were general reductions to the ultimate in the 2015 valuation year following favourable experience in Excess Casualty and less than expected severe and Cat loss activity in the year.

Ultimates have strengthened during the 2016 valuation year as a result of emerging severity trends across historical accident years in Financial Lines, the change in the Ogden discount rate and the emergence of a number of large actual and potential Excess Casualty losses. In the 2017 valuation year, reserves have increased as a result of further adverse Excess Casualty large loss experience, as well as adverse experience in UK Financial Lines.

Movements in Insurance Liabilities and Reinsurance Assets:

Unearned premiums

	Gross £'m	Reinsurance £'m	Net £'m
At 1 December 2015	**1,958.8**	**(522.5)**	**1,436.3**
Premiums written during the year (Note 10)	4,898.8	(1,237.5)	**3,661.3**
Less: premiums earned during the year (Note 10)	(4,946.5)	1,225.7	**(3,720.8)**
Foreign exchange movements	207.9	(51.2)	**156.7**
At 30 November 2016	**2,119.0**	**(585.5)**	**1,533.5**
Premiums written during the year (Note 10)	5,295.5	(1,375.8)	**3,919.7**
Less: premiums earned during the year (Note 10)	(5,315.2)	1,411.0	**(3,904.2)**
Foreign exchange movements	14.8	18.3	**33.1**
At 30 November 2017	**2,114.1**	**(532.0)**	**1,582.1**

30. BORROWINGS

Borrowings consist of subordinated loans and bank overdrafts.

	30 November 2017 £'m	30 November 2016 £'m
Subordinated loans	50.0	50.0
Bank overdrafts (Note 25)	0.4	–
	50.4	**50.0**

The subordinated loan was entered into on 17 August 2012, with an agreement whereby AIG International Holdings GmbH (the Lender), a related party of the Company, would provide a loan facility with an initial maximum amount of £50.0 million. The Company is required to repay all amounts advanced under the facility, at par, on 17 August 2019 unless either the Company or the Lender exercises their option to seek early repayment at any time on or after 17 August 2017. Any early repayment by the Company is subject to providing the PRA with six months prior notice and gaining regulatory approval for such repayment. Interest is payable on any amounts drawn down under the facility at the rate of 6 month LIBOR plus 3%. The estimated fair value of the borrowings at 30 November 2017 is £50 million (2016: £50 million) which does not differ materially from its carrying amount at that date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2017 (continued)

31. PENSION OBLIGATIONS

The Company operates a number of pension plans for its employees, the most significant of which are defined benefit plans for employees based in the United Kingdom, Germany, the Netherlands and Ireland. The Company also operates various defined benefit pension and post-retirement benefit plans in other countries and defined contribution plans which provide benefits equal to the amounts contributed by both the employer and employee plus investment returns.

For all pension plans disclosed, the scheme assets cannot be allocated on a consistent and reasonable basis to individual participating member companies. However, it has been determined that the Company is most likely to benefit or suffer from any surplus or deficit in each plan as a whole. In accordance with IAS 19, '*Employee Benefits*', the Company has taken the decision that it is reasonable to allocate the entire deficit to the Company.

The net deficit in the pension plans is presented in the Statement of Financial Position as follows:

	30 November 2017 £'m	30 November 2016 £'m
Pension Liability	(70.2)	(70.5)
Pension Asset (included in receivables – see Note 24)	31.0	21.0
Net Deficit in the Schemes	**(39.2)**	**(49.5)**

The net deficit is analysed by plan as follows:

Closing Value	30 November 2017 £'m	30 November 2016 £'m
UK Plan	30.8	20.8
Germany Plan	(37.8)	(35.8)
Netherlands Plan	(13.3)	(13.6)
Ireland Plan	(3.3)	(4.9)
All Other Plans	(15.6)	(16.0)
Net Deficit in the Schemes	**(39.2)**	**(49.5)**

United Kingdom

The Company operates two pension plans in association with other group companies operating in the UK, a defined benefit plan (The AIG Pension Plan) and a defined contribution plan (The AIG Retirement Savings Plan). New entrants join The AIG Retirement Savings Plan, as the AIG Pension Plan is closed to new employees and future accrual. The pension plans are administered by an external administrator, with trustees comprising representatives of the employer, staff and pensioner members. The assets are held under a self-administered Trust Fund and are separate from the Company's assets.

The AIG Pension Plan (hereafter referred to as "the UK Plan"), is a group plan for UK based employees. The plan closed to future accrual on 31 October 2012. Since that date the service cost payable by the Company has been limited to the administration expenses for the UK Plan only. For the year end 30 November 2017, administration expenses are reported as a separate line item in the pension expense. The Company's contributions to the UK Plan for 2017 and 2016 were 0% of employees' pensionable salaries in respect of future service. The Company paid administration expenses and deficit contributions of £5.3 million (2016: £5.3 million). A link to salary has been maintained for active members of the UK Plan at the closure. All active employees accrue benefits on a defined contribution basis in The AIG Retirement Savings Plan.

