AIG Life Limited

Directors' Report and Financial Statements

For the year ended 31 December 2020

Registered Number: 6367921

AIG Life Limited

Directors' Report and Financial Statements

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AIG Life Limited

Directors and Officers

Directors

Philip Willcock

Donald MacLean

Laura Santori, Independent Non-Executive

Michael Urmston, Independent Non-Executive Chairman (retired 27 February 2021)

Martin Pike, Independent Non-Executive Chairman (appointed 20 January 2021, chairman from 27 February 2021)

Laura McCracken, Independent Non-Executive (appointed 26 February 2021)

Company Secretary

Mark Robinson (appointed 26 February 2021)

Kate Hillery (resigned 26 February 2021)

Registered Office

The AIG Building,
58 Fenchurch Street,
London,
EC3M 4AB

Independent Auditors

PricewaterhouseCoopers LLP
7 More London
London
SE1 2RT

Strategic Report for the year ended 31 December 2020

The Company

AIG Life Limited ("the Company") was established in 2008 as an innovative provider of long term life insurance, critical illness and income protection products, sold through Independent Financial Advisers (IFAs), intermediaries and distribution partners. As at the end of December 2020, the Company has achieved a year to date 10.0% (2019: 11.9%) of the total published UK individual protection market. The award-winning business is designed around a technology led proposition which makes it easier for both intermediaries and customers to buy protection products and is focused on:

- Developing quality products designed to meet the real needs of customers
- Achieving operational excellence
- Working with and empowering distribution partners

The directors are pleased to report that the Company continued to make good progress with its growth strategy in the sixth year following acquisition by AIG. In relation to the individual protection business, sales for 2020 were below plan but the Company performed strongly considering the challenging economic environment and there has been significant focus on positioning the Company for achieving sales growth in the future.

The group protection business, consisting of group life, critical illness and income protection products, has continued to grow ahead of target in the second year since acquisition of this business from Munich Re. During 2020, the group protection business has grown significantly, so that inforce premiums are now £149.8 million (2019: £97.6m) and in-force policies of 9,135 (2019: 6,874) covering 805,819 lives (2019: 484,889).

Product Development

During 2020, the Company revised its critical illness offering with launch of Critical Illness Choices, which includes both a core cover with choice of four additional benefits enabling customers to build a policy tailored to their unique needs and budget. This allows customers to choose insurance that matches their own stage in life. Since launch, this proposition has had overwhelmingly positive reaction and resulted in increased sales.

Further product innovation continued throughout 2020 and high levels of service continued to underpin all of AIG Life's activities.

Underwritten Whole of Life Risk Transfer

Following significant reduction in yields during 2019, the decision was made to cede the net cashflows of the existing Underwritten Whole of Life ("UWOL") business as at 30th June 2019 to a fellow AIG company, AIG Reinsurance Company ("AIRCO") based in Bermuda, at premium paid of £22 million, reported in results for the prior year. With continued low yields during 2020, the decision was made to further cede the net cashflows of Underwritten Whole of Life ("UWOL") business written after 1st July 2019 to AIRCO for premium paid of £3.5 million, reported in the results for the current year. The decision was made in order to maintain solvency levels as the UWOL business is long duration and so the solvency requirements are volatile to movements in yields.

COVID-19

On 11 March 2020, the World Health Organization declared the outbreak of a strain of novel coronavirus disease, COVID-19, a global pandemic. The United Kingdom Government imposed a number of measures to contain the outbreak, including stay at home orders, business closures and travel restrictions. The spread of COVID-19 has had a significant impact on the global economy, including falls in interest rates. The response of the Company to COVID-19 and impact to results are detailed below.

Employees

From the end of March 2020, all employees of the Company have been working from home. The Company has always had a flexible approach to working and many employees had already been set up to work from home. As a result, the move to all employees working from home was relatively seamless and Company has been able to continue to support customers. The Company provided equipment for employees and provided practical support to look after employees' health and wellbeing, including increased flexibility as required.

Customers

The Company were aware of the financial strain COVID-19 placed on a number of individual customers and small businesses. Within two months after the global pandemic had been announced, the Company introduced payment flexibility options to enable Individual Protection customers to reduce premiums, with proportionate reduction in level of cover, so that they can continue to be insured. For small businesses with Group Risk Protection cover, the Company put in place a premium deferral facility to enable them to retain their insurance cover. Both initiatives were positively received by agents, brokers and customers.

Impact of COVID-19 on financial results

As a provider of life insurance products, the Company has seen an increase in claims from COVID-19 both on the Individual and Group books. The Company experienced excess mortality although significantly lower than the experience of the overall United Kingdom population. The Company expects a further spike in claims in Q1 2021 but expects COVID-19 claims to reduce during the rest of 2021 with the vaccine rollout in the United Kingdom.

The COVID-19 outbreak initially led to a fall in interest rates and then further volatility in yields during the year. Over the past few years, the Company has taken steps to reduce its exposure to yield volatility including use of reinsurance and derivatives. During 2020, the Company took further steps including rebalancing the derivative hedging programme, rebalancing the lapse reinsurance programme, and the further cession of UWOL business to AIRCO referred to earlier. As a result, the Company has been able to maintain a strong solvency position throughout the year. The Company continues to monitor the risks from COVID-19 on an ongoing basis and has ensured there remains a strong cash position, low level of debtors and strong solvency and liquidity position.

Business Performance

New Business

During 2020 there was an overall increase of 5.3% in level of new business compared to prior year, with an Annual Premium Equivalent ("APE") of £147.0 million (2019: £139.6 million). APE is one year's worth of premiums for a new policy sold and is a standard measure used by insurance companies. This was a significant achievement in a competitive market and given the challenging economic conditions impacting all insurers. This was due to a significant growth in sales of new group protection business, with APE achieved of £75.7m (2019: £48.2 million), an increase of 60%. There was a decrease of 22.1% (2019: increase 17.9%) in the level of new individual protection business achieved with an APE of £71.3 million (2019: £91.7 million). This reflected a conservative approach to managing the value of new business in uncertain economic conditions with elevated claims.

The majority of new business sales on the individual protection business in 2020 continued to come from the IFA / intermediary sector (80%) with the remaining 20% from distribution partners (Neilson, Direct Line Group, Royal Bank of Scotland and NFU Mutual). The IFA sector is intended to remain a core distribution channel however the Company's ambition is to continue to broaden its distribution footprint.

Gross Earned Premiums also continued to grow substantially, from £387.5 million in 2019 to £500.3 million in 2020, an increase of 29.1%.

Expenses

The Company maintained its focus on cost efficiency and was able to reduce the level of expense even with the increase in overall new business. Total operating expenses were £66.9 million compared with £69.6 million in the prior year, whilst there was increase in the total in-force policy numbers from 822k to 953k for individual protection book of business and for group protection business which had 9k (2019: 7k) of policies covering 805k (2019: 485k) lives at 31 December 2020.

UK GAAP Results

Before financing costs the Company achieved an operating profit of £9.6 million compared with £6.8 million in 2019. After financing costs as shown in the Statement of Profit or Loss, the Company achieved a profit before tax of £9.1 million in 2020 compared with £6.0 million in 2019. The profit after tax was £4.9 million compared with £5.0 million in the prior year.

Capital and Funding

The cash flows of the individual protection business are negative in the first year of a policy due to the high up-front costs, including indemnity commission paid to intermediaries and the costs of setting up a policy, including medical underwriting. Thereafter the cash flows will be positive for several years as premiums continue to be received but may return to negative after a certain time as claims are more likely to become payable. This means that the Company has "negative reserves" (i.e. future cash flows are an asset of the business); in these UK GAAP accounts the negative reserves are held at zero value (the gross of reassurance reserves are shown on both sides of the balance sheet for presentation purposes only) and their underlying value supports the DAC asset. In the early days of the business the capital was provided by the Company's then parent in the form of share capital. Subsequent funding has been provided in the form of further share capital.

The final Solvency II solvency capital requirement coverage ratio at 31 December 2020 was 162% (31 December 2019 was 203%). AIG Life rating from AKG has remained at B+.

Future Developments

During 2021 the Company will continue to enhance both its individual and group protection business within its core markets by continuing to develop new product propositions and offering excellent service to intermediaries, partnerships, companies and customers. The market for protection remains price competitive and we expect this to continue but the Company believes that its excellent service and innovative products position it well to compete in this market.

Going Concern

The financial statements have been prepared on a going concern basis. The directors consider that the Company will remain adequately capitalised during 2021 as it continues to grow in the individual and group protection markets. The directors are also of the opinion that there are sufficient liquid funds available for the Company to meet its liabilities as they fall due.

Principal Risks and Uncertainties

Note 23 to the Financial Statements sets out the Company's approach to risk management.

Low yields have historically been a significant risk to the Company's results and capital coverage, and they have continued to be an issue during 2020. The further ceding of the UWOL business during 2020 to AIRCO in the year has significantly reduced the sensitivity of the company to interest rates. However, sensitivity to yields movements remains a key risk and while global market conditions are outside the control of management, yields are monitored on an ongoing basis and the Company have a number of levers that can be used to mitigate this risk.

The Company is a regulated entity and is exposed to the risk of costs arising from customer detriment, however the emphasis on high standards of conduct and active monitoring of compliance and risk management ensures this risk is kept to a minimum.

Section 172 (1) statement and our stakeholders

This reports sets out how the directors have performed their duty under Section 172 ("s172") of the Companies Act 2006, to promote the success of the Company for the benefit of all its stakeholders, and to have had regard to the following matters:

- The likely consequences of any decisions in the long term;
- The interests of the company's employees;
- The need to foster the company's business relationships with suppliers, customers and others;
- The impact of the company's operations on the community and the environment;
- The desirability of the company maintaining a reputation for high standard business conduct; and
- The need to act fairly as between members of the company.

Key decisions in 2020

The Board considers all strategic decisions in the long term, identifies current and future stakeholders who may be impacted, and carefully considers their interests and potential impact in the decision making. During 2020, the Company responded to the COVID-19 pandemic by introducing payment flexibility options to enable customers to reduce premiums so that they can retain their insurance and enable small businesses to defer payments. The Company worked with reinsurers to enable these options to be presented to customers. This prompt response to this consequence of the pandemic was positively received, enabling customers to retain their insurance which ultimately benefits all the Company's stakeholders.

The Board considered all stakeholders when they entered into agreements to cede the net cashflows of the UWOL business written from 1st July 2019 to AIRCO during 2020. These agreements significantly reduced the Company's sensitivity to interest rate fluctuations particularly to the Company's solvency position, and therefore met the needs of all the Company's stakeholders, particular its customers, regulators and its shareholder.

