



AIG Life Limited
Solvency & Financial Condition
Report 2019

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Summary

AIG Life Limited (the “Company” or “AIG Life”) is incorporated in the United Kingdom and registered in England and Wales. The Company is a wholly owned subsidiary of AIG Holdings Europe Limited whose ultimate parent company is American International Group, Inc. (‘AIG Inc.’), a company incorporated in the State of Delaware, United States of America with headquarters in New York City.

The Company is authorised and regulated by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) in the UK.

AIG Life is a provider of Term Assurance, Whole of Life, Critical Illness and Income Protection in the individual and group markets. Its policyholders are predominantly in the UK with some policyholders in Gibraltar, the Isle of Man and the Channel Islands.

The purpose of the Solvency and Financial Condition Report (SFCR) as set out in Article 51 of the Solvency II Directive is to provide the reader with an understanding of the Company’s Business and Performance, System of Governance, Risk Profile, Valuation for Solvency purposes and Capital Management. It should be noted that this report reflects the Company’s position at the end of 2019. The onset of COVID-19 has materially changed the operating and financial environment. To reflect this, each “Any Other Material Information” sub-section of the report contains a COVID-19 update as at time of writing.

Section A to the SFCR provides information on the Company’s business, performance and significant events during the year.

AIG Life had a successful year in 2019, writing £139.6m of new business premiums (a 79% increase on 2018). The Company UK GAAP pre-tax profits (after allowing for a material impact due to a one-off internal AIG Group transaction) were £19.1m, including £4.7m of investment income. AIG Life continues to apply industry leading measures to enhance its capital deployment and finished the year with a capital ratio of 204%.

Section B provides information on the Company’s system of governance. This structure has four levels consisting of the Board, Board Committees, Executive Committees and Management Committees & Sub-Committees. The Company continues to align its management and governance structure to proactively respond to business and regulatory needs.

Section C provides information on the Company’s risk profile over its Insurance Risk, Market Risk, Credit Risk, Liquidity Risk and Operational Risk. Mortality and morbidity risk are largely reinsured meaning the key risks faced are lapse risk, interest rate risk and expense risk. This section further provides an overview for each of these five risks, outlining their risk components, measures used to assess risks, risk concentration, risk mitigation techniques and the process for monitoring these risk mitigation techniques.

The Company has a strong, effective and embedded risk management framework. This is crucial to maintaining successful business operations and delivering sustainable, long-term profitability. Underpinning this framework is a strong risk culture articulated by senior leadership and embedded by management at multiple levels through the governance structure and risk management processes.

The Company’s adherence to its quantified risk parameters is supported by ongoing risk identification. The Company draws together the analysis of its risk profile within its Own Risk and Solvency Assessment (ORSA) documents and in an Annual Risk Review of the Business Plan. This allows management to ensure that the risks accepted by the Company are aligned to its strategic objectives, which include seeking profitable growth opportunities and identifying areas of comparative advantage. It also helps management to avoid oversized risk exposures, relative to the Company’s or peers’ financial resources and to minimise the exposure to legal, regulatory and accounting risk.

Section D provides information on the valuation of assets and liabilities on the Company's Solvency II balance sheet and details of material differences from valuations in the financial statements. Key areas of valuation differences include technical provisions, deferred acquisitions costs, goodwill and deferred tax.

Section E provides information on the composition and quality of the Company's own funds and material changes in own funds composition during the year, as well as its capital management policy. The Company maintains robust and sufficient capital to ensure the safety and stability of the Company whilst meeting regulatory and other business needs. In order for the Company's capital base to provide security against material shocks, the Company would normally expect to hold sufficient capital to maintain a significant economic surplus. Available capital comprises total equity, and eligible Tier 2 and Tier 3 capital under Solvency II.

The Solvency II surplus represents the excess of the Company's total eligible own funds over the Solvency Capital Requirement (SCR). The Solvency II coverage is calculated as the ratio of the Company's total eligible own funds to the SCR. Both metrics are defined by the regulations. During the year, the company ensured compliance with Solvency II requirements including maintaining capital resources above the solvency capital requirements and the minimum capital requirements. As at 31 December 2019, the Standard Formula SCR is £142.7m covered by £290.5m of capital resources thus providing a healthy 204% coverage ratio (both with and without transitionals). The Minimum Capital Requirement was £64.2m. The Company has permission to use a Transitional Measure on Technical Provisions which current has no impact on the Solvency II results.

The Company has been fully compliant with the requirements of Solvency II since its commencement and it remains so.



Chief Executive Officer
Philip Willcock



Solvency & Financial Condition Report 2019

A. Business and Performance

This section of the report sets out the details regarding the Company's business structure, key operations, market position and the financial performance for 2019.

Key elements of the section are:

- Business information;
- Underwriting Performance;
- Investment Performance; and
- Performance from other activities.

A. BUSINESS AND PERFORMANCE

A.1. BUSINESS

The 'Business' sub-section of the report provides an overview of the Company, and its legal position within the AIG Group, major lines of business and strategy and objectives.

A.1.1. COMPANY INFORMATION

AIG Life is incorporated in the United Kingdom and registered in England and Wales. The Company is a wholly owned subsidiary of AIG Holdings Europe Limited whose ultimate parent company is American International Group, Inc. ('AIG Inc.'), a company incorporated in the State of Delaware, United States of America with headquarters in New York City.

AIG Life was established in 2008 as Fortis Life, an innovative provider of long term life insurance, critical illness and income protection products sold through Independent Financial Advisers ("IFAs"), intermediaries and distribution partners. The Company was purchased by AIG Europe Holdings Limited ("AEHL", later AIG Holdings Europe Limited "AHEL"), part of American International Group ("AIG"), on 31st December 2014.

Products are sold to residents of the UK, Channel Islands, the Isle of Man and Gibraltar. The Company is PRA authorised and regulated by the PRA and the FCA.

Registered Office
The AIG Building
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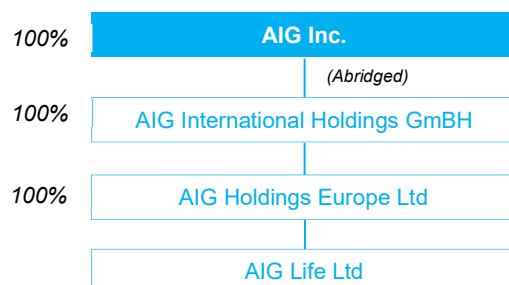
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Supervisory Authority (Conduct)
Financial Conduct Authority (FCA)
12 Endeavour Square
London E20 1JN
+44 (0) 20 7066 1000

A.1.2. POSITION WITHIN THE GROUP LEGAL STRUCTURE

As stated above, AIG Life is a wholly owned subsidiary of AHEL, domiciled in the UK with its head office at 58 Fenchurch Street London. AHEL is a wholly owned subsidiary of AIG International Holdings Limited, a Swiss incorporated company. Its ultimate parent company AIG Inc. is headquartered in New York City. The following chart shows, in simplified form, a structure chart of the Company and its ultimate parent as at 31 December 2019.



