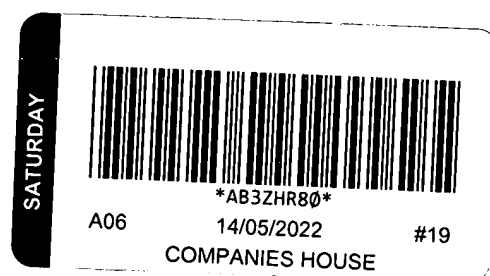


AIG Life Limited

Directors' Report and Financial Statements For the year ended 31 December 2021

Registered Number: 06367921



AIG Life Limited

Directors' Report and Financial Statements

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AIG Life Limited

Directors and Officers

Directors

Philip Willcock

Donald MacLean

Laura Santori, Independent Non-Executive (resigned 28 February 2022)

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

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

Todd Solash (appointed 6 August 2021)

Company Secretary

Mark Robinson (appointed 26 February 2021)

Kate Hillery (resigned 26 February 2021)

Registered Office

The AIG Building

58 Fenchurch Street

London

EC3M 4AB

Independent Auditors

PricewaterhouseCoopers LLP

7 More London

London

SE1 2RT

AIG Life Limited

Strategic Report for the year ended 31 December 2021

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 2021, the Company has maintained its market share at 10% market share (2020: 10%) 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 seventh year following acquisition by AIG. In relation to the individual protection business, sales for 2021 were below plan but the Company performed strongly considering the challenging economic environment and there has been significant focus on positioning the Company for achieving sales growth in the future. The group protection business, consisting of group life, critical illness and income protection products, has continued to grow strongly in the third year since acquisition of this business from Munich Re. During 2021, the group protection business has grown significantly, so that inforce premiums are now £194.7 million (2020: £149.8m) with in-force policies of 12,083 (2020: 9,135) covering 1,276,933 lives (2020: 805,819).

The Company also won 15 industry awards in 2021, four of them were at the Protection Review awards in December 2021 and included Organisation of the Year. This is a significant award highlighting how the Company is perceived in the industry.

Product Development

During 2021, the Company worked with one of its partners, Neilson Financial Services, to launch the 'Frankli' brand on 4th January particularly aimed at younger families. The Company further extended the relationship with Neilson Financial Services by winning the Post Office Over 50s business commencing from 1st February 2022.

The Company also launched an innovative new Group Critical Illness proposition reducing the level of complexity and providing better cover for employees by grouping conditions based on impact.

The Company strives to ensure high levels of service underpin all of AIG Life's activities. During 2021, there have been challenges to service delivery in part due to the impact of lockdowns and additional workload arising from the Covid-19 pandemic. The Company has recently started a project to review its key processes in order to enhance the experience for customers.

COVID-19

The response of the Company to the COVID-19 pandemic during 2021 and impact to results are detailed below.

Employees

From the end of March 2020, all employees of the Company have been working from home. During 2021, there was a limited return to office in line with Government guidelines whilst the Company has retained a flexible approach to working. The Company has continued to provide equipment for employees and to provide practical support to look after employees' health and wellbeing, including increased flexibility as required.

AIG Life Limited

Customers

The Company was aware of the financial strain COVID-19 placed on a number of individual customers and small businesses. Within two months after the global pandemic had been announced, the Company introduced payment flexibility options to enable Individual Protection customers to reduce premiums, with proportionate reduction in level of cover, so that they can continue to be insured. For small businesses with Group Risk Protection cover, the Company put in place a premium deferral facility to enable them to retain their insurance cover. Both initiatives were positively received by agents, brokers and customers and have been maintained during 2021, having helped over 500 customers. The Smart Health services have also continued to be well used by customers and employees providing mental health support, nutrition consultation, fitness programmes, 24/7 GP access, health checks and expert case management, and have been invaluable during the pandemic.

Impact of COVID-19 on financial results

As a provider of life insurance products, the Company has continued to see an increase in claims from COVID-19 both on the Individual and Group books. The Company experienced excess mortality although significantly lower than the experience of the overall United Kingdom population.

The COVID-19 outbreak initially led to a fall in interest rates and then further volatility in yields during the year. Over the past few years, the Company has taken steps to reduce its exposure to yield volatility including use of reinsurance and derivatives. During 2021, the Company took further steps including rebalancing the derivative hedging programme and rebalancing the lapse reinsurance programme. As a result, the Company has been able to maintain a strong solvency position throughout the year. The Company continues to monitor the risks from COVID-19 on an ongoing basis and has ensured there remains a strong cash position, low level of debtors and a strong solvency and liquidity position.

Business Performance

New Business

During 2021 there was a slight decrease of 1% (2020: increase 5%) in the level of new business compared to prior year, with an Annual Premium Equivalent ("APE") of £145.9 million (2020: £147.0 million). APE is one year's worth of premiums for a new policy sold and is a standard measure used by insurance companies. This was a significant achievement in a competitive market and given the challenging economic conditions impacting all insurers. This was due to a slight decrease in sales of new group protection business, with APE achieved of £72.6m (2020: £75.7 million), a decrease of 4% but considered a solid performance after the strong year in 2020. Whilst lower than prior year, this new business led to significant increase in the in-force group protection from £149.8m at the end of 2020 to £194.7m at end of 2021. There was an increase of 3% (2020: decrease 22%) in the level of new individual protection business achieved with an APE of £73.3 million (2020: £71.3 million) as the country slowly emerged from Covid-19 lockdowns. This reflected a conservative approach to managing the value of new business in uncertain economic conditions with elevated claims.

The majority of new business sales on the individual protection business in 2021 continued to come from the IFA / intermediary sector (82%) with the remaining 18% from distribution partners (Nelson, Direct Line Group, Royal Bank of Scotland and NFU Mutual). The IFA sector is intended to remain a core distribution channel however the Company's ambition is to continue to broaden its distribution footprint.

Gross Written Premiums also continued to grow substantially, from £500.3 million in 2020 to £588.2 million in 2021, an increase of 18%.

The Key Performance Indicators used by the Directors to manage the Company are below:

	2021	2020
	£m	£'000
New business sales (APE)	145.9	147.0
Gross written premiums	588.2	500.3
Gross claims incurred	367.6	254.4
Expenses	70.3	66.9
Operating profit	1.7	9.6

The Directors also focus on new business margin and service standards.

AIG Life Limited

Claims

Gross claims incurred were higher in the year at £367.6m (2020: £254.4m) largely due to Covid-19 claims and the increase in the in-force business particularly on group protection business. The Company continues to reinsure most of the individual protection business and net claims incurred were £153.1m (2020: £110.1m).

Expenses

The Company maintained its focus on cost efficiency although expenses associated with writing increased volume and higher value new business resulted in an increase in expenses compared to 2020. Whilst total operating expenses were £70.3 million compared with £66.9 million in the prior year, expense per policy has decreased from £69.55 to £66.39 with the increase in number of policies in-force.

UK GAAP Results

Before financing costs the Company achieved an operating profit of £1.7 million compared with £9.6 million in 2020. After financing costs as shown in the Statement of Profit or Loss, the Company achieved a profit before tax of £1.7 million in 2021 compared with £9.1 million in 2020. The profit after tax was £1.1 million compared with £4.9 million profit 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 financial statements the negative reserves are held at zero value (the gross of reinsurance reserves are shown on both sides of the balance sheet for presentation purposes only) and their underlying value supports the Deferred Acquisition Cost 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 2021 was 170% (31 December 2020 was 162%). The AIG Life rating from AKG has remained at B+.

Change of Ownership

On 26th October 2020, AIG announced its intention to separate the Life & Retirement business, including the Company, from AIG. To support this planned separation, on 1st May 2021 there was a legal entity realignment with 100% of the shares in the Company being transferred from AIG Holdings Europe Limited, a UK entity, to SAFG Retirement Services, Inc., a US entity. On 2nd November 2021, AIG sold 9.9% of SAFG Retirement Services, Inc. to Argon Holdings LLC, a wholly owned subsidiary of Blackstone Inc.

On 28th March 2022, it was announced that SAFG will be renamed as Corebridge Financial, Inc, once the initial public offering is complete.

Future Developments

During 2022 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.

