REPORT ON EXAMINATION

OF

AIU INSURANCE COMPANY

AS OF

DECEMBER 31, 2015

DATE OF REPORT	MAY 26, 2017
EXAMINER	MARIBEL NUNEZ, CPCU

TABLE OF CONTENTS

NEW YORK STATE
DEPARTMENT of
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

May 26, 2017

Honorable Maria T. Vullo
Superintendent
New York State Department of Financial Services
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31368 dated August 5, 2015, attached hereto, I have made an examination into the condition and affairs of the AIU Insurance Company as of December 31, 2015, and submit the following report thereon.

Wherever the designations the "Company" and "AIU" appear herein without qualification, they should be understood to indicate AIU Insurance Company.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

The examination was conducted at the Company's office located at 80 Pine Street, New York, New York 10005.

1. SCOPE OF EXAMINATION

The Department has performed a coordinated group examination of the Company, a multi-state insurer. The previous examination was conducted as of June 30, 2013. This examination covered the two and half year period from July 1, 2013 through December 31, 2015. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

New York is the lead state for the American International Group. The examination was conducted in conjunction with the Insurance Department of the Commonwealth of Pennsylvania, which acted as the facilitating state. Other states participating in this examination were Delaware, represented by RIS, Illinois, and Puerto Rico. The examination was performed concurrently with the following insurers, domiciled as indicated:

American Home Assurance Company ("AHAC"), (NY);
Commerce and Industry Insurance Company ("CIIC"), (NY);
National Union Fire Insurance Company of Pittsburgh, Pa ("NUFIC"), (PA);
AIG Property Casualty Company ("APCC"), (PA);
The Insurance Company of the State of Pennsylvania ("ISOP"), (PA);
AIG Assurance Company ("Assurance"), (PA);
Lexington Insurance Company ("Lexington"), (DE);
New Hampshire Insurance Company ("NHIC"), (IL);
AIG Specialty Insurance Company ("Specialty"), (IL);
Granite State Insurance Company ("Granite"), (IL) and
Illinois National Insurance Co. ("Illinois National") (IL)

All companies examined are members of and participate in the intercompany combined pooling arrangement, ("Combined Pool"), as referenced in Item 2 C-Reinsurance, of this report. In addition the examinations of AIG Insurance Company-Puerto Rico and Eaglestone Reinsurance Company ("Eaglestone"), "PA" were conducted concurrently as standalone companies.

This examination was conducted in accordance with the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook ("Handbook"), which requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. This examination also included a review and evaluation of the Company's own control environment assessment and an evaluation based upon the Company's ultimate parent's Sarbanes Oxley documentation and testing. The examiners also relied upon audit work performed by the Company's independent public accountants, PricewaterhouseCoopers, LLP, where deemed appropriate.

This examination report includes a summary of significant findings for the following items as called for in the Handbook:

Company history
Management and control
Territory and plan of operation
Loss review and analysis
Reinsurance
Holding company description
Financial statement presentation
Significant subsequent events
Summary of recommendations

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

The Company was incorporated under the laws of the State of New York on December 1, 1913 as Pacific Fire Insurance Company. The name was changed to Pacific Insurance Company of New York on May 23, 1957, then to American International Insurance Company on July 23, 1969 and to the present name on November 4, 1976.

On April 1, 2013, the Company effected a transfer of substantially all the assets and liabilities of its Japan branch to AIU Insurance Company, Ltd. ("AIUI Ltd"), a Japanese-domiciled insurance company that is 100% owned by AIG Japan Holdings Kabushiki Kaisha in exchange for 1,000 Class A shares of AIUI Ltd capital stock ("the AIUI Ltd Shares"). Upon being received by the Company, the AIUI Ltd Shares were dividended to Chartis International, LLC, now known as AIG Property Casualty International, LLC ("AIG PC International"). On April 1, 2013, to facilitate this and future restructuring transactions, the Company effected a quasi-reorganization pursuant to the provisions of Section 4105 of the New York Insurance Law. The quasi-reorganization transferred $400 million from gross paid-in and contributed surplus to unassigned funds. The above transactions were approved by the Company's board of directors, the Department and the Japan Financial Services Agency.