Key stakeholders

- Employees – our employees are fundamental to the success of the Company. As a result, AIG Life seeks to ensure employees are fully supported in their work, with a strong flexible work culture and BeingYou@AIG framework to encourage everyone to feel they belong and can bring their whole selves to work. There is also regular engagement activities further explained in the Report of the Directors below.
- Customers – the Company's success has been built on having an award-winning business which makes it easier for customers to buy protection products and is focused on quality products designed to meet the real needs of customers. Therefore we continue to pro-actively review products to ensure they continue to meet needs of customers, and regularly monitor customer outcomes and metrics throughout the year. The launch of Critical Illness Choices indicates the importance placed on meeting the needs of our customers.
- Suppliers, Intermediaries and Distribution partners – AIG Life business has grown through working closely with intermediaries and distribution partners, empowering them to be able to meet the real needs of their customers. We continue to engage closely with all our intermediaries and distribution partners, in particular to ensure appropriate risk management and customer service.
- Communities – AIG Life recognises the importance of contributing to our communities, and supports one health related charity each year with various fundraising activities. For 2020, the chosen charity was Age UK. The Company also provides time off for employees for volunteering.
- Regulators – as an insurance company, AIG Life are subject to financial services regulations and approvals, and maintains an open and constructive relationship with the UK regulators. In 2020, this included constant engagement during the year on the impact of COVID-19 and from a possible 'no-deal' Brexit, in line with other insurers.
- Shareholder – AIG Life is wholly owned by AIG Holdings Europe Limited as its immediate parent, and ultimately by American International Group, Inc ("AIG"). The Company has regular engagement with both its immediate parent company as well as the management of AIG's Life and Retirement group, of which AIG Life forms a part for management purposes.

Conduct

Culture, values and standards underpin how a company creates and sustains value over the longer term. As a result, the Board considers it critical that the Company maintains high standards of business conduct in its dealings with all stakeholders. As a result, there is a regular conduct committee held by management which reviews key conduct metrics in all the Company's operations. Management, employees and others involved with the Company are trained and monitored on how they meet the values and standards of the Company.

This report was approved by the Board of Directors on 6th April 2021 and signed on its behalf by:

Donald MacLean

Chief Financial Officer

The AIG Building, 58 Fenchurch Street, London, EC3M 4AB

Report of the Directors

Registered Number: 6367921

The Company has chosen in accordance with section 414C(11) of the Companies Act to set out in its Strategic Report information that is otherwise required to be contained in the Directors' Report. This applies to important events which have occurred since the end of the financial year, likely future developments in the business and in relation to the use of financial instruments, the financial risk management objectives and policies of the Company and the exposure of the Company to price risk, credit risk, liquidity risk and cash flow risk.

Directors

The Directors who served during the year are set out below:

Adam Winslow (resigned 31 December 2020)

Philip Willcock

Donald MacLean

Laura Santori, Independent Non-Executive

Michael Urmston, Independent Non-Executive Chairman

Results and Dividends

As set out in the Strategic Report above the result for the year is a profit after taxation of £4.9 million, (2019: profit of £5.0 million). The directors do not propose to pay a dividend for this year. In 2019, the only dividend was a dividend of £0.5 million paid in respect of interest on the perpetual loan. This loan was converted to ordinary shares in August 2019.

Assets

The primary assets held by the Company at 31 December 2020 are cash and fixed term investments. These assets represent the Company's expected working and solvency capital requirements. In addition the DAC asset is supported by the value of future expected cash flows and is tested regularly to ensure that this remains the case.

Liabilities

The liabilities at 31 December 2020 include creditors in respect of the Company's day to day trading activities and reserves for insurance contract liabilities.

Share capital

At 31 December 2020 the authorised share capital comprised 316,885,000 ordinary shares of £1 each, all fully paid up.

Shareholder's equity

Unrealised gains on investments net of taxation of £18.0 million (2019: gains of £17.7 million) were recorded in the Statement of Comprehensive Income on page 18. At 31 December 2020 the total shareholders' equity stood at £473.0 million, (2019: £450.1 million).

Cash Flow

Cash and cash equivalents available to the Company have increased by £46.1 million (2019: decrease £16.1 million) during the year principally due to positive cashflow from increased new sales in the group protection business. The year-end position of £72.0 million (2019: £25.9 million) remained comfortably above the Company's liquidity needs. Surplus cash funds are transferred to the investment manager for investment in fixed income securities where appropriate.

Employees

The average number of employees in the United Kingdom during the year was 424 (2019: 407) and their aggregate remuneration is shown in note 6.

Employee involvement

Employees are kept up to date about a wide range of Company developments through a programme of engagement activities, delivered through a variety of channels. This includes formal quarterly Director briefings for all employees as well as regular bulletins and employee newsletters. In addition, AIG Life continues to run an annual engagement survey of all AIG Life employees.

Gender Pay Report

AIG Life Limited ("AIG Life") is committed to fostering diversity, equality, fairness and inclusion for all its employees. We are working to reduce our gender pay gap and to maintain gender parity in our leadership pipeline. AIG Life encourages a diverse and inclusive workforce and supports the advancement of women across its footprint.

This is the third year that AIG Life has had over 250 employees and is required to report its gender pay gap. In 2020, we continued our internal analysis, discussed what we had found, agreed how we would maintain and improve our position and shared our findings with employees. The analysis of our gender pay and bonus gaps on 5th April 2020 shows AIG Life was almost at gender parity as a result of the high number of women we have in senior positions. We continue to hire the best people at AIG Life based on their talents, and have a flexible working approach for all employees, to maintain our culture of success, reward, opportunity and work life balance.

Our Pay Strategy

AIG Life is confident that men and women are paid equally for doing equivalent jobs across our business.

We will continue to ensure our policies and processes are fair to all employees. This includes an annual review of our remuneration policy by our Remuneration Committee. We employ tools and practices that enable us to benchmark our total remuneration objectively against our chosen markets/peer group to ensure that our package is fair and competitive in the market. We work hard to develop, recognise and reward the contribution of all our employees. In this competitive market for talent, we strive to attract highly motivated people, keep them engaged and help them achieve their career aspirations.

Recruitment Activity

We appoint people to roles based entirely on talent and merit, regardless of age, race, gender, gender identity, marital status, sexual orientation, disability, gender identity, or religion and belief. The language and activities we adopt in our recruitment process are reflective of our inclusive culture. We have worked with external agencies and partnerships to ensure that our candidate pools are as diverse as possible. We have measured goals to ensure that candidate pools for both early careers and senior appointments have gender balance. We also measure gender balance for appointments and succession planning for key roles.

Diversity and Inclusion

Through our diversity and inclusion (D&I) framework, BeingYou@AIG, we are creating a workplace that nurtures inclusivity, where everyone feels they belong and can bring their whole selves to work. As we continue to follow a strategic roadmap towards greater inclusivity, our initiatives focus on all aspects of inclusion, rather than solely on gender balance.

BeingYou@AIG activities include:

Education and Awareness

We continued to promote opportunities for our managers and employees to increase their inclusive awareness through initiatives like unconscious bias training, monthly D&I focused communications and ambitious events run by our employee resource groups (ERG).

Development and Mentoring

We continued to provide development for high potential senior women through AIG's global Women's Executive Leadership Initiative. We continued our partnership with Everywoman, to provide online development for all junior to mid-level employees, not just women, through leadership focused webinars, podcasts, workbooks and articles. Our ERG-led internal mentoring programme for all employees had a high uptake.

Parental support

Our parental toolkit continues to provide our employees and managers with online support for parents before, during and after parental leave and is additionally supported with new monthly informational webinars. We continued to promote agile and flexible working through webinars for employees and focused manager training.

Career break returner support

We continued to offer mentoring for individuals returning from a career break.

Gender Pay Gap

UK government legislation requires employers with 250 staff or more to publish statistics outlining the difference between the average pay of male and female employees. The analysis is based on data as of April 5th every year. Companies must disclose the gender pay gap and the gender bonus gap based on the mean and the median averages, the proportion of men and women that receive a bonus, and the proportion of men and women in each quartile. This is different to Equal Pay, which legislates that men and women in the same employment performing equal work must receive equal pay, as set out in the Equality Act 2010. It is unlawful to pay men and women differently for performing the same job. Bonus pay for the purpose of gender pay gap reporting includes any rewards related to profit-sharing, productivity, performance, incentive or commission.

The percentage difference in pay between men and women:

Mean	2020	2019
Hourly fixed pay	4%	4%
Bonus paid	33%	28%
Median		
Hourly fixed pay	1%	7%
Bonus paid	18%	16%

Our policy and culture of inclusivity and flexible working, regardless of gender, continues to have a positive impact on our mean and median hourly pay across all levels of the business. AIG Life's median pay difference in 2020 moved in women's favour. AIG Life's Senior Leadership Team mix continues to have a gender mix in favour of women.

The gap between men and women widened on bonuses paid. This is partly attributed to the nature and timing of key executives' arrival and their bonuses. It is also attributed to there being a high proportion of females with prorated annual bonus targets, most likely because they were part-time workers, on an unpaid leave of absence or were not entitled to one, having recently joined the company.

Employees awarded a bonus for 2020

	Bonus	No Bonus
Men	100%	0%
Women	99%	1%

In 2019, 87% of men and 88% of women received a bonus. In 2020, almost all eligible employees received a bonus. We are confident as a business that men and women have an equal opportunity to participate in the various bonus schemes.

Quartiles

Quartiles are calculated by ranking the hourly pay for each employee from highest to lowest. The list is then divided into four equal sized groups of men and women. The below table shows the percentage of men and women in each group. This data shows that we have more senior men than women in higher paying roles.

	Men	Women
Lower	55%	45%
Lower Middle	52%	48%
Upper Middle	49%	51%
Upper	61%	39%

Quartiles for 2019

	Men	Women
Lower	54%	46%
Lower Middle	49%	51%
Upper Middle	56%	44%
Upper	61%	39%

Note: these numbers reflect the internal pipeline of female progression at AIG Life as well as the continual growth of our operation.

Future Plans on Gender Pay

- Maintain a diverse and inclusive recruitment selection process
- Introduce a requirement for a diverse panel in recruitment and slate
- Remove reference to cultural fit to reflect the diverse perspectives of our society
- Continue to promote the development opportunities available to employees that maintain inclusivity and a gender balance. This includes the Accelerated Leadership Development programme in which our first cohort in late 2019 was tailored towards women
- Expand our inclusion training for employees and roll out training for managers including inclusive hiring and flexible/agile working topics
- Continue to encourage flexible working for all employees
- Continue to actively promote our parental leave policy for all parents through improved communication and awareness
- Continue to provide a support programme for all employees returning to work after a career break

- Introduce a returnship programme encouraging experienced workers to join our company after taking a career break
- Actively encourage senior leaders and our experienced professionals to mentor and coach employees
- Encourage experienced professionals to share how our culture and policy have allowed them to progress
- Spotlight on internal talent to encourage and support individuals seeking their own career path
- Continue to support and promote our Employee Resource Groups with their valuable contribution they make to our inclusive culture
- Continue to be involved and invest in the wider promotion of inclusion and gender balance in the insurance industry, for example through our commitment to the Chartered Insurance Institute's Insuring Women's Futures, the ABI Talent & Diversity Network, and the Women in Protection network

At AIG Life, we are confident that men and women are paid equally for doing equivalent jobs. It is encouraging to see our median gender pay gap has narrowed towards almost parity. There remains an opportunity for further improvement and we are committed to investing in activities that will enable more women to continue to reach senior positions. We continue to build on the great work achieved through our BeingYou@AIG framework to increase inclusivity at all levels of the organisation.

Disabled persons

In line with the legislation relating to discrimination in employment, including the employment of people with disabilities, the Company's policy and procedures include our requirements and obligations and also form part of our management training. In addition an e-learning module further embeds our approach to a diverse working environment which is made available to all employees. Our approach to diversity is monitored regularly.