The UK Plan provides a pension at retirement based on salary and service. It is governed by Trustees and a Trust Deed and Rules. The Pensions Regulator in the UK sets out additional requirements which Trustees and the Company must comply with including funding requirements and reporting. Fluctuations in interest rates, investment returns and inflation as well as member longevity present risks to the Company in the future.

The last formal funding valuation for the UK Plan was carried out as at 6 April 2016 and showed a surplus of assets over liabilities at that time of £1.8 million. Notwithstanding the fact that the Plan had a surplus the Company agreed to continue to make contributions to the Plan to facilitate de-risking at a rate of £401k each month until 31 March 2018. The Company also makes payments to the Plan of £36.5k each month in respect of administration expenses.

The investment strategy is set by the Trustees in consultation with the Company.

Germany

The Company's Germany branch operates five pension plans for its staff. The most significant is the Heilbronn (Wueba) Pension Plan (hereafter referred to as the 'Germany Plan'). The Germany Plan provides benefits in case of normal or early retirement, disability or death after a ten year service waiting period. The Germany Plan is an unfunded plan.

The Germany Plan provides a pension at retirement based on salary and service. The plan is governed by internal rules. As the plan is unfunded, there are no assets set aside to fund benefits as they fall due. Fluctuations in interest rates and inflation as well as member longevity present risks to the Company in the future.

Netherlands

The Company's Netherlands branch operates two pension plans for its staff. The most significant is the AIG Europe DB Netherlands plan (hereafter referred to as the 'Netherlands Plan').

The accrual of benefits is covered by an insurance contract with Zwitserleven. This insurance contract is a bundled contract which includes administration, insurance and management of assets. The annual contributions are based on the tariff rates (annuity rates) as set out in the contract and one year accrual of the individual members. The pension provision must meet the minimum required provisions as agreed in the Collective Labour Agreement for the Dutch Insurance Industry. If the employer wants to change the scheme provisions it will normally need the consent of the Works Council.

The accrued benefits are insured and Zwitserleven guarantees the pay out of these benefits. The Dutch Central Bank (De Nederlandsche Bank: DNB) sets minimum solvency and liquidity requirements for life insurance companies to fulfil the guarantee. AIG shares in the profit of asset returns that exceed the interest rate used within the tariff rates. Fluctuations in interest rates, investment returns and inflation, as well as member longevity present risks to the Company for future accrual as well as unconditional indexation on accrued benefits. Future salary increases which are attributable to past service years are part of the obligation.

Ireland

The Company's Irish branch operates two pension plans in association with other group companies operating in Ireland, a defined benefit plan, the AIG Ireland Retirement and Death Benefit Plan (hereafter referred to as the 'Ireland Plan'), and a defined contribution plan, the AIG Ireland Retirement Savings Plan. New entrants join the Retirement Savings Plan, as the Ireland Plan is closed to new employees. The pension plans are administered by an external administrator.

The Ireland Plan provides a pension at retirement based on salary and service. It is governed by Trustees and a Trust Deed and Rules. The Pensions Authority in Ireland sets additional requirements which Trustees and the Company must comply with including funding requirements and reporting. Fluctuations in interest rates, investment returns and inflation as well as member longevity present risks to the Company in the future.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2017 (continued)

The following disclosures are presented in accordance with IAS 19(R):

Plan Particulars

The following table provides an analysis of the membership profile and benefit obligation of the main plans:

2017	UK Plan Number of Members	Germany Plan Number of Members	Netherlands Plan Number of Members	Ireland Plan Number of Members
Active members	34	201	137	15
Deferred members	389	138	171	41
Pensioners	291	54	21	10
Total members	**714**	**393**	**329**	**66**

2017	UK Plan £'m	Germany Plan £'m	Netherlands Plan £'m	Ireland Plan £'m
Owed to active members	19.0	18.1	21.9	9.7
Owed to deferred members	73.5	10.4	22.1	16.0
Owed to pensioners	51.3	9.3	10.3	1.7
Defined benefit obligation at 30 November 2017	**143.8**	**37.8**	**54.3**	**27.4**
Plan assets	(174.6)	–	(41.0)	(24.1)
Net Deficit/(Asset) Valuation	**(30.8)**	**37.8**	**13.3**	**3.3**
Duration (years)	**19**	**20**	**23**	**19**

