# AIG Life Limited

## Directors' Report and Financial Statements

## For the year ended 31 December 2019

**Registered Number: 6367921**

# Directors' Report and Financial Statements

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## Directors and Officers

**Directors**

Adam Winslow

Philip Willcock

Donald MacLean

Laura Santori, Independent Non-Executive

Michael Urmston, Independent Non-Executive Chairman

**Company Secretary**

Kate Hillery

**Registered Office**

The AIG Building,

58 Fenchurch Street,

London,

EC3M 4AB

**Auditors**

PricewaterhouseCoopers LLP

7 More London

London

SE1 2RT

# Strategic Report for the year ended 31 December 2019

## 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 2019, the Company has achieved a year to date 17.8% (2018: 16.3%) share of the intermediated market and 11.9% (2018: 10.6%) 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 fifth year following acquisition by AIG. The Company grew intermediary business in line with its plans and there has been significant focus on positioning the Company for achieving sales growth in the future through partnerships.

On 20th June 2018, AIG Life announced it had reached agreement to acquire Ellipse, a specialist provider of group risk protection in the UK, from Munich Re. Ellipse's group protection capabilities, including life, critical illness and income protection products, complements AIG Life's existing individual protection offering, allowing the Company to efficiently manage group plans for companies of all sizes in the UK market. On 31st December 2018, the Company completed the acquisition of the Ellipse group risk protection business from Munich Re. This business includes group life, critical illness and income protection products and has been rebranded as AIG Life from 1st April 2019. During 2019, the group protection business has grown significantly, so that inforce premiums are now £97.6 million (2018: £68.9m) and in-force policies of 6,874 (2018: 5,491) covering 484,889 lives (2018: 387,784).

## Product Development

During 2019, AIG Life and Direct Line group agreed a five-year partnership to provide life protection products in the UK. From July 2019, AIG Life became the sole life insurance provider for protection products distributed through the Direct Line and Churchill brands direct to consumers. This is predominantly through life insurance and critical illness products sold through the Direct Line and Churchill brands.

Further product innovation continued throughout 2019 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. Due to the long duration nature of this business, the solvency requirements of the UWOL business were volatile to movements in yields. The premium paid to AIRCO was £22 million.

## Business Performance

### New Business:

During 2019 there was an increase of 17.9% (2018: 49.0%) in the level of new individual protection business achieved with an Annual Premium Equivalent ("APE") of £91.7 million (2018: £77.8 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.

There was also significant growth in sales of new group protection business, with APE achieved of £48.2m against a plan of £33.1m following acquisition on 31st December 2018.

The majority of new business sales on the individual protection business in 2019 continued to come from the IFA / intermediary sector (82%) with the remaining 18% 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. The Company successfully completed a number of partnership deals in the year including a significant one with Direct Line Group and will continue to seek to be involved in suitable partnership opportunities as they come up for tender.

Gross Earned Premiums also continued to grow substantially, from £263.3 million in 2018 to £387.5 million in 2019, an increase of 39.3%.

**Expenses:**

The Company maintained its focus on cost efficiency although higher expenses associated with writing higher volume and higher value new business resulted in an increase in expenses compared to 2018, plus costs increased with transfer the Ellipse business from 1st January 2019. Total administration expenses were £69.6 million compared with £44.7 million in the prior year, in line with the increase in the total in-force policy numbers from 649k to 822k for individual protection book of business and the acquisition of the group protection business which had 7k of policies covering 485k lives at 31 December 2019.

**UK GAAP Results:**

Before financing costs the Company achieved an operating profit of £6.8 million compared with £34.8 million in 2018, principally due to the £22 million paid to AIRCO to cede the UWOL business. After financing costs as shown in the Statement of Profit or Loss, the Company achieved a profit before tax of £6.0 million in 2019 compared with £33.9 million in 2018. The profit after tax was £5.0 million compared with £27.7 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 2019 was 203% (31 December 2018 was 223%). AIG Life rating from AKG has remained at B+.

**Future Developments**

During 2020 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 2020 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 2019. The ceding of the UWOL business as at 30 June 2019 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.

**COVID-19**

The COVID-19 outbreak has developed rapidly in 2020 with a significant number of infections, and measures taken to contain the virus have affected economic activity. Whilst there remains continued uncertainty over the future spread of the virus and the scale of economic impact, AIG Life have assessed the various risks arising, including liquidity risk, credit risk and the risk from volatility in yields. The Company monitors these risks on an ongoing basis and has ensured there remains a strong cash position, low level of debtors and strong solvency position.

**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 2019**

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 2019, the Company launched Smart Health which provides a fully integrated virtual care service through a single provider enabling individuals to manage their healthcare issues and access the healthcare they need whether on-demand consultations with UK based GPs to complex case review from the world's top specialists. This service was provided to all those covered through our policies, both individual and group protection, as well as all employees. This launch will help the Company provide a better healthcare service to customers and employees for the long term, which ultimately benefits all the Company's stakeholders.

The Board considered all stakeholders when they entered into the agreement to cede the net cashflows of the UWOL business as at 30th June 2019 to Airco. This agreement significantly reduced the Company's sensitivity to interest rate fluctuations particularly to the Company's solvency position, and therefore meets 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 Smart Health 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 2019, the chosen charity was MIND, the mental health charity. The Company also provides time off for employees for volunteering and 2019 was a record year for employees being involved in volunteering activities.
- 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 2019 this included engagement with meeting the requirements of the Prudential Regulation Authority's 2019 supervisory statement, 'Enhancing banks' and insurers' approaches to managing the financial risks from climate change'.
- 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 14th May 2020 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

Philip Willcock (appointed 12 June 2019)

Donald MacLean

Tim Heslin (resigned 26 November 2019)

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 £5.0 million, (2018: profit of £27.7 million). In addition, in 2019 an amount of £0.5 million was paid during the year 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 2019 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 2019 include creditors in respect of the Company's day to day trading activities and reserves for insurance contract liabilities.