On April 1, 2015, the Company distributed a promissory note with a face amount of $121,696,816 issued to the Company by AHAC in relation to a sale of an investment in a subsidiary within the AIG group of companies. The promissory note funds were eventually contributed back to AHAC.

On April 3, 2015, all of the issued and outstanding shares of the Company were distributed by its parent AIG PC International to AIG Property Casualty Inc. ("AIG PC"), which in turn contributed such shares to AIG Property Casualty U.S., Inc. ("AIG PC US"), which became the Company's new parent.

On November 4, 2013, AIG filed with the Department a request to consolidate its Admitted Lines Pool and Surplus Lines Pool effective January 1, 2014 ("Consolidation"). The Department issued a non-disapproval of the transaction on December 13, 2013.

Prior to the Consolidation, AIG PC operated two insurance pools in the United States. One pool was made up of U.S. insurance companies that wrote in the admitted market (the "Admitted Lines Pool"). The second pool was made up of U.S. insurance companies that wrote in the excess or surplus market (the "Surplus Lines Pool"). Under the Consolidation, the AIG PC Insurers entered into a new Intercompany Pooling Agreement ("the Combined Agreement") effective January 1, 2014. The Combined Agreement supersedes both the Admitted Lines Pool and the Surplus Lines Pool agreements. The new pool ("the Combined Pool") consists of the former members of the Admitted Lines and Surplus Lines Pools and AIU Insurance Company. As a result, the Company cedes 100% of its business to the Combined Pool and retains no net position effective January 1, 2014.

Capital paid in is $5,627,800 consisting of 200,000 shares of $28.139 par value per share of common stock. Gross paid in and contributed surplus is $13,985,059. Gross paid in and contributed surplus increased by $717,799 during the examination period, as follows:

Year	Description		Amount
2013	Beginning gross paid in and contributed surplus		$13,267,260
2015	Capital contribution - Tax	258,148	
2015	Capital contribution - Al Realty and Pine Street	459,651	
	Total change to capital and surplus paid-in		717,799
2015	Ending capital and surplus paid		$13,985,059

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than seven, nor more than twenty-one members. The board meets four times during each calendar year. As of December 31, 2015, the board of directors was comprised of the following eight members:

Name and Residence	Principal Business Affiliation
Alexander Ross Baugh Rumson, New Jersey	President - Liability, and Financial Lines, American International Group, Inc.
James Bracken New York, New York	Commercial Chief Financial Officer, American International Group, Inc.

Name and Residence	Principal Business Affiliation
Joseph Daniel Cook Ruxon, Maryland	Deputy CFO - AIG Property and Casualty, American International Group, Inc.
Jeremy David Edgecliffe-Johnson Chester Spring, Pennsylvania	President - U.S. Commercial Insurance, American International Group, Inc.
Gaurav Garg New York, New York	Chief Executive Officer - Personal Insurance, American International Group, Inc.
Kimberly Margaret Hanna* Hoboken, New Jersey	Head of Environmental and Risk Consulting, American International Group, Inc.
Kevin Timothy Hogan Berkeley Heights, New Jersey	Executive Vice President and Chief Executive Officer of Consumer, American International Group, Inc.
Robert Scott Higgins Schimek Newtown, Pennsylvania	Executive Vice President and Chief Executive Officer of Commercial, American International Group, Inc.

*Subsequent to the examination date, this member is no longer with AIG.

A review of the minutes of the board of directors' meetings held during the period covered by this examination indicated that the meetings were generally well attended and each board member had an acceptable record of attendance.