A.1.3. MATERIAL PARTICIPATING UNDERTAKINGS

The Company has no subsidiaries or material undertakings other than Group Risk Services Limited, including its 100% owned subsidiary, Group Risk Technologies Limited.

A.1.4. MATERIAL LINES OF BUSINESS BY OPERATING SEGMENT AND SOLVENCY II

From an operating company perspective, AIG Life forms part of the Life business unit within the Life & Retirement division of AIG Inc.

AIG Life's products fall under two of the Solvency II Lines of Business (LOB), which are Life (80%) and Health (20%), measured by gross premium income in 2019. AIG Life's Term Assurance and Whole of Life products are categorised under Life, with Critical Illness and Income Protection categorised under Health.

A.1.5. MATERIAL GEOGRAPHICAL LOCATIONS

AIG Life operates within the United Kingdom, Channel Islands, Isle of Man and Gibraltar.

A.1.6. SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

A.1.6.1. BREXIT VOLATILITY

The financial markets volatility caused by the prolonged Brexit negotiations, in particular falling interest rates, had an impact on AIG Life over 2019. Measures were taken to mitigate this impact including interest rate hedging, removing some interest rate risk from the business and capitalising subordinated debt. The company finished the year with a strong solvency ratio and was well placed for 2020.

A.1.6.2. SMART HEALTH LAUNCHES

In October 2019, AIG Life launched Smart Health, a new virtual proposition that connects customers to the specialists they need to manage their health and that of their family. It's a fully integrated proposition accessible 24/7. This has been provided to customers following research that told us that customers' busy lives were preventing them seeking and getting access to the expertise they need in order to make positive changes across health, nutrition and fitness. It is provided by Teledoc Health UK Limited.

A.1.7. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

- The outbreak of COVID-19 is being closely monitored. AIG Life has successfully implemented its business continuity framework. Thanks to extensive use of mortality and pandemic reinsurance, along with interest rate hedging, we are well placed to withstand the financial and operational impact of coronavirus. The figures presented in this report reflect the 31 December 2019 position (i.e. prior to any COVID-19 impact); however, estimates of the impact as at the date of publication are included in the respective "Any Other Material Information" sections throughout the report.
- The UK formally exited the European Union on 31 January 2020. At the time of writing, the form of the exit agreement remains unclear. Nevertheless, AIG Life's business is largely insulated from the outcome of the exit talks as we do not sell policies in the European Union.
- The transition from LIBOR to alternative risk free rates is ongoing. AIG Life has assessed that there is a limited impact on the business and have identified actions to mitigate this impact. AIG Life will continue to monitor developments on this issue within the industry and remain prepared for the transition.

A.2. UNDERWRITING PERFORMANCE

The 'Underwriting Performance' subsection of the report aims to provide quantitative and qualitative information of the Company's underwriting performance for the financial year 2019, and has been prepared on an UK GAAP basis which is the basis that the company prepares its financial statements in the UK.

A.2.1. UNDERWRITING PERFORMANCE BY MATERIAL LINES OF BUSINESS

The following table summarises the total premiums, claims and expenses for AIG Life as at the 31 December 2019 split by Solvency II Line of Business.

£'000	By Line of Business		Total
	Life	Health SLT	
Premiums written			
<i>Gross</i>	308,496	78,982	387,477
<i>Reinsurers' share</i>	144,617	37,025	181,643
<i>Net</i>	163,878	41,956	205,835
Premiums earned			
<i>Gross</i>	308,496	78,982	387,477
<i>Reinsurers' share</i>	144,617	37,025	181,643
<i>Net</i>	163,878	41,956	205,835
Claims incurred			
<i>Gross</i>	141,298	59,267	200,565
<i>Reinsurers' share</i>	90,372	37,906	128,278
<i>Net</i>	50,926	21,361	72,286
Expenses Incurred	167,927	42,993	210,920

Net claims and expenses exceed net premiums by £77.3m. Once changes in Deferred Acquisition Costs, change in reserves, coinsurance commission and investment income are included there is a UK GAAP pre-tax profit of £19.1m for 2019 as shown below.

AIG Life uses reinsurance to limit its exposure to underwriting risk and to reduce the volatility of its claims and underwriting performance. This is typical within the UK Life insurance market.

Currently AIG Life has arrangements with six different reinsurers in the UK market in addition to arrangements with the internal AIG reinsurer, American International Reinsurance Company (AIRCO). These arrangements are monitored on an ongoing basis with a full review and retender process at regular intervals.

Period ended 31/12/2019	Total £'000
Gross Premiums	387,477
Reinsurers' share of premiums	(181,643)
Gross Claims	(200,565)
Reinsurers' share of claims	128,278
Change in Reserves	-
Coinsurance Cashflows	64,153
Commission Expenses	(160,225)
Non-Commission Expenses	(50,673)
Change in Deferred Acquisition Cost	28,488
Income from Direct Holdings Investments	3,821
Interest earned from Cash & Liquidity Fund	34
Pre-tax UK GAAP profit	19,146

The below table shows the underwriting performance from 2018. The increase in gross premiums and expenses incurred since 2018 reflects the continued growth of the business. Net claims have increased significantly due to the lower levels of reinsurance on group business compared to individual.

£'000	2018		
	By Line of Business		Total
	Life	Health SLT	
Premiums written			
<i>Gross</i>	198,576	64,722	263,297
<i>Reinsurers' share</i>	84,765	27,627	112,393
<i>Net</i>	113,811	37,094	150,905
Premiums earned			
<i>Gross</i>	198,576	64,722	263,297
<i>Reinsurers' share</i>	84,765	27,627	112,393
<i>Net</i>	113,811	37,094	150,905
Claims incurred			
<i>Gross</i>	74,923	28,447	103,370
<i>Reinsurers' share</i>	60,597	23,007	83,604
<i>Net</i>	14,326	5,439	19,766
Expenses Incurred	113,263	36,916	150,179

A.3. INVESTMENT PERFORMANCE

The 'Investment Performance' subsection of the report provides qualitative and quantitative information of the Company's investment performance for the financial year 2019.

A.3.1. NET INVESTMENT INCOME

Net investment income for AIG Life principally arises from high quality fixed income assets including corporate and government bonds.

Net investment return includes investment income, realised gains and losses and movement in unrealised gains and losses on financial assets held at fair value through profit. This amount is net of

interest payable, investment expenses and impairment losses on financial assets. Interest income is recognised as accrued.