## Share capital

At 31 December 2019 the authorised share capital comprised 316,885,000 ordinary shares of £1 each, al fully paid up. On 19th August 2019, the Company issued 15,000,000 ordinary shares for consideration of £15,000,000 which was settled through conversion of the perpetual debt of the same amount.

## Shareholder's equity

Unrealised gains on investments net of taxation of £21.4 million (2018: losses of £4.5 million) were recorded in the Statement of Comprehensive Income on page 12. At 31 December 2019 the total shareholders' equity stood at £450.1 million, (2018: £427.8 million).

### Cash Flow

Cash and cash equivalents available to the Company have decreased by £16.1 million (2018: increase £23.8 million) during the year principally due to the first year negative cashflow from increased new sales in the individual protection business. The year-end position of £25.9 million (2018: £42.0 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 407 (2018: 304) and their aggregate remuneration is shown in note 5. The increase includes 64 employees who were transferred to the Company on 1st January 2019 following the acquisition of the Ellipse business.

### 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 maintaining an inclusive, flexible and respectful culture and workplace. That commitment includes being transparent about our gender pay gap. AIG encourages a diverse and inclusive workforce and supports the advancement of women across its footprint.

This is the second year that AIG Life has had over 250 employees and is required to report its gender pay gap. In 2019, we conducted 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 2019 shows there is a relatively small gap and this reflects the high number of women we have in senior positions. We continue to hire the best people at AIG Life based on their talents, 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 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. We are proud to be at the forefront of the industry and our efforts were recognised in 2019 by a number of nominations for industry awards. 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, 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** | **2019** | **2018** |
|---|---|---|
| Hourly fixed pay | 4% | -4% |
| Bonus paid | 28% | 27% |
| **Median** | | |
| Hourly fixed pay | 7% | -4% |
| Bonus paid | 2% | -2% |

Our policy and culture of inclusivity and flexible working, regardless of gender, has a positive impact on our mean and median hourly pay across all levels of the business. However, AIG Life's pay difference in 2019 moved in men's favour following the integration of Ellipse, a newly acquired business, and the inclusion of an international team whose payroll legally falls under the jurisdiction of AIG Life Limited. AIG Life's Senior Leadership Team mix continues to have a gender mix in favour of women.

Employees awarded a bonus for 2019

| | **Bonus** | **No Bonus** |
|---|---|---|
| Men | 87% | 13% |
| Women | 88% | 12% |

In 2018, 78% of men and 85% of women received a bonus. This year, more employees overall received a bonus, but slightly more women received a bonus than men. 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 for 2019 shows that we have more senior men than women in higher paying roles.

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

Quartiles for 2018

| | **Men** | **Women** |
|---|---|---|
| Lower | 63% | 37% |
| Lower Middle | 55% | 45% |
| Upper Middle | 49% | 51% |
| Upper | 59% | 41% |

**Future Plans on Gender Pay**

- Maintain a diverse and inclusive recruitment selection process
- Continue to promote the development opportunities available to employees which 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 to mentor and coach employees where they display leadership and career development potential
- 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 gender pay gap remains small, even though the gap itself has reversed following changes to our workforce in 2019. 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.

**Independent Auditors**

Following the sale of the Company to AIG, PricewaterhouseCoopers LLP was appointed as auditor of the Company on 15 June 2015.

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 7. 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 14th May 2020 and signed on its behalf by:

**Donald MacLean**
**Chief Financial Officer**

## Profit and Loss Account for the year ended 31 December 2019

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | £'000 | £'000 |
| **Earned premiums net of reinsurance** | | | |
| Gross earned premiums | 2 | **387,477** | 263,297 |
| Outward Reinsurance premiums | | **(181,642)** | (112,392) |
| | | **205,835** | 150,905 |
| Investment Income/(Expense) | 3 | **2,530** | (436) |
| Other Operating Income | | **64,153** | 52,400 |
| | | **272,518** | 202,869 |
| **Claims paid, net of reinsurance** | | | |
| Gross claims paid | | **(172,628)** | (103,370) |
| Reinsurers' share | | **101,266** | 83,604 |
| | | **(71,362)** | (19,766) |
| **Change in other technical provisions, net of reinsurance** | | | |
| Gross claims | 15 | **(447,132)** | (34,200) |
| Reinsurers' share | 15 | **446,207** | 35,167 |
| | | **(925)** | 967 |
| **Operating expenses** | | | |
| Acquisition expenses | 4 | **(169,452)** | (136,041) |
| Administrative expenses | 4 | **(23,959)** | (13,193) |
| | | **(193,411)** | (149,234) |
| **Operating profit** | | **6,820** | 34,836 |
| Finance costs | 14 | **(813)** | (945) |
| **Profit on ordinary activities before tax** | | **6,007** | 33,891 |
| Tax on profit on ordinary activities | 6 | **(1,039)** | (6,236) |
| **Profit for the financial year** | | **4,968** | 27,655 |

All of the above results relate to continuing operations.

The notes on pages 17 to 44 form an integral part of these financial statements.

## Statement of comprehensive income for the year ended 31 December 2019

| | | 2019 | 2018 |
|---|---|---|---|
| | | £'000 | £'000 |
| **Profit for the financial year** | | **4,968** | 27,655 |
| **Other comprehensive (expense)/income:** | | | |
| Net change in fair value of available for sale financial assets | | **21,377** | (4,522) |
| Total tax on other comprehensive income | 6,18 | **(3,635)** | 46 |
| **Total other comprehensive (expense)/income for the year, net of tax** | | **17,742** | (4,476) |
| **Total comprehensive income for the year** | | **22,710** | 23,179 |

All of the above results relate to continuing operations.

The notes on pages 17 to 44 form an integral part of these financial statements.