AIG Life Limited

Going Concern

The financial statements have been prepared on a going concern basis. The directors consider that the Company will remain adequately capitalised during 2022 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 2021. However, sensitivity to yield movements remains a key risk and while global market conditions are outside the control of management, yields are monitored on an ongoing basis with the Company having a number of levers that can be used to mitigate this risk.

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

The Company expects significant uncertainty during 2022 particularly arising from the conflict in Ukraine as well as increased inflationary pressures. Whilst the Company does not have direct exposure to Ukraine or Russia, the conflict is expected to have a significant economic impact, particularly putting further pressure on inflation resulting in increased interest rates. The Company will be impacted through the potential effect on future income from customers needing to reduce expenditure as well as cost pressures on Company margins. With the steps taken to reduce exposure to yield volatility, monitoring of investments, continual review of cost efficiencies, and its strong in-force book of business, the Company considers that it is in a strong position to manage through such economic uncertainty.

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 2021

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. This is shown by the Company's continued response during 2021 to the COVID-19 pandemic by maintaining payment flexibility options to enable customers to reduce premiums so that they can retain their insurance and enable small businesses to defer payments. The Company worked with reinsurers to enable these options to be presented to customers. This response to the pandemic was positively received, enabling customers to retain their insurance which ultimately benefits all the Company's stakeholders.

The Board considered all stakeholders when they entered into the decision to migrate the physical data centre from Reigate to a cloud based solution hosted by Amazon Web Services. This migration enabled the Company to improve the processing speed for serving customers, enabled the Company to reduce its physical space requirements and environmental footprint, as well as reducing the ongoing operating costs. It therefore met the needs of all the Company's stakeholders, particularly its customers, regulators and its shareholder.

AIG Life Limited

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 are 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 the new Group Critical Illness proposition 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 2021, the chosen charity was Age UK. The Company also provides time off for employees for volunteering.
- Regulators – as an insurance company, AIG Life is subject to financial services regulations and approvals, and maintains an open and constructive relationship with the UK regulators. In 2021, this included constant engagement during the year on the impact of COVID-19 in line with other insurers.
- Shareholder – AIG Life is wholly owned by SAFG Retirement Service, Inc. 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. 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 13th April 2022 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:

Philip Willcock

Donald MacLean

Laura Santori, Independent Non-Executive (resigned 28 February 2022)

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

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

Todd Solash (appointed 6 August 2021)

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

Directors' Indemnities

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The group company (AIG Inc., 175 Water Street, New York, NY 10038, United States) purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

Results and Dividends

As set out in the Strategic Report above the result for the year is a profit after taxation of £1.1 million, (2020: profit of £4.9 million). The directors do not propose to pay a dividend for this year (2020: £nil).

Assets

The primary assets held by the Company at 31 December 2021 are cash and fixed term investments. These assets represent the Company's expected working and solvency capital requirements. In addition the Deferred Acquisition Cost asset is supported by the value of future expected cash flows and is tested regularly to ensure that this remains the case. Debtors largely represent recovery of claims from reinsurers and are regularly reviewed with the reinsurers to ensure any issues with recoverability are resolved.

Liabilities

The liabilities at 31 December 2021 include creditors in respect of the Company's day to day trading activities and reserves for insurance contract liabilities.

Share capital

At 31 December 2021 the authorised share capital comprised 316,885,000 ordinary shares of £1 each, all fully paid up.

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Shareholder's equity

Unrealised loss on investments net of taxation of £20.2 million (2020: gains of £18.0 million) were recorded in the Statement of Comprehensive Income on page 19. At 31 December 2021 the total shareholder's equity stood at £453.9 million (2020: £473.0 million).

Cash Flow

Cash and cash equivalents available to the Company have decreased by £57.9 million (2020: increased £46.1 million) during the year principally due to settlement of a number of reinsurance payable balances that had been outstanding and were in the process of being agreed at 31 December 2020. The year-end position of £14.2 million (2020: £72.0 million) remained 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 445 (2020: 424) and their aggregate remuneration is shown in note 7.

Employee involvement

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

Gender Pay Report

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

This is the fourth year that AIG Life has had over 250 employees and is required to report its gender pay gap. In 2021, we continued our internal analysis, discussed what we had found, agreed how we would maintain and improve our position and shared our findings with employees. The analysis of our gender pay and bonus gaps on 5th April 2021 shows AIG Life was almost at gender parity as a result of the high number of women we have in senior positions. We continue to hire the best people at AIG Life based on their talents, and have a flexible working approach for all employees, to maintain our culture of success, reward, opportunity and work life balance.

Our Pay Strategy

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

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

Recruitment Activity

We appoint people to roles based entirely on talent and merit, regardless of age, race, gender, gender identity, marital status, sexual orientation, disability, 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.

AIG Life Limited

Diversity and Inclusion

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

BeingYou@AIG activities include:

Education and Awareness

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

In January 2021, we empowered employees to grow our inclusive culture and launching the Diversity Council. Their purpose is to lead action, recommend improvements and foster a culture of inclusion. The Council has so far led town halls, listening groups and mentoring initiatives while inputting into 2021 strategy and goals.

Development and Mentoring

We continued to provide development for high potential senior women through AIG's global Women's Executive Leadership Initiative. Leadership Connection, a global networking and development forum, has also been launched to provide ongoing development for senior women. 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 are also partnering with CityParents to provide resources, webinars and support groups to parents and carers. We continued to promote agile and flexible working through webinars for employees and focused manager training.

Career break returner support

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

Gender Pay Gap

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

AIG Life Limited

The percentage difference in pay between men and women

Mean	2021	2020
Hourly fixed pay	4%	4%
Bonus paid	12%	33%

Median	2021	2020
Hourly fixed pay	0%	1%
Bonus paid	10%	18%

Our policy and culture of inclusivity and flexible working, regardless of gender, continues to have a positive impact on our mean and median hourly pay across all levels of the business. AIG Life's median pay difference in 2021 moved in women's favour and reduced from 1% to 0% - meaning there is no pay gap in favour of either gender.

The bonus gap between men and women also significantly reduced. It is attributed to there being a change in the proportion of females with prorated annual bonus targets, most likely because they were part-time workers, on an unpaid leave of absence or were not entitled to one, having recently joined the company.

Employees awarded a bonus for 2021

	Bonus	No Bonus
Men	90%	10%
Women	91%	9%

The proportion of male and female employees receiving a bonus fell compared with last year (in 2020 almost all eligible employees received a bonus). 2020 into 2021 was an exceptional year when all employees received a \$500 recognition grant from parent company AIG to support employees during the COVID crisis.

Quartiles

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

Quartiles for 2021

	Men	Women
Lower	56%	44%
Lower Middle	49%	51%
Upper Middle	48%	52%
Upper	57%	43%

Quartiles for 2020

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

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

Future Plans on Gender Pay

- Maintain a diverse and inclusive recruitment selection process
- Introduce a requirement for a diverse panel in recruitment and slate
- Remove reference to cultural fit to reflect the diverse perspectives of our society
- Continue to promote the development opportunities available to employees that maintain inclusivity and a gender balance. This includes the Accelerated Leadership Development programme which continues to be tailored towards women and undeveloped groups
- 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
- Participate in a returnship pilot encouraging experienced workers to join our company after taking a career break
- Actively encourage senior leaders and our experienced professionals to mentor and coach employees.
- Encourage experienced professionals to share how our culture and policy have allowed them to progress
- Spotlight on internal talent to encourage and support individuals seeking their own career path
- Continue to support and promote our Employee Resource Groups with their valuable contribution they make to our inclusive culture
- Continue to be involved and invest in the wider promotion of inclusion and gender balance in the insurance industry, for example through our commitment to the Chartered Insurance Institute's Insuring Women's Futures, the ABI Talent & Diversity Network, and the Women in Protection network

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

Disabled persons

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

AIG Life Limited

Climate Risk

AIG supports the scientific consensus that climate change is a reality of increasing global concern. Climate change, indicated by higher concentrations of greenhouse gases, a warming atmosphere and ocean, diminished snow and ice, and sea level rise, appears to have contributed to unpredictability, increase in the frequency and severity of natural disasters and the creation of uncertainty as to future trends and exposures. As such, climate change potentially poses serious financial implications for the insurance industry in areas such as underwriting, claims and investments.