[Net investment income](#)

	2019 £'000	2018 £'000
Interest income from debt securities	4,712	4,979
Realised and Unrealised Gains/Losses	18,954	-9,868
Net Investment Return	23,666	-4,889

Net investment returns were higher in 2019 due to unrealised gains as yields fell over 2019.

A.3.2. INVESTMENT ACTIVITIES BY ASSET CLASS AND CHANGES DURING THE REPORTING PERIOD

During 2018, AIG Life performed a Strategic Asset Allocation exercise in conjunction with our asset managers. This exercise aimed to optimise our asset portfolio within our internal risk appetite. The recommendation was to increase the holdings of investment grade corporate bonds via a reduction in gilt holdings. As at the end of 2018, these recommendations had largely been implemented. The portfolio remained largely unchanged over 2019.

A.3.2.1. INCOME AND EXPENSES ARISING FROM INVESTMENTS BY ASSET CLASS

The assets invested by the Company fall into the following asset classes:

1. Direct Bond Holdings £184,777k

The Company has invested in high-quality government and corporate bonds. Over 2019, £4,712k of income was earned and £18,954k of realised and unrealised gains were incurred.

2. Short Term Investments £10,000k

The Company has £10m invested in short term deposits for liquidity purposes.

3. Cash and cash equivalents: Bank deposits £19,162k

No material income or expenses were incurred in respect of these assets in the year ending 31st December 2019.

4. Participations £1,700k

With the purchase of Ellipse in 2018, the Company acquired Group Risk Services Limited, with a net asset value of £1.7m.

A.4. PERFORMANCE FROM OTHER ACTIVITIES

The 'Performance from other activities' subsection of the report aims to provide an overview of the qualitative and quantitative information regarding income from other activities, other expenses and lease arrangements. For AIG Life there was no other material income or expenses.

A.5. ANY OTHER MATERIAL INFORMATION

Since 31 December 2019, the COVID-19 outbreak has driven material economic and operational changes for AIG Life. Due to the successful implementation of our Business Continuity Plan, the company has been able to continue to service new and existing customers. To date, the impact on policyholder claims has not been material. This is however being closely monitored by senior management. The full extent of the impact on mortality will only become clear over the coming months. Investment performance has been impacted in two ways: Government bond holdings have increased in value following the "flight to safety" in investment markets in March. Conversely, spreads have widened in the corporate bond market causing some loss in value in our corporate bond holdings. AIG Life has an investment strategy to buy-and-hold suitable assets. The company has to date not altered its bond holdings but may take action if any of its holdings become unsuitable, for example as a result of an increased risk of downgrade. .



Solvency & Financial Condition Report 2019

B. System of Governance

The 'System of Governance' section of the report sets out details regarding the administration and management of the Company. The section also outlines the process of risk management and the fit and proper and outsourcing arrangements put in place.

Key elements of the sections are:

- Overview of the System of Governance;
- Fit and Proper;
- Risk Management System;
- Own Risk and Solvency Assessment;
- Outsourcing arrangements.

B. SYSTEM OF GOVERNANCE

B.1. GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE

The 'Overview of the System of Governance' subsection of the report aims to provide details of the Company's management structure along with roles and responsibilities and key functions of various committees and working groups.

B.1.1. MANAGEMENT AND GOVERNANCE STRUCTURE

AIG Life adopts a robust approach to corporate governance; the governance framework is based upon the standards set out within the AIG Life Management Responsibilities Map. In addition, AIG Life, as a minimum, adopts corporate governance principles contained in the FCA and PRA Handbooks, together with the UK Corporate Governance Code, where relevant.

The objective of the Management Responsibilities Map is to clarify and formalise governance responsibilities within AIG Life by establishing a clear and comprehensive governance framework with appropriate procedures, systems and controls. The document sets out the governance arrangements and standards that exist to ensure that AIG Life is being managed in accordance with the relevant legislative and regulatory requirements and the policies and standards of the wider Group. Compliance with these standards and requirements will ensure that AIG Life meets not only the expectations of shareholders but also other key stakeholders in the businesses such as customers, employees, business partners and regulators.

Included in the governance framework is the AIG Life Enterprise Risk Management ("ERM") framework which supports the Company's risk culture, and sets out the risk committees, risk reporting and risk controls. The ERM governance structure provides an oversight and decision-making framework within which material risks are regularly identified, assessed, monitored and managed together with utilising the outputs from the Solvency II Capital models where appropriate.

The AIG Life governance structure includes the following four levels:

1. The Board;
2. Board Committees;
3. Executive Committees; and
4. Management Forums.

It is designed to support the Company 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 the committees has a distinct role to play within the Company's governance framework.

B.1.1.1. BOARD OF DIRECTORS

The role of the AIG Life Board is to exercise effective control and oversight over the business, setting the tone from the top, to ensure the direction and performance of the business is aligned to the strategic objectives of the Company and its shareholders, and is managed in accordance with legislative and regulatory requirements.

The responsibilities of the AIG Life Board are contained within its Terms of Reference, including: guarding the interests of stakeholders; setting and maintaining a culture that has customers at the heart of how AIG Life business is conducted; formulating the strategy; approving business plans, policies and investment and divestment proposals; setting risk appetite; and reviewing business performance.

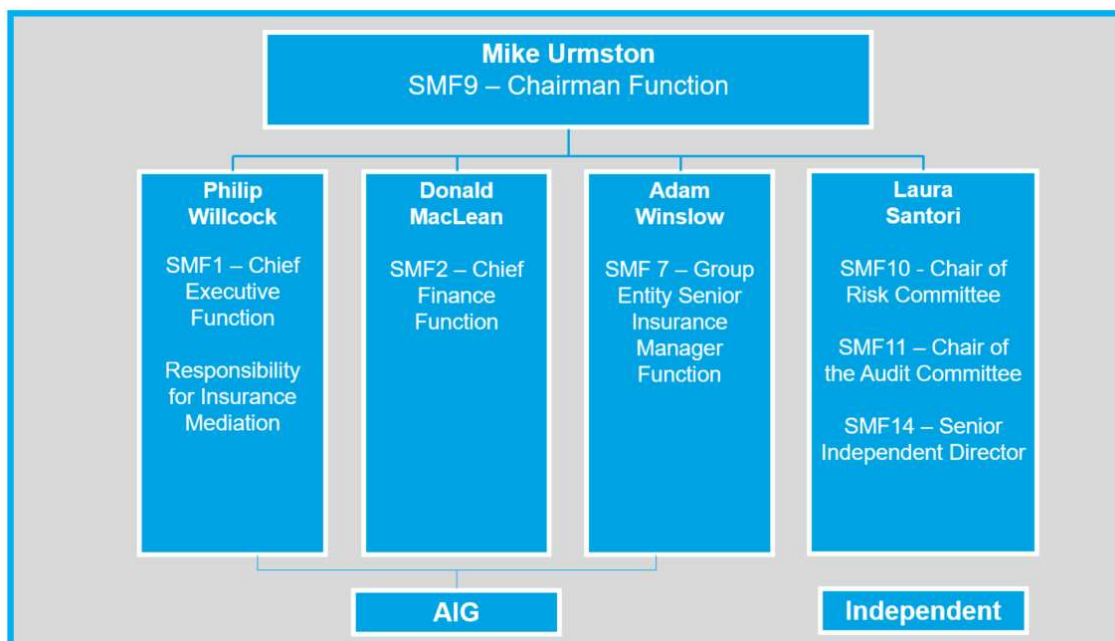
The AIG Life Board:

- Is regarded by all stakeholders as the champion of the Company's integrity, accountability, responsibility, ethics and behavioural values;
- Will meet regularly to exercise and discharge its obligations;

- Is responsible for controlling and directing the company in line with the expectations and requirements of its parent company and shareholder (AHEL);
- Is responsible for ensuring the business is compliant with all applicable legislative and regulatory requirements, including but not limited to, the PRA Fundamental Rules and the FCA Principles for Businesses;
- Has the authority and the duty to use adequate, necessary and proportional means in order to fulfil its responsibilities. The AIG Life Board as a whole is collectively accountable to the Company for adequately exercising its authority, powers and duties. The Company is duly represented by any Director or the Company Secretary for all matters within the limits set by the Board. The Boards may sub-delegate authority where appropriate;
- Is responsible for establishing the desired culture, and setting the policies and standards within which the company will operate, and directors are expected to demonstrate and to promote they remain appropriate; and
- Retains sufficient powers to enable the Directors to carry out their duties effectively and appropriately and to ensure the Company is not exposed to undue risk of regulatory censure. In deciding which powers to retain, the AIG Life Board has given due consideration to industry best practice and relevant legislation, and has chosen to retain control over items with significant impact upon the company.

The Board is composed of a mix of executive directors, independent non-executive directors and a Group non-executive director, so as to achieve a balance of skills, experience, challenge and debate and so that no individual or small group of individuals can dominate its decision-making. Any major changes to the Company's business activities must receive Board approval prior to implementation.

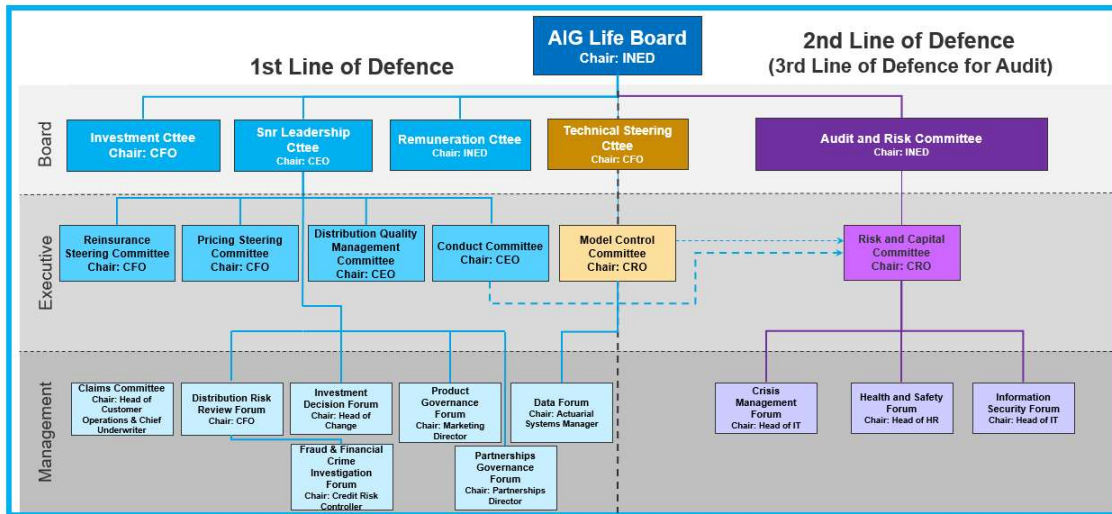
The diagram below shows the AIG Life Board members as at 31 December 2019:



B.1.1.2. BOARD COMMITTEES

There are a number of key governance committees within AIG Life which include the Board Audit and Risk Committee, Senior Leadership Committee and Investment Committee. The structure is shown in the diagram below.

Structure of Boards and Committees within AIG Life



The AIG Life Board Audit and Risk Committee - assists the Board in fulfilling its responsibilities for oversight of the effectiveness of risk management systems and internal controls, both financial and non-financial within the company.

The role of the Board Audit and Risk Committee (BARC) includes:

- Assisting the Board in discharging its responsibilities for the integrity of the Company's financial statements;
- Providing independent and objective assurance and oversight of the effectiveness of the systems of internal controls (financial, operational, compliance and risk management), including those systems and controls reviewed by Internal Audit;
- Monitoring the Company's compliance with legal and regulatory requirements;
- Providing oversight of the qualifications, independence and performance of External Audit;
- Reviewing solvency capital adherence to risk appetite;
- Overseeing risk management processes on behalf of the Board;
- Ensuring that risks are evaluated and plans for the management of such risks are effective; and
- Oversight of model development and changes, data quality and governance and the overall risk and control environment.

The BARC is part of the second and third lines of defence. The Committee is composed of the Independent Non-executive Directors, the Chief Executive Officer, and the Chief Financial Officer, with the Chief Actuary, the Chief Risk Officer, the Chief Compliance Officer (CCO), the Head of Internal Audit, and the lead partner of the external auditors as standing invitees.

The BARC is a sub-committee of the Board, reporting directly to the Board on material issues which the Committee considers should be escalated for the Board's attention or action. In addition, documents such as the annual accounts must be reviewed by the BARC prior to being put before the Board.

The Senior Leadership Committee - the purpose of the Senior Leadership Committee (SLC) is to develop the AIG Life strategy (for example through the annual business and capital plans), and following Board approval implement it and effectively manage the business of the Company, ensuring its direction and performance is aligned to AIG Life's Business objectives and those of the Group whilst ensuring that it is managed in accordance with regulatory and legislative requirements, that all actions agreed

with the Board are delivered to agreed standards and timescales, and that any actions from the agreed plans are proactively managed.

The SLC is composed of the CEO and senior management. The independent non-executive directors may interview proposed candidates for positions prior to their appointment.

The SLC monitors progress against the strategic plan, and where applicable develops and proposes material adjustments to the Board. It also maintains an oversight of the various strategic initiatives. The SLC reports into the Board via the CEO.

The Investment Committee - responsible for overseeing the performance of the assets held by AIG Life, identifying, developing and recommending appropriate investment strategies to the Board of Directors based on the needs of the business.