Environmental Responsibilities and Climate Change

We acknowledge our environmental responsibilities and the impact that climate change has on our business and remain committed to playing a role in addressing these challenges. To that end, the AIG Group (AIG Inc. and its global subsidiaries) has developed a sustainability agenda intended to help future-proof our communities — a unified sustainability approach that supports our business strategy and addresses expectations from many of our key stakeholders including investors, regulators, clients and employees. Combating climate change is key to the Company as climate-related risks already present significant challenges to insurance companies, particularly in areas such as underwriting, claims and investments, financial reserving and operations. AIG is well-positioned to leverage its strength and risk expertise to help mitigate greenhouse gas emissions and guide our clients through the risks and opportunities posed by climate change.

The AIG Group have a Sustainability Working Group to assist with the development and execution of AIG's climate strategy. The groups meet regularly to review and assess the Company's position, policies, practicing and reporting with regards to sustainability, which includes climate-related issues. The Enterprise Risk Management teams (ERM) lead the alignment of AIG's sustainability efforts with AIG's enterprise risk management framework.

The climate change risks to the Company have been assessed and in doing so split into two categories which are discussed below.

Short to medium term risks

Physical risks are the main short to medium term risk. Climate change exposes us to physical risks which may challenge resilience at an operational level such as the impacts on individual facilities and office locations as well as supply chains. AIG has business continuity plans to respond to incidents that may disrupt business operations, such as extreme weather events.

Long term risks

Our assessment identified the transition to a low-carbon economy, litigation claims, reputational and technological risks. Whilst we recognise that the transition to a low-carbon economy is gradual and relatively slow process, we monitor and work closely with our stakeholders to keep abreast of changes in this area. AIG Life holds long-term investment for future periods and, as efforts to move away from a carbon-intensive economy gather pace we recognise the possibility that financial market participants may fundamentally reassess the value of carbon-intensive assets and the businesses that rely on them. Accordingly, we attempt to consider the relevant and material factors as part of our initial investment underwriting process. In recent years the industry has seen an overall increase in various climate-related litigation claims brought forward for a multitude of reasons. We will continue monitoring litigation trends to assess the potential impact of any developments and overall risk mitigation strategies. Climate change has been identified as a potential source of indirect reputational risk to AIG's corporate brand due to the prospect of a changing customer base or community perceptions of an organization's contribution to or detraction from the transition to a lower-carbon economy.

Environmental Strategies

During the year the Company has developed a Climate Risk Plan to support management in their duties to incorporate Climate Risk Management into the business processes. Examples of the key activities undertaken thus far are:

- The Company has appointed a Senior Management Function (SMF) role responsible for the identification and management of financial risks from climate change;
- The AIG Life Board has specific mention of its duties with regard to Climate Risk in its Terms of Reference;
- Participation in discussions and round tables regarding new and additional climate testing scenario analysis being introduced by PRA;
- Investment portfolio analysis with a view to assess the exposure to fossil fuel production, power generation and renewable energy; and
- Climate scenarios were considered in the Year End 2019 and 2020 Own Risk and Solvency Assessment (ORSA) reports.

The Company is committed to reducing its global carbon footprint and we recently achieved and exceeded an emission reduction target in our UK operations through our participation in the UK Carbon Reduction Commitment. The Company shares facilities and facility related services with other AIG companies in the UK, principally AIG UK. AIG in the UK have demonstrated this commitment by increasing the efficiencies of internal company operations and physical assets under the company's control and reducing energy usage. Examples of this include continuous update to our offices, including the use of high efficiency lighting, sustainably manufactured products, and energy-efficient mechanical infrastructure installation of water saving washroom facilities and computer server technologies. In addition to this, AIG Life, working with AIG UK Limited, is a supporter of the UK Carbon Reduction Commitment and has committed to reducing the Scope 1 and Scope 2 carbon emissions and has already had significant success in this area.

All material Greenhouse Gas emissions are reported using 'tonnes of CO2 equivalent' ('tCO2e') as the unit of measurement and energy use in kWh. Our report for 2020 is shown below:

Greenhouse Gas Emissions Source	FY 2019	**FY 2020**	Trend
Scope 1 - Fuel combustion in vehicles and buildings (tCO_2e)	47	**31**	-34%
Scope 2 – (Location-based) - Electricity (tCO_2e)	126	**84**	-33%
Scope 2 – (Market-based) - Electricity (tCO_2e)	0	**0**	0%
Scope 3 - Business travel (tCO_2e)	1,197	**244**	-80%
Scope 3 - Indirect emissions from water (tCO_2e)	1	**1**	-38%
Scope 3 - Fuel and energy-related activities (tCO_2e)[1]	117	**40**	-66%
Total Scope 1 & 2 (Location-Based)	173	**115**	-33%
Total Scope 1 & 2 (Market-Based)	47	**31**	-34%
Total Scope 3	1,315	**285**	-78%
tCO_2e per net premiums written (Scope 1 & 2 Location-Based)[2]	0.84	**0.42**	-50%
tCO_2e per net premiums written (Scope 1 & 2 Market-Based)[2]	0.23	**0.11**	-51%

1 Includes WTT emissions from fuels and electricity transmission and distribution losses

2 Value of net premiums written on the last day of the financial year, expressed in £m.

Overall, our Scope 1 and 2 emissions have decreased by 33% between 2019 and 2020. This was primarily due to office closure and reduced occupancy in our buildings because of COVID-19. We purchase our electricity from 100% renewable sources. Our measured Scope 3 emissions totalled 285 tCO2e, with a 78% decrease from the previous year. Again, this decrease is primarily due to the global lockdowns and subsequent travel restrictions introduced during the COVID-19 pandemic.

During the year, our total fuel and electricity consumption totalled 522,140 kWh. The split between fuel and electricity consumption is displayed below.

Energy consumption (kWh)	FY 2019	FY 2020	Trend
Electricity	489,647	**358,955**	-27%
Natural gas	203,801	**149,858**	-26%
Fuels	33,999	**13,327**	-61%
Total energy use	727,447	**522,140**	-28%

We have also chosen to use net premium written as an intensity metric, the value of net premiums has increased between 2019 and 2020 and this coupled with the reduction in Scope 1 and Scope 2 emissions, has caused a decrease in the emissions by 50% per net premiums written.

The above information has been prepared in accordance with the new environmental and climate change regulations and summarises how we have incorporated climate-related initiatives into our governance, strategy and risk management approaches, as well as the metrics and targets we use to track performance.

Independent Auditors

An ordinary resolution of the Company for the re-appointment of PricewaterhouseCoopers LLP as auditor of the Company will be proposed to the members of the Company in accordance with Section 485(4) of the Companies Act 2006.

Information provided to the auditor

The members of the Board, and the dates of their appointment and resignation as applicable, are shown on page 9. The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This report was approved by the Board of Directors on 6th April 2021 and signed on its behalf by:

Donald MacLean

Chief Financial Officer

AIG Life Limited

Profit and Loss Account for the year ended 31 December 2020

	Note	2020	2019
		£'000	£'000
Earned premiums net of reinsurance			
Gross earned premiums	3	**500,295**	387,477
Outward Reinsurance premiums		**(224,777)**	(181,642)
		275,518	205,835
Investment (Expense)/Income	4	**(11,907)**	2,530
Other Operating Income		**55,818**	64,153
		319,429	272,518
Claims paid, net of reinsurance			
Gross claims paid		**(210,277)**	(172,628)
Reinsurers' share		**103,537**	101,266
		(106,740)	(71,362)
Change in other technical provisions, net of reinsurance			
Gross claims	16	**(297,023)**	(447,132)
Reinsurers' share	16	**293,688**	446,207
		(3,335)	(925)
Operating expenses			
Acquisition expenses	5	**(176,311)**	(169,452)
Administrative expenses	5	**(23,479)**	(23,959)
		(199,790)	(193,411)
Operating profit		**9,564**	6,820
Finance costs		**(452)**	(813)
Profit on ordinary activities before tax		**9,112**	6,007
Tax on profit on ordinary activities	7	**(4,213)**	(1,039)
Profit for the financial year		**4,899**	4,968

All of the above results relate to continuing operations.

The notes on pages 21 to 47 form an integral part of these financial statements.

Statement of comprehensive income for the year ended 31 December 2020

	Note	2020	2019
		£'000	£'000
Profit for the financial year		**4,899**	4,968
Other comprehensive income:			
Net change in fair value of available for sale financial assets		**22,503**	21,377
Total tax on other comprehensive income	7,19	**(4,533)**	(3,635)
Total other comprehensive income for the year, net of tax		**17,970**	17,742
Total comprehensive income for the year		**22,869**	22,710

All of the above results relate to continuing operations.

The notes on pages 21 to 47 form an integral part of these financial statements.

Statement of Financial Position as at 31 December 2020

	Note	2020	2019
ASSETS		**£'000**	**£'000**
Intangible Assets			
Other Intangible Assets	8	**27,790**	28,886
Goodwill	8	**27,099**	30,487
		54,889	**59,373**
Investments			
Investments in group undertakings	9	**1,300**	1,700
Other financial investments	10	**221,780**	188,450
		223,080	**190,150**
Reinsurers' share of technical provisions	16	**1,200,918**	907,230
Debtors	11	**185,892**	74,075
Other assets			
Tangible assets	12	**625**	671
Cash and cash equivalents		**72,041**	25,937
		72,666	**26,608**
Prepayments and accrued income			
Deferred acquisition costs	13	**214,748**	211,475
Other Prepayments and accrued income		**2,340**	1,931
		217,088	**213,406**
Total Assets		**1,954,533**	**1,470,842**
Equity and Liabilities			
Capital and reserves			
Called up share capital	14	**316,885**	316,885
Share premium account		**86,725**	86,725
Profit and Loss Account		**69,381**	46,512
Total Shareholders' Equity		**472,991**	**450,122**
Technical provisions	16	**1,232,837**	935,814
Provision for tax	19	**14,234**	9,068
Creditors arising out of direct insurance operations		**2,276**	1,716
Creditors arising out of reinsurance operations	18	**205,363**	46,185
Loans	15	**-**	3,375
Other creditors including taxation and social security	18	**21,372**	19,398
Accruals and deferred income	18	**5,460**	5,164
Total Liabilities		**1,481,542**	**1,020,720**
Total Equity and Liabilities		**1,954,533**	**1,470,842**

These financial statements were approved by the Board of Directors on 6th April 2021 and signed on its behalf by:

Donald MacLean, Chief Financial Officer

The notes on pages 21 to 47 form an integral part of these financial statements.

Statement of Changes in Equity for the year ended 31 December 2020

	Share capital £'000	Share premium £'000	Profit and Loss Account £'000	AFS Reserve £'000	Perpetual Debt £'000	Total £'000
Opening Balance 01.01.2019	301,885	86,725	31,889	(7,677)	15,000	427,822
Shares issued during the year	15,000	-	-	-	(15,000)	-
Gain on AFS reserve	-	-	-	17,742	-	17,742
Dividend	-	-	(410)	-	-	(410)
Profit for the year	-	-	4,968	-	-	4,968
At the end of the year 31.12.2019	**316,885**	**86,725**	**36,447**	**10,065**	**-**	**450,122**
Gain on AFS reserve	-	-	-	17,970	-	17,970
Profit for the year	-	-	4,899	-	-	4,899
At the end of the year 31.12.2020	**316,885**	**86,725**	**41,346**	**28,035**	**-**	**472,991**

The AFS reserve includes the cumulative net change in the fair value of available for sale investments, net of tax, until the investment is derecognised. Upon de-recognition or impairment of available for sale investments, the relevant portion of the available for sale reserve is reclassified to profit or loss.

The notes on pages 21 to 47 form an integral part of these financial statements.