Climate Change has become an increasing priority for public and private sector organisations across the globe. The UN, EU, UK and other leading nations are now taking a keen interest in addressing the Climate Change agenda and this has been driven at a supranational level by the United Nations Climate Change Conference (COP) and enhanced by the United Nations Climate Change Agreement, 2015 (Paris Agreement).

Regulatory Environment

Under our Solvency II requirements, we have adopted Supervisory Statement: SS3/19: Enhancing banks' and insurers' approaches to managing the financial risks from climate change. Issued by the PRA In April 2019, this set out how the regulator expects firms to address the financial risks from climate change as part of their governance arrangements, existing risk management practices, scenario analysis and disclosures. This remains the core document outlining the UK regulator's requirements relating to Climate Risk. Key expectations from the Supervisory Statement are as follows:

Governance

- Board to understand and assess financial risks from climate change that affect the firm and address these within the business strategy and risk appetite.
- Evidence how the firm monitors and manages the financial risks from climate change in line with its risk appetite statement.
- Ensure clear roles and responsibilities for the board and relevant sub-committees in managing the financial risks from climate change.

Risk Management

- Firms to address the financial risks from climate change through their existing risk management frameworks.
- Firms to understand the financial risks from climate change and how they will affect their business model.
- Firms to consider a range of tools and metrics to monitor exposure to financial risks from climate change.
- Firms are expected to evidence how they will mitigate these financial risks.

Scenario Analysis

- To conduct scenario analysis to inform strategic planning and determine the impact of climate change on overall risk profile/business strategy.
- Scenario analysis is to address a range of outcomes relating to different transition paths to a low-carbon economy, and a path where no transition occurs.
- Scenarios are to be used to understand the impact from these risks on their solvency, liquidity, and ability to pay policyholders.
- ORSA is considered to be a useful framework to consider the financial risks from climate change.

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Disclosure

- Firms are expected to disclose information on material risks.
- Firms should consider if further disclosures are necessary to enhance transparency on the approach to managing financial risks from climate change.
- Firms are expected to develop and maintain an appropriate approach to disclosure.
- Firms are expected to engage with wider initiatives on climate-related financial disclosures to allow for the benefits of disclosures that are comparable across firms.

AIG Enterprise Risk Management (ERM) monitors Climate Risk and this features in our 2021 Own Risk and Solvency Assessment.

Set out below is a summary of the Climate Gap Analysis our Enterprise Risk Management has developed on behalf of the Chief Executive Officer (responsible SMF for Climate Risk) to help support management to embed Climate Risk Management in business processes.

Summary of Climate GAP Analysis

ERM have prepared a Climate Gap Analysis (reviewed quarterly and discussed at the Risk and Capital Committee) providing proposed climate actions for the business in 2022 and beyond to establish a robust and embedded Climate Risk management framework across the business. Our Gap Analysis outlines key activities for the Company's functional areas, as well as ERM-specific activities.

Senior Management Function Role

As per the requirements, we have appointed a Senior Management Function (SMF) role responsible for climate risk. This role provides effective oversight of risk management and controls and also expects the board to ensure that adequate resources are devoted to managing the financial risks from climate change. The SMF role sits with AIG Life's Chief Executive Officer.

Stress testing

Whilst the Company was not required to participate in the Bank of England's 2021 CBES: Climate Biennial Exploratory Scenario, AIG Life undertook stress testing as part of its 2021 ORSA.

Investment portfolio analysis

ERM provided an analysis of the Company's investment portfolio in the 2021 ORSA.

Our investment reports include appropriate ESG data points, and an update on relevant ESG related issues, to inform the ongoing review of the Company's investment portfolio.

Underwriting risks

AIG Life UK reviewed underwriting risks as part of its stress testing in the 2021 ORSA, considering exposures to morbidity and mortality risks and potential for these to be impacted as a result of Climate Change, for example through increase in vector borne diseases and air quality impacts.

Energy Report & Carbon Statement

The Company is committed to reducing its global carbon footprint and we recently achieved and exceeded an emission reduction target in our UK operations through our participation in the UK Carbon Reduction Commitment. The Company shares facilities and facility related services with other AIG companies in the UK, principally AIG UK. AIG in the UK have demonstrated this commitment by increasing the efficiencies of internal company operations and physical assets under the company's control and reducing energy usage. During 2021, AIG have continued to work with Carbon Intelligence to optimise the performance of the Fenchurch Street building. In addition to this, at Fenchurch Street, there has been a chiller plant manager

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and boiler burner upgrade. During 2021, the Company has moved offices in Reigate to offices that have a significantly lower carbon footprint.

All material Greenhouse Gas emissions are reported using 'tonnes of CO₂ equivalent' ('tCO₂e') as the unit of measurement and energy use in kWh. We have also chosen to use FTE as an intensity metric. Our report for 2021 is shown below:

Greenhouse Gas Emissions Source	FY 2020	FY 2021	Trend
Scope 1 - Fuel combustion in vehicles and buildings (tCO ₂ e)	31	34	8%
Scope 2 – (Location-based) - Electricity (tCO ₂ e)	84	112	34%
Scope 2 – (Market-based) - Electricity (tCO ₂ e)	-	9	N/a
Scope 3 - Business travel (tCO ₂ e)	244	30	(88%)
Scope 3 - Indirect emissions from water (tCO ₂ e)	1	6	1,082%
Scope 3 - Fuel and energy-related activities (tCO ₂ e) ¹	40	50	26%
Total Scope 1 & 2 (Location-Based)	115	146	27%
Total Scope 1 & 2 (Market-Based)	31	43	37%
Total Scope 3	285	86	(70%)
tCO₂e per FTE (Scope 1 & 2 Location-Based)²	0.27	0.33	21%
tCO₂e FTE (Scope 1 & 2 Market-Based)²	0.07	0.10	31%

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

2 Value of average FTE during the year in line with the financial statements per note 7. FTE in 2021 was 445 (2020: 424).

This year our greenhouse emission data has been apportioned across the different AIG entities and therefore we are unable to discuss trends. The increase in location based electricity in part reflects the limited return to office during 2021 compared to 2020 when all employees were working from home after March. We purchase our electricity from 100% renewable sources; however, we have included the emissions associated with the common parts and communal areas of the building we occupy which account for 9 tCO₂e market-based emissions.

Our measured Scope 3 emissions totalled 87 tCO₂e, with 30 tCO₂e from business travel. The significant decrease in travel costs in 2021 reflects the significant decrease in international air travel from March 2020 through all of 2021. We do not expect emissions from business travel to increase to the levels incurred before the pandemic with many employees opting for virtual meetings.

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The split between natural gas and electricity consumption is displayed below.

Energy consumption (kWh)	FY 2020	FY 2021	Trend
Electricity	358,955	526,000	47%
Natural gas	149,858	82,669	(45%)
Fuels	13,327	11,239	(16%)
Total energy use	522,140	619,908	19%

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

Independent Auditors

An ordinary resolution of the Company for the re-appointment of PricewaterhouseCoopers LLP as auditors 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 auditors

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

This report was approved by the Board of Directors on 13th April 2022 and signed on its behalf by:



Donald MacLean
Chief Financial Officer

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Profit and Loss Account for the year ended 31 December 2021

	Note	2021 £'000	2020 * Restated £'000
Earned premiums net of reinsurance			
Gross written premiums	4	588,202	500,295
Outward Reinsurance premiums		(262,287)	(224,777)
		<u>325,915</u>	<u>275,518</u>
Investment Expense	5	(6,166)	(11,907)
Other Operating Income		38,421	55,818
		<u>358,170</u>	<u>319,429</u>
Claims paid, net of reinsurance			
Gross claims paid		(304,874)	(210,277)
Reinsurers' share		169,563	103,537
		<u>(135,311)</u>	<u>(106,740)</u>
Change in other technical provisions, net of reinsurance			
Gross claims	16	206,501	(312,608)*
Reinsurers' share	16	(224,268)	309,273*
		<u>(17,767)</u>	<u>(3,335)</u>
Operating expenses			
Acquisition expenses	6	(179,494)	(176,311)
Administrative expenses	6	(23,908)	(23,479)
		<u>(203,402)</u>	<u>(199,790)</u>
Operating profit		<u>1,690</u>	<u>9,564</u>
Finance costs		(19)	(452)
Profit on ordinary activities before tax		<u>1,671</u>	<u>9,112</u>
Tax on profit on ordinary activities	8	(557)	(4,213)
Profit for the financial year		<u>1,114</u>	<u>4,899</u>

All of the above results relate to continuing operations.