The Technical Steering Committee - has authority delegated from the Board, to provide thorough review of technical matters which include aspects of financial, actuarial and risk work which either require a significant degree of judgment, have complex underlying assumptions, or have effects or interactions across a number of bases or metrics, and are used as the basis for either management decision making or external reporting.

The Remuneration Committee - with authority delegated from the Board, to oversee remuneration arrangements. The committee considers and advises the Board in relation to the remuneration of management specifically ensuring avoidance of incentive programmes that encourage employees to take unnecessary or excessive risk.

B.1.1.3. KEY FUNCTIONS, ROLES AND RESPONSIBILITIES

Persons who effectively run the Company or have other key functions are required to meet the fit and proper requirements. The system of governance includes the risk management function, compliance function, actuarial function and internal audit function. Solvency II sets out specific responsibilities for each of these key functions. The responsibilities and reporting lines for each of these functions are set out in turn below:

Actuarial Function

The Actuarial Function is led by the Chief Actuary. The Chief Actuary works closely with the Company's CEO and is a member of the Senior Leadership Committee. The Chief Actuary reports to the CFO and also has a second reporting line to the AIG Chief Finance Actuary, Life Insurance. Under Solvency II, the Actuarial Function's responsibilities include the following tasks:

- Coordinating the calculation of technical provisions;
- Ensuring the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions;
- Assessing the sufficiency and quality of the data used in the calculation of technical provisions;
- Comparing best estimates against experience.

The Actuarial Function is ultimately responsible for informing the Board of the reliability and adequacy of the calculation of technical provisions, the underwriting (pricing) policy of the company and the reinsurance policy of the company, which it does formally through the annual Actuarial Function Report.

Risk Function

AIG Life's ERM function oversees the delivery of the risk management framework. The function is led by the Chief Risk Officer (CRO) delivering entity-wide risk management. The CRO reports to the CEO, is a member of the Senior Leadership Committee and has a direct reporting line to the AIG Life and Retirement CRO.

The ERM function supports the identification, measurement, management, monitoring and reporting of its major risk groupings, which include but are not limited to:

- Insurance Risk (including underwriting, reserving risk and catastrophe risk);
- Market Risk;
- Liquidity Risk;
- Credit Risk (including risks associated with utilisation of reinsurance and intermediary default risk);
- Operational Risk; and
- Business and Strategic Risk.

The ERM function implements the Company's risk management framework through a suite of risk policies and processes. The results and findings from these processes are reviewed, challenged and escalated through the Company's governance framework. The risk function supports the Business in the identification, assessment, management and monitoring of risks across the risk taxonomy and provides reporting to the Risk and Capital Committee, Risk and Audit Committee and Board.

Compliance Function

The Compliance function provides compliance support to the Company, including a framework for Compliance risks to be identified, measured, managed, monitored and reported. Compliance works closely with the business to ensure that good customer outcomes and the right market behaviours are demonstrated. The Compliance function is led by the Chief Compliance Officer who is a member of the Senior Leadership Committee, reporting to the CEO and Chief Compliance Officer for Life & Retirement, and is supported by a team of compliance personnel providing compliance expertise in areas including conduct risk regulation, governance and monitoring and testing. Areas that are supported by the work of the Compliance team include:

- Advice to the business: Ensures the business complies with internal and regulatory requirements by providing pragmatic and customer centric advice;
- Training: Providing induction and refresher training on Compliance policies and procedures;
- Monitoring & Testing: To ensure that the business meets the requirements of the Compliance policies and procedures and assists the business to close any identified gaps;
- Product Development: Compliance reviews all new and existing products to ensure that the customer is at the heart of everything the Company does and complies with regulatory requirements;
- Business oversight: Overseeing areas such as the sales process and financial promotions;
- Outsource and shared service providers: Ensuring its regulatory obligations are being adhered to.
- Regulatory developments: Ensuring that proposed and finalised applicable rules and policies published by regulatory bodies are examined, risk-assessed and distributed to the business.

Internal Audit Function

The Internal Audit function, is a 3rd line Group function which is responsible for establishing, implementing and maintaining an effective and efficient audit programme, taking into account the Company's activities, system of governance and risk management processes. The Internal Audit function is led by the Head of Internal Audit. The Head of Internal Audit reports on the audit program, its status, and the condition of the control environment directly to the Board through the BARC.

B.1.1.4. THE “THREE LINES OF DEFENCE” MODEL

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.

Three Lines of Defence	
First Line of Defence	Senior management (executive/business/operational), along with all staff in the organisation 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	The oversight functions (ERM and Compliance) are responsible for defining the risk framework and for monitoring the effectiveness of risk controls and for reporting their weaknesses or failures to the BARC. In this context, these functions are the “Second Line of Defence” against failure. Both functions also partner with the business in providing advice, guidance and challenge in managing their risks.
Third Line of Defence	The Internal Audit function delivers the “Third Line of Defence” by providing independent assurance to the Board, through the BARC, regarding the effectiveness of the First and Second Lines of Defence.

B.1.2. MATERIAL CHANGES IN THE SYSTEM OF GOVERNANCE DURING THE PERIOD

The following changes have taken place in relation to the systems of governance during 2019.

Board Membership

During the year Phil Willcock was appointed CEO. Tim Heslin left the Board and Adam Winslow took up the role of SMF7 ‘Group Entity Senior Manager’, replacing Tim Heslin.

The Senior Managers & Certification Regime

The final phase of Senior Managers & Certification Regime (SM&CR) came into force on 9 December 2019. The regime applies to the most senior executive management and directors who are subject to regulatory approval. Under Section 59 of the Financial Services and Markets Act 2000 (FSMA), authorised firms are required to ensure that individuals seeking to perform one or more of the PRA–designated Senior Management Functions seek PRA approval prior to taking up their position. The following table shows the Senior Managers at AIG Life and the positions held at 31 December 2019.

Name	Position
Mike Urmston	Chairman of the Board (SMF9)
Adam Winslow	Group Entity Senior Insurance Manager Function (SMF7)
Laura Santori	Chair of the Risk Committee (SMF10) Chair of Audit Committee (SMF11) Senior Independent Director (SMF14)
Phil Willcock	Chief Executive Officer Function (SMF1) Responsibility for Insurance Mediation
Donald MacLean	Chief Finance Function (SMF2) Chief Actuary (SMF20) (Interim)
Ruth Middleton	Chief Risk Officer (SMF4)
Paul Pennant	Head of Internal Audit Function (SMF5)
Shalini Pandita	Compliance Oversight (SMF16) Money Laundering Reporting Officer (SMF17)

The certification regime requires us to annually assess individuals performing key functions who are not Senior Managers approved by the FCA or PRA. These individuals must pass fit and proper tests and be issued with a certificate once a year and are shown in the below table.