## Statement of Financial Position as at 31 December 2019

| | Note | 2019 | 2018 |
|---|---|---|---|
| **ASSETS** | | **£'000** | **£'000** |
| **Called up share capital not paid** | | - | 60,300 |
| **Intangible Assets** | | | |
| Other Intangible Assets | 7 | **28,886** | 23,659 |
| Goodwill | 7 | **30,487** | 33,874 |
| | | **59,373** | **57,533** |
| **Investments** | | | |
| Investments in group undertakings | 8 | **1,700** | 1,700 |
| Other financial investments | 9 | **188,450** | 159,005 |
| | | **190,150** | **160,705** |
| Reinsurers' share of technical provisions | 15 | **907,230** | 461,023 |
| Debtors | 10 | **74,075** | 131,355 |
| **Other assets** | | | |
| Tangible assets | 11 | **671** | 291 |
| Cash and cash equivalents | | **25,937** | 42,030 |
| | | **26,608** | **42,321** |
| **Prepayments and accrued income** | | | |
| Deferred acquisition costs | 12 | **211,475** | 182,988 |
| Other Prepayments and accrued income | | **1,931** | 1,518 |
| | | **213,406** | **184,506** |
| **Total Assets** | | **1,470,842** | **1,097,743** |
| **Equity and Liabilities** | | | |
| **Capital and reserves** | | | |
| Called up share capital | 13 | **316,885** | 301,885 |
| Share premium account | | **86,725** | 86,725 |
| Perpetual debt | 14 | **-** | 15,000 |
| Profit and Loss Account | | **46,512** | 24,212 |
| **Total Shareholders' Equity** | | **450,122** | **427,822** |
| Technical provisions | 15 | **935,814** | 488,682 |
| Provision for tax | 18 | **9,068** | 12,490 |
| Creditors arising out of direct insurance operations | | **1,716** | 928 |
| Creditors arising out of reinsurance operations | 17 | **46,185** | 90,229 |
| Loans | 14 | **3,375** | 6,586 |
| Other creditors including taxation and social security | 17 | **19,398** | 68,130 |
| Accruals and deferred income | 17 | **5,164** | 2,876 |
| **Total Liabilities** | | **1,020,720** | **669,921** |
| **Total Equity and Liabilities** | | **1,470,842** | **1,097,743** |

These financial statements were approved by the Board of Directors on 14th May 2020 and signed on its behalf by:

Donald MacLean
Chief Financial Officer

The notes on pages 17 to 44 form an integral part of these financial statements.

## Statement of Changes in Equity for the year ended 31 December 2019

| | Share capital £'000 | Share premium £'000 | Profit and Loss Account £'000 | AFS Reserve £'000 | Perpetual Debt £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Opening Balance 01.01.2018** | 301,110 | 10,000 | 4,732 | (3,201) | 15,000 | 327,641 |
| Shares issued during the year | 775 | 76,725 | - | - | - | 77,500 |
| Loss on AFS reserve | - | - | - | (4,476) | - | (4,476) |
| Dividend | - | - | (498) | - | - | (498) |
| Profit for the year | - | - | 27,655 | - | - | 27,655 |
| **At the end of the year 31.12.2018** | **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** | **0** | **450,122** |

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 17 to 44 form an integral part of these financial statements.

## Notes to the financial statements for the year ended 31 December 2019

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 7th April 2020.

### 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**

**i) 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.

***ii) 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:

i) Leasehold improvement: 5 years

ii) Furniture & Fixture: 3 years

iii) IT Equipment: 3 years

### g. Business Combinations and Goodwill

Goodwill represents the difference between the consideration paid for a business and the fair value of its net assets, both tangible and intangible. Goodwill is a finite asset and is amortised over ten years on a straight line basis.

Business combinations are accounted for by applying the purchase method. The cost of a business combination is the fair value of the consideration given, liabilities incurred or assumed and of equity instruments issued plus the costs directly attributable to the business combination. Where control is achieved in stages the cost is the consideration at the date of each transaction.

On acquisition of a business, fair values are attributed to the identifiable assets, liabilities and contingent liabilities unless the fair value cannot be measured reliably, in which case the value is incorporated in goodwill. Where the fair value of contingent liabilities cannot be reliably measured they are disclosed on the same basis as other contingent liabilities.

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:

i) Value of Customer Relationships : 7 years

ii) Value of Distribution Network: 12 years

### 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, all of which are non-derivative financial assets, are classified as available for sale or as loans and receivables.

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.

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.

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. Perpetual Loan

The perpetual loan was classified as equity in 2018 but was converted to Ordinary Shares on 19 August 2019. The issued loans had no maturity date and the interest payments could have been deferred indefinitely which was consistent with the characteristics of equity.

## v. 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.

## w. 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.

## x. 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.

## y. 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. Gross earned premiums

Gross premium income is composed of:

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| Direct insurance | **387,477** | 234,314 |
| Reinsurance inwards | **0** | 28,983 |
| | **387,477** | 263,297 |
| Comprising | | |
| Individual business | **294,569** | 234,314 |
| Group contracts | **92,908** | 28,983 |
| | **387,477** | 263,297 |

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

## 3. Investment Income/(Expense)

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| Income from investments | **4,076** | 4,749 |
| Realised gain/(loss) | **88** | (5,036) |
| Loss on derivative financial instruments | **(1,412)** | - |
| | **2,752** | (287) |
| **Investment expenses and charges** | | |
| Investment management expenses | **(222)** | (149) |
| **Total investment income/(expense)** | **2,530** | (436) |

## 4. Operating expenses by type

i. Net Operating Expenses

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| **Acquisition costs** | | |
| Operational expenses | **45,690** | 31,517 |
| Commission | **152,249** | 131,633 |
| Share of expenses from reinsurer | **-** | 4,459 |
| Change in deferred acquisition costs | **(28,487)** | (31,568) |
| | **169,452** | 136,041 |
| **Administrative expenses** | | |
| Maintenance expenses | **23,959** | 13,193 |
| | **23,959** | 13,193 |
| **Maintenance expenses are stated after including the following expenses** | | |
| Depreciation of property, plant and equipment | **386** | 254 |
| Goodwill amortisation | **3,387** | - |
| Other Intangible Assets Amortisation | **2,870** | - |
| Operating lease rentals | **400** | 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:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Fees payable to the Company's auditors and its associates for the audit of the Company's financial statements | **395** | 333 |
| Fees payable to the Company's auditors and its associates for other services: | | |
| Audit-related assurance services | | |
| Other assurance services | **55** | 57 |
| | **450** | 390 |