2016	UK Plan Number of Members	Germany Plan Number of Members	Netherlands Plan Number of Members	Ireland Plan Number of Members
Active members	34	247	131	18
Deferred members	389	108	159	40
Pensioners	291	47	24	10
Total members	**714**	**402**	**314**	**68**

2016	UK Plan £'m	Germany Plan £'m	Netherlands Plan £'m	Ireland Plan £'m
Owed to active members	20.0	20.7	22.2	10.8
Owed to deferred members	77.3	8.1	19.2	14.3
Owed to pensioners	47.8	7.0	12.1	1.7
Defined benefit obligation at 30 November 2016	**145.1**	**35.8**	**53.5**	**26.8**
Plan assets	(165.9)	–	(39.9)	(21.9)
Net Deficit/(Asset) Valuation	**(20.8)**	**35.8**	**13.6**	**4.9**
Duration (years)	**19**	**22**	**25**	**20**

Assumptions on Plan Liabilities

For each plan shown, the liabilities have been determined using the projected unit credit method to discount the best estimate of future cash flows to be paid out of the plan. This takes into consideration the accrued benefits at the date of valuation plan and makes an allowance for projected future earnings (where applicable). The calculation of the plan liabilities is dependent upon a number of actuarial assumptions and changes in these assumptions can materially affect the measurement of the pension obligations.

Valuations and Assumptions

The valuations calculated for the purposes of IAS 19 have been based upon the most recent full actuarial valuation, updated in accordance with the requirements of IAS 19 to determine the liabilities of each plan at 30 November 2017. The assets of each plan are stated at their fair values at 30 November 2017.

The main actuarial assumptions that have a material impact on the valuation of the scheme liabilities under IAS 19 are (per annum):

2017	UK Plan %	Germany Plan %	Netherlands Plan %	Ireland Plan %
Pensionable salary increases	2.25%	2.75%	2.25%	2.50%
Pension increases	3.25%	1.50%	1.23%	0.00%
Inflation rate	RPI: 3.25% CPI: 2.25%	1.75%	1.75%	1.75%
Discount rate	2.74%	2.15%	2.25%	2.00%
Mortality assumption	S2PA (95% males, 85% females) light tables CMI projections (2015 model) converging to a long-term rate of 1.5% p.a.	Heubeck 2005G	Prognosetafel AG2016	S2PNA_80M75F with mortality improvements from 2007

2016	UK Plan %	Germany Plan %	Netherlands Plan %	Ireland Plan %
Pensionable salary increases	3.25%	2.75%	2.25%	2.50%
Pension increases	3.25%	1.50%	1.23%	0.00%
Inflation rate	RPI: 3.25% CPI: 2.25%	1.75%	1.75%	1.75%
Discount rate	2.90%	1.98%	2.05%	2.00%
Mortality assumption	S1NA light tables with CMI projections (2011 model) converging to a long-term rate of 1.5% p.a.	Heubeck 2005G	Prognosetafel AG2016	S2PNA_80M75F with mortality improvements from 2007

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2017 (continued)

The following table shows the average life expectancy at 30 November 2017:

Mortality table	Life expectancy/pension duration at age 65 of a male member: Retiring today	Life expectancy/pension duration at age 65 of a male member: Retiring in 25 years	Life expectancy/pension duration at age 65 of a female member: Retiring today	Life expectancy/pension duration at age 65 of a female member: Retiring in 25 years
Year ended 30 November 2017				
UK Plan	24.1	26.8	26.0	28.9
Germany Plan	19.3	22.5	23.3	26.4
Netherlands Plan	21.4	24.3	24.6	27.3
Ireland Plan	23.0	25.0	25.7	27.9
Year ended 30 November 2016				
UK Plan	24.6	27.4	25.9	28.8
Germany Plan	19.1	22.4	23.2	26.3
Netherlands Plan	21.3	24.2	24.4	27.2
Ireland Plan	22.9	24.9	25.7	27.8

Sensitivity to Key Assumptions

The discount rate and mortality are the two assumptions that have the most significant impact on the value of each of the plan's liabilities. In addition, given the size of the UK Plan and Ireland Plan, the sensitivity to the inflation assumption has also been considered. The following table sets out the increase/(decrease) in plan liabilities for movements in these assumptions as at the year end.