Name	Position
Jeremy Baldwin	Chief Investment Officer
Vicky Churcher	Intermediary Director
James Cosma	Scheme Underwriting & Client Service Manager – Group Protection
Nicola Dryden	Partnerships Director
Anne Durkin	Head of Reinsurance
Andrew Gillam	Head of Finance
Anna Graham	Chief Pricing Actuary
Sue Belmont	Marketing Director
Debbie Bolton	Head of Customer Operations & Chief Underwriter
Lee Lovett	Managing Director, Group Protection
Mark Robinson	Assistant General Counsel
Michael Ryan	Head of Capital & Asset Liability Management
Martin Windle	Head of Strategy & Innovation (Interim Chief Information Officer)
Rachel Wood	Head of Value Management & Deputy Chief Actuary
Laura Young	Head of Human Resources

B.1.3. REMUNERATION POLICY

The AIG Group compensation programme is structured so as to make enterprise-wide compensation decisions consistent with the Company’s compensation philosophy. The implementation of the policy is overseen at AIG Life by the Remuneration Committee.

B.1.3.1. PRINCIPLES OF THE REMUNERATION POLICY

The guiding principles that form the foundation of the compensation philosophy and strategy are:

- Provide a market-competitive, performance-driven Total Direct Compensation (TDC) structure (TDC consists of base salary plus annual incentive plus long-term incentive as appropriate);
- Variable incentive compensation will be used to reward annual and long-term risk-adjusted performance and to provide exceptional pay opportunities for top performers at all levels within the Company;
- Weight TDC opportunities toward variable incentive compensation (both annual and long-term), which will increase as a percentage of total compensation at higher grade levels, while making sure that all variable incentive elements appropriately balance risk and reward; and
- Use performance measures to drive high-performance business results compared to relevant benchmarks and to achieve sustainable increases in the “intrinsic value” of the firm.

B.1.3.2. PERFORMANCE CRITERIA

To ensure fair, compelling, competitive and consistent compensation opportunities throughout the firm, employees are assigned to job grades based on their job responsibilities and compensation is administered under a structure that is anchored on competitive market data. Each job grade has a salary range and ranges for target annual incentives and long-term incentives.

The Company values differentiated incentive compensation. Managers have discretion in determining short term incentives (STI), so long as they stay within STI pools and differentiate individual performance. Decision aids are provided on how to make the compensation determination and manager toolkits are provided with advice on ways to recognize top performance and have better, continuous performance conversations with employees.

B.1.3.3. COMPENSATION

The TDC consists of the following elements: fixed basic salary, variable annual incentives and in some circumstances long-term incentives.

B.1.3.4. COMPENSATION AND RISK

The Company remains committed to continually evaluating and enhancing our risk management control environment, risk management processes and enterprise risk management functions, including through enhancements to its risk governance framework. The Company's compensation practices are integral parts of its approach to risk management, and the Board regularly monitors the Company's compensation programs to ensure they align with sound risk management principles. This is the responsibility of the Remuneration Committee.

B.1.4. MATERIAL TRANSACTIONS DURING THE PERIOD

At 31 December 2019 the authorised share capital comprised 316,885,000 ordinary shares of £1 each, all fully paid up. On 19th August 2019, the Company issued 15,000,000 ordinary shares for consideration of £15,000,000 which was settled through conversion of the perpetual debt of the same amount. AHSL remains our 100% shareholder.

B.2. FIT AND PROPER

The 'Fit and Proper' subsection of the report aims to provide a description of the Company's processes for assessing the fitness and propriety for persons who effectively run the Company or have other key functions.

B.2.1. 'FIT AND PROPER' ASSESSMENT

Persons who effectively run the Company or have other key functions are required to meet the fit and proper requirements. The Company has established fit and proper policies and processes which comply with the SM&CR. The current process comprises of two stages:

B.2.1.1. PRE-APPOINTMENT

- **References:** The Company takes reasonable steps to obtain appropriate references from the person's previous employer(s) In the case of Senior Managers and Certification Staff, the reference must cover 6 years.
- **DBS checks:** Following receipt of the person's consent the Company obtains a Disclosure and Barring Service check.
- **Credit checks:** As an additional means to the person's financial soundness, the Company carries out a credit records check through a recognised agency.
- **Other due diligence from publically available sources:** This includes such other due diligence as may be appropriate in order to form an assessment of the person's fitness and propriety, including from publicly available sources such as the Financial Services Register and Companies House (in relation to testing the accuracy of declarations around directorships).
- **Qualifications:** Request and review evidence of relevant qualifications as appropriate.
- **Application:** Require a formal application with CV (containing the candidate's full employment history accounting for any gaps, and the reasons for leaving each employer) and ensure that the person is interviewed at an appropriate level in order to assess his or her competence, knowledge, experience and training (including the person's training needs and requirements), taking into account the duties that will be expected of that person as set out in the role profile for the position.

B.2.1.2. ONGOING POST-APPOINTMENT

The Company gathers the information it has collected as part of the recruitment process on the person's skills gaps and where appropriate develops a learning and development plan and induction programme.

The assessment for the pre-appointment stage is carried out by the Human Resources department and the person's proposed manager in the Company. Where the appointment is to a Board, the proposed appointee is also interviewed by one or more independent non-executive directors. In this case, the assessment will take account of the qualifications, knowledge and experience already existing within these bodies in order to ensure an appropriate diversity of these attributes among management. The ongoing assessments of suitability are carried out through the annual review and appraisal process. Senior Managers and Certification Staff undergo annual DBS checks, and the latter will be annually assessed as Fit and Proper by the Company and issued with a certificate to that effect. Fit and Proper checks take account of personal conduct, objectives, DBS checks, and qualifications and other learning.

B.2.1.3. TRAINING OF THE BOARD MEMBERS

The Chairperson is responsible for taking the lead in addressing the development needs of the Board as a whole with a view to enhancing its overall effectiveness as a team, and in identifying and meeting the development needs of individual directors. The directors undergo regular development and training programmes, including briefings on legislative and regulatory changes and on corporate governance issues. Under the direction of the Chairperson, the Company Secretary facilitates induction training and assisting with professional development as required. In addition individual Board members may identify further training needs.

B.3. RISK MANAGEMENT SYSTEM

B.3.1. RISK MANAGEMENT OVERVIEW, STRATEGY AND OBJECTIVES

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.

AIG Life 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 BARC 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 Solvency Assessment 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.

AIG Life utilises the "Three Lines of Defence" model for risk management, as described in Section B.1.1 "Management and Governance Structure" above. 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 Committee. These Committees in turn escalate matters of importance to the Board as needed.

B.3.2. 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 risk governance structure has four distinct levels of committees (i.e. the Board, Board Committees, Executive Committees and Management Forums) and is designed to support the Company's efforts in embedding a strong risk culture through the integration of risk management with regulatory requirements and business activities such as strategy and planning. Each of these committees has a distinct role to play within the risk governance framework.