The notes on pages 22 to 52 form an integral part of these financial statements.

* Specific lines restated. Please refer to note 3.

Statement of comprehensive income for the year ended 31 December 2021

	Note	2021	2020
		£'000	£'000
Profit for the financial year		1,114	4,899
Other comprehensive (expense)/income:			
Net change in fair value of available for sale financial assets		(24,093)	22,503
Total tax on other comprehensive (expense)/income	8,19	3,902	(4,533)
Other comprehensive (expense)/income for the year, net of tax		(20,191)	17,970
Total comprehensive (expense)/income for the year		(19,077)	22,869

All of the above results relate to continuing operations.

The notes on pages 22 to 52 form an integral part of these financial statements.

Statement of Financial Position as at 31 December 2021

	Note	2021 £'000	2020 * Restated £'000
ASSETS			
Intangible Assets			
Other Intangible Assets	9	25,270	27,790
Goodwill	9	23,712	27,099
		48,982	54,889
Investments			
Investments in group undertakings	10	1,300	1,300
Other financial investments	11	198,692	221,780
		199,992	223,080
Reinsurers' share of technical provisions	16	1,042,507	1,266,775*
Debtors	12	215,322	185,892
Other assets			
Tangible assets	13	860	625
Cash and cash equivalents		14,154	72,041
		15,014	72,666
Prepayments and accrued income			
Deferred acquisition costs	14	226,712	214,748
Other Prepayments and accrued income		1,566	2,340
		228,278	217,088
Total Assets		1,750,095	2,020,390*
Equity and Liabilities			
Capital and reserves			
Called up share capital	15	316,885	316,885
Share premium account		86,725	86,725
Profit and Loss Account and AFS Reserve		50,304	69,381
Total Shareholders' Equity		453,914	472,991
Technical provisions	16	1,092,193	1,298,694*
Provision for tax	19	8,586	14,234
Creditors arising out of direct insurance operations		2,224	2,276
Creditors arising out of reinsurance operations	18	166,944	205,363
Other creditors including taxation and social security	18	21,549	21,372
Accruals and deferred income	18	4,685	5,460
Total Liabilities		1,296,181	1,547,399*
Total Equity and Liabilities		1,750,095	2,020,390*

These financial statements were approved by the Board of Directors on 13th April 2022 and signed on its behalf by:



Donald MacLean, Chief Financial Officer

The notes on pages 22 to 52 form an integral part of these financial statements.

* Specific lines restated. Please refer to note 3.

Statement of Changes in Equity for the year ended 31 December 2021

	Share capital £'000	Share premium £'000	Profit and Loss Account £'000	AFS Reserve £'000	Total £'000
Opening Balance 01 January 2020	316,885	86,725	36,447	10,065	450,122
Gain on AFS reserve	-	-	-	17,970	17,970
Profit for the year	-	-	4,899	-	4,899
At the end of the year 31 December 2020	316,885	86,725	41,346	28,035	472,991
(Loss) on AFS reserve	-	-	-	(20,191)	(20,191)
Profit for the year	-	-	1,114	-	1,114
At the end of the year 31 December 2021	316,885	86,725	42,460	7,844	453,914

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 22 to 52 form an integral part of these financial statements.

Notes to the financial statements for the year ended 31 December 2021

AIG Life Limited ("the Company") is a private company, limited by shares, domiciled and incorporated in England and Wales. The financial statements are presented in thousands of pounds sterling, which is the Company's presentation currency. The Company is primarily involved in long term protection insurance.

The registered office and principal place of business is: The AIG Building, 58 Fenchurch, London EC3M 4AB. The financial Statements were approved for issue by the Board of Directors on 13th April 2022.

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 United Kingdom (UK), 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.

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b. Classification of Contracts

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

c. Revenue

• Premiums

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

• Investment Income

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

d. Claims

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

e. Income Tax

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

i) Current tax

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

ii) Deferred tax

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

f. Tangible Assets

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

The estimated useful lives are as follows:

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

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g. Goodwill

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

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

h. Intangible Assets

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

i) Capitalised Software

Capitalised software costs represent costs directly related to obtaining, developing or upgrading internal use software. Such costs are capitalised and amortised on a straight line basis over the software's useful life which is a period not exceeding ten years.

ii) Acquired Intangible Assets

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

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

The estimated useful lives are as follows based on cash flow models and expectations for the period at the time of acquisition of the business:

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

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

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

i. Investment in Group Undertakings

Investments in group undertakings are stated at cost less impairment. Investments are reviewed for impairment whenever an impairment indicator or changes in circumstances indicate that the carrying amount may not be recoverable. Where the carrying amount is more than the recoverable amount, an impairment charge is recognised in the Profit and Loss Account.

j. 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

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- 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.

k. 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 Profit and Loss Account. The initial commission deferred is capitalised at the point of sale.

l. 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 Profit and Loss Account 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.

m. Financial Assets

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

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

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

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. 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 profit and loss account. Where these investments are interest bearing, interest calculated using the effective interest method is recognised in profit and loss. Realised gains and losses are included in the Profit and Loss Account in the period in which they arise.

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.

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n. 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 Profit and Loss Account over the year of the borrowings on an effective interest basis.

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

o. Offsetting of Financial Assets and Liabilities

Financial assets and liabilities are offset and the net amount is 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.

p. 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 occurs on an available for sale investment where there has been a decline in the fair value and there is objective evidence that the asset is impaired. All impairment losses are recognised in the Profit and Loss Account.

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 the Profit and Loss Account only to the extent of previous charge taken to the Profit and Loss Account. The Company does not currently hold available for sale financial assets that are equity securities.

q. 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 Profit and Loss Account as they occur.

r. 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.

s. Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and deposits which have maturity within three months.

t. Operating Leases

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

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u. 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.

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 financial statements following the accounting reclassification of the debt.

2. Critical accounting judgements and estimates

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

a. Significant judgements in applying the accounting policies

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

b. Sources of estimation uncertainty

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

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

The determination of the liabilities under long-term insurance contracts is dependent on estimates made by the Company. The carrying amount of the liability included as the long-term business provision is £865.5 million (2020 restated: £1,134.7 million). Estimates are made as to the expected number of deaths for each of the years in which the Company is exposed to risk. The Company bases these estimates on standard industry and national mortality tables that reflect recent historical mortality experience, adjusted, where appropriate, to reflect the Company's own experience and any

Company initiatives or external factors that may cause future experience to deviate from historic experience such as this year with Covid-19. Further analysis of the assumptions used is provided in note 17, Insurance Contract Liabilities and Reinsurance Assets – Valuation Assumptions.

ii. Amortisation of deferred acquisition costs

Deferred acquisition costs of £226.7 million (2020: £214.7 million) are recognised as an asset. The determination of the amortisation period of the deferred acquisition costs asset is dependent on estimates of the lives of the contracts. The Company has taken a prudent assessment of the lives of contracts of the expected pattern of receipt of the relevant future margins over 5 years in which the contracts are expected to be in force. In general, lapse experience can be volatile and as a result the past experience of the Company may not be an appropriate indicator of its future experience.

3. Prior Year Restatement

As part of the review of the long term business technical provision, management discovered that the reserving approach needed to be changed to halve the long term indexation cancellation rate assumptions. This adjustment more closely aligns the reserving approach to align expectations to actual experience.

As at the earliest prior period presented, at 1 January 2020, the adjustment increased the balance on the technical provisions and reinsurers' share of technical provisions by £50,272,000 as noted below. This has impacted the comparative financial information for the year ended 31 December 2021: the gross and reinsurers' share of technical provisions as reported in the Balance Sheet and in note 16, and the changes in the gross technical provisions and reinsurers' share of technical provisions as reported in the Profit and Loss Account.