£'m	Defined Benefit Obligation	Discount Rate 0.25% increase	Discount Rate 0.25% decrease	Inflation Rate 0.25% increase	Inflation Rate 0.25% decrease	Life Expectancy Age rated down by 1 year
2017						
UK Plan	143.8	137.3	150.6	148.9	138.9	148.1
Germany Plan	37.8	35.9	39.7	38.7	36.8	39.1
Netherlands Plan	54.3	51.3	57.6	57.6	51.3	55.9
Ireland Plan	27.4	26.1	28.7	27.8	26.9	28.1

£'m	Defined Benefit Obligation	Discount Rate 0.25% increase	Discount Rate 0.25% decrease	Inflation Rate 0.25% increase	Inflation Rate 0.25% decrease	Life Expectancy Age rated down by 1 year
2016						
UK Plan	145.1	138.5	152.2	150.4	140.2	149.4
Germany Plan	35.8	33.9	37.7	36.8	34.7	37.3
Netherlands Plan	53.5	50.3	56.9	56.1	51.0	55.1
Ireland Plan	26.8	25.5	28.1	27.3	26.2	27.6

Each sensitivity analysis considers the change in one assumption at a time leaving the other assumptions unchanged. This approach shows the isolated effect of changing one individual assumption but does not take into account that some assumptions are related, except for the inflation assumption which has a knock on impact on pension increases. The method used to carry out the sensitivity analysis is the same as in the prior year.

Pension Expense

The total pension expense for all schemes was:

Analysis of Amounts Charged to Loss for the Year

	2017 £'m	2016 £'m
Current service cost	5.6	5.3
Past service cost	(0.6)	(0.5)
Total pension cost charged to net operating expenses	**5.0**	**4.8**
Interest expense on plan liabilities	6.9	7.7
Interest income on plan assets	(6.2)	(7.1)
Total net interest cost	**0.7**	**0.6**
Administrative expenses and taxes	0.2	0.4
Amortisation of actuarial gains and losses for other long-term benefits	0.4	0.4
Total pension charge to income	**6.3**	**6.2**

For the year end 30 November 2018, expected employer contributions into all the defined benefit pension plans are £4.7 million.

Analysis of Amounts Charged to Other Comprehensive Income

	2017 £'m	2016 £'m
Actual return on those assets	5.6	17.6
Actuarial gains on scheme assets	**5.6**	**17.6**
Experience gains arising on plan liabilities	0.8	9.1
Effect of changes in demographic assumptions	1.6	0.5
Effect of changes in financial assumptions	2.2	(31.0)
Net actuarial gains/(losses)	**10.2**	**(3.8)**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2017 (continued)

Plan assets

The assets of the plans are held separately from those of the Company, 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/Board (as applicable).

The following table provides an analysis of the fair value and composition of the plan assets across all plans.

2017	Quoted Market Value £'m	Non-Quoted Market Value £'m	Total £'m
Debt securities	85.6	–	**85.6**
Equity instruments	111.1	–	**111.1**
Insurance contracts	–	53.1	**53.1**
Cash and cash equivalents	2.5	–	**2.5**
Total	**199.2**	**53.1**	**252.3**

2016	Quoted Market Value £'m	Non-Quoted Market Value £'m	Total £'m
Debt securities	82.9	–	82.9
Equity instruments	101.1	–	101.1
Insurance contracts	–	50.9	50.9
Cash and cash equivalents	4.4	–	4.4
Total	**188.4**	**50.9**	**239.3**

Statement of Financial Position Recognition

The assets and liabilities of the schemes at 30 November were:

Analysis of amounts recognised in Statement of Financial Position	All schemes 30 November 2017 £'m	All schemes 30 November 2016 £'m
Fair value of assets	252.3	239.3
Present value of scheme liabilities	(291.5)	(288.8)
Funded status	**(39.2)**	**(49.5)**
Effect of asset ceiling	–	–
Net liability in the schemes	**(39.2)**	**(49.5)**

The table below illustrates the value of funded and unfunded pension schemes.

2017	Funded Schemes £'m	Unfunded Schemes £'m	Total £'m
UK Plan	(30.8)	–	**(30.8)**
Germany Plan	–	37.8	**37.8**
Netherlands Plan	13.3	–	**13.3**
Ireland Plan	3.3	–	**3.3**
All Other Plans	4.3	11.3	**15.6**
Total	**(9.9)**	**49.1**	**39.2**

2016	Funded Schemes £'m	Unfunded Schemes £'m	Total £'m
UK Plan	(20.8)	–	(20.8)
Germany Plan	–	35.8	35.8
Netherlands Plan	13.6	–	13.6
Ireland Plan	4.9	–	4.9
All Other Plans	4.7	11.3	16.0
Total	**2.4**	**47.1**	**49.5**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2017 (continued)

Movements in the scheme's net deficit were as follows:

	Scheme assets £'m	Scheme liabilities £'m	Net deficit £'m
Deficit in the scheme at 1 December 2015	**203.6**	**(240.3)**	**(36.7)**
Employer contributions	7.5	–	**7.5**
Employee contributions	0.3	(0.3)	**–**
Benefits paid	(7.7)	8.6	**0.9**
Settlement payments	7.1	–	**7.1**
Interest income on plan assets	–	(5.3)	**(5.3)**
Current Service Cost	–	(7.7)	**(7.7)**
Interest expense on plan liabilities	(0.9)	0.1	**(0.8)**
Administrative expenses	–	0.5	**0.5**
Past service cost	17.6	9.1	**26.7**
Experience gains/(losses)	–	0.5	**0.5**
Actuarial losses on changes to demographic assumptions	–	(31.0)	**(31.0)**
Exchange rate movements	11.8	(23.0)	**(11.2)**
Deficit in the scheme at 30 November 2016	**239.3**	**(288.8)**	**(49.5)**
Employer contributions	7.6	–	**7.6**
Employee contributions	0.3	(0.3)	**–**
Benefits paid	(7.9)	9.0	**1.1**
Interest income on plan assets	6.2	–	**6.2**
Current Service Cost	–	(5.6)	**(5.6)**
Interest expense on plan liabilities	–	(6.9)	**(6.9)**
Administrative expenses	(0.7)	0.1	**(0.6)**
Past service cost	–	0.6	**0.6**
Experience gains/(losses)	5.6	0.8	**6.4**
Actuarial (losses)/gains on changes to demographic assumptions	–	1.6	**1.6**
Actuarial gains on changes to financial assumptions	–	2.2	**2.2**
Exchange rate movements	1.9	(4.2)	**(2.3)**
Deficit in the scheme at 30 November 2017	**252.3**	**(291.5)**	**(39.2)**

32. CURRENT AND DEFERRED TAX

	30 November 2017 £'m	30 November 2016 £'m
Current tax:		
Current tax assets	79.6	92.2
Current tax liabilities	(14.5)	(49.0)
Net current tax assets	**65.1**	**43.2**
Deferred tax:		
Deferred tax assets	102.0	81.4
Deferred tax liabilities	(44.2)	(77.5)
Net deferred tax assets	**57.8**	**3.9**
Net deferred tax asset breakdown:		
Insurance reserves	72.1	47.2
Property, plant and equipment	23.6	25.5
Pensions and similar obligations	4.0	14.2
Deferred acquistion costs	16.2	7.6
Other assets/(liabilities)	(34.9)	(11.8)
Losses	154.3	37.5
Deferred tax assets not recognised	(177.5)	(116.3)
Net deferred tax assets	**57.8**	**3.9**

Current tax assets and liabilities are recoverable/payable within one year. Deferred tax assets and liabilities are recoverable/payable after more than one year.

The reduction in the UK corporation tax rate to 17% from 1 April 2020 was enacted on 15 September 2016. Accordingly, the effects of these changes were reflected in the Financial Statements for the year ended 30 November 2016. The changes have not had a material impact on the Company's deferred tax balances as at 30 November 2017.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2017 (continued)

33. OTHER PAYABLES, INCLUDING INSURANCE PAYABLES

	30 November 2017 £'m	30 November 2016 £'m
Insurance payables arising out of direct insurance operations:		
Due to intermediaries	65.9	56.0
Due to policyholders	1.1	(1.0)
Due to related parties	26.0	–
	93.0	**55.0**
Insurance payables arising out of reinsurance operations	418.5	428.6
Other payables including tax and social security	573.1	580.2
Assets held as collateral	4.8	6.8
Reinsurers share of acquisition costs	74.5	73.0
	1,163.9	**1,143.6**
Amounts to be settled within one year	1,159.1	1,136.8
Amounts to be settled more than one year	4.8	6.8
	1,163.9	**1,143.6**

34. CONTINGENT LIABILITIES

The following charges exist over the assets of the Company:

A charge, in favour of Citibank NA, London Branch (the 'Custodian'), of any cash or securities held by the Custodian as security for:

a. all obligations of the Company to reimburse the Custodian for any irrevocable commitments to pay for or deliver securities incurred by the Custodian in carrying out instructions under the relevant Custodian Agreement; and
b. all other present and future obligations to repay the Custodian.

A similar charge to the one above also exists with J.P. Morgan Chase Bank NA London Branch.

A charge in favour of HSBC Holdings Plc (the security trustee) as trustee for itself and for the HSBC parties, over all reinsurance recoverables receivable by HSBC Insurance (Bermuda) Limited to the Company under reinsurance contracts between HSBC and AIG.

Under the terms of Credit Support Annexes ("CSAs") to executed International Swaps and Derivative Association Agreements ("ISDAs"), the Company is obligated to provide collateral in favour of the counterparties to cover margin calls on unfavourable movements in the fair value of outstanding derivatives. At 30 November 2017, the gross amount of assets pledged under such agreements was £nil million (30 November 2016: £nil), which represents the fair value of the liability.