As of December 31, 2015, the principal officers of the Company were as follows:

Name	Title
Robert Scott Higgins Schimek	Chairman, President, and Chief Executive Officer
Joseph Daniel Cook	Senior Vice President and Chief Financial Officer
Tanya Evelyn Kent	Secretary
Lawrence James Moloney**	Vice President and Controller

** Subsequent to the examination date, this officer is no longer with AIG.

B. Territory and Plan of Operation

As of December 31, 2015, the Company was licensed to write business in all states except Hawaii and Wyoming.

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

Paragraph	Line of Business
3	Accident and health
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity
22	Residual value
24	Credit unemployment
26	Gap
27	Prize indemnification
28	Service contract reimbursement
29	Legal services

The Company is also authorized to write workers' compensation as may be incident to coverage contemplated under paragraphs 20 and 21 of Section 1113(a) of the New York Insurance Law, including coverage described in the Longshore and Harbor Workers' Compensation Act (Public Law No. 803, 69 Cong. as amended, 33 USC §901 et seq. as amended).

In addition, the Company is authorized to reinsure risks of every kind or description and to write any and all kinds of insurance on risks outside of the United States, its territories and possessions, except with respect to life insurance, title insurance, and contracts for the payment of annuities, in accordance with Section 4102(c) of the New York Insurance Law. The Company is authorized to transact business of special risk insurance (Free Trade Zone) as defined in Article 63 of the New York Insurance Law.

Based on the lines of business for which the Company is licensed, the Company's current capital structure and pursuant to the requirements of Articles 13, 41, and 63 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of $35,000,000.

The Company's Japanese Branch has terminated its Japanese insurance business and has surrendered its Japanese insurance license. Effective April 1, 2013, the Company and AIUI entered into a transfer agreement, whereby the Company transferred substantially all of the assets and liabilities of the Company's business in Japan to AIUI Ltd. This transaction was approved by the Department.

C. Reinsurance

Assumed

The Company's assumed reinsurance was less than 1% of its gross written premium for the year-ended December 31, 2015 and was entirely with affiliated companies.

Combined Pooling Agreement

The Company participates in an inter-company reinsurance pooling agreement covering twelve affiliated insurers. Pursuant to the terms of this agreement, the Company and the affiliated entities share in premiums, losses and expenses based on their respective pool participation.

On December 31, 2015, the Combined Pool consisted of the following wholly-owned subsidiaries of AIG:

Combined Pool Company	State of Domicile	Combined Pool %
American Home Assurance Company	New York	30%
National Union Fire Insurance Company of Pittsburgh, Pa.*	Pennsylvania	30%
Lexington Insurance Company	Delaware	30%
Commerce and Industry Insurance Company	New York	5%
AIG Property Casualty Company	Pennsylvania	5%
AIU Insurance Company	New York	0%
The Insurance Company of the State of Pennsylvania**	Pennsylvania	0%
AIG Assurance Company**	Pennsylvania	0%
New Hampshire Insurance Company	Illinois	0%
AIG Specialty Insurance Company	Illinois	0%
Granite State Insurance Company	Illinois	0%
Illinois National Insurance Co.	Illinois	0%
Total Pool		100%

* Lead Company of the Combined Pool
**Effective December 31, 2016, the Companies re-domesticated to Illinois from Pennsylvania.

Subsequent to the examination date, on January 1, 2016, the Combined Pooling Agreement was amended and restated to increase AHAC’s percentage from 30% to 35% and decrease CIIC’s percentage from 5% to 0%.

On January 1, 2017, the Pooling Agreement was further amended to reduce the pool percentage of AIG Property Casualty Company from 5% to 0% and increase National Union Fire Insurance Company of Pittsburgh, Pa’s percentage from 30% to 35%.

The Company utilizes reinsurance accounting as defined in Statement of Statutory Accounting Principle (“SSAP”) No. 62R for all of its assumed reinsurance business.