Notes to the financial statements for the year ended 31 December 2020

AIG Life Limited ("the Company") is a private company, limited by shares, domiciled and incorporated in England and Wales. The Company is primarily involved in long term protection insurance.

The financial Statements were approved for issue by the Board of Directors on 6th April 2021.

1. Accounting Policies

a. Basis of Presentation

The financial statements have been prepared in compliance with the Companies Act 2006 and the requirements set out in Schedule 3 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) as they relate to insurance companies. The Company's financial statements have been prepared in compliance with Financial Reporting Standard (FRS) 102, The Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102) and FRS 103, Insurance Contracts (FRS 103).

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. These financial statements are publicly available and may be obtained from The AIG Building, 58 Fenchurch Street, London EC3M 4AB. The Company has therefore not prepared consolidated financial statements.

The financial statements have been prepared considering the Application Guidance in FRS 100, Application of Financial Reporting Requirements. The Company is considered to be a qualifying entity and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Cash flow statement and related notes;
- Reconciliation of the number of shares outstanding at the beginning and the end of the period;
- Share-based payment arrangements; and
- Compensation paid to key management personnel.

The Directors have considered all available information, including an assessment of available financial resources supported by prudent investment principles, a high quality of invested assets, sound underwriting procedures, a strong control and risk mitigation environment (including, but not limited to, the use of reinsurance) and the support of a financially strong parent company and believe that the Company is well placed to manage its business and operational risks successfully. The Directors are therefore confident that the Company has adequate resources to continue in operational existence for the foreseeable future and, accordingly, the Company continues to prepare its financial statements on a going concern basis.

b. Classification of Contracts

The Company classifies its products for accounting purposes as insurance contracts which include whole of life, term assurance, critical illness and income protection products. They are non-linked, non-profit long term insurance contracts.

c. Revenue

- **Premiums**

Premiums received and reinsurance premiums paid relate to insurance contracts and are accounted for on accruals basis. Accruals are calculated using the date that policies are on risk and presented in the statement of comprehensive income on a gross basis.

- **Investment Income**

Investment income comprises interest income and net realised gains and losses from available for sale financial assets earned in the period. Interest income is recognised as it accrued in the Profit and Loss Account, using the effective interest method.

d. Claims

Claims paid and reinsurance recoveries relate to insurance contracts and are accounted for when incurred.

e. Income Tax

Income tax expense in the Profit and Loss Account for the year comprises current and deferred tax, except to the extent that it relates to items recognised directly in equity, in which case the related income tax is also recognised in equity. Both current and deferred tax is calculated using tax rates enacted at the statement of financial position date.

i) Current tax

Current tax is the tax payable on the taxable income for the period and any adjustment to tax payable in respect of previous years.

ii) Deferred tax

Deferred tax is provided using the balance sheet liability method, providing for all timing differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes as well as revaluation on deferred tax assets. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

f. Property, plant and equipment

Plant and equipment consisting of computer equipment and office equipment are stated at cost less accumulated depreciation. Cost comprises the fair value of the consideration paid to acquire the asset and includes directly related expenditure. These assets are depreciated on a straight line basis over their estimated useful lives. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

The estimated useful lives are as follows:

- Leasehold improvement: 5 years
- Furniture & Fixture: 3 years
- IT Equipment: 3 years

g. Goodwill

Goodwill recognised represents the excess of the fair value and directly attributable costs of the purchase consideration over the fair values to the Company's interest in the identifiable net assets, liabilities and contingent liabilities acquired.

Goodwill is amortised over its expected useful life. Where the Company is unable to make a reliable estimate of useful life, goodwill is amortised over a period not exceeding ten years. Goodwill is assessed for impairment when there are indicators of impairment and any impairment is charged to the income statement. Reversals of impairment are recognised when the reasons for the impairment no longer apply.

h. Intangible Assets

An intangible asset is an identifiable non-monetary asset and is recognised at cost if, and only if, it will generate future economic benefits and if the cost of the asset can be measured reliably. Intangible assets are amortised over the estimated useful life.

i) Capitalised Software

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 ten years.

ii) Acquired Intangible Assets

On acquisition of an insurance business, either directly or through the acquisition of a subsidiary undertaking, the fair value of the acquired contracts, acquired customer relationships and acquired distribution network are recognised as intangible assets.

These assets are amortised on a straight line basis over their estimated useful lives. The amortisation charge represents the movement in the value of the asset and is recorded in the Profit and Loss Account as an Operating Expense.

The estimated useful lives are as follows:

- Value of Customer Relationships : 7 years
- Value of Distribution Network: 12 years

Where factors, such as technological advancement or changes in market price, indicated that residual value or useful life have changed, the residual value, useful life or amortisation rate are amended prospectively to reflect the new circumstances.

The assets are reviewed for impairment if the above factors indicate that the carrying amount may be impaired.

i. Deferred acquisition costs

The method of calculating the deferred acquisition costs assumes that the assumed long term level of acquisition costs, comprising all direct and indirect costs, will be recovered from future premiums payable.

Types of acquisition costs and qualification for deferral:

- Expenses related to the actual sale of insurance contracts, for example commissions to agents; and
- Expenses related to business submitted by agents and for setting up the necessary records including costs incurred to underwrite the policy, for example salaries of employees involved in the underwriting and policy issuance, medical and inspection fees; and
- Other expenses allocated to the acquisition of business, for example portal costs, policy documentation fulfilment costs, and indirect costs associated with supporting the writing of new business such as attributable support function staff costs.

The balance of acquisition costs to be recovered from the margins in future premiums of existing contracts are shown as deferred acquisition costs in these financial statements. When a deferred acquisition cost asset is created, the rate of amortisation of the asset is consistent with a prudent assessment of the expected pattern of receipt of the relevant future margins over 5 years in which the contracts are expected to be in force. Any balances not considered recoverable are written off.

j. Commission

Commissions payable to agents are incurred for acquiring new and renewal insurance business. The initial commissions payable are recognised as acquisition costs in the statement of comprehensive income. The initial commission deferred is capitalised at the point of sale.

k. Reinsurance

The Company seeks to reduce its exposure to potential losses by reinsuring certain levels of risk with reinsurance companies. Reinsurance contracts that meet the requirements to be classified as insurance contracts are classified as reinsurance contracts held.

Premiums ceded and benefits reimbursed are presented in the statement of comprehensive income and statement of financial position on a gross basis.

Reinsurance assets represent short term amounts due from reinsurers and longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Reinsurance liabilities represent premiums payable for reinsurance.

l. Financial Assets

The company has chosen to apply the recognition and measurement provisions of IAS 39, Financial Instruments: Recognition and Measurement (as adopted in the EU).

Financial assets on the statement of financial position, are classified into the following categories: Derivatives – at fair value through profit or loss; debt securities and other fixed-income securities – held to maturity; and Deposits with credit institutions – loans and receivables. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

Derivatives, including interest rate swaps, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate.

Available-for sale investments are recognised initially at fair value without any deduction for transaction costs the Company may incur on disposal. Purchases of available for sale financial assets are recognised on the trade date, which is when the Company commits to purchase the assets.

Realised gains and losses are included in the statement of profit or loss in the period in which they arise. 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. Where these investments are interest bearing, interest calculated using the effective interest method is recognised in profit and loss.

The Company classifies insurance and other receivables, as loans and receivables. The directors have determined that their carrying amounts reasonably approximate their fair values as they are short term in nature.

m. Financial Liabilities

Financial liabilities include payables to related parties and interest-bearing loans and borrowings and other payables. Financial liabilities are recognised in the statement of financial position when the Company becomes a party to the contractual provisions of the financial instrument. Interest-bearing loans and borrowings are recognised initially at fair value less attributable transaction costs and are recognised in the Statement of Profit or Loss over the year of the borrowings on an effective interest basis.

Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled.

n. *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.

o. Impairment

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of an available for sale financial asset is calculated by reference to its fair value.

All impairment losses are recognised in the Statement of Profit or Loss. Any cumulative loss in respect of an available for sale financial asset recognised previously in other comprehensive income is transferred to the statement of comprehensive income.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss recognised. For financial assets measured at amortised cost and available for sale financial assets that are debt securities, the reversal is recognised in profit and loss. The Company does not currently hold available for sale financial assets that are equity securities.

p. Insurance Contracts

The insurance contract liabilities are determined annually in accordance with regulatory requirements. A gross premium valuation method is used which brings into account the full premiums receivable under the contracts written, estimated renewal and maintenance expenses and contractually guaranteed benefits. Contracts are permitted to have negative reserves where there are no contractual surrender guarantees and these negative reserves can be offset against positive reserves to a minimum of £nil. The estimation techniques and assumptions are periodically reviewed, with any changes in estimates reflected in the Statement of Profit or Loss as they occur.

q. *Liability Adequacy Testing*

The adequacy of insurance liabilities, reinsurance assets and associated deferred acquisition costs are tested based on the best estimates assumptions of the cash flows for insurance policies and related investments using a discount rate based on yields on an appropriate blend of corporate and government bonds.

r. Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and call deposits which can be called back on the same day.

s. Operating Leases

Rentals payable under operating leases are charged to the Statement Profit or Loss over the term of the lease.

t. Finance Costs

Finance costs comprise interest payable on borrowings calculated on the effective interest basis and are expensed in the Statement of Profit or Loss in the period to which they relate.

u. Employee Benefits

A defined contribution plan is a post-employment benefit plan under which a company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in the Statement of Profit or Loss when they are due.

v. Non-Insurance Provisions

A provision is recognised in the Statement of financial position where there is a present obligation as a result of a past event, and it is probable that the Company will be required to transfer economic benefits in settlement and a reasonable estimate can be made of the amount of obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessment of the time value of money and, where appropriate, the risks specific to the liability. No provision is established where a reliable estimate cannot be made.

w. Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

x. Dividends

Dividends payable on ordinary shares are recognised when they are paid. Interest related to perpetual debt is treated as a dividend in the accounts following the accounting reclassification of the debt.

2. Critical accounting judgements and estimates

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a. Significant judgements in applying the accounting policies

The Company does not consider that there are currently any significant judgements made in applying accounting policies that carry significant risk of material adjustment to the carrying amounts of assets and liabilities.

b. Sources of estimation uncertainty

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

i. Estimation of future benefit payments and premiums arising from long-term insurance contracts

The determination of the liabilities under long-term insurance contracts is dependent on estimates made by the Company. The carrying amount of the liability included as the long-term business provision is £1,068.9 million (2019: £815.9 million). Estimates are made as to the expected number of deaths for each of the years in which the Company is exposed to risk. The Company bases these estimates on standard industry and national mortality tables that reflect recent historical mortality experience, adjusted, where appropriate, to reflect the Company's own experience and any Company initiatives or external factors that may cause future experience to deviate from historic experience such as this year with Covid-19. Further analysis of the assumptions used is provided in note 17, Insurance Contract Liabilities and Reinsurance Assets – Valuation Assumptions.

ii. Amortisation of deferred acquisition costs

Deferred acquisition costs of £214.7 million (2019: £211.5 million) are recognised as an asset. The determination of the amortisation period of the deferred acquisition costs asset is dependent on estimates of the lives of the contracts. The Company has taken a prudent assessment of the lives of contracts of the expected pattern of receipt of the relevant future margins over 5 years in which the contracts are expected to be in force. In general, lapse experience can be volatile and as a result the past experience of the Company may not be an appropriate indicator of its future experience.