B.3.3. AIG LIFE 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 all risk policies in place is maintained by Risk Management and all 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

AIG Life 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. All AIG Life models are managed under the AIG Life model governance framework and changes to the models are reviewed and approved by the Model Control Committee, whilst also complying with the Group model governance requirements.

Risk Reporting

The Company monitors risks through a combination of reports. This includes the Own Risk and Solvency Assessment and Key Risk Reports. Risk Management also present a quarterly risk report to the BARC 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.

B.3.4. RISK MANAGEMENT WITHIN AIG LIFE

The Risk Management function sits as an independent second line function alongside Compliance. The CRO is a standing attendee of the Board and BARC, a member of the Senior Leadership Committee and either a member or attendee at Company governance meetings. As such the Company's strategy and day to day activities are subject to risk oversight and challenge. On an at least quarterly basis Risk Management prepares and presents a risk report to the BARC providing a risk opinion and highlighting the company's key risks to its strategy and operations.

B.3.5. OWN RISK AND SOLVENCY ASSESSMENT

The Own Risk and Solvency Assessment (ORSA) is a set of processes undertaken throughout the year to define, assess and manage the risk and solvency capital position of the Company's strategy and business plans. The ORSA process draws together the results and analysis delivered through each of the risk processes and provides a current and forward-looking assessment of the Company's risk profile and assesses the level of solvency capital required over the period of the plan.

The risk management processes that feed into the ORSA process include:

- Regular data quality and model assessments;
- The strategic and business planning cycle;
- Emerging risks assessment;
- Identification and assessment of key risks associated with the strategy;
- Capital management assessment and planning;
- Stress and scenario testing, and reverse stress testing, of the business model;
- Review of the risk management framework; and
- Review of the Actuarial Function report.

The ORSA report is co-ordinated and produced by Risk Management with inputs from the Business and in particular quantitative results, model assessments and capital assessments from the Actuarial Function, on behalf of the Board. A full review of the Company's ORSA is performed and compared to the regulatory solvency assessment and the Company's solvency capital risk appetite to assess whether additional capital may be required over the period of the plan. The Board provides inputs at various stages throughout the process including agreeing the strategy, business plan and stress tests to be applied.

B.3.6. ORSA GOVERNANCE

The ORSA process forms an element of the AIG Life Risk Management Plan each year and this is reviewed and approved by the AIG Life Risk and Audit Committee. There is also an AIG Life ORSA Policy which is owned by the CRO and approved by the Board.

The ORSA report is usually produced in Q3/Q4 each year alongside the development of the strategy, annual business plan, and multi-year budget. The report is reviewed at BARC and submitted to the Board for review and approval. The ORSA is submitted to the PRA within 2 weeks of approval by the Board.

An interim ORSA or ORSA update would be prepared if there are any material changes in the Business or to the company's risk profile that could impact the solvency capital requirement over the remaining period of the plan and prior to the next full assessment being due. The interim ORSA would be provided to the Board for review and approval prior to submission to the regulator.

B.4. INTERNAL CONTROL SYSTEM

B.4.1. DESCRIPTION OF THE INTERNAL CONTROL SYSTEM

The Management of the Company is responsible for establishing and maintaining adequate internal controls over Solvency II reporting. The Company's internal controls over Solvency II is a process, under the supervision of the Board, designed to provide reasonable assurance that the Standard Formula Solvency Capital Requirement (SCR) calculation is complete, accurate and is underpinned by an appropriate level of data governance.

The company's internal control over Solvency II reporting includes procedures that:

- Pertain to data inputs being complete, accurate and of appropriate quality to use in the SCR calculation;
- Provide reasonable assurance that the Solvency II reporting tool is producing expected results; and
- Provide reasonable assurance regarding prevention or timely detection of errors & omissions that could have a material effect on the Solvency II reporting.

The internal control framework is embedded within the overall enterprise risk management framework and is outlined in the Internal Control Policy that is owned by the CRO and approved by the Risk Committee and Board. It is made up of a number of continuous processes and which are carried out by the Board members, Management, and all members of staff to provide reasonable assurance of:

- The effectiveness and efficiency of the operations;
- Reliability of financial and non-financial information;
- An adequate control of risks; and
- Compliance with regulation, legislation and the internal policies and procedures of the business.

In relation to information security management, AIG Life Limited has been ISO27001 certified since 2012. In addition, the company achieved the Cyber Essentials Plus certification during 2018 and has maintained it since then.

B.5. INTERNAL AUDIT FUNCTION

The Board, senior management, Internal Audit, other second line functions, business managers and all colleagues have a shared commitment to maintain and enhance the integrity of the Company's control environment. Within the context of the control framework, auditing is an independent risk assessment function established within the organisation to evaluate, test, and report on the adequacy and effectiveness of management's systems of internal control, providing third line of defence.

The purpose of these evaluations and tests is to:

- Assist the BARC in executing their oversight responsibilities and,
- Provide an independent assessment of the Company's system of internal control, through reviewing how effectively key risks are being managed, and assists management in the effective discharge of its responsibilities by carrying out independent appraisals and making recommendations for improvement.

The Internal Audit function is responsible for establishing, implementing and maintaining an effective and efficient audit programme, taking into account the Company's activities, system of governance and risk management processes. The Internal Audit function is led by the Head of Internal Audit.

There is an annual Audit Plan that is developed in conjunction with the AIG Life BARC, CRO and CCO. Progress updates and copies of all Audit Reports are provided to the AIG Life BARC quarterly and as each Audit is completed.

The Head of Internal Audit is responsible for developing and maintaining an efficient and effective programme of internal auditing through:

- Delivering a comprehensive, dynamic and globally-aligned audit programme for AIG Inc. and, more specifically, AIG Life;
- Evaluating the control framework with respect to the reliability, integrity and timeliness of financial information and statements and key non-financial data;
- Evaluating the processes and controls established to ensure compliance with corporate ethical standards, policies, plans, procedures and with applicable laws and regulations;
- Evaluating change activities such as significant projects and large scale business initiatives during the life or term of those projects and initiatives for the purpose of identifying possible unmitigated risks and highlighting other project management issues;
- Monitoring and evaluating the effectiveness of the Company's risk management processes;
- Reporting periodically on Internal Audit Group's purpose, authority, responsibility and performance relative to its plan and organisational objectives;
- Coordinating with risk management and other control functions to facilitate the implementation of an effective and efficient system of internal control;
- Supporting the assurance needs of the Board and the BARC by developing tailored planning, reporting and advice to meet local corporate governance and regulatory requirements; and
- Managing the regulators requirements and taking on the approved person's role in respect of the Company.