Ceded

The Company has structured its ceded reinsurance program as follows:

External treaty reinsurance is placed by AIG’s Global Reinsurance Division (“GRD”). Reinsurance officers within GRD are aligned with specific AIG Profit Centers and are responsible for determining structures, negotiating and placing individual treaty reinsurance programs for various lines of business. GRD also reviews, analyzes, and assists in placing AIG’s overall catastrophe reinsurance. AIG maintains extensive reinsurance, with programs placed with U.S.

domestic and international reinsurers. During 2015, AIG established an internal limit for natural catastrophe Probable Maximum Loss at $3.5 billion for a 1 in 10-year event; $7.5 billion for a 1 in 100-year event; and $10 billion for a 1 in 250-year event.

As party to various treaty and facultative agreements, the Company reinsures the business written in order to maximize protection, provide capacity, reduce volatility and make the best use of market capacity. Reinsurance is further broken down into pro-rata and excess of loss agreements. Facultative reinsurance is purchased to provide added capacity for coverages that are not included in specific treaty agreements. Catastrophe coverage is bought to protect the net of the Combined Pool companies for property exposures. Lines of business covered under various reinsurance protections include global property, commercial casualty, specialty, global marine, financial lines, consumer, other personal lines, and accident and health. In addition, the Company also purchased quota-share protection for other lines of business, including aerospace, fidelity, surety, and environmental liability.

Property Catastrophe

For 2015, AIG purchased catastrophe protection for its commercial and personal lines both on an individual occurrence and aggregate basis that included traditional reinsurance and non-traditional reinsurance ("CAT bonds") covering windstorm and earthquake for the United States, Canada, Mexico, and the Caribbean. For a catastrophic event, AIG retained the first $3 billion and had $2.5 billion of reinsurance protection and $1 billion of additional coverage through a worldwide aggregate treaty providing second event coverage and protection from an accumulation of smaller events throughout the world. The reinsurance did not contain a reinstatement provision. AIG's maximum retention under the global property risk excess program on a per risk basis at December 31, 2015 was $450 million.

Subsequent to the examination date, on January 1, 2016, the AIG companies entered into a two-year reinsurance arrangement with Swiss Reinsurance Company Ltd under which a share of AIG's new and renewal U.S. casualty portfolio was ceded to the reinsurer.

Reinsurance agreements with affiliates were reviewed for compliance with Article 15 of the New York Insurance Law. It was noted that all affiliated reinsurance agreements were filed with the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law.

It is the Company's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers.

All significant ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause, meeting the requirements of Section 1308 of the New York Insurance Law.

The examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's Chief Executive Officer and Chief Financial Officer pursuant to the NAIC Annual Statement Instructions.

D. Holding Company System

The Company is a wholly-owned subsidiary of AIG PC US, a Delaware corporation, which is in turn owned by AIG PC, a Delaware corporation. The Company’s ultimate parent is American International Group, Inc., (“AIG”), a Delaware corporation.

In 2014, AIG modified the presentation of its results to reflect its new operating structure that consisted of two reporting segments and a Corporate and Other category:

1. Commercial Insurance has three operating segments: Property Casualty, Mortgage Guaranty and Institutional Markets.

2. Consumer Insurance also has three operating segments: Retirement, Life and Personal Insurance.

3. Corporate and Other category consists of businesses and items not allocated to AIG's reporting segments.

Subsequent to the examination date, as of December 31, 2016, AIG has a new operating structure consisting of three reporting segments as well as an Other Operations category:

1. The Commercial reporting segment is comprised of two operating segments: Property & Special Risks and Liability & Financial Lines;
2. The Consumer reporting segment is comprised of four operating segments: Life, Health & Disability, Group Retirement, Individual Retirement, and Personal Insurance.
3. The Legacy reporting segment is comprised of Legacy Life Runoff, Legacy Property & Casualty Runoff, and Legacy Assets.
4. Other Operations comprises various businesses and operations that are not attributable to the reporting segments, and includes (among other things) the operations of United Guaranty Corporation[1], Institutional Markets, AIG Parent, certain service companies, and intercompany eliminations.