3. Gross earned premiums

Gross premium income is composed of:

	2020 £'000	2019 £'000
Direct insurance	500,295	387,477
	500,295	387,477
Comprising:		
Individual business	350,653	294,569
Group contracts	149,642	92,908
	500,295	387,477

All business is written in the United Kingdom, Channel Islands or Gibraltar.

4. Investment (Expense)/Income

	2020 £'000	2019 £'000
Income from investments	4,007	4,076
Realised gain	3,163	88
Loss on derivative financial instruments	(18,913)	(1,412)
	(11,743)	2,752
Investment expenses and charges		
Investment management expenses	(164)	(222)
Total investment (expense)/income	(11,907)	2,530

5. Operating expenses by type

i. Net Operating Expenses

	2020 £'000	2019 £'000
Acquisition costs		
Operational expenses	**43,441**	45,690
Commission	**136,143**	152,249
Share of expenses from reinsurer	**-**	-
Change in deferred acquisition costs	**(3,273)**	(28,487)
	176,311	169,452
Administrative expenses		
Maintenance expenses	**23,479**	23,959
	23,479	23,959
Maintenance expenses are stated after including the following expenses		
Depreciation of property, plant and equipment	**432**	386
Goodwill amortisation	**3,388**	3,387
Other Intangible Assets Amortisation	**3,641**	2,870
Operating lease rentals	**870**	400

ii. Auditors' Remuneration

During the year the Group (including its overseas subsidiaries) obtained the following services from the Company's auditors and its associates at costs as detailed below:

	2020 £'000	2019 £'000
Fees payable to the Company's auditors and its associates for the audit of the Company's financial statements	**440**	395
Fees payable to the Company's auditors and its associates for other services:		
Other assurance services	**60**	55
	500	450

6. Staff costs

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

	2020 Number	2019 Number
Sales and sales support	**303**	289
Administration	**121**	118
	424	407

The aggregate remuneration payable in respect of the above employees was:

	2020	2019
	£'000	**£'000**
Wages and salaries	**28,483**	26,517
Social security costs	**2,864**	2,634
Other pension costs	**2,464**	2,296
	33,811	31,447

Directors

The directors' emoluments were as follows:

	2020	2019
	£'000	**£'000**
Aggregate emoluments	**1,131**	928
Pension contributions	**55**	60
	1,186	988

In addition to their salaries, the Company contributes to a post-employment defined contribution plan on their behalf. No advances or credits granted to any director subsisted during the year. Also, no guarantees on behalf of any director subsisted during the year.

Highest paid director

The highest paid directors' emoluments were as follows:

Aggregate emoluments	**735**	426
Pension contributions	**30**	25
	765	451

The highest paid director exercised share options in AIG Group worth £nil during the year (2019: £nil). No other directors exercised share options during this year or prior year.

7. Tax on profit on ordinary activities

	2020	2019
	£'000	£'000
UK corporation tax:		
Current tax on income for the period	3,487	1,235
Adjustments in respect of prior years	1,613	(398)
Total current tax	5,100	837
Deferred tax		
Origination and reversal of timing differences	(733)	(50)
Adjustments in respect of prior years	(154)	252
Total deferred tax	(887)	202
Tax on profit on ordinary activities	4,213	1,039

Tax expense included in other comprehensive income

	2020	2019
	£'000	£'000
Deferred tax		
Origination and reversal of timing differences	4,533	3,635
	4,533	3,635

Factors affecting the tax charge for the period
The tax assessed for the period is higher (2019: lower) than the standard rate of corporation tax in the UK.
The differences are explained below:

	2020	2019
	£'000	£'000
Profit on ordinary activities before tax	9,112	6,007
Profit on ordinary activities before tax multiplied by standard rate of corporate tax in the UK of 19% (2019: 19%)	1,731	1,141
Expenses not deductible for tax purposes	1,023	38
Adjustments to tax charge in respect of previous periods	1,459	(146)
Difference in rates between current and deferred tax	-	6
	4,213	1,039

8. Other Intangible Assets and Goodwill

	Development Costs £'000	Other Intangible Assets £'000	Goodwill £'000	Total £'000
Cost				
At 1 January 2020	16,268	15,500	33,874	**65,642**
Additions	2,500	-	-	**2,500**
Reclassification	119	-	-	**119**
At 31 December 2020	18,887	15,500	33,874	**68,261**
Accumulated Amortisation				
At 1 January 2020	894	1,988	3,387	**6,269**
Amortisation for the year	1,653	1,988	3,388	**7,029**
Reclassification	74	-	-	**74**
At 31 December 2020	2,621	3,976	6,775	**13,372**
Net Book Value at 31 December 2020	**16,266**	**11,524**	**27,099**	**54,889**

	Development Costs £'000	Other Intangible Assets £'000	Goodwill £'000	Total £'000
Cost				
At 1 January 2019	20,427	15,500	33,874	**69,801**
Additions	8,097	-	-	**8,097**
Disposals	(12,256)	-	-	**(12,256)**
At 31 December 2019	16,268	15,500	33,874	**65,642**
Accumulated Amortisation				
At 1 January 2019	12,268	-	-	**12,268**
Amortisation for the year	882	1,988	3,387	**6,257**
Disposals	(12,256)	-	-	**(12,256)**
At 31 December 2019	894	1,988	3,387	**6,269**
Net Book Value at 31 December 2019	**15,374**	**13,512**	**30,487**	**59,373**

Other Intangible Assets relate to value of customer relationships and distribution networks acquired on acquisition of the Ellipse business during 2018. The value of customer relationships was £11.7 million and value of distribution networks was £3.8 million.

9. Investments in group undertakings

The carrying value of the Company's investment in group undertakings was as follows:

Shares in group undertakings	**2020 £'000**	**2019 £'000**
At 1 January	**1,700**	1,700
Impairment	**(400)**	-
At 31 December	**1,300**	1,700

The Company holds 100% of the Ordinary share capital of Group Risk Services Limited, an Insurance Services Company, and its wholly owned subsidiary, Group Risk Technologies Limited which is inactive. Both companies are incorporated in the UK and their registered address is The AIG Building, 58 Fenchurch Street, London EC3M 4AB.

10. Other Financial Investments

Other Financial Investments are further analysed below:

	2020 £'000	2019 £'000
Debt securities and other fixed-income securities	**214,954**	184,777
Derivative financial instruments	**6,826**	3,673
	221,780	188,450

Debt securities and other-fixed income securities

Debt securities and other-fixed income securities are recorded at fair value through other comprehensive income

	2020 £'000	2019 £'000
Purchase Price	**180,383**	172,389
Carrying Value	**214,954**	184,777

Further analysed below:

	2020 £'000	2019 £'000
UK Government Securities	**48,931**	55,044
Agencies	**5,724**	5,215
Corporate Bonds	**140,747**	106,869
Supranational Bonds	**19,552**	17,649
	214,954	184,777

a) Credit Rating

The credit ratings of the debt securities were as follows:

	2020 £'000	2019 £'000
Investments are analysed by credit rating below:		
AAA	**27,535**	31,974
AA	**73,125**	76,401
A	**70,797**	34,894
BBB	**43,200**	41,508
B	**199**	-
CCC	**98**	-
	214,954	184,777

b) Valuation Method

The table below analyses financial instruments measured at fair value by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2020 £'000	2019 £'000
Level 1	48,931	55,044
Level 2	166,023	129,733
Level 3	-	-
	214,954	184,777

Derivative Financial Instrument

At the start of the year, the Company had an ongoing delta hedging programme relating to interest rate swaps whereby the Company receives fixed and pays floating (or vice versa). The instruments are used to hedge the Company's exposure to interest rate movements, in particular on the Solvency Capital Requirement and Solvency II Balance Sheet. If yields declined, the notional is increased to the extent needed to maintain a minimum solvency ratio; whilst if yields increase, the notional is reduced. On 10th June, the Company ceased this delta hedging program and purchased interest rate collar consisting of one receiver swaption and one payer swaption. These were unwound on 14th December 2020 and replaced with two receiver swaptions and one payer swaption, and these were maintained to year end.

At year end, the receiver swaptions have total notional of £630 million and the payer swaption has notional of £140 million. At 31 December 2019, the swaps had notional amount of £883.9 million. Collateral cash flows on the interest rate swaptions held at year end are paid daily until 30th December 2022. During 2020, a hedging loss of £18,913,000 (2019: loss of £1,412,000) was recognised in the profit and loss account. At 31st December 2020, derivative position includes market value of £6,826,000 (2019: liability of £1,861,000) and collateral liability of £7,020,000 (2019: collateral asset of £3,673,000). The derivative financial instruments are analysed as level 3 valuation method for measurement of their fair value.

11. Debtors

	2020 £'000	2019 £'000
Debtors arising out of direct insurance operations		
- Policyholders	32,759	27,505
Debtors arising out of reinsurance operations	90,275	29,972
Other receivables	62,858	16,598
	185,892	74,075

All debtors are receivable within one year

12. Tangible Assets

	Leasehold	Furniture & Fixture	IT Equipment	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2020	520	196	715	**1,431**
Additions	-	-	431	**431**
Reclassification	-	-	(32)	**(32)**
Disposals	-	-	-	-
At 31 December 2020	520	196	1,114	**1,830**
Accumulated Depreciation				
At 1 January 2020	78	34	648	**760**
Charge for the period	104	23	305	**432**
Reclassification	-	43	(30)	**13**
Disposals	-	-	-	-
At 31 December 2020	182	100	923	**1,205**
Net book value at 31 December 2020	**338**	**96**	**191**	**625**

	Leasehold	Furniture & Fixture	IT Equipment	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2019	395	869	2,907	**4,171**
Additions	520	22	224	**766**
Disposals	(395)	(695)	(2,416)	**(3,506)**
At 31 December 2019	520	196	715	**1,431**
Accumulated Depreciation				
At 1 January 2019	395	704	2,781	**3,880**
Charge for the period	78	25	283	**386**
Disposals	(395)	(695)	(2,416)	**(3,506)**
At 31 December 2019	78	34	648	**760**
Net book value at 31 December 2019	**442**	**162**	**67**	**671**

13. Deferred Acquisition Costs

	2020 £'000	2019 £'000
Cost		
At 1 of January	879,005	737,171
Additions	97,035	141,834
At 31 December	976,040	879,005
Accumulated Amortisation		
At 1 of January	667,530	554,183
Charge for the year	93,762	113,347
Impairment	-	-
At 31 December	761,292	667,530
Net Book Value at 31 December	214,748	211,475

14. Called Up Share Capital

	Ordinary Shares £'000
In issue at 31 December 2020	316,885
In issue at 31 December 2019	316,885

At 31 December 2020 the authorised share capital comprised 316,885,000 ordinary shares of £1 each.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

15. Loans

The Company had entered into two financing reinsurance agreements with Munich Re which were intended to be capital efficient under Solvency I as they are designed such that the repayment of funds is contingent on the future emergence of surplus. These were settled during the year so that as at the end of 2020 the balance due to Munich Re under the agreement was £nil (2019: £3.4 million). The Company also has two Letters of Credit with Barclays Bank as at the end of 2020.