## 5. Staff costs

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

| | 2019 Number | 2018 Number |
|---|---|---|
| Sales and sales support | **289** | 201 |
| Administration | **118** | 103 |
| | **407** | 304 |

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

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| Wages and salaries | 26,517 | 16,670 |
| Social security costs | 2,634 | 1,948 |
| Other pension costs | 2,296 | 1,682 |
| | 31,447 | 20,300 |

**Directors**
The directors' emoluments were as follows:

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| Aggregate emoluments | 928 | 762 |
| Pension contributions | 60 | 57 |
| | 988 | 819 |

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:

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| Aggregate emoluments | 426 | 474 |
| Pension contributions | 25 | 34 |
| | 451 | 508 |

The highest paid director exercised share options in AIG Group worth £nil during the year (2018: £173,727). No other directors exercised share options during this year or prior year.

## 6. Tax on profit on ordinary activities

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| **UK corporation tax:** | | |
| Current tax on income for the period | **1,235** | 6,747 |
| Adjustments in respect of prior years | **(398)** | (241) |
| Total current tax | **837** | 6,506 |
| **Deferred tax** | | |
| Origination and reversal of timing differences | **(50)** | (241) |
| Adjustments in respect of prior years | **252** | (29) |
| Total deferred tax | **202** | (270) |
| **Tax on profit on ordinary activities** | **1,039** | 6,236 |

**Tax expense/(income) included in other comprehensive income/(expense)**

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| Deferred tax | | |
| Origination and reversal of timing differences | **3,635** | (46) |
| | **3,635** | (46) |

**Factors affecting the tax charge for the period**

The tax assessed for the period is lower (2018: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| Profit on ordinary activities before tax | **6,007** | 33,891 |
| Profit on ordinary activities before tax multiplied by standard rate of corporate tax in the UK of 19% (2018: 19%) | **1,141** | 6,439 |
| Expenses not deductible for tax purposes | **38** | 39 |
| Adjustments to tax charge in respect of previous periods | **(146)** | (270) |
| Difference in rates between current and deferred tax | **6** | 28 |
| | **1,039** | 6,236 |

## 7. Other Intangible Assets and Goodwill

| | 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** |

| | Development Costs £'000 | Other Intangible Assets £'000 | Goodwill £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2018 | 12,268 | 0 | 0 | **12,268** |
| Additions | 8,159 | 15,500 | 33,874 | **57,533** |
| Disposals | - | - | - | **-** |
| At 31 December 2018 | 20,427 | 15,500 | 33,874 | **69,801** |
| **Accumulated Amortisation** | | | | |
| At 1 January 2018 | 12,268 | - | - | **12,268** |
| Amortisation for the year | - | - | - | **-** |
| Disposals | - | - | - | **-** |
| At 31 December 2018 | 12,268 | - | - | **12,268** |
| **Net Book Value at 31 December 2018** | **8,159** | **15,500** | **33,874** | **57,533** |

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.

## 8. Investments in group undertakings

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

| **Shares in group undertakings** | **2019 £'000** | **2018 £'000** |
|---|---|---|
| At 1 January | **1,700** | - |
| Acquisitions | **-** | 1,700 |
| **At 31 December** | **1,700** | 1,700 |

On 31st December 2018, the Company acquired 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, as part of the acquisition of the Ellipse business. The consideration for Group Risk Services Limited was equal to its carrying value, representing the fair value of its net assets. Both companies are incorporated in the UK and their registered address is The AIG Building, 58 Fenchurch Street, London EC3M 4AB.

## 9. Other Financial Investments

Other Financial Investments are further analysed below:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Debt securities and other fixed-income securities | **184,777** | 159,005 |
| Derivative financial instruments | **3,673** | - |
| | **188,450** | 159,005 |

**Debt securities and other-fixed income securities**

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

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Purchase Price | **172,389** | 158,738 |
| Carrying Value | **184,777** | 159,005 |

Further analysed below:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| UK Government Securities | **55,044** | 44,721 |
| Agencies | **5,215** | 2,705 |
| Corporate Bonds | **106,869** | 95,349 |
| Supranational Bonds | **17,649** | 16,230 |
| | **184,777** | 159,005 |

a) Credit Rating

At the 31 December 2019 the credit ratings of the debt securities were as follows:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| **Investments are analysed by credit rating below:** | | |
| AAA | **31,974** | 26,045 |
| AA | **76,401** | 64,636 |
| A | **34,894** | 28,775 |
| BBB | **41,508** | 39,549 |
| | **184,777** | 159,005 |

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).

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| Level 1 | **55,044** | 44,721 |
| Level 2 | **129,733** | 114,284 |
| Level 3 | **-** | - |
| | **184,777** | 159,005 |

**Derivative Financial Instrument**

During 2019, the Company entered 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. The swaps were part of a swap delta hedging programme whereby if yield rates declined, the notional is increased to the extent needed to maintain a minimum solvency ratio, whilst if yields increase, the notional is reduced. At year end, the interest rate swap had notional amount of £883,905,000. The fair value of the interest rate swap is £1,229,000 (2018: £nil). Cash flows on the interest rate swaps held at year end are paid daily until 31 March 2020. During 2019, a hedging loss of £1,412,000 (2018: £nil) was recognised in the profit and loss account. At 31st December 2019, derivative position includes collateral asset of £3,673,000 and market value net liability of £1,861,000 shown in other creditors in the financial statements.