The adjustment has been reflected in prior year comparatives for Change in other technical provisions, net of reinsurance, Reinsurers' share of technical provisions and Technical provisions. The impact on the numbers presented in the Profit and Loss Account for the year ended 31 December 2020 and the Balance Sheet as at 31 December 2020 is as follows:

	2020 As published £'000	2020 Adjustment £'000	2020 Restated £'000
Profit and Loss Account			
Change in other technical provisions, net of reinsurance			
Gross claims	(297,023)	(15,585)	(312,608)
Reinsurers' share	293,688	15,585	309,273
	<u>(3,335)</u>	<u>-</u>	<u>(3,335)</u>
Balance Sheet (note 16)			
Reinsurers' share of technical provisions			
Long Term business provision	1,068,891	65,857	1,134,748
Claims Payable	120,361	-	120,361
IBNR	11,666	-	11,666
	<u>1,200,918</u>	<u>65,857</u>	<u>1,266,775</u>
Technical provisions			
Long Term business provision	1,068,891	65,857	1,134,748
Claims Payable	140,633	-	140,633
IBNR	23,313	-	23,313
	<u>1,232,837</u>	<u>65,857</u>	<u>1,298,694</u>

	2020	2020	2020
	As published	Adjustment	Restated
	£'000	£'000	£'000
Gross Long Term Business Provision Movement in 2020			
Changes in Long Term Business Provision	252,946	15,585	268,531
Claims paid	(210,277)	-	(210,277)
Claims incurred	254,354	-	254,354
Change in Insurance Liabilities as shown in profit and loss account	297,023	15,585	312,608
Movement in year	297,023	15,585	312,608
At 1 January 2020	935,814	50,272	986,086
At 31 December 2020	1,232,837	65,857	1,298,694
Reinsurers' Share of Long Term Business Provision Movement in 2020			
Changes in Long Term Business Provision	252,946	15,585	268,531
Claims paid	(103,537)	-	(103,537)
Claims incurred	144,279	-	144,279
Change in Insurance Liabilities as shown in profit and loss account	293,688	15,585	309,273
Movement in year	293,688	15,585	309,273
At 1 January 2020	907,230	50,272	957,502
At 31 December 2020	1,200,918	65,857	1,266,775

4. Gross written premiums

Gross premium income is composed of:

	2021	2020
	£'000	£'000
Direct insurance	588,202	500,295
	588,202	500,295
Comprising		
Individual business	393,508	350,653
Group contracts	194,694	149,642
	588,202	500,295

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

5. Investment Expense

	2021	2020
	£'000	£'000
Income from investments	3,708	4,007
Realised gain	3,366	3,163
(Loss) on derivative financial instruments	(12,214)	(18,913)
	(5,140)	(11,743)
Investment expenses and charges		
Investment management expenses	(1,026)	(164)
Total investment (expense)	(6,166)	(11,907)

6. Operating expenses by type

i. Operating Expenses

	2021 £'000	2020 £'000
Acquisition costs		
Operational expenses	46,403	43,441
Commission	145,054	136,143
Change in deferred acquisition costs	(11,963)	(3,273)
	<u>179,494</u>	<u>176,311</u>
Administrative expenses		
Maintenance expenses	23,908	23,479
	<u>23,908</u>	<u>23,479</u>

Maintenance expenses are stated after including the following expenses

	2021 £'000	2020 £'000
Depreciation of Tangible Assets	356	432
Goodwill amortisation	3,387	3,388
Other Intangible Assets Amortisation	4,883	3,641
Operating lease rentals	824	870

ii. Auditors' Remuneration

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

	2021 £'000	2020 £'000
Fees payable to the Company's auditors and its associates for the audit of the Company's financial statements	450	440
Fees payable to the Company's auditors and its associates for other services:		
Audit-related assurance services	-	-
Other assurance services	65	60
	<u>515</u>	<u>500</u>

7. Staff costs

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

	2021 Number	2020 Number
Sales and sales support	313	303
Administration	132	121
	<u>445</u>	<u>424</u>

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

	2021	2020
	£'000	£'000
Wages and salaries	29,192	28,483
Social security costs	2,971	2,864
Other pension costs	2,549	2,464
	34,712	33,811

Directors

The directors' emoluments were as follows:

	2021	2020
	£'000	£'000
Aggregate emoluments	1,142	1,131
Pension contributions	58	55
	1,200	1,186

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:

	2021	2020
	£'000	£'000
Aggregate emoluments	593	735
Pension contributions	31	30
	624	765

The highest paid director did not exercise share options in AIG Group during the year (2020: £nil). No other directors exercised share options during this year or prior year.

8. Tax on profit on ordinary activities

	2021	2020
	£'000	£'000
UK corporation tax:		
Current tax on income for the period	1,502	3,487
Adjustments in respect of prior years	(784)	1,613
Total current tax	718	5,100
Deferred tax		
Origination and reversal of timing differences	(705)	(733)
Impact of change in UK tax rate	726	-
Adjustments in respect of prior years	(182)	(154)
Total deferred tax	(161)	(887)
Tax on profit on ordinary activities	557	4,213

Tax expense included in other comprehensive income

	2021	2020
	£'000	£'000
Deferred tax		
Origination and reversal of timing differences	(3,902)	4,533
	(3,902)	4,533

Factors affecting the tax charge for the period

The tax assessed for the period is higher (2020: higher) than the standard rate of corporation tax in the UK.

The differences are explained below:

	2021	2020
	£'000	£'000
Profit on ordinary activities before tax	1,671	9,112
Profit on ordinary activities before tax multiplied by standard rate of corporate tax in the UK of 19% (2020: 19%)	317	1,731
Expenses not deductible for tax purposes	649	1,023
Adjustments to tax charge in respect of previous periods	(966)	1,459
Impact of change in UK tax rate	726	-
Difference in rates between current and deferred tax	(169)	-
	557	4,213

9. Other Intangible Assets and Goodwill

	Development Costs £'000	Other Intangible Assets £'000	Goodwill £'000	Total £'000
Cost				
At 1 January 2021	18,887	15,500	33,874	68,261
Additions	2,363	-	-	2,364
At 31 December 2021	21,250	15,500	33,874	70,624
Accumulated Amortisation				
At 1 January 2021	2,621	3,976	6,775	13,372
Amortisation for the year	2,895	1,988	3,387	8,270
At 31 December 2021	5,516	5,964	10,162	21,642
Net Book Value at 31 December 2021	15,734	9,536	23,712	48,982

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

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

10. Investments in group undertakings

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

Shares in group undertakings	2021 £'000	2020 £'000
At 1 January	1,300	1,700
Impairment	-	(400)
At 31 December	1,300	1,300

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

11. Other Financial Investments

Other Financial Investments are further analysed below:

	2021 £'000	2020 £'000
Debt securities and other fixed-income securities	196,951	214,954
Derivative financial instruments	1,741	6,826
	198,692	221,780

Debt securities and other-fixed income securities

Debt securities and other-fixed income securities are recorded at fair value through other comprehensive income as per IAS39.

	2021 £'000	2020 £'000
Purchase Price	187,403	180,383
Carrying Value	196,951	214,954

Further analysed below:

	2021 £'000	2020 £'000
UK Government Securities	44,122	48,931
Agencies	5,231	5,724
Corporate Bonds	129,958	140,747
Supranational Bonds	17,640	19,552
	196,951	214,954

a) Credit Rating

The credit ratings of the debt securities were as follows:

	2021 £'000	2020 £'000
Investments are analysed by credit rating below:		
AAA	24,952	27,535
AA	66,551	73,125
A	76,063	70,797
BBB	28,719	43,200
B	574	199
CCC	92	98
	196,951	214,954

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);

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- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2021	2020
	£'000	£'000
Level 1	44,122	48,931
Level 2	152,829	166,023
Level 3	-	-
	196,951	214,954

Derivative Financial Instrument

At the start of the year, the Company had an interest rate collar consisting of two receiver swaptions and one payer swaption. These swaptions 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 payer swaption was unwound on 29th November 2021 whilst one receiver swaption was maintained to year end as one of the receiver options expired on 31st December 2021.