The Company is part of the AIG holding company structure, which includes insurance and management companies, agencies and other enterprises doing business in the United States and countries around the world. The ultimate parent company, AIG, is a publicly traded company.

In 2008, AIG received $182 billion of government support from the Federal Reserve Bank of New York ("FRBNY") and the U.S. Treasury. During the examination period, commitments to the FRBNY and the U.S. Treasury expired or were repaid by AIG through a series of transactions.

A review of the Holding Company Registration Statements filed with this Department indicated that the filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

As of December 31, 2015, the Company was party to the following significant agreements with other members of its holding company system:

<u>Service and Expense Agreement</u>

The Company and several named affiliates are parties to a service and expense agreement effective February 1, 1974. Pursuant to the terms of this agreement, AIG and /or any of its subsidiaries may provide various services and facilities specified in the agreement, at cost, to any

[1] On August 15, 2016 AIG entered into an agreement to sell United Guaranty Corporation ("UGC"). UGC was sold effective December 31, 2016.

named party to the agreement. Services include, but are not limited to, advertising, legal, investment, actuarial, claims adjustment, underwriting, accounting, tax, employee cafeteria, office space, payroll, and employee’s benefits. This service and expense agreement has been amended many times over the years, mostly to add additional affiliates.

Administrative Services Agreement

On September 30, 2013, AIG PC Global Services, Inc. (“GS”) entered into Master Agreements for Professional Services with AIG Shared Services Corporation, AIG Shared Services (M) Sdn Bhd, and AIG Share Services Business Processing Inc., hereinafter, the service providers. Pursuant to the agreements, the service providers shall provide support for finance/accounting, claims, information technology, and business processing. Services provided by the service providers to GS may be passed on to US based AIG PC insurance companies by GS pursuant to the 1974 AIG Service and Expense Agreement described above.

Tax Sharing Agreement

The Company is party to a written tax sharing agreement (“TSA”) with AIG, effective January 1, 2012, as amended. The TSA provides that the Company will pay AIG for its separate company tax liability, generally computed as if the Company had filed a separate federal income tax return. The amended agreement contains the following significant provisions:

> With respect to any sale or exchange of assets within the consolidated US federal income tax group that gives rise to a deferred intercompany transaction ("DIT"), any Combined Pool member is required to book the related deferred tax asset or liability on a separate company basis and will remain liable for any cash tax if such DIT is triggered in the future.
>
> The agreement does not contain a claw-back provision for tax attributes generated by the parties in transactions deemed outside the "ordinary course" of business and FIN 48 reserves remain on the books of the individual Pooled Companies.
>
> The sections of the Internal Revenue Code relating to Alternative Minimum Tax (“AMT”) are applied, but only if the Parent has a consolidated AMT.
>
> Tax Reserves will no longer be assumed by the Parent, but remain on the balance sheet of the Company.

In accordance with New York Department of Insurance Circular Letter 1979-33, the Parent shall establish and maintain an escrow account for amounts where the Company's separate return liability exceeds the consolidated tax liability of the Parent.

Investment Advisory Agreement

The Company is party to an investment advisory agreement with AIG Asset Management (U.S.), LLC ("Manager") to receive investment management and advisory services with respect to the investments owned by the Company. The agreement authorizes the Manager to supervise and direct all investments and to exercise whatever powers the Company may possess with respect to its invested assets, subject in all cases to the ultimate direction and control of the Company. Investment transactions effected by the Manager must be in accordance with investment guidelines established by the Company and conform to statutory and administrative limits and restrictions. Investment transactions are further subject to AIG policies for mitigating and controlling market, credit and similar enterprise risks, as communicated to the Manager in writing from time to time. Within these limitations, the Manager may buy, sell, exchange, convert, and otherwise trade in and engage in investment transactions of any nature whatsoever involving any stocks, bonds, commercial paper, money market instruments and other securities and assets when it deems appropriate and without prior consultation with the Company. The Manager may also select, retain, oversee and terminate other investment managers of the Company. The agreement has been amended to update and clarify the nature and scope of services, and to modify the investment guidelines from time to time as required by the Company and its regulators.