35. GUARANTEES

During the year the Company has been party to various guarantees against the non-payment of contractual obligations, and as a requirement to write public tender business in the US and South Africa. These include automatically extending standby letters of credit which are callable on demand are issued on the Company's behalf to guarantee the obligations of another AIG Group company, AIG South Africa Ltd. As the likelihood of payments being made under these arrangements is currently remote no associated liabilities have been recognised in the Statement of Financial Position at 30 November 2017 (30 November 2016: £ nil).

36. SHARE-BASED PAYMENTS

The Statement of Profit or Loss and Total Comprehensive Income includes share-based payment compensation expense as follows:

	2017 £'m	2016 £'m
Employee plan – '2013 Long Term Incentive Plan'	15.8	13.0
All other plans	–	–
Total: pre-tax	**15.8**	**13.0**
Total: post-tax	**9.5**	**11.3**

Employee Plans

The Company has in place Long Term Incentive Plans ("LTIP") that provide for annual awards to certain employees, including our senior executive officers and other highly compensated employees. In 2017, each award recipient was granted performance share units ("PSUs") and/or restricted stock units ("RSUs"), and in 2013 through 2016, each award recipient was granted PSUs.

The number of PSUs issued on the grant date (the target) provides the opportunity for the LTIP participant to receive shares of AIG Common Stock based on AIG achieving specified performance goals at the end of a three-year performance period. These performance goals are pre-established by AIG's Compensation and Management Resources Committee for each annual grant and may differ from year to year. The actual number of PSUs earned can vary from zero to 200 percent of the target for the 2017 awards, or zero to 150 percent of the target for the 2013 through 2016 awards, depending on AIG's performance relative to a specified peer group. RSUs are earned based on continued service by the participant.

For the 2017 awards, vesting occurs on 1 January of the year immediately following the end of the three-year performance period. For awards granted prior to 2017, vesting occurs in three equal installments beginning on 1 January of the year immediately following the end of a performance period and 1 January of each of the next two years. Recipients must be employed at each vesting date to be entitled to share delivery, except upon the occurrence of an accelerated vesting event, such as an involuntary termination without cause, disability, retirement eligibility or death during the vesting period.

Further detail on AIG's share-based payment plans can be found in the AIG Inc. 10-K filing.

37. OPERATING LEASE COMMITMENTS

At 30 November 2017, the Company had annual commitments in respect of non-cancellable operating leases.

The Company is committed to payments in 2018 which are expected to be £11.1 million (2016: £14.8 million). The total of future minimum lease payments under non-cancellable operating leases on land and buildings are £49.0 million (2016: £40.4 million), as analysed in the table below:

Future minimum lease payments	Not later than one year £'m	Later than one year and not later than five years £'m	Later than five years £'m	Total £'m
At 30 November 2017	11.1	24.4	13.5	**49.0**
At 30 November 2016	14.8	20.0	5.6	**40.4**

The Company expects to receive total future sublease payments of £6.5 million (2016: £7.5 million) in relation to non-cancellable operating leases on properties over the next 8 years (2016: 9 years).

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 November 2017 (continued)

38. RELATED PARTIES
The Company is a wholly owned subsidiary of AIG Holdings Europe Limited. The ultimate parent company is American International Group Inc. ("AIG Inc."), a company incorporated in the State of Delaware, United States of America. Copies of the ultimate parent company's consolidated Financial Statements may be obtained from The Secretary, AIG Europe Limited, The AIG Building, 58 Fenchurch Street, London EC3M 4AB.

Insurance and Reinsurance Transactions
In the ordinary course of business the Company both assumes and cedes insurance contracts with related parties. The following summarises the key reinsurance arrangements under which the Company both assumes and cedes business:

- Intra-Group Multinational Programmes – these relate to cases where insurance coverage is provided to multinational clients by a number of AIG operations. In cases where the Company has the primary relationship with the client, the Company assumes business written by overseas related parties and ultimately cedes a proportion of the business externally. During the year, the Company assumed a total of £24.9 million (2016: £57.7 million) of insurance premium revenue from fellow subsidiary undertakings.
- Intra-Group Reinsurance Treaties – the Company has a number of excess of loss and proportional reinsurance programmes with the American International Overseas Association (an association comprising American Home Assurance Company, New Hampshire Insurance Company and National Union Fire Insurance Company of Pittsburgh, Pennsylvania), all fellow subsidiary undertakings. During the year, the amount ceded by the Company amounted to £86.5 million (2016: £117.2 million).
- Intra-Group Facultative Reinsurance – the Company has facultative reinsurance arrangements with a number of related parties. Facultative reinsurance is purchased for individual risks not covered, or insufficiently covered, under other reinsurance arrangements. During the year, the Company ceded £22.6 million (2016: £29.8 million) to fellow subsidiary undertakings.