At year end, the remaining receiver swaption had total notional of £340 million. At 31 December 2020, the receiver swaptions had total notional of £630 million and the payer swaption had notional of £140 million. Collateral cash flows on the interest rate swaption held at year end are paid daily until 30th December 2022. During 2021, a loss of £12,214,000 (2020: loss of £18,913,000) was recognised in the profit and loss account. At 31st December 2021, derivative position includes a current value of £1,741,000 (2020: asset of £6,826,000) and collateral liability of £1,740,000 (2020: collateral liability of £7,020,000). The derivative financial instruments are analysed as level 2 valuation method for measurement of their fair value.

12. Debtors

	2021	2020
	£'000	£'000
Debtors arising out of direct insurance operations		
- Policyholders	61,054	32,759
Debtors arising out of reinsurance operations	123,718	90,275
Other receivables	30,550	62,858
	215,322	185,892

All debtors are receivable within one year.

13. Tangible Assets

	Leasehold £'000	Furniture & Fixture £'000	IT Equipment £'000	Total £'000
Cost				
At 1 January 2021	520	196	1,114	1,830
Additions	-	421	170	591
Disposals	-	-	-	-
At 31 December 2021	520	617	1,284	2,421
Accumulated Depreciation				
At 1 January 2021	182	100	923	1,205
Charge for the period	104	67	185	356
Disposals	-	-	-	-
At 31 December 2021	286	167	1,108	1,561
Net book value at 31 December 2021	234	450	176	860

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

14. Deferred Acquisition Costs

	2021	2020
	£'000	£'000
Cost		
At 1 of January	976,040	879,005
Additions	152,593	97,035
At 31 December	1,128,633	976,040
Accumulated Amortisation		
At 1 of January	761,292	667,530
Charge for the year	140,629	93,762
Impairment	-	-
At 31 December	901,921	761,292
Net Book Value at 31 December	226,712	214,748

15. Authorised, Issued, Called Up and Fully Paid Share Capital

	Ordinary Shares
	£'000
In issue at 31 December 2021	316,885
In issue at 31 December 2020	316,885

At 31 December 2021 the authorised share capital comprised 316,885,000 (2020: 316,885,000) ordinary shares of £1 (2020: £1) each.

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

16. Technical Provisions

Long Term Business Provision Movement in 2021

	Gross £'000	Reinsurance £'000	Net £'000
Changes in Long Term Business Provision	(269,266)	(269,266)	-
Claims paid	(304,874)	(169,563)	(135,311)
Claims incurred	367,639	214,561	153,078
Change in Insurance Liabilities as shown in profit and loss account	(206,501)	(224,268)	17,767
Movement in year	(206,501)	(224,268)	17,767
At 1 January 2021	1,298,694	1,266,775	31,919
At 31 December 2021	1,092,193	1,042,507	49,686

Long Term Business Provision Movement in 2020

	Gross £'000	Reinsurance £'000	Net £'000
Changes in Long Term Business Provision *	268,531	268,531	-
Claims paid	(210,277)	(103,537)	(106,740)
Claims incurred	254,354	144,279	110,075
Change in Insurance Liabilities as shown in profit and loss account *	312,608	309,273	3,335
Movement in year *	312,608	309,273	3,335
At 1 January 2020 *	986,086	957,502	28,584
At 31 December 2020 *	1,298,694	1,266,775	31,919

Technical Provisions

	Gross £'000	Reinsurance £'000	Net £'000
As at 31st December 2021			
Long Term business provision	865,482	865,482	-
Claims Payable	200,631	163,191	37,440
IBNR	26,080	13,834	12,246
	1,092,193	1,042,507	49,686
As at 31st December 2020			
Long Term business provision *	1,134,748	1,134,748	-
Claims Payable	140,633	120,361	20,272
IBNR	23,313	11,666	11,647
	1,298,694	1,266,775	31,919

* Restated. Please refer to note 3.

17. Insurance Contract Liabilities and Reinsurance Assets – Valuation Assumptions

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

a. Mortality and morbidity

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

b. Persistency

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

c. Expenses

The contracts are valued using our long term expense assumptions which reflect the projected expense cost of the Company. Future expense inflation of 2% per annum is assumed to reflect the mix of salary based inflation and inflation on goods. At 31 December 2021 the maintenance expense assumption for the majority of individual contracts ranges from £7.40 to £7.51 (2020: £8.96 to £9.10) on a consistent basis, i.e. without prudent margins, per policy. For the majority of group business, the maintenance expense assumption is £3.37 (2020: £2.48) per member.

d. Economic

Discount rates used to value insurance contract liabilities and reinsurance assets are based on yields derived from the Barclays Aggregate Sterling Credit Index as at 31 December 2021. The index contains a mix of AAA rated supra-nationals and investment grade corporates. The average credit rating for the index as a whole is slightly better than A. The yield curve includes a reduction for expected credit losses, which is derived using a blend of Moody's long-term average "through-the-cycle" default rates and point-in-time expected default frequencies. The resultant yield has a further reduction applied such that the implied illiquidity premium is consistent with AIG Life's insurance contracts. AIG Life has a buy-and-hold investment strategy.

18. Creditors

Creditors arising out of reinsurance operations are analysed further below:

	2021	2020
	£'000	£'000
Amounts due to reinsurers - third parties	161,761	171,462
Amounts due to reinsurers - group companies	5,183	33,901
	166,944	205,363

Other Creditors are analysed further below:

	2021	2020
	£'000	£'000
Other creditors - amounts due to third parties	5,518	4,631
Other creditors - amounts due to group companies	14,291	9,721
Derivative financial instruments	1,740	7,020
	21,549	21,372

Accruals and deferred income are analysed further below:

	2021	2020
	£'000	£'000
Amounts accrued due to third parties	2,969	3,561
Amounts accrued due to group companies	1,716	1,899
	4,685	5,460

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

19. Provision for tax

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

	2021	2020
	£'000	£'000
Current tax payable	3,438	5,023
Deferred tax provision	5,148	9,211
	8,586	14,234

The deferred tax provision is further analysed below:

	2021	2020
	£'000	£'000
Unrealised gains on financial investments	2,816	6,718
Acquired intangible assets	2,662	2,508
Capital allowances	(257)	5
Other timing differences	(73)	(20)
	5,148	9,211

Movement in deferred tax provision is analysed below:

	2021	2020
	£'000	£'000
Movement in provision:		
At 1 January	9,211	5,565
Additions dealt with in profit and loss	(161)	(887)
Additions dealt with in other comprehensive income	(3,902)	4,533
	5,148	9,211

Changes to the main UK corporation tax rate were substantially enacted as part of the Finance Act 2021, including an increase of the main rate from 19% to 25% with effect from 1 April 2023. Deferred tax is recognised at the rate which is expected to apply upon realisation/unwinding. As we expect the majority of the timing differences to unwind after 1 April 2023 all balances are recognised at 25%.

20. Operating Leases

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

Future minimum lease payments

	2021	2020
	£'000	£'000
Less than one year	824	470
Between one and five years	2,207	1,057
More than five years	-	-

The Company leases one floor of a building in Reigate under an operating lease, this commenced in 2021 and is a 10-year term which includes a 5 year break clause. It also has a lease on one floor of the AIG Building in London which has a remaining term of two years and three months.

21. Parent Company

The Company is a wholly owned subsidiary of SAFG Retirement Services, Inc. (2020: AIG Holdings Europe Limited), an entity incorporated in the State of Delaware, United States of America. On 1st May 2021, 100% of the shares in the Company were transferred from AIG Holdings Europe Limited to SAFG Retirement Services, Inc.

The ultimate parent undertaking and controlling party is American International Group, Inc. ("AIG"), a company incorporated in the State of Delaware, United States of America. 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. The Company is consolidated into the financial statements of AIG which forms the smallest and largest group of undertakings to consolidate these financial statements at 31 December 2021. Copies of the ultimate parent company's consolidated financial statements can be obtained from the Company Secretary, The AIG Building, 58 Fenchurch Street, London EC3M 4AB.

Up to 2nd November 2021, SAFG Retirement Services, Inc. was a wholly owned subsidiary of AIG. On 2nd November 2021, AIG, Inc. sold 9.9% of SAFG Retirement Services, Inc. to Argon Holdings LLC, a wholly owned subsidiary of Blackstone Inc.