Master Intra-Company Services Agreement

Effective December 1, 2015, the Company and other AIG affiliates entered into a Master Intra-Company Services Agreement with AIG Technologies, Inc. ("AIGTI"). Pursuant to the agreement, AIGTI provides network connectivity, application hosting, data process related services, and other IT-related infrastructure services to the Company.

Claims Services Agreement

Effective July 15, 2012, the Company and other AIG affiliates entered into a Claims Services Agreement with AIG Claims, Inc. ("AIG Claims"), formerly known as Chartis Claims, Inc. Pursuant to the agreement, AIG Claims will provide claims administration services on behalf of the Company. The agreement was amended on April 4, 2014 to reflect AIG Claims becoming licensed as a third-party administrator for accident and health business and to make certain state-required modifications to the agreement.

Master Reinsurance Allocation Agreement

As of February 29, 2008, for multiple cedant reinsurance agreements incepting on or after January 1, 2007, the Company and various affiliates entered into a Master Reinsurance Allocation Agreement (the "Allocation Agreement"). The Allocation Agreement was entered into to satisfy the requirement of SSAP No. 62 that reinsurance agreements with multiple cedants be subject to written allocation agreements. The Allocation Agreement does not amend any existing pooling agreement and does not affect the rights of the Company or any of its affiliates under any reinsurance contract. Effective April 1, 2016, the Allocation Agreement was superseded by a new Master Reinsurance Allocation Agreement, which sets forth the method for allocating premium and losses under multiple cedant reinsurance agreements incepting on or after April 1, 2016.

Transfer Agreement

In 2012, the Company initiated transactions to transfer substantially all of the assets and liabilities of its Japan Branch to a newly formed affiliate, AIUI Ltd. a Japanese insurance company, in exchange for shares of capital stock, which was approved by the Department on January 31, 2013 with the transaction closing on April 1, 2013. As part of this restructuring, effective February 1, 2013, the Company entered into a transfer agreement with AIUI Ltd. Under the terms of the agreement, the Company transferred to AIUI Ltd substantially all of the assets and liabilities of the Company's business in Japan.

E. Significant Operating Ratios

The following ratio has been computed as of December 31, 2015, based upon the results of this examination:

Liabilities to liquid assets (cash and invested assets less investments in affiliates)	8%

The above ratio fell within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

The underwriting ratios presented below are on an earned/incurred basis and encompass the two and a half-year period covered by this examination:

	Amounts	Ratios
Losses and loss adjustment expenses incurred	$ (312,644)	(4.14)%
Other underwriting expenses incurred	(151,087)	(2.00)
Net underwriting gain	8,023,044	106.13
Premiums earned	$7,559,313	100.00%

The unusual results are due to the Company's exit from the Japanese business and the restructuring of its inter-company reinsurance agreement.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2015 as reported by the Company:

Assets	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$46,844,809	$ 0	$46,844,809
Common stocks (stocks)	12,680,956	1,028,826	11,652,130
Cash, cash equivalents and short-term investments	9,297,040		9,297,040
Other invested assets	20,138		20,138
Investment income due and accrued	313,019		313,019
Current federal and foreign income tax recoverable and interest thereon	9,186,232	9,186,232	
Receivables from parent, subsidiaries and affiliates	930,017	49,479	880,538
Other assets	3,012,354	0	3,012,354
Totals	$82,284,565	$10,264,537	$72,020,028

Liabilities, surplus and other funds		Company
Payable to parent, subsidiaries and affiliates		$ 4,289,399
Total liabilities		$ 4,289,399
Surplus and Other Funds		
Common capital stock	$ 5,627,800	
Gross paid in and contributed surplus	13,985,059	
Unassigned funds (surplus)	48,117,770	
Surplus as regards policyholders		$67,730,629
Total liabilities, surplus and other funds		$72,020,028