Insurance claims expense for the year includes £27.9 million (2016: £22.9 million) of claims payable on insurance contracts assumed from related parties. Insurance claims recoverable from reinsurers include £172.2 million (2016: £240.7 million) of recoveries due from related parties. All relevant related parties were fellow subsidiary undertakings of the Company.

Insurance Liabilities and Reinsurance Assets with Related Parties
Insurance liabilities and reinsurance assets with related parties were as set out in the table below.

	30 November 2017 £'m	30 November 2016 £'m
Reinsurance assets due from fellow subsidiary undertakings:		
Reinsurers' share of provisions for claims	414.3	789.5
Reinsurers' share of unearned premiums	77.6	59.1
	491.9	**848.6**
Insurance liabilities due to fellow subsidiary undertakings:		
Claims incurred	(35.5)	(24.9)
Unearned premium provision	(5.0)	(15.6)
	(40.5)	**(40.5)**

An analysis of the movements in insurance liabilities and reinsurance assets with related parties is shown in the tables below.

Claims Liabilities:

	Insurance claims liability £'m	Reinsurance assets £'m
At 1 December 2015	**(83.7)**	**899.4**
Claims settled in cash in the year	22.9	(240.7)
Increase in liabilities	39.1	–
Reinsurance recoveries received on claims	–	28.8
Foreign exchange movements	(3.2)	102.0
At 30 November 2016	**(24.9)**	**789.5**
Claims settled in cash in the year	27.9	(172.2)
Increase in liabilities	(38.2)	–
Reinsurance recoveries received on claims	–	(204.0)
Foreign exchange movements	(0.3)	1.0
At 30 November 2017	**(35.5)**	**414.3**

All amounts included in the above table were reserves in Claims Liabilities of fellow subsidiary undertakings, with the exception of £17.2 million insurance claims liabilities which were with the parent company (2016: £12.2 million) and Reinsurance Assets of £114.4 million which were with the parent company (2016: £127.8 million).

Unearned Premiums:

	Insurance claims liability £'m	Reinsurance assets £'m
At 1 December 2015	**(16.2)**	**124.5**
Premiums (assumed)/ceded during the year	(56.3)	192.6
Less: premiums earned during the year	57.7	(267.5)
Foreign exchange movements	(0.8)	9.5
At 30 November 2016	**(15.6)**	**59.1**
Premiums (assumed)/ceded during the year	(14.1)	162.9
Less: premiums earned during the year	24.9	(143.5)
Foreign exchange movements	(0.2)	(0.9)
At 30 November 2017	**(5.0)**	**77.6**

All amounts included in the above table were reserves in Unearned Premiums of fellow subsidiary undertakings, with the exception of £3.5 million of Insurance Claims liability which were with the parent company (2016: £4.4 million), and for Reinsurance Assets of £47.2 million which were with the parent company (2016: £33.0 million).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2017 (continued)

Financial Investments

The Company's financial investment portfolio is managed by a fellow subsidiary undertaking, AIG Asset Management (Europe) Limited. Management fees payable for the year were £12.1 million (2016: £11.1 million) and are charged based on the basis of funds under management and investment activity in the year. Dividend income in the year was £0.4 million being income on the Real Estate Partnership investment. In the prior year dividend income was £0.3 million received from AIG Buildings Limited.

Additionally, included in the financial investments balance at 30 November 2017 are the following related party investments:

Related Party	Type of Investment	30 November 2017 £'m	30 November 2016 £'m
AIG Real Estate Partners	Equity Investment	4.5	5.5
AIG International Holdings GmbH	Loan Participation	77.5	76.0
AIG Property Company	Loan Participation	10.1	9.8
Habitus Holdings Sarl	Loan Participation	14.0	19.7
Privilege Holdings Sarl	Loan Participation	3.7	13.1
Privilege Southampton Holdings Sarl	Loan Participation	20.5	11.6
Privilege Cardiff Holdings Sarl	Loan Participation	9.6	4.3
Trivium Lozorno Sarl	Loan Participation	10.0	–
Total		**149.9**	**140.0**

Investments in Joint Ventures

During the current and previous year, the Company invested in a series of equity investments in European real estate alongside other AIG companies and third party investors. The table below shows the Company's holdings in these joint ventures:

			Proportion of ownership interest/ voting power held by the Company		Investment (share capital and share premium) £	
Joint Venture	Principal Activity	Investment (Shares)	2017	2016	2017	2016
Habitus Holdings Sarl	Holding company for real estate investments	5,000	50%	50%	15,000.00	15,000.00
Privilege Holdings Sarl	Holding company for real estate investments	4,580	50%	50%	9,295.00	9,295.00
Privilege Southampton Holdings Sarl	Holding company for real estate investments	5,000	50%	50%	10,000.00	10,000.00
Privilege Cardiff Holdings Sarl	Holding company for real estate investments	5,000	50%	50%	10,000.00	10,000.00
Trivium Lozorno Sarl	Holding company for real estate investments	50	50%	0%	1,043,515.34	–
Trivium Urban Logistics Limited	Holding company for real estate investments	1	50%	0%	29,678,575.85	–

Dividend Paid

During the year the Company declared and paid dividends of £nil (2016: £nil) to its immediate parent company.