22. Related Party Transactions

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

On 2nd November 2021, AIG, Inc. sold 9.9% of SAFG Retirement Services, Inc. to Argon Holdings LLC, a wholly owned subsidiary of Blackstone Inc., with the remaining 90.1% still owned by AIG Inc. As a result, related party transactions that had previously not been disclosed are now disclosed below.

From time to time, the Company has entered into various reinsurance agreements with American International Reinsurance Company, Ltd. ("AIRCO") based in Bermuda. In 2018, the Company ceded risks relating to the payment of obligations of life-contingent annuity claims in the annuitisation phase of the contracts on or after 30 June 2018. In 2019 and 2020, the Company and AIRCO entered into treaties whereby AIRCO assumed risks relating to certain whole life policies issued prior to and subsequent to 1 July 2019, respectively. Reinsurance assets related to these agreements were £55.7 million (2020: £47.6 million) as at 31 December 2021. Amounts payable to AIRCO were £5.2 million (2020: £33.9 million) as at 31 December 2021. Ceded premiums related to these agreements were £30.8 million (2020: £29.2 million), claims recovered were £1.4 million (2020: £1.2 million) and ceded commissions received were £3.2 million (2020: £0.8 million) in the year ended 31 December 2021.

The Company leases from American International Group UK Limited ("AIGUK") one floor of AIGUK's Fenchurch Street building. The total rent and service charge cost in 2021 was £1.1 million (2020: £0.9 million) and had an amount payable at 31 December 2021 of £0.1 million (2020: £nil).

The Company uses AIG Europe Services Limited to settle all salary and related costs and most purchases which are then directly passed through to the Company. At 31 December 2021, the amount payable to AIG Europe Services Limited was £10.2 million (2020: £8.7 million).

During the year, the Company used AIG Technologies, Inc. to migrate the physical data centre from Reigate to a cloud based solution hosted by Amazon Web Services. The total cost incurred with AIG Technologies, Inc. was £2.4 million (2020: £nil) and amount payable at year end was £2.4 million (2020: £nil).

The Company received a head office charge from AIG PC International, LLC ("PCIL") for various services and group IT functions of £0.7 million (2021: £0.8 million) and had an amount payable to PCIL of £0.4 million (2020: £0.2 million).

The Company incurred certain staff related costs from American General Life Insurance Company ("AG Life") and American International Co. Ltd ("AICO"). Costs of £0.4 million (2020: £nil) were incurred with AG Life and £0.3 million (2020: £0.4 million) incurred with AICO. The amounts payable at 31 December 2021 were £0.4 million (2020: £nil) with AG Life and £0.8 million (2020: £0.7 million) with AICO.

The Company entered into certain unsecured derivative transactions with AIG Markets, Inc. The derivative assets were £1.7 million (2020: £6.8 million) and collateral due to AIG Markets, Inc. relating to these derivatives were £1.7 million (2020: £7.0 million).

23. Risk Management

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

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

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

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

The Company utilises the "Three Lines of Defence" model for risk management, as described further below. Overseeing the Company's risk management framework is a risk governance structure that encompasses its principal business operations and risk areas and defines a framework of risk committees, risk reporting and risk controls embedded throughout the Company.

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

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

Key aspects of AIG Life's Risk Management Framework:



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

Risk management processes have proven effective throughout 2021. There have been changes in the system of governance during 2021 with regard to membership of the Board and Board sub-committees. Responsibility and accountability for risk management resides at all levels within the Company, from the parent company down through the Company's organisation to each business manager and 2nd line specialist, be they risk or compliance specialists. Risks are controlled at the level of individual exposures and at portfolio level, as well as in aggregate across businesses and risk types. The senior management team were closely involved with important risk management initiatives.

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

- **First Line of Defence**

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

- **Second Line of Defence**

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

- **Third Line of Defence**

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

Risk Culture

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

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

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

The governance structure has three distinct levels of committees: Board committees; Executive committees; and Management forums. It is designed to support AIG Life's efforts in embedding a strong risk culture through the integration of risk management with regulatory requirements and business activities such as strategy and planning. Each of these committees and forums has a distinct role to play within AIG Life's risk governance framework.

Enterprise Risk Policy Framework

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

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

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

Model and Risk Methodology Framework

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

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Risk Reporting

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

Risk and Capital Committee

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

General Risk Oversight	The Executive Risk Committees are responsible for the identification of new and emerging risks, reviewing Risk Management Information (MI) to determine the likelihood of risks crystallising, continually reviewing and updating risks and associated mitigating controls within the Risk Register and discussing loss events, with a view to determining remediation plans in order to minimise the severity and frequency of such events.
Model Oversight and Challenge	The Executive Risk Committees share a responsibility for providing oversight over AIG Life's Actuarial models, with a view to ensuring that the expert judgements and resultant outputs, and model changes, are in line in expectations based on business performance.
Monitoring of the Risk Profile	Executive Risk Committees are required to monitor and take business decisions on the current and future risk profile that relates to their respective risk area. This ensures that compliance with the company's risk appetite is maintained.

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

a. Market risk

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

- **Market risk**

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

- **Interest Rate risk**

Interest rate risk exists for assets, liabilities and financial instruments sensitive to changes in the term structure of interest rates or interest rate volatility. This applies to both real and nominal term structures. For the Company this risk arises from the holding of assets and liabilities with differing maturities, creating an exposure to changes in the level of interest rates. Stress and scenario testing allows AIG Life to monitor its exposure and sensitivity to interest rate risk. A 0.5% decrease in interest rates would prospectively increase the net best estimate liabilities by £26,584k.

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b. Credit risk

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

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

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

c. Liquidity risk

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

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

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

d. Insurance risk

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

Insurance risk arises from the uncertainty over the occurrence, amount and timing of claims payments arising under insurance contracts. The exposure of the Company depends to a significant extent on the value of claims to be paid in the future, relative to the assets accumulated to the date of the claim. The amount of such future obligations is assessed by reference to assumptions with regard to future mortality and morbidity rates, persistency rates, expenses, investment returns, interest rates and tax rates. The impacts of stress tests are calculated by applying yield curve used to calculate technical provisions to the cash flows from the Solvency II Standard formula stresses and scaling by an appropriate factor. For example, under the Solvency II Standard Formula, mortality risk capital is calculated by applying a 15% permanent increase in mortality term structure which results in a capital requirement before diversification of £6.2m (net of reinsurance). Updating the yield curve increases the capital requirement to £11.3m.

Therefore, a stress of a 10% permanent increase in mortality rates produces an estimated post-tax impact to earnings of £6.1 million ($£11.3 \text{ million} / 15\% * 10\% * (1-19\%)$).

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The main insurance risks can be summarised as follows:

- **Mortality** – On a gross of reinsurance basis, the Company is exposed to the risk that the actual claims experience is worse than that included within its assumptions i.e. that there are a higher number or value of death claims than predicted. Higher mortality experience could be due to a number of factors e.g. mis-estimations, concentration risk (either geographical or occupational), underwriting philosophy issues, pandemic risks. The impact of a 10% increase to the frequency of claims in the year would prospectively reduce the result by £6.1 million net of reinsurance (£255.9 million gross).
- **Morbidity** – the risk relates to the number and value of claims from terminal illness and income protection policies. It is similar to mortality risk in that a proportion of the risk is transferred to the reinsurers to mitigate the risk. The impact of a 10% increase to the frequency of critical illness claims in the year would prospectively reduce the result by £9.5 million net of reinsurance (£64.3 million gross).
- **Lapse** – AIG Life is exposed to lapse risk which relates to policies being in-force for either longer or shorter than expected. It is also exposed to the potential of mass lapse risk where there is a one-off instantaneous shock lapse event. The impact of a 20% mass lapse rate would prospectively reduce the result by £42.2 million (£44.4 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 £46.4 million net of reinsurance (£345.8 million gross).
- **Expense** – The Expense risk relates to how the Company's expenses are attributed to policies and whether they are attributed appropriate to the acquisition costs, maintenance or claims period of the policy. The Expense risk is that expenses could be higher than planned due to inflationary pressures, lower volumes of business than expected, expense overruns or a change in the mix of business.