## 10. Debtors

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| Debtors arising out of direct insurance operations | | |
| - Policyholders | **27,505** | 20,018 |
| Debtors arising out of reinsurance operations | **29,972** | 49,755 |
| Other receivables | **16,598** | 61,582 |
| | **74,075** | 131,355 |

All debtors are receivable within one year

## 11. Tangible Assets

| | Leasehold £'000 | Furniture & Fixture £'000 | IT Equipment £'000 | Total £'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** |

| | Leasehold £'000 | Furniture & Fixture £'000 | IT Equipment £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2018 | 395 | 869 | 2,907 | **4,171** |
| Additions | - | - | - | **-** |
| Disposals | - | - | - | **-** |
| At 31 December 2018 | 395 | 869 | 2,907 | **4,171** |
| **Accumulated Depreciation** | | | | |
| At 1 January 2018 | 395 | 704 | 2,781 | **3,880** |
| Charge for the period | - | - | - | **-** |
| Disposals | - | - | - | **-** |
| At 31 December 2018 | 395 | 704 | 2,781 | **3,880** |
| **Net book value at 31 December 2018** | **-** | **165** | **126** | **291** |

## 12. Deferred Acquisition Costs

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| **Cost** | | |
| At 1 of January | **737,171** | 615,323 |
| Additions | **141,834** | 121,848 |
| At 31 December | **879,005** | 737,171 |
| | | |
| **Accumulated Amortisation** | | |
| At 1 of January | **554,183** | 463,902 |
| Charge for the year | **113,347** | 90,281 |
| Impairment | **-** | - |
| At 31 December | **667,530** | 554,183 |
| **Net Book Value at 31 December** | **211,475** | 182,988 |

## 13. Shareholders' Equity

| | Ordinary Shares £'000 |
|---|---|
| In issue at 31 December 2019 | 316,885 |
| In issue at 31 December 2018 | 301,885 |

At 31 December 2019 the authorised share capital comprised 316,885,000 ordinary shares of £1 each. On 19th August 2019, the Board of Directors authorised issue of 15,000,000 ordinary shares for consideration of £15,000,000. These shares were subsequently issued on 19th August 2019 and consideration paid through conversion of the perpetual debt of £15,000.000.

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.

## 14. Loans

The Company has 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. As at the end of 2019 the balance due to Munich Re under the agreement was £3.4 million (2018: £6.6 million). The Company also has two Letters of Credit with Barclays bank as at the end of 2019.

The Company has £nil million (2018: £15 million) of perpetual debts reported as Shareholders' Equity.

# 15. Technical Provisions

**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** |

**Long Term Business Provision Movement in 2018**

| | Gross £'000 | Reinsurance £'000 | Net £'000 |
|---|---|---|---|
| Changes in Long Term Business Provision | 44,758 | 53,375 | (8,617) |
| Claims paid | (103,370) | (83,604) | (19,766) |
| Claims incurred | 92,812 | 65,396 | 27,416 |
| Change in Insurance Liabilities as shown in profit and loss account | 34,200 | 35,167 | (967) |
| Balances acquired | 60,846 | 36,000 | 24,846 |
| Movement in year | 95,046 | 71,167 | 23,879 |
| At 1 January 2018 | 393,636 | 389,856 | 3,780 |
| At 31 December 2018 | 488,682 | 461,023 | 27,659 |

| **Technical Provisions** | **Gross** £'000 | **Reinsurance** £'000 | **Net** £'000 |
|---|---|---|---|
| **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 |
| **As at 31st December 2018** | | | |
| Long-term business provision | 400,025 | 400,025 | - |
| Claims Payable | 69,390 | 50,013 | 19,377 |
| IBNR | 19,267 | 10,985 | 8,282 |
| | 488,682 | 461,023 | 27,659 |

# 16. 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 occupation, 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 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 and other Independent Financial Advisors (IFA) offices experience as well as industry-wide expertise. For group business, the assumptions are based on past experience with a skewness adjustment depending on the duration relative to the rate guarantee period.

**Expenses**

The contracts are valued using our long term expense assumptions which reflect the projected expense cost of the Company. Future expense inflation of 3% per annum is assumed to reflect the mix of salary based inflation and inflation on goods. At 31 December 2019 the renewal expense assumption for the majority of individual contracts ranges from £8.60 to £8.82 (2018: £8.99 to £16.71 on a consistent basis, i.e. without prudent margins), per policy. For the majority of group business, the renewal expense assumption is £5.15 (2018: £7.07) per member.

**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 2019. 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 AIGLL's insurance contracts. AIGLL has a buy-and-hold investment strategy.

## 17. Creditors

Creditors arising out of reinsurance operations are analysed further below:

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| Amounts due to reinsurers - third parties | 35,081 | 56,373 |
| Amounts due to reinsurers - group companies | 11,104 | 33,856 |
| | 46,185 | 90,229 |

Other Creditors are analysed further below:

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| Other creditors - amounts due to third parties | 9,330 | 66,651 |
| Other creditors - amounts due to group companies | 8,207 | 1,479 |
| Derivative financial instruments | 1,861 | - |
| | 19,398 | 68,130 |

Accruals and deferred income are analysed further below

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| Amounts accrued due to third parties | 4,014 | 2,141 |
| Amounts accrued due to group companies | 1,150 | 735 |
| | 5,164 | 2,876 |

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

## 18. Provision for tax

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

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| Current tax payable | 3,503 | 10,762 |
| Deferred tax provision | 5,565 | 1,728 |
| | 9,068 | 12,490 |

The deferred tax provision is further analysed below:

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| Unrealised gains on financial investments | 2,186 | (1,449) |
| Acquired intangible assets | 3,110 | 3,110 |
| Capital allowances | 4 | (36) |
| Other timing differences | 265 | 103 |
| | 5,565 | 1,728 |

Movement in deferred tax provision is analysed below:

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| Movement in provision: | | |
| At 1 January | 1,728 | (1,066) |
| Additions dealt with in profit and loss | 202 | (270) |
| Additions dealt with in other comprehensive income | 3,635 | (46) |
| Deferred tax arising on business acquisition | - | 3,110 |
| | 5,565 | 1,728 |

## 19. Operating Leases

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

Future minimum lease payments

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| Less than one year | **570** | 400 |
| Between one and five years | **1,526** | 400 |
| More than five years | **-** | - |

The Company leases an office building in Reigate under an operating lease, which has a remaining three month term. It also commenced a lease during the year of one floor of the AIG Building in London which has a remaining four years and three months.