16. Technical Provisions

Long Term Business Provision Movement in 2020

	Gross £'000	Reinsurance £'000	Net £'000
Changes in Long Term Business Provision	252,946	252,946	-
Claims paid	(210,277)	(103,537)	(106,740)
Claims incurred	254,354	144,279	110,075
Change in Insurance Liabilities as shown in profit and loss account	297,023	293,688	3,335
Movement in year	297,023	293,688	3,335
At 1 January 2020	935,814	907,230	28,584
At 31 December 2020	1,232,837	1,200,918	31,919

Long Term Business Provision Movement in 2019

	Gross £'000	Reinsurance £'000	Net £'000
Changes in Long Term Business Provision	415,920	415,920	–
Claims paid	(172,628)	(101,266)	(71,362)
Claims incurred	203,840	131,553	72,287
Change in Insurance Liabilities as shown in profit and loss account	447,132	446,207	925
Movement in year	447,132	446,207	925
At 1 January 2019	488,682	461,023	27,659
At 31 December 2019	935,814	907,230	28,584

Technical Provisions

	Gross £'000	Reinsurance £'000	Net £'000
As at 31st December 2020			
Long-term business provision	1,068,891	1,068,891	-
Claims Payable	140,633	120,361	20,272
IBNR	23,313	11,666	11,647
	1,232,837	1,200,918	31,919
As at 31st December 2019			
Long-term business provision	815,945	815,945	-
Claims Payable	94,991	75,382	19,609
IBNR	24,878	15,903	8,975
	935,814	907,230	28,584

17. Insurance Contract Liabilities and Reinsurance Assets – Valuation Assumptions

The assumptions used to determine insurance contract liabilities are set by the Board of Directors based on advice given by the Chief Actuary. These assumptions are updated at least at each reporting date to reflect latest estimates. Technical provisions are calculated using best estimate assumptions with an explicit risk adjustment to allow for prudence in the value of the liabilities. The assumptions used are as follows:

a. Mortality and morbidity

Mortality and morbidity assumptions are set for each product based on the anticipated future experience of the business. The rates are based on published industry tables adjusted to take account of the AIG Life's product features, distribution channels and socio-economic profile. For group business, adjustments are made in respect of factors including industry, salary, location and scheme size. Future trends in mortality and morbidity experience are allowed for in the calculation of the liability. The Company's principal mortality rates are based on TM00/F00 and the morbidity rates are based on ACL04 for Critical Illness and CMIR12 for income protection. These tables are public data tables set by the Continuous Mortality Investigation supported by the Institute and Faculty of Actuaries.

b. Persistency

Persistency assumptions vary principally by duration of policy, distribution type and type of contract to reflect the anticipated experience of the business. The assumptions have been set based on a combination of the Company's own experience and industry-wide expertise. For group business, the assumptions are based on past experience and vary according to the duration relative to the rate guarantee period and scheme size.

c. Expenses

The contracts are valued using our long term expense assumptions which reflect the projected expense cost of the Company. Future expense inflation of 2.3% per annum is assumed to reflect the mix of salary based inflation and inflation on goods. At 31 December 2020 the maintenance expense assumption for the majority of individual contracts ranges from £8.96 to £9.10 (2019: £8.60 to £8.82 on a consistent basis, i.e. without prudent margins), per policy. For the majority of group business, the maintenance expense assumption is £2.48 (2019: £5.15) per member.

d. Economic

Discount rates used to value insurance contract liabilities and reinsurance assets are based on yields derived from the Barclays Aggregate Sterling Credit Index as at 31 December 2020. The index contains a mix of AAA rated supra-nationals and investment grade corporates. The average credit rating for the index as a whole is slightly better than A. The yield curve includes a reduction for expected credit losses, which is derived using a blend of Moody's long-term average "through-the-cycle" default rates and point-in-time expected default frequencies. The resultant yield has a further reduction applied such that the implied illiquidity premium is consistent with AIG Life's insurance contracts. AIG Life has a buy-and-hold investment strategy.

18. Creditors

Creditors arising out of reinsurance operations are analysed further below:

	2020	2019
	£'000	£'000
Amounts due to reinsurers - third parties	**171,462**	35,081
Amounts due to reinsurers - group companies	**33,901**	11,104
	205,363	46,185

Other Creditors are analysed further below:

	2020	2019
	£'000	£'000
Other creditors - amounts due to third parties	**4,631**	9,330
Other creditors - amounts due to group companies	**9,721**	8,207
Derivative financial instruments	**7,020**	1,861
	21,372	19,398

Accruals and deferred income are analysed further below

	2020	2019
	£'000	£'000
Amounts accrued due to third parties	**3,561**	4,014
Amounts accrued due to group companies	**1,899**	1,150
	5,460	5,164

All creditors are payable within one year. There are no balances due in relation to other taxes and social security.

19. Provision for tax

The provision for tax provided in the financial statements is as follows:

	2020	2019
	£'000	£'000
Current tax payable	5,023	3,503
Deferred tax provision	9,211	5,565
	14,234	9,068

The deferred tax provision is further analysed below:

	2020	2019
	£'000	£'000
Unrealised gains on financial investments	6,718	2,186
Acquired intangible assets	2,508	3,110
Capital allowances	5	4
Other timing differences	(20)	265
	9,211	5,565

Movement in deferred tax provision is analysed below:

	2020	2019
	£'000	£'000
Movement in provision:		
At 1 January	5,565	1,728
Additions dealt with in profit and loss	(887)	202
Additions dealt with in other comprehensive income	4,533	3,635
Deferred tax arising on business acquisition	-	-
	9,211	5,565

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate would increase to 25%. As the rate change proposal has not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. However, it is likely that the overall effect of the change, had it been substantively enacted by the balance sheet date, would be to increase the deferred tax liability by £448k.

20. Operating Leases

The total value of non-cancellable operating lease rentals payable is as follows:

Future minimum lease payments

	2020	2019
	£'000	£'000
Less than one year	470	570
Between one and five years	1,057	1,526
More than five years	-	-

The Company leases an office building in Reigate under an operating lease, which is currently under review. It also has a lease on one floor of the AIG Building in London which has a remaining term of three years and three months.

21. Parent Company

The Company's immediate and ultimate parents are AIG Holdings Europe Limited and American International Group, Inc. ("AIG") respectively. AIG is a leading international insurance organisation serving customers in more than 130 countries and jurisdictions. AIG common stock is listed on the New York Stock Exchange and the Tokyo Stock Exchange.

Copies of the above accounts

can be obtained from the Company Secretary, The AIG Building, 58 Fenchurch Street, London EC3M 4AB.

22. Related Party Transactions

As a wholly owned subsidiary, the company is exempt from disclosing related party transactions with other members of the parent company's group where the subsidiary undertaking party to related party transactions is wholly owned by a member of that group.

In 2020 and 2019, all related party transactions were with companies that were wholly owned by a member of that group so not disclosure is required.

23. Risk Management

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. The Company achieves this through a strong risk culture articulated by effective Enterprise Risk Management (ERM) senior leadership and embodied by management at all levels through its governance structure and risk management processes.

The Company operates an ERM Framework. The framework outlines the various risk management elements and each section has associated risk management processes to support it, including:

- The regular risk identification, assessment, management and monitoring which is undertaken by each functional Head supported by the Risk Management team, this provides input to the quarterly key risk report for the Board Audit and Risk Committee and ultimately Board.
- Risk Policies - including Risk Appetite and limits and minimum standards.
- Capital management including model governance, stress testing.
- The annual Strategy and Business planning cycle which includes the forward looking assessments of risk and solvency capital requirements, stress and scenario testing and reverse stress testing with the production of the Own Risk and Solvency Assessment (ORSA) Report.
- Data management, IT and Information security.
- The regular monitoring of the control environment with risk and control assessments, and the monitoring of key risk indicators.

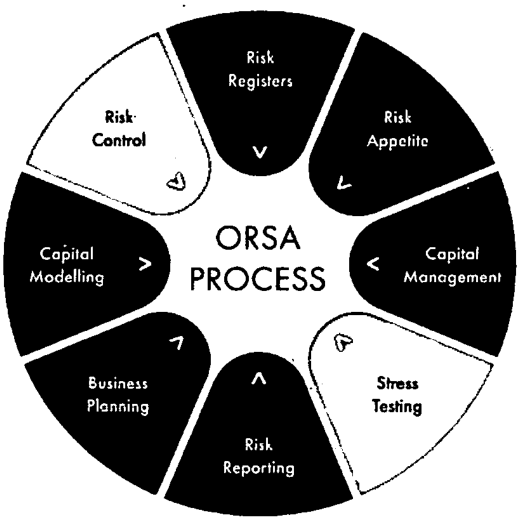
The AIG Life enterprise risk management framework is underpinned by the AIG Life risk policy framework which in turn is aligned to the various AIG Group risk policies. A quarterly self-assessment and breach reporting process is in place to confirm adherence to the respective policies.

The Company utilises the "Three Lines of Defence" model for risk management, as described further below. Overseeing the Company's risk management framework 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 Company.

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 the Company's 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 AIG's shareholders.

The AIG Life Board has ultimate responsibility for development and oversight of the risk management framework; the Board delegates the management of risks within its risk appetite and the risk governance framework to the AIG Life Board Audit and Risk Committee and Risk and Capital Committee. These Committees in turn escalate matters of importance to the Board as needed.

Key aspects of AIG Life's Risk Management Framework:



The Risk Management Framework supports the identification, measurement, management, monitoring and reporting of the five major risk groupings the Company is exposed to, which include but are not limited to: Market Risk; Credit Risk; Liquidity Risk; Insurance Risk; and Operational Risk.

Risk management processes have proven effective throughout 2020. There have been changes in the system of governance during 2020 with regard to membership of the Board sub-committees. Responsibility and accountability for risk management resides at all levels within the Company, from the parent company down through the Company's organisation to each business manager and 2nd line specialist, be they risk or compliance specialists. Risks are controlled at the level of individual exposures and at portfolio level, as well as in aggregate across businesses and risk types. The senior management team were closely involved with important risk management initiatives.

The Company's enterprise risk management framework is based on the "Three Lines of Defence" model. This structure allows for each function and individual to have a clear understanding of their risk management responsibilities and aids embedding an effective risk culture across the Company:

- **First Line of Defence**

Composed of senior management (executive/business/operational), along with all staff in the organisation who are responsible for implementing and maintaining the controls necessary for achievement of the Company's strategic and business objectives, the ownership and management of its inherent risks, its compliance with corporate standards and its legal and regulatory obligations.

- **Second Line of Defence**

Composed of the oversight functions (ERM and Compliance) that are responsible for defining the risk framework and for monitoring the effectiveness of risk controls and for reporting their weaknesses or failures to the Board Audit and Risk Committee. In this context, these functions are the "Second Line of Defence" against failure. Both functions also partner with the business in providing advice.

- **Third Line of Defence**

AIG's Internal Audit Group (IAG) delivers the "Third Line of Defence" by providing independent assurance to the Board, through the Board Audit and Risk Committee, regarding the effectiveness of the First and Second Lines of Defence.

Risk Culture

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

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

This structure allows for each function and individual to have a clear understanding of their risk management responsibilities and aids embedding an effective risk culture across the Company. 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 company level.

The governance structure has three distinct levels of committees: Board committees; Executive committees; and Management forums. It is designed to support AIG Life'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 and forums has a distinct role to play within AIG Life's risk governance framework.

Enterprise Risk Policy Framework

As mentioned above, supporting these governance arrangements is an ERM Policy Framework which incorporates the key principles and standards in place. AIG Life has a suite of risk policies that align with AIG Group policy requirements as well as addressing local regulatory and business requirements.