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

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

e. Concentration risk

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

f. Operational risk

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

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including but not limited to unexpected economic losses or gains, reputational harm due to negative publicity, regulatory action from supervisory agencies, operational and business disruptions and damage to customer relationships. Senior management has primary responsibility for the management of operational risks through developing policies, procedures and controls across the activities, processes and systems under their control and for the allocation of responsibilities.

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

g. Strategic risk

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

h. Climate change risk

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

Managing risks

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

Capital management

- **Aims of capital management policy**

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

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

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

Capital Management includes the assessment of capital required to support the Company's plans and objectives, the structure of its shareholders' funds, arrangements to secure capital and the on-going monitoring of capital against business requirements, as well as the assessments

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required by the PRA, which from 1st January 2016, has been the Solvency II capital requirements.

- **Approach to capital management**

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

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

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

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

As of 31 December 2021, the Company had capital resources of £261.3 million (2020: £249.4 million) and Solvency Cover Ratio of 170% (2020: 162%) on a Solvency II basis.

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

i. **Group risk**

Group risk is defined as the potential impact on the firm of risks arising in other parts of the Company's group as well as the Company's impact on the group. AIG Life is aware that the aforementioned individual risk types are framed to some degree by AIG Life's and AIG Group's business operations and strategic direction. The Company's operations and strategy also influence, or are impacted by, Group Risks arising from AIG Life's participation in the wider AIG group. Group risk is managed and controlled by the Board of Directors.

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

j. **Reinsurance**

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

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

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

k. **Sensitivity to key business drivers**

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

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Statement of directors' responsibilities in respect of the Strategic Report, Report of the Directors 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 regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

Under company law, 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also 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.

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

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 2021 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 2021; the profit and loss account, the statement of comprehensive income, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the audit committee.

Basis for opinion

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

Independence

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

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

Other than those disclosed in note 6, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

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

Key audit matters

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

Materiality

- Overall materiality: £10,290,000 (2020: £10,005,000) based on 1.75% of gross earned premiums.
- Performance materiality: £7,700,000 (2020: £7,503,000).

The scope of our audit

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

Key audit matters

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

This is not a complete list of all risks identified by our audit.

The impact of COVID-19, which was a key audit matter last year, is no longer included because of reduced uncertainty in respect of the impact of COVID-19 and the limited direct effect on the company. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
<i>The risk of misstatement of insurance contract liabilities due to the use of inappropriate persistency, mortality and morbidity assumptions</i> Refer to the Note 17: Insurance Contract Liabilities and Reinsurance Assets – Valuation Assumptions and note 3: Prior year restatement. The insurance contract liabilities are a significant estimate on the balance sheet. They are sensitive to the choice of assumptions regarding persistency, policyholder mortality and morbidity. The persistency assumption is set using a combination of the company's own experience data and wider market information. The company sets mortality and morbidity assumptions based on experience, with some weight placed on relevant industry data where the claims volumes are not yet fully credible. In the course of our audit, management investigated a line in their analysis of change control that aggregated a number of movements. In the course of this investigation, and following further auditor questions, management identified that their past	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: - Tested 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; - Tested assumption changes from prior year to understand drivers of change and emerging experience in the current year; - Obtained management's assessments used in calculating the assumptions, and ensuring that factors utilised by management are consistent, based on appropriate data;

assumptions in respect of long-term indexation cancellation rates had been incorrectly derived. As a result, the prior period financial statements have been restated.	- Assessed the appropriateness of the industry tables used, and the factors applied to these tables, in order to set the mortality and morbidity assumptions; - Challenged 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; - Reviewed the sensitivity of management's calculations and as such their susceptibility to manipulation by management; and - Assessed 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. Following auditor challenge of the analysis of change, management identified a prior year restatement for long-term indexation cancellation assumptions. Our work over the restated amounts included: - Reading management's paper which explained how their experience analysis methodology had incorrectly applied their policy design to their experience data; - Assessing supporting calculations to ensure that they accurately reflected the updated understanding of the policy design and experience data; - Performing independent checks of the calculations supporting the revised assumption and the impact of applying the revised assumption to calculate financial statement amounts; - Applying additional sensitivity analyses performed by management in order to support our assessment of the impact of the changed assumption; and - Using additional information from management in relation to economic conditions and policies with indexation applied to them to support our audit of the restated prior period amounts. From the evidence obtained we: - Found the assumptions and methodology used to be appropriate; - and Consider the quantum and disclosure of the prior period restatement in Note 3 to be appropriate.
<i>The risk of misstatement of insurance contract liabilities due to the use of inappropriate expense assumptions</i> Refer to the Note 17: Insurance Contract Liabilities and Reinsurance Assets – Valuation Assumptions. The insurance contract liabilities are a significant estimate on the AIG balance sheet. AIG Life is required to include the cost of servicing policies as an element of the calculation of	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: Tested and challenged the appropriateness of the split between maintenance and new

insurance contract liabilities. The assumptions that have the most significant impact on the on the cost of servicing policies are:

- the allocation of expenses between maintenance and new business;
- the assumed growth of expenses in future years, including inflation and economies of scale;
- the allocation of expenses to different policy types; and
- the treatment of any project costs and other non-standard expenditures.

business expenses by selecting a sample of cost centres and assessing the appropriateness of the allocation, including agreement back to supporting evidence.

- Considered and, where relevant, challenged the appropriateness of these cost allocations based on actual costs at 31 December 2021.
- Examined the assumed growth of expenses to ensure that the projected 2022 costs and policy counts are deemed appropriate.
- Assessed the treatment of one-off projects costs to ensure that they have been appropriately excluded from the expense analysis.
- We assessed the appropriateness of the allocation of maintenance expenses by product type and the numbers of policies over which expenses were spread.
- We evaluated the design and tested the operating effectiveness of controls within the expense assumption setting process.

From the evidence obtained we found the assumptions and methodology used to be appropriate.

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:

<i>Overall company materiality</i>	£10,290,000 (2020: £10,005,000).
<i>How we determined it</i>	1.75% of gross earned premiums
<i>Rationale for benchmark applied</i>	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 have reduced the threshold used to calculate materiality from 2% in 2020 to 1.75% in 2021. The reduction in the threshold was in consideration of the continuing growth of the business to make materiality more comparable year on year.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in

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determining sample sizes. Our performance materiality was 75% (2020: 75%) of overall materiality, amounting to £7,700,000 (2020: £7,503,000) for the company financial statements.

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

We agreed with the audit committee that we would report to them misstatements identified during our audit above £514,000 (2020: £505,250) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- Obtaining the directors' going concern assessment and challenging the rationale for assumptions on growth of premium and expenses. We used our knowledge of the Company's business performance, and corroborated to external market evidence where available. Our assessment included reviewing management's stress testing and scenario analyses.
- Obtaining management's forecast solvency capital positions and evaluating these for consistency with available information and against management's own target capital ratios. We found that the Company maintained internal targets for its Solvency Capital Requirements (SCR) ratio, and its forecasts to remain compliant with all external regulatory capital requirements for the period covered by the going concern assessment

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

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

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

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

Reporting on other information

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

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

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

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

Strategic report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Report of the Directors for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

- Discussions with the Audit Committee and senior management, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud.
- Evaluation and testing of the operating effectiveness of management's internal controls designed to prevent and detect irregularities.
- Reading key correspondence with the Prudential Regulation Authority and Financial Conduct Authority in relation to compliance with laws and regulations.
- Reviewing relevant meeting minutes.
- Reviewing data regarding policyholder complaints, internal audit reports, compliance reports in so far as they related to non-compliance with laws and regulations and fraud.
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations, unexpected users, unusual words, duplicates and manual journals posted to revenue.
- Performing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing of claim payments and expenses.
- Reviewing the statutory financial statements to ensure that the financial statements and disclosures meet the requirements of the applicable financial reporting framework and the Companies Act, 2006.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

AIG Life Limited

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report. In our engagement letter, we also agreed to describe our audit approach, including communicating key audit matters.

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the members on 1 September 2015 to audit the financial statements for the year ended 31 December 2015 and subsequent financial periods. The period of total uninterrupted engagement is 7 years, covering the years ended 31 December 2015 to 31 December 2021.



Mark Bolton (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

13th April 2022