## 20. 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.

## 21. 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 2019 and 2018, all related party transactions were with companies that were wholly owned by a member of that group so not disclosure is required.

## 22. Post Balance Sheet Event

The COVID-19 outbreak has developed rapidly in 2020 with a significant number of infections, and measures taken to contain the virus have affected economic activity. This is a significant non-adjusting event for the Company in accordance with FRS102 and due to the widespread implications of the outbreak. The main impact to the Company has been the significant volatility in the yield curve. Significant falls in the Solvency II risk free discount rate adversely impact solvency. However, the Company has management actions in place to mitigate the impact from a fall in the discount rate and these have been enacted in 2020 to date ensuring the solvency ratio at end March is comfortably within stated risk appetite. This included ceding the net cashflows of the Underwritten Whole of Life ("UWOL") business written after 30th June 2019 to a fellow AIG company, AIG Reinsurance Company ("AIRCO") based in Bermuda on 31st March 2020. The net cashflows of the UWOL business written up to 30th June 2019 were ceded to Airco in 2019.

The outbreak may result in an increase in claims but the individual protection book of business is largely reinsured, and there is catastrophe reinsurance in place for the group protection business. Management consider the Company is in a strong position with sufficient liquidity funds to manage any increase in claims.

## 23. Risk Management

Effective risk management is fundamental to the business activities of the Company. While AIG Life remains committed to providing appropriate solutions to our customers and delivering an acceptable return to our owners by developing and growing our business within our determined risk appetite, the Company is mindful of achieving this objective in line with the interests of all stakeholders. A balance between risk and reward is sought in the business, and the risk management capabilities that assist in delivering the growth plans in a controlled environment are developed and enhanced continually, as required.

AIG Life has an Enterprise Risk Management ("ERM") framework in place designed to systematically identify risks to the company's objectives, assess their impacts and implement integrated mitigation strategies to safeguard their objectives.

AIG Life believes that a strong, effective and embedded risk management framework is crucial to maintaining successful business operations and delivering sustainable, long-term profitability. AIG Life achieves this through a strong risk culture articulated by effective Enterprise Risk Management senior leadership and embodied by management at all levels through our governance structure and risk management processes.

AIG Life's approach to risk-taking is quantified through its risk appetite statement that aligns the company's strategic business goals against the risks it faces, ensuring that these risks are maintained at levels consistent with the AIG Life's financial resources. This, together with continuous management and monitoring of the company's financial position, ensures that AIG Life 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.

AIG Life's adherence to its quantified risk parameters is supported by ongoing risk identification exercises conducted across AIG, the outputs of which are documented within AIG Life's risk register framework, which captures the material risks that the company faces.

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

AIG Life's Board, through its sub-committee, the Board Risk and Audit Committee, has ultimate responsibility for development and oversight of the risk management framework; the Board delegates the management of risks within AIG Life's risk appetite and the risk governance framework to the AIG Life Risk and Capital Committee. The Risk and Capital Committee escalates matters of importance to the Board as needed. A diagram covering the key aspects of AIG Life's Risk Management Framework is provided below.

**Key aspects of AIG Life's Risk Management Framework:**


The Risk Management Framework supports the identification, measurement, management, monitoring and reporting of our major risk groupings, which include but are not limited to: Financial Risk; Insurance Liability Risk; Operational Risk and Strategic Risk.

Risk management processes have proven effective throughout 2019. There have been changes in the system of governance during 2019 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.

AIG Life utilises the "Three Lines of Defence" model for risk management:

- **First Line of Defence**

Composed of those profit centres and corporate functions that originate risks and have primary responsibility for managing risks, including identifying, assessing, controlling, monitoring, and reporting risk quantities.

- **Second Line of Defence**

Composed of ERM and other assurance functions, such as AIG Life Compliance, which perform independent risk assessments; ERM, as an independent function, undertakes a review and challenge covering the First Line of Defence.

- **Third Line of Defence**

AIG's Internal Audit Group ("IAG") comprises the independent assurance provided to the Audit Committee of the AIG Life Board. The Internal Audit Group undertakes a program of risk-based audits covering aspects of the First and Second Line of Defence.

**Corporate Governance Map**

Underpinning AIG Life's risk culture is a Risk Governance structure that encompasses its principal business operations and risk areas and defines a framework of risk committees, risk reporting, and risk controls embedded throughout the business. The AIG Life risk governance structure provides an oversight and decision-making framework within which material risks are identified, assessed, monitored and managed, utilising outputs from the Solvency II SCR calculation, where appropriate.

The governance arrangements and standards operated by AIG Life throughout 2019 have changed from previous years, reflecting management changes, and are contained within the AIG Life risk governance map. The risk governance map outlines the governance framework including the AIG Life Board and other governance committees in place to ensure that the business is managed in accordance with relevant legislative and regulatory requirements and that the company has adopted policies and standards.

#### Risk Policies

Supporting these governance arrangements is an ERM Policy Framework, which incorporates the key principles and standards that cascade down from AIG Life's ultimate parent, as well as addressing local regulatory requirements. The Risk and Capital Committee or AIG Life Board (as appropriate) has approved AIG Life Risk Policies. AIG Life updated its suite of risk policies through 2019, merging some and removing some that were no longer relevant. A revised ERM Policy Framework view was presented to, and approved by, the AIG Life Board.

The policies set out the high-level principles and approach, supported by guidance documents and other supporting materials, as required, to allow interpretation and implementation of each policy. Processes are specific to the Company reflecting the needs of the business but must respect the minimum standards set out within the relevant policies and guidance.

Risk Management maintains a master list of risk policies. Policies and guidance are reviewed on an at least annual cycle, as circumstances require.