The policies in place set out the high level principles and approach, supported by guidance documents and any other supporting materials as may be considered helpful to ensure consistent interpretation and application of each policy. Processes are specific to the Company reflecting the individual needs of the business but must respect the minimum standards set out within the relevant policies and guidance.

A master list of risk policies in place is maintained by Risk Management and policies and guidance documentation is reviewed on an annual cycle and/or updated on an ad hoc basis as circumstances demand.

Model and Risk Methodology Framework

The Company models use the Standard Formula to calculate the solvency capital requirement for the company. The methodologies to calculate these, and the models to do so, are documented to ensure consistent application and use. AIG Life models are managed under the AIG Life model governance framework and changes to the models are reviewed and approved by the Model Control Committee, whilst also complying with the Group model governance requirements.

Risk Reporting

The Company monitors risks through a combination of reports, such as the Own Risk and Solvency Assessment, Risk Event Reporting and the Risk Pack. Risk Management also present a quarterly risk report to the Board Audit and Risk Committee that provides an overview of the risk profile of the company and risk opinion which is based on ERM's oversight of the company's risk framework and risk exposures.

Risk and Capital Committee

The Executive Risk Committee, the Risk and Capital Committee (RCC), reports to the Board Audit and Risk Committee and is authorised by the Board Audit and Risk Committee to implement, manage and control the risk management framework of the company. The Executive Risk Committee has three core responsibilities:

General Risk Oversight	The Executive Risk Committees are responsible 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.
Model Oversight and Challenge	The Executive Risk Committees share a responsibility for providing oversight over AIG Life's Actuarial models, with a view to ensuring that the expert judgements and resultant outputs; and model changes, are in line in expectations based on business performance.
Monitoring of the Risk Profile	Executive Risk Committees are required to monitor and take business decisions on the current and future risk profile that relates to their respective risk area. This ensures that compliance with the company's risk appetite is maintained.

The major risks faced by the Company are categorised within the Company's Risk Taxonomy as Market Risk; Credit Risk; Liquidity Risk; Insurance Risk; Operational Risk; Climate Risk; and Strategic Risk. These categories and the risk mitigation undertaken by the Company in order to manage them are summarised below.

a. Market risk

Market risk is the risk that the Company is adversely affected by movements in the fair value of its liabilities and financial assets arising from market movements, for example due to credit spreads, interest rates and foreign exchange rates or other price risks. AIG Life is exposed to Market Risk on both the asset and the liability sides of its balance sheet. The main subcategories of market risk managed within the Company are detailed below:

- **Market risk**

  Market risk arises from adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments. The Company manages its market risk using techniques consistent with its risk appetite and cash flow matching. As the Company has negative reserves (an asset), it is unable to apply traditional asset and liability matching techniques.

- **Interest Rate risk**

  Interest rate risk exists for assets, liabilities and financial instruments sensitive to changes in the term structure of interest rates or interest rate volatility. This applies to both real and nominal term structures. For the Company this risk arises from the holding of assets and liabilities with differing maturities, creating an exposure to changes in the level of interest rates. Stress and scenario testing allows AIG Life to monitor its exposure and sensitivity to interest rate risk. A 0.5% decrease in interest rates would prospectively increase the net best estimate liabilities by £29,478k.

b. Credit risk

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

The scope of credit risk exposures for AIG Life currently includes the following business activities:

- Unexpected Credit Loss as a result of Intermediary failures: the provision of up-front commission as standard to intermediaries on an indemnity basis where the commission will be clawed back if the policy lapses within the first 2 or 4 years (known as the 'earning period'). This is a specific feature of the way the UK protection market developed and all providers offer this facility.
- Reinsurance arrangements: AIG Life makes significant use of reinsurance contracts. The credit risk relates to the failure of the reinsurance companies and hence the inability to recover claims and associated expenses. AIG Life limits the levels of exposure to any one individual reinsurer in line with both AIG Group limits and local AIG Life limits as stated in the AIG Life Counterparty Default Risk Policy.
- Suppliers: where payment is made in advance of the receipt of the goods or services in the normal course of running the business. AIG Life usually pays suppliers after goods and services have been received and the risk of material default due to supplier failure is deemed very low.
- Policyholder debtors: on Individual Protection, policyholders pay monthly premiums by direct debit; the risk of material default is therefore very low. On Group Protection, policyholders pay by mix of direct debit or bank transfer and the Company is exposed to risk of payment delays and default. The Company has an active credit control team and there is regular monitoring of debt levels on Group Protection customers.

c. Liquidity risk

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

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

For AIG Life the risk is that it will have insufficient liquid funds to support new business via the payment of commission to intermediaries and other business expenses. This risk will reduce over time as the company matures and grows as the proportion of existing business becomes larger compared to new business levels.

d. Insurance risk

Insurance Risk combines Life and Health risks which the Company is exposed to arising from its insurance underwriting operations and is broadly split and assessed between the sub risk categories of mortality, morbidity, and lapse and expense risk. Lapse risk is the material risk for AIG Life

Insurance risk arises from the uncertainty over the occurrence, amount and timing of claims payments arising under insurance contracts. The exposure of the Company depends to a significant extent on the value of claims to be paid in the future, relative to the assets accumulated to the date of the claim. The amount of such future obligations is assessed by reference to assumptions with regard to future mortality and morbidity rates, persistency rates, expenses, investment returns, interest rates and tax rates. The impacts of stress tests are calculated by applying yield curve used to calculate technical provisions to the cash flows from the Solvency II Standard formula stresses and scaling by an appropriate factor. For example, under the Solvency II Standard Formula, mortality risk capital is calculated by applying a 15% permanent increase in mortality term structure which results in a capital requirement before diversification of £9.7m (net of reinsurance). Updating the yield curve increases the capital requirement to £14.3m.

For a stress to show the impact of a 10% permanent increase in mortality rates, the post-tax impact on earning is estimated to be £7.7 million (£14.3 million / 15% * 10%*(1-19%)).

The main insurance risks can be summarised as follows:

- **Mortality** – On a gross of reinsurance basis, the Company is exposed to the risk that the actual claims experience is worse than that included within its assumptions i.e. that there are a higher number or value of death claims than predicted. Higher mortality experience could be due to a number of factors e.g. mis-estimations, concentration risk (either geographical or occupational), underwriting philosophy issues, pandemic risks. The impact of a 10% increase to the frequency of claims in the year would prospectively reduce the result by £7.7 million net of reinsurance (£245.3 million gross).

- **Morbidity** – the risk relates to the number and value of claims from terminal illness and income protection policies. It is similar to mortality risk in that a proportion of the risk is transferred to the reinsurers to mitigate the risk. The impact of a 10% increase to the frequency of critical illness claims in the year would prospectively reduce the result by £9.0 million net of reinsurance (£62.6 million gross).

- **Lapse** – AIG Life is exposed to lapse risk which relates to policies being in-force for either longer or shorter than expected. It is also exposed to the potential of mass lapse risk where there is a one-off instantaneous shock lapse event. The impact of a 20% mass lapse rate would prospectively reduce the result by £33.8 million (£31.0 million gross). In addition, if lapse rates reduce significantly from that expected, this can also have an adverse impact. The impact of a 30% decrease in lapses would reduce the result by £34.7 million net of reinsurance (£380.9 million gross).

- **Expense** – The Expense risk relates to how the Company's expenses are attributed to policies and whether they are attributed appropriate to the acquisition costs, maintenance or claims period of the policy. The Expense risk is that expenses could be higher than planned due to inflationary pressures, lower volumes of business than expected, expense overruns or a change in the mix of business.

There are a number of ways that insurance risk is mitigated by AIG Life including the following:

- Reinsurance is used as the key mitigant to reduce the exposure to mortality, morbidity and lapse risks;
- Monitor and limit exposure to claims concentration risk within the Group insurance business;
- Regular underwriting philosophy reviews to ensure that only appropriate mortality and morbidity risks are accepted by the business and are priced appropriately, as well as ensuring the philosophy and risk selection is broadly in line with competitors to prevent anti-selection;
- Robust onboarding of new distributors, monitoring customer retention and misrepresentation by distributor, and implementing initiatives to increase customer retention and reduce misrepresentation;
- Performance monitoring to review actual versus expected results;
- Auditing of underwriting decisions to ensure the underwriting philosophy is being maintained and produces decisions which are consistent;
- Experience analysis conducted regularly for mortality, morbidity and lapse risk;
- Expenses are reviewed regularly against budget;
- Product development and pricing takes account of the various risk factors associated to ensure appropriate customer outcomes;
- Regular product reviews analyse the performance of the product and identify areas of improvement.

e. Concentration risk

The Company writes the majority of its business in the United Kingdom and so the results are sensitive to demographic and economic changes arising in the United Kingdom. The Risk and Capital Committee considers concentrations of insurance risk and looks to maintain them within AIG Life's risk appetite.

f. Operational risk

Operational risk is defined as the risk of loss, or other adverse consequences, resulting from inadequate or failed internal processes, people, systems or external events. Operational risks can have many impacts, including but not limited to unexpected economic losses or gains, reputational harm due to negative publicity, regulatory action from supervisory agencies, operational and business disruptions and damage to customer relationships. Senior management has primary responsibility for the management of operational risks through developing policies, procedures and controls across the activities, processes and systems under their control and for the allocation of responsibilities.

The Company is a regulated entity and is exposed to the risk of costs arising from customer detriment, however the emphasis on high standards of conduct and active monitoring of compliance and risk management ensures this risk is kept to a minimum.

g. Strategic risk

Strategic risks cover external and internal factors that can impact AIG Life's ability to meet its current business plan and also to position itself for achieving on-going growth and value creation. This includes changes in the external environment including regulatory, economic environment, competitive landscape or the way people (customers or staff) behave. It can also be due to poor internal decision making and management or due to loss of reputation and franchise value.

h. Climate change risk

AIG Life recognises the scientific consensus that climate change is a reality of increasing concern, indicated by higher concentrations of greenhouse gases, a warming atmosphere and ocean, diminished snow and ice, and sea level rise. The firm understands that climate change potentially poses a serious financial threat to society as a whole, with implications for the insurance industry in areas such as catastrophe risk perception, pricing and modelling assumptions. Because there is significant variability associated with the impacts of climate change, it is not possible to predict with any accuracy how physical, legal, regulatory and social responses may affect the business.

Managing risks

Each function within the Company is responsible for implementing and maintaining controls within its remit and for achieving its business objectives within the Company's internal control framework. This framework assesses the risks the Company faces, analyses the likelihood and impact of each risk, and the strength of the mitigating controls and any actions proposed. Details of risks on an inherent, (before controls), and residual, (after controls), basis are maintained on the Company's Risk Register and Control Library. The Register and Library are used for review and challenge by the Risk and Capital Committee and the outcome reported to the AIG Life Board Audit and Risk Committee and Board. Management attention is focussed upon those controls identified as not working as effectively as desired and upon action plans which are put in place when any weaknesses are identified.

Capital management

- **Aims of capital management policy**

  The Company has established standards for the efficient management of capital, to meet the needs of the business and return on capital requirements of shareholders. This includes the capital required to support the new business and the risk appetite identified in the Company's Risk Policies, in compliance with the requirements of the PRA.

- **Definitions of capital management (and supporting terms)**

  Capital Management is the collection of processes and activities undertaken to ensure that sufficient capital is maintained to ensure the organisation's ability to meet its liabilities and ultimately ensure its survival, particularly in case of losses arising from adverse events.