Note: The Internal Revenue Service has completed its audits of the Company's consolidated Federal Income Tax returns through tax year 1999. All material adjustments, if any, made subsequent to the date of examination and arising from said audits, are reflected in the financial statements included in this report. Audits covering tax years 2000 through 2010 are currently under examination. The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2011 through 2014. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Income

Net income for the two and half year examination period, June 30, 2013 through December 31, 2015, was $44,732,226, detailed as follows:

Underwriting Income		
Premiums earned		$7,559,313
Deductions:		
Losses and loss adjustment expenses incurred	$(312,644)	
Other underwriting expenses incurred	(151,087)	
Total underwriting deductions		(463,731)
Net underwriting gain or (loss)		8,023,044
Investment Income		
Net investment income earned	4,121,392	
Net realized capital gain	32,396,605	
Net investment gain or (loss)		36,517,997
Other Income		
Net gain or (loss) from agents' or premium balances charged off	328,290	
Aggregate write-ins for miscellaneous income	(257,148)	
Total other income		71,142
Net income before dividends to policyholders and before federal and foreign income taxes		44,612,183
Federal and foreign income taxes incurred		(120,043)
Net Income		$44,732,226

C. Capital and Surplus Account

Surplus as regards policyholders decreased $141,162,301 during the two and half year examination period July 1, 2013 through December 31, 2015, detailed as follows:

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders per Company as of June 30, 2013			$ 208,892,930
Net income	$44,732,226		
Net unrealized capital gains or (losses)	453,059		
Change in net unrealized foreign exchange capital gain (loss)	907,295		
Change in net deferred income tax	2,173,602		
Change in non-admitted assets	2,457,897		
Change in provision for reinsurance	5,833,554		
Surplus adjustments paid in	717,799		
Dividends to stockholders		201,696,816	
Change in treasury stock			
Aggregate write-ins for gains and losses in surplus	3,259,083	0	
Net increase (decrease) in surplus	$60,534,515	$201,696,816	(141,162,301)
Surplus as regards policyholders per Company as of December 31, 2015			$ 67,730,629

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $0 is the same as reported by the Company as of December 31, 2015 because the Company is a 0% participant per the Combined Pooling agreement. The examination analysis of the Losses and loss adjustment expense reserves was conducted on a combined pool basis in accordance with generally accepted actuarial principles and statutory accounting principles, including the NAIC Accounting Practices & Procedures Manual, Statement of Statutory Accounting Principle No. 55 (“SSAP No. 55”).

While the Statement of Actuarial Opinion states that the Appointed Actuary reconciled the data to Schedule P-Part 1, no reconciliation exhibit is included in the Actuarial Report. The Actuarial Report did not include a description of the actuary’s role and relationship to the company and the review and valuation date for each Detailed Valuation Reserve study.

In accordance with the NAIC Instructions to the Annual Statement, it is recommended that the Actuarial Report underlying the Statement of Actuarial Opinion contain both narrative and technical components in sufficient detail to clearly explain how all memos and exhibits tie together, as well as including an exhibit that reconciles and maps the data used by the Actuary to the Annual Statement Schedule P line of business reporting.

AIG’s methodology and assumptions for calculating workers’ compensation discount are not fully compliant with the laws and approved practices for discounting workers’ compensation reserves in New York and its combined pooling agreement.

It is recommended that AIG amend the order of operations in its workers’ compensation discounting calculation by first distributing nominal reserves to each statutory company in accordance with the pooling agreement and then, discount the reserves of each statutory company separately, pursuant to the approved discounting practices of the respective domiciliary states.

It is also recommended that AIG develop an individual claim model to calculate workers’ compensation tabular discount on eligible claims, based on the attributes of the claims being discounted.

5. SUBSEQUENT EVENTS

On January 26, 2016, AIG announced its intention to return $25 billion of capital to shareholders. As of May 4, 2017, AIG had returned approximately $18.1 billion to its shareholders. Dividends received from insurance subsidiaries are a significant component of the return of capital plan.