### Model Control Framework

Risk policies define requirements regarding analyses to be undertaken and data to be calculated and reported. The Actuarial Function define and document the methodologies to calculate these and the models to use to do so, to ensure consistent application and use. The Liability Adequacy Test ("LAT") methodology is an example of this. AIG Life models are managed under the AIG Life model governance framework; changes to the models are reviewed and approved by the Model Control Committee, whilst also complying with the AIG model governance requirements. Changes to methodologies are managed through the Technical Steering Committee, a Board sub-Committee and the parent of the Model Control Committee.

### Risk Reporting

The Company monitors risks through its Committees and reports. The main Committees that consider risks are the Risk and Capital Committee, Board Audit and Risk Committee, Board, and Senior Leadership Committee.

**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 Financial risk, Insurance risk, Operational risk and Strategic risk. These categories and the risk mitigation undertaken by the Company in order to manage them are summarised below.

**a. Financial risk**

Financial risks relate to the impacts of the external markets on the business and potential losses from another party if they fail to meet their obligations to the Company. The main subcategories of financial risk managed within the Company are detailed below:

**i) 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.

**ii) 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 £23,320k

**iii) Credit risk**

Credit risk is defined as the risk of loss if another party fails to perform its obligations or fails to perform them in a timely fashion. Exposure to credit risk may arise in connection with a single transaction or to an aggregation of transactions, not necessarily of the same type, with a single counterparty.

The Company's primary exposure to credit risk is in respect of its investments with third parties, commission payments made to brokers, IFAs and reinsurance agreements. Investment and commission exposures to individual counterparties are monitored on a regular basis. At 31 December 2019, there are assets past their due date in respect of commission recoveries from a broker that have been provided for. The Company does not have any exposure to Sovereign debts issued by Portugal, Italy, Ireland, Greece and Spain.

Credit exposures for reinsurance contracts are monitored as part of the overall credit risk policy, taking into account external rating information and collateral that is available. The Company manages this risk through a combination of using only A- or better grade reinsurers based on S&P ratings, or a group company with the benefit of a parent company guarantee. The Company monitors these ratings regularly.

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents and other receivables, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure to the carrying amount of these assets. All receivables on the balance sheet at 31 December 2019 are within terms and no amounts are overdue.

#### iv) Liquidity risk

Liquidity risk is the risk that adequate liquid funds are unavailable to settle liabilities as they fall due. This risk is managed by maintaining forecasts of cash requirements and by adjusting investment management strategies as appropriate to meet these requirements, both in the short and longer term. In most instances, liquidity risk can be avoided by holding sufficient assets in investments that are readily marketable in a sufficiently short timeframe to be able to settle liabilities as they fall due.

Volatility in the claim payments are mitigated by reinsurance shown under sub note (k), page 44. Customers are required to continue paying premiums for the policies to stay in-force.

### b. Insurance risk

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 £6.1m (net of reinsurance). Updating the yield curve increases the capital requirement to £9.0m. 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 £4.8 million (£9.0 million / 15% * 10%*(1-19%)).

The main insurance risks can be summarised as follows:

- **Mortality** – the risk that policyholder death experience is different from that expected. For life assurance, the risk is that policyholders die earlier than expected. The impact of a 10% increase to the frequency of claims in the year would prospectively reduce the result by £4.8 million net of reinsurance (£185.5 million gross).
- **Morbidity** – the risk that policyholder health experience is different from that expected. For life assurance, the risk is that policyholders have a greater frequency of illness. The impact of a 10% increase to the frequency of critical illness claims in the year would prospectively reduce the result by £7.1 million net of reinsurance (£51.1 million gross).

- **Persistency** – the risk that the number of policies lapsing and timings of these lapses differ from the Company's assumptions. The impact of a 20% mass lapse rate would prospectively reduce the result by £28.7 million (£23.1 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 £41.8 million net of reinsurance (£279.3 million gross).

Insurance risks are managed through the following mechanisms:

- The use of guidelines, limits and authority levels for concluding insurance contracts, assuming insurance risks and handling insurance claims;
- Regular monitoring of actual exposure compared to the agreed limits to ensure that the insurance risk accepted remains within the appetite;
- The use of reinsurance to mitigate exposures in excess of risk appetite, to limit the Company's exposure to large single claims and to alleviate the impact of new business strain; and
- Control over product and pricing.

These techniques are supported by the use of actuarial models to calculate premiums and monitor claims patterns. Past experience and statistical methods are also used to determine assumptions for those models.

**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.

**c. Operational risk**

Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. Operational risks include, but are not limited to, information technology, human resources, project management, tax, legal, fraud and compliance. 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.

**d. Strategic risk**

Strategic risks cover external and internal factors that can affect the Company's ability to meet its business plan and to position itself for achieving ongoing growth and value creation. This includes changes in the external environment, including regulatory changes, the competitive landscape and risk from its distribution channels.

**e. Climate change risk**

AIG Life 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.

**f. Capital management**

**i) 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.

**ii) 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.

**iii) 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:

g. Capital required to support the planned growth in new business;

h. The required rate of return on capital employed; and

i. The Solvency II requirements based on the Solvency II Standard Formula.

As of 31 December 2019, the Company had capital resources of £290.2 million (2018: £267.4 million) and Solvency Cover Ratio of 203% (2018: 223%) 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.

**j. 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 and into 2019 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 2020 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.

### k. 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.

### l. *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 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 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

# *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 2019 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: the statement of financial position as at 31 December 2019; 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*

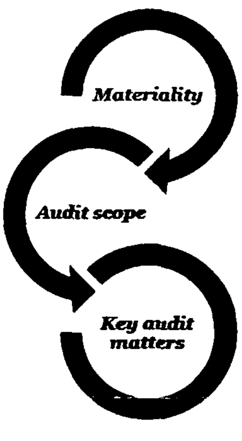
We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance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

Other than those disclosed in note 4 to the financial statements, we have provided no non-audit services to the company in the period from 1 January 2019 to 31 December 2019.