Other Income

Net reinsurance commission income, inclusive of reinsurers' share of deferred acquisition costs, shown as part of other income includes £42.6 million (2016: £35.9 million) of commission receivable and net movement in reinsurers' share of deferred acquisition costs from fellow subsidiary undertakings.

The Company's UK property is occupied by AIG Asset Management (Europe) Limited, a fellow subsidiary. Rental income from this property of £0.6 million (2016: £0.6 million) is included within other income.

Net Operating Expenses

Net operating costs charged by related parties amounted to £126.7 million (2016: £163.1 million) comprised as set out in the table below.

	Acquisition costs £'m	Change in deferred acquisition costs £'m	Administrative expenses £'m	Total £'m
Year ended 30 November 2017				
Fellow subsidiary undertakings	3.5	(0.3)	117.3	**120.5**
Subsidiary undertakings	–	–	6.2	**6.2**
	3.5	**(0.3)**	**123.5**	**126.7**
Year ended 30 November 2016				
Fellow subsidiary undertakings	3.4	(2.6)	136.4	**137.2**
Subsidiary undertakings	–	–	25.9	**25.9**
	3.4	**(2.6)**	**162.3**	**163.1**

Administrative expenses contain net recharges from fellow subsidiary undertakings, including US Corporate Management Recharges which the Company incurs. These global recharges are allocated to each operating unit based on its proportionate share of worldwide net premiums written or other appropriate metrics. Total costs recharged to the Company in 2017 were £110.9 million (2016: £112.0 million).

Other Receivables, including Reinsurance Receivables from Related Parties

	Receivables arising out of direct insurance operations £'m	Receivables arising out of reinsurance operations £'m	Other receivables £'m	Total receivables £'m
At 1 December 2015	**20.6**	**155.1**	**94.7**	**270.4**
Transactions in the year	56.3	240.7	–	**297.0**
Settled in the year	(54.3)	(213.8)	36.9	**(231.2)**
Foreign exchange movements	3.1	14.6	2.8	**20.5**
At 30 November 2016	**25.7**	**196.6**	**134.4**	**356.7**
Transactions in the year	14.1	172.2	–	**186.3**
Settled in the year	(31.8)	(183.1)	(21.1)	**(236.0)**
Foreign exchange movements	4.7	(0.6)	(3.5)	**0.6**
At 30 November 2017	**12.7**	**185.1**	**109.8**	**307.6**

All amounts included in the above table were receivable from fellow subsidiary undertakings with the exception of £69.9 million which were due from subsidiary undertakings (2016: £47.4 million) and £41.3 million from the parent company (2016: £46.2 million).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2017 (continued)

Other Payables, including Insurance Payables to Related Parties

	Payables arising out of reinsurance operations £'m	Other payables £'m	Total payables £'m
At 1 December 2015	**190.8**	**91.2**	**282.0**
Transactions in the year	215.5	170.6	**386.1**
Settled in the year	(92.9)	(162.8)	**(255.7)**
Foreign exchange movements	(14.1)	(1.3)	**(15.4)**
At 30 November 2016	**299.3**	**97.7**	**397.0**
Transactions in the year	190.8	142.0	**332.8**
Settled in the year	(234.7)	(157.3)	**(392.0)**
Foreign exchange movements	(16.6)	(6.4)	**(23.0)**
At 30 November 2017	**238.8**	**76.0**	**314.8**

All amounts included in the above table were payable to fellow subsidiary undertakings with the exception of £56.8 million which were due to subsidiary undertakings (2016: £81.3 million) and £79.7 million due to the parent company (2016: £58.3 million).

Other payables to related parties at 30 November 2017 includes £4.8 million (2016: £6.8 million) of assets held as collateral from the American International Overseas Association and American International Reinsurance Company as described further in Note 33.

Key Management Personnel

Included within net operating expenses were the following costs of key management personnel.
These costs are included within administrative expenses.

	2017 £'m	2016 £'m
Wages and salaries	7.5	14.7
Social security costs	0.7	1.5
Other pension costs	0.2	0.3
Share-based payments	2.5	3.3
	10.9	**19.8**

Key management personnel comprise members of the European Executive Committee, Executive Directors and Non-Executive Directors.

39. EVENTS AFTER THE REPORTING YEAR

There are currently no known items to report.


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