  Capital Management includes the assessment of capital required to support the Company's plans and objectives, the structure of its shareholders' funds, arrangements to secure capital and the on-going monitoring of capital against business requirements, as well as the assessments required by the PRA, which from 1st January 2016, has been the Solvency II capital requirements.

- **Approach to capital management**

  The Company develops an Operating Business Plan, which is a component of its Strategic Plan, and is reviewed and revised each year and then formally approved by the Company's Board.

  A key factor in the formulation of the Strategic Plan is the assessment of the capital required to support the business objectives (i.e. growth and profit targets) and the appropriateness of the supporting capital structure.

  Overall capital requirements and structure are assessed taking account of the following:

  - Capital required to support the planned growth in new business;
  - The required rate of return on capital employed; and
  - The Solvency II requirements based on the Solvency II Standard Formula.

  As of 31 December 2020, the Company had capital resources of £249.4 million (2019: £290.5 million) and Solvency Cover Ratio of 162% (2019: 203%) on a Solvency II basis.

  In the event of a failure to meet the Solvency II capital requirements, the Company would revert to its parent company for an injection of funds to ensure compliance.

i. Group risk

Group risk is defined as the potential impact on the firm of risks arising in other parts of the Company's group as well as the Company's impact on the group. AIG Life is aware that the aforementioned individual risk types are framed to some degree by AIG Life'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 AIG Life's participation in the wider AIG group. Group risk is managed and controlled by the Board of Directors.

Through 2018, 2019 and into 2020 AIG Life moved forwards its plans to integrate with AIG Group, following its purchase from Ageas by AIG. This covered a number of areas, such as moving to AIG Asset Manager, from Deutsche Asset Management. As such, AIG Life is more exposed to intra-group risk; this risk exposure is stress tested by AIG Life as part of its suite of stress tests.

AIG Life's 2021 budget shows no requirement for additional capital to fund new business. However, under certain adverse economic conditions capital may be required. The parent company, AHEL is aware of the baseline capital needs and sensitivity tests to the capital position of the Company.

j. Reinsurance

Where appropriate, the Company also enters into reinsurance contracts to limit their exposure to underwriting losses. This reinsurance may be on a policy-by-policy basis (per risk).

Reinsurance companies are selected based primarily on pricing and counterparty risk considerations. The management of counterparty risk is integrated into the overall management of credit risk.

The major uses of external reinsurance include the mitigation of the large single claims from policies with high limits as well as multiple claims on income protection. A mixture of risk premium, level term and original terms is used.

k. Sensitivity to key business drivers

The most significant impacts on the Company's profitability are changes in interest rates, new business volume, an increase in operating expenses and a change in persistency levels of policies.

Statement of directors' responsibilities in respect of the Strategic Report and The Directors' Report and the financial statements

The directors are responsible for preparing the Strategic Report and the 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 they have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

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 estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, comprising FRS102 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 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 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.

Independent auditors' report to the members of AIG Life Limited

Report on the audit of the financial statements

Opinion

In our opinion, AIG Life Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Directors' Report and Financial Statements (the "Annual Report"), which comprise: statement of financial position as at 31 December 2020; the profit and loss account, the statement of comprehensive income, the statement of changes in equity for the year then ended; 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.

Other than those disclosed in 5, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

- The Company consists of a single legal entity operating out of a single location. The Company outsources its investment management and administration function to an AIG subsidiary.

Key audit matters

- The risk of misstatement of insurance contract liabilities due to the use of inappropriate expense assumptions
- The risk of misstatement of insurance contract liabilities due to the the use of inappropriate persistency, mortality and morbidity assumptions
- The impact of COVID-19

Materiality

- Overall materiality: £10,005,000 (2019: £7,749,544) based on 2% of gross earned premiums.
- Performance materiality: £7,503,000.

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.

Capability of the audit in detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the financial statements section, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK regulatory principles, such as those of the Prudential Regulation Authority and the Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure and management bias in accounting estimates and judgemental areas of the financial statements such as the valuation of life insurance contract liabilities. Audit procedures performed by the engagement team included:

- Discussions with the Board, management, internal audit, senior management involved in the Risk and Compliance function and the company's legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud.
- Evaluation and testing of the operating effectiveness of management's internal controls designed to prevent and detect irregularities.
- Reading key correspondence with the Prudential Regulation Authority and Financial Conduct Authority in relation to compliance with laws and regulations.
- Reviewing relevant meeting minutes.
- Reviewing data regarding policyholder complaints, internal audit reports, compliance reports in so far as they related to non-compliance with laws and regulations and fraud.

- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations, unexpected users, unusual words, duplicates and manual journals posted to revenue.
- Performing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing of claim payments and expenses.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, 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.

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.

The risk of misstatement of the valuation of acquired intangible assets, including value of customer relationships acquired (VOCRA), value of distribution agreements (VODA), IT software and goodwill, which was a key audit matter last year, is no longer included because of we have considered the risk of impairment low given the acquired group business has continued to grow ahead of target. Otherwise, the key audit matters below are consistent with last year.

• Key audit matter	• How our audit addressed the key audit matter
The risk of misstatement of insurance contract liabilities due to the use of inappropriate expense assumptions	
The insurance contract liabilities are a significant estimate on the AIG balance sheet. AIG Life is required to include the cost of servicing policies as an element of the calculation of insurance contract liabilities. There is significant judgement involved in setting the expense assumptions and the long-term per policy expense rate, including: The assumed growth of expenses in future years, including inflation and economies of scale; The allocation of expenses between maintenance and new business and to different policy types; and Treatment of any project costs and other non-standard expenditures.	Expense assumptions We performed the testing set out below on the significant judgements made in setting the expense assumptions, including the rationale for the expense inflation assumption: We tested and challenged the appropriateness of the split between maintenance and new business expenses by selecting a sample of cost centres and assessing the appropriateness of the allocation, including agreement back to supporting evidence. We reviewed and, where relevant, challenged the appropriateness of these cost allocations based on actual costs at 31 December 2020. We have reviewed the assumed growth of expenses to ensure that the projected 2021 costs and policy counts are deemed appropriate. We have reviewed the treatment of one-off projects costs to ensure that they have been appropriately excluded from the expense analysis. We assessed the appropriateness of the allocation of maintenance expenses by product type and the numbers of policies over which expenses were spread. We evaluated the design and tested the operating effectiveness of controls within the expense assumption setting process. From the evidence obtained we found the assumptions and methodology used to be appropriate We reviewed and, where relevant, challenged the appropriateness of these cost allocations based on actual costs at 31 December 2020. We have reviewed the assumed growth of expenses to ensure that the projected 2021 costs and policy counts are deemed appropriate. We have reviewed the treatment of one-off projects costs to ensure that they have been appropriately excluded from the expense analysis. We assessed the appropriateness of the allocation of maintenance expenses by product type and the numbers of

	policies over which expenses were spread. We evaluated the design and tested the operating effectiveness of controls within the expense assumption setting process. From the evidence obtained we found the assumptions and methodology used to be appropriate.
The risk of misstatement of insurance contract liabilities due to the the use of inappropriate persistency, mortality and morbidity assumptions The insurance contract liabilities are a significant estimate on the balance sheet. They are sensitive to the choice of assumptions regarding persistency, policyholder mortality and morbidity. The persistency assumption is set using a combination of the company's own experience data and wider market information. The company sets mortality and morbidity assumptions based on experience, with some weight placed on relevant industry data where the claims volumes are not yet fully credible.	Persistency, mortality and morbidity assumptions We examined the experience analyses for persistency, morbidity and mortality and the subsequent processes and judgements to derive assumptions based on the results of those analyses, including: Testing the design and operation of controls in the experience analysis processes, as well as the results and judgements applied to the results in the setting of assumptions. Testing assumption changes from prior year to understand drivers of change and emerging experience in the current year.Obtaining management's assessments in calculating the assumptions, and ensuring that factors utilised by management are consistent, based on appropriate data. We have also assessed the appropriateness of the industry tables used, and the factors applied to these tables, in order to set the mortality and morbidity assumptions. Challenging the validity of the analysis performed by management and their conclusions based on our understanding of the approaches used in the wider market and on the experience data that management have observed in previous periods. Reviewing the sensitivity of management's calculations and as such their susceptibility to manipulation by management. Assessing the appropriateness of the assumptions in light of the specific characteristics of the business, industry practices and other available information such as data from reinsurers. From the evidence obtained we found the assumptions and methodology used to be appropriate.
The impact of COVID-19 The year 2020 began with the outbreak of a new strain of Coronavirus (COVID-19) in China resulting in a global pandemic causing significant economic disruption. As a result , there is the continued risk that the heightened financial market volatility and uncertainty caused in relation to the following areas could impact the company's going concern basis: i) Impact on the company's insurance liability valuations as well as the possible impact of increased claims; ii) Impact on management's cash flow analysis including its access to financing arrangements and credit facilities; iii) Impact on the company's technical provisions, Solvency Capital Requirement and solvency position; iv) Estimating the impact of the company's investment portfolio; and v) Assessing the company's operational resilience by evaluating the impact on its operations.	We assessed management's approach to the impact of COVID-19 on the company and the financial statements by performing the following procedures: We evaluated management's stress and scenario testing and challenged management's key assumptions applied in the assessment including understanding the drivers of the company's solvency SCR and MCR margins. We assessed the mitigating actions management has put in place due to the potential for further deterioration of the wider UK and Global economy. We reviewed board papers, attended certain board and all audit committee meetings held in 2020 and 2021 to date and reviewed correspondence with the PRA in relation to COVID-19. We have assessed the disclosures made by management in the financial statements and checked consistency of the disclosures with our knowledge of the company based on our audit. We have assessed the impact of remote working and its impact on our audit work. AIG Life's finance operations have remained resilient to the challenges of a remote working environment,and there has been no adverse impact on our audit as a result. Based on the procedures we have performed above we have not identified any issues which will impact the firm's ability to operate as a going concern.

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.

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.

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 company materiality	£10,005,000 (2019: £7,749,544).
How we determined it	2% of gross earned premiums
Rationale for benchmark applied	We believe that total revenues is the primary measure used by the shareholders in assessing the performance of the entity, and is a generally accepted auditing benchmark.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £7,503,000 for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the audit committee that we would report to them misstatements identified during our audit above £505,250 (2019: £387,477) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining the directors' updated going concern assessment and challenged the rationale for assumptions on growth of premium and expenses. We used our knowledge of the Company's business performance, and corroborated to external market evidence where available. Our assessment included reviewing management's stress testing and scenario analyses.
- Consideration of the impact of COVID-19 on the directors' assessment to continue to adopt the going concern basis of accounting as set out in the key audit matters of this report.
- Obtaining management's forecast Solvency capital positions and evaluated these for consistency of available information and against managements own target capital ratios. We found that the Company maintained internal targets for its Solvency Capital Requirements (SCR) ratio, and its forecasts to remain compliant with all external regulatory capital requirements for the period covered by the going concern assessment.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Report of the Directors for the year ended 31 December 2020 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 Report of the Directors.

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 in respect of the Strategic Report and The Directors' Report and the financial statements, 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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 obtained 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 report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the members on 1 September 2015 to audit the financial statements for the year ended 31 December 2015 and subsequent financial periods. The period of total uninterrupted engagement is 6 years, covering the years ended 31 December 2015 to 31 December 2020.

Mark Bolton

Mark Bolton (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
6 April 2021