### Our audit approach

*Overview*




- Overall materiality: £7.7 million (2018: £5.4 million), based on 2% of gross earned premiums.

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

- Risk of misstatement of insurance contract liabilities due to subjectivity in key actuarial reserving assumptions - expense assumptions.
- Risk of misstatement of insurance contract liabilities due to subjectivity in key actuarial reserving assumptions - persistency, mortality and morbidity assumptions.
- Valuation of acquired intangible assets, including value of customer relationships acquired (VOCRA), value of distribution agreements (VODA), IT software and goodwill.
- Impact of COVID-19.

### *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*

Based on our understanding of the company and its 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 of the company.

We also considered those laws and regulations that have a direct impact on the financial statements of the company such as the Companies Act 2006 and UK tax legislation. 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, the valuation of intangible assets and deferred tax assets. 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;
- Procedures relating to the valuation of insurance contract liabilities described in the related key audit matters below;
- 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; and
- 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 and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. 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.

| ***Key audit matter*** | ***How our audit addressed the key audit matter*** |
|---|---|
| Risk of misstatement of insurance contract liabilities due to the use of inappropriate expense assumptions<br>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 | Expense assumptions<br>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:<br>We tested and challenged the appropriateness of the split |

| ***Key audit matter*** | ***How our audit addressed the key audit matter*** |
|---|---|
| policy expense rate, including:<br>• The assumed growth of expenses in future years, including inflation and economies of scale;<br>• The allocation of expenses between maintenance and new business and to different policy types; and<br>• Treatment of any project costs and other non-standard expenditures. | between maintenance and new business expense 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 2019.<br>We have reviewed the assumed growth of expenses to ensure that the projected 2020 costs and policy counts are deemed appropriate.<br>We have reviewed the treatment of one-off project costs to ensure that they have been appropriately excluded from the expense analysis.<br>We assessed the appropriateness of the allocation of maintenance expenses by product type and the numbers of policies over which expenses were spread.<br>We evaluated the design and tested the operating effectiveness of controls within the expense assumption setting process.<br>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 use of inappropriate persistency, mortality and morbidity assumptions*<br>The gross insurance contract liabilities are sensitive to the choice of assumptions regarding persistency, policyholder mortality and morbidity.<br>The persistency assumption is set using a combination of the company's own experience data and wider market information.<br>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<br>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:<br>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.<br>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.<br>Reviewing the sensitivity of management's calculations and as such their susceptibility to manipulation by management.<br>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.<br>From the evidence obtained we found the assumptions and methodology used to be appropriate. |
| *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.*<br>There is risk that intangible assets arising on acquisition are impaired as a result of changes in business performance and that appropriate impairment charges are | Impairment of intangible assets<br>We reviewed management's assessments of impairment indicators for the Value of Customer Renewals (VOCRA), Value of Distribution Channel (VODA) and goodwill arising as a result of the acquisition of the Ellipse business |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| not booked.<br>Additions to capitalised IT software may not meet the criteria for capitalisation and IT projects capitalised may no longer deliver the business benefits intended at the time of project commencement. | in the prior year.<br>We reviewed and tested management's impairment assessment as at the year end after a full year of ownership.<br>We tested the appropriateness of capitalisation of IT software and tested management's impairment analysis for accumulated capitalised amounts.<br>From the evidence obtained we consider management's assessments to be appropriate. |
| *The impact of COVID-19*<br>As disclosed in the post balance sheet events (note 22), 2020 has begun with the outbreak of a new strain of Coronavirus (COVID-19) in China resulting in a global pandemic causing significant economic disruption. The situation on 31 December 2019 was that a limited number of cases of an unknown virus had been reported to the World Health Organisation. The subsequent spread of the virus and its identification as a new coronavirus does not provide additional evidence about the situation that existed at 31 December 2019. Management has therefore concluded that this represents a non-adjusting event and have determined that. AIG Life will continue to meet its capital requirements and operate through this pandemic and accordingly, that the company continues to be a going concern.<br>Nonetheless there is the risk that the heightened financial market volatility and uncertainty caused in relation to the following areas could impact the company's going concern basis:<br>i) Impact on the company's insurance liability valuations as well as the possible impact of increased claims;<br>ii) Impact on management's cash flow analysis including its access to financing arrangements and credit facilities;<br>iii) Impact on the company's technical provisions, Solvency Capital Requirement and solvency position;<br>iv) Estimating the impact of the company's investment portfolio; and<br>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:<br>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.<br>We assessed the mitigating actions management has put in place due to the potential for further deterioration of the wider UK and Global economy.<br>We reviewed board papers, attended certain board and all audit committee meetings held in 2020 and reviewed any correspondence with the PRA in relation to COVID-19.<br>We have assessed the disclosures made by management in the financial statements (including post balance sheet event note and other information in the strategic report) and checked consistency of the disclosures with our knowledge of the company based on our audit.<br>We reviewed management's assessment that COVID-19 is a non-adjusting event for purposes of the 31 December 2019 financial statements.<br>Based on the stress and scenario work we have reviewed, we believe that management's assessment that the company will continue to meet its capital requirements and operate as a going concern, is appropriate. |

### *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 materiality*** | £7.7 million (2018: £5.4 million). |
| ***How we determined it*** | 2% of total revenues. |
| ***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 agreed with the Audit Committee that we would report to them misstatements identified during our audit above £387,477 (2018: £170,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

## Conclusions relating to going concern

ISAs (UK) require us to report to you when:

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

We have nothing to report in respect of the above matters.

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

## Reporting on other information

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

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

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

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

### *Strategic Report and 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 2019 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, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

*Auditors' responsibilities for the audit of the financial statements*

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

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

*Use of this report*

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

# Other required reporting

## Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

## Appointment

Following the recommendation of the audit committee, we were appointed by the directors 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 5 years, covering the years ended 31 December 2015 to 31 December 2019.

Mark Bolton

**Mark Bolton** (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
14th May 2020