Reserve Strengthening

On February 3, 2017, AIG announced that the total amount of the 2016 year-to-date adverse development charge for its non-life business to be $5.8 billion. Approximately $4.9 billion of this reserve charge relates to reporting segments within the Combined Pool.

Adverse Development Coverage

On January 20, 2017, the Combined Pool entered into an adverse development reinsurance agreement with National Indemnity Company ("NICO"), a subsidiary of Berkshire Hathaway Inc., under which the Combined Pool ceded to NICO eighty percent of its reserve risk above an attachment point on substantially all of its U.S. Commercial long tail exposures for accident years 2015 and prior. Under this agreement, the Combined Pool ceded to NICO eighty percent of net paid losses and net allocated loss adjustment expenses on subject business on or after January 1, 2016 in excess of $25 billion of net paid losses, up to an aggregate limit of $25 billion. NICO's limit of liability under the contract is $20 billion. The Company applied permitted practices allowing it to account for this transaction as prospective reinsurance and to record this contract in 2016, instead of 2017, resulting in a gain to the Company of $514 million.

AIG CEO Transition (CEO Resignation and New CEO Appointed)

On March 9, 2017, AIG announced that Mr. Peter Hancock, President and Chief Executive Officer, had informed the board of directors of his intention to resign. As part of the transition plan, Mt. Hancock remained as CEO until a successor was named. On May 15, 2017, AIG announced the appointment of Brian Duperreault as its new President, Chief Executive Officer and Director, effective May 14, 2017.

John Paulson to Leave AIG Board of Directors

Mr. John Paulson is not being nominated for re-election to the AIG Board. Mr. Paulson's one-year term will end at the AIG Annual Meeting to be held on June 28, 2017.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained one recommendations as follows (page numbers refer to the prior report):

ITEM		PAGE NO.
A	It was recommended, in accordance with the NAIC instructions to the Annual Statement, that the Actuarial Report underlying the Statement of Actuarial Opinion contain both narrative and technical components in sufficient detail to clearly explain how all the memos and exhibits tie together, as well as including an exhibit that reconciles and maps the data used by the Actuary to the Annual Statement Schedule P line of business reporting. As this Company was stand-alone as of June 30, 2013, this recommendation is no longer applicable. However, as a pool member as of December 31, 2015, a similar recommendation is made in this report.	16

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A	Losses and Loss Adjustment Expenses	
i.	It is recommended that the Actuarial Report underlying the Statement of Actuarial Opinion contain both narrative and technical components in sufficient detail to clearly explain how all memos and exhibits tie together, as well as including an exhibit that reconciles and maps the data used by the Actuary to the Annual Statement Schedule P line of business reporting.	21
ii.	It is recommended that AIG amend the order of operations in its workers' compensation discounting calculation by first distributing nominal reserves to each statutory company in accordance with the pooling agreement and then, discount the reserves of each statutory company separately, pursuant to the approved discounting practices of the respective domiciliary states.	21
iii.	It is also recommended that AIG develop an individual claim model to calculate workers' compensation tabular discount on eligible claims, based on the attributes of the claims being discounted.	21

Respectfully submitted,

____
Maribel Nunez, CPCU
Associate Insurance Examiner

STATE OF NEW YORK)
)ss:
COUNTY OF NEW YORK)

Maribel Nunez, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

____
Maribel Nunez

Subscribed and sworn to before me

this_________ day of __________________, 2017.

APPOINTMENT NO. 31368

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, ANTHONY ALBANESE, Acting Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

Maribel Nuñez

as a proper person to examine the affairs of the

AIU Insurance Company

and to make a report to me in writing of the condition of said

COMPANY

with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed by name and affixed the official Seal of the Department at the City of New York

this 17th day of August, 2015

ANTHONY ALBANESE
Acting Superintendent of Financial Services

By:

Rolf Kaumann
Deputy Chief Examiner