B.5.1. INDEPENDENCE

The Head of Internal Audit reports on the audit program, its status, and the condition of the control environment directly to the Board through the BARC. This reporting relationship which also includes audit plans, financial budgets and staffing considerations is designed to ensure the ongoing independence of the internal audit function in order to provide for the objectivity of its findings, recommendations and opinions.

The Head of Internal Audit is authorised by the BARC to have full and complete access to any of the organisation's records, properties and personnel. The Head of Internal Audit is also authorized to designate members of the audit staff to have such full and complete access in the discharging of their responsibilities.

Consistent with generally accepted professional internal auditing standards relating to independence, objectivity and authority, internal auditors are not to engage in developing or installing procedures or preparing records, or in any other activity which would normally be the subject of audits. Internal auditors are not to have direct responsibility or any authority over any of the activities or operations that they review. Internal auditors will assist management in maintaining adequate and effective systems of controls through objective appraisals, recommendations and control consultations.

B.6. ACTUARIAL FUNCTION

The Actuarial function is led by the Chief Actuary, a role currently being held by the CFO on an interim basis. The Chief Actuary reports to the CFO, works closely with the Company's CEO and has a second reporting line to the Chief Finance Actuary of Life Insurance.

Under Solvency II, the Actuarial Function's responsibilities include the following tasks:

- Coordinating the calculation of technical provisions;
- Ensuring the appropriateness of the methodologies and underlying models used as well as the Assumptions made in the calculation of technical provisions;
- Assessing the sufficiency and quality of the data used in the calculation of technical provisions;
- Comparing best estimates against experience.

The Actuarial Function should also inform the Board of the reliability and adequacy of the calculation of technical provisions.

Technical provisions are calculated as part of regular quarterly Solvency II reporting.

In respect of the reliability and adequacy of the calculation of technical provisions, the Actuarial Function forms an opinion on whether the technical provisions are (in all material respects):

- Compliant with the requirements of the rules relating to technical provisions (Articles 76 to 84 of the Solvency II Directive) and the methodologies to calculate technical provisions (Articles 22 to 36 of the Delegated Acts);
- Sufficient on the best estimate assumptions to meet the liabilities;
- Reliably calculated in accordance with the methodology and assumptions.

In forming this opinion, consideration is given to the:

- Governance and control environment around the models;
- Appropriateness of assumptions and their relation to past experience;
- Expert judgments assumed in the models;
- Appropriateness of any management actions assumed in the models; and
- Quality of data used in the model.

The Actuarial Function contributes to the effective implementation of the undertaking's risk management system by performing the calculation of capital requirements required by Solvency II, as reported quarterly in the case of the Solvency Capital Requirement, and by performing the investigations required as part of the forward looking assessment of own risks. This includes an assessment of the significance with which the risk profile deviates from the assumptions underlying the Solvency Capital Requirement.

B.7. OUTSOURCING ARRANGEMENTS

AIG Life is committed to high standards of business conduct and has policies and guidelines in place, which define the way in which AIG Life does business and the standards of conduct required of third party service providers. Where AIG Life entrusts a third party, which undertakes core business activities on its behalf, AIG Life retains responsibility for such activities and requires that the activities are carried out in line with AIG Life's policies and standards.

AIG Life has an Outsourcing Policy, which defines the type of arrangement that is classified as outsourcing. The Policy also prescribes the general principles to consider, the approach to due diligence and ongoing monitoring of the service provider's performance. AIG Life also has a Third Party Risk Management Standard, which outlines the process for the necessary due diligence, and for the continuing oversight, of third party relationships.

AIG Life remains responsible for any activities that are outsourced and requires that robust governance arrangements are in place in relation to the selection of third parties, and the management and oversight of all outsourced arrangements with those third parties.

AIG Life will only enter into an outsourcing arrangement where there is a sound business rationale for doing so and with a service provider that is competent and financially sound, and has good relevant knowledge and experience of the service it is required to supply.

B.7.1. CRITICAL OUTSOURCED ARRANGEMENTS

There are a small number of service provider/outsourced functions that support the day-to-day business within AIG Life. All of the following arrangements are with firms operating within the UK jurisdiction. The key arrangements are listed below:

- **Investment Management:** Carry out investment management activity including the purchase and sale of assets following instruction from the Investment Committee and in line with the AIG Life investment mandate and investment strategy as approved by the AIG Life Board and on an instruction basis from members of the Investment Committee. The activity is currently managed within the AIG Group.
- **Medical Screening:** The provision of medical screening services related to underwriting requirements.
- **Postal services/Document Imaging:** Provide postal services and document scanning and imaging for AIG Life.
- **Orphan customer support:** Where it is identified that a policyholder no longer has an independent advisor available to them their details are provided to Future Proof (another independent advisor) who will contact them and offer their services for independent financial advice.
- **Medical support:** Access to a second opinion and medical advice for policyholders and members of staff.

Each arrangement has a relationship manager who is responsible for the day to day activities and relationship between AIG Life and the outsourced function although the overall responsibility remains with a member of the Senior Leadership Committee. Regular service review meetings are in place to review performance against agreed standards, complaints, risks, significant changes in processes or procedures, new developments that may impact on the services provided and particular concerns or changes in the outsourced operation. An annual review takes place looking at all elements of the arrangement.

B.8. ADEQUACY AND APPROPRIATENESS OF THE SYSTEM OF GOVERNANCE

AIG Life has a governance structure in place. The Board and the various sub-committees have clearly defined responsibilities and terms of reference approved by the delegating committee or Board. The members and attendees have specific experience and expertise, allowing them to provide appropriate coverage of the various Business and SM&CR functions.

The risk governance structure is integrated into the strategy development and business planning process. The ERM function carries out a comprehensive risk review of the business plan with the aim of ensuring that the strategic approach results in a risk profile that continues to be manageable and is aligned to the scale and potential return of its underwriting and operating activities. This also facilitates awareness of the risks that the Company faces, either inherently as part of its operations or as a result of its planned strategy, and allows management to take appropriate steps to ensure that those risks are kept at an appropriate level that allows the Company to progress its strategy. The Business Plan, ORSA together with ERM's assessment of it, are reviewed and assessed by the BARC before being put forward for final approval to the Board.

As with all functions there is a desire for AIG Life to continuously improve its risk, compliance and governance systems by ensuring that they are reviewed, evaluated, and recommendations are made to the Board regarding enhancing and developing the systems, including the outcomes from compliance monitoring programmes, root cause analysis from complaints, breaches and risk events. Changes in regulation and legislation are monitored and actions taken to implement the new requirements. Finally, AIG Life uses internal audits and external audits to provide independent evaluation of the company's system of governance. Recommendations from these audits are considered by the Senior Leadership Committee and implemented in a manner proportionate to the business' risks.

B.9. ANY OTHER MATERIAL INFORMATION

The following Governance-related actions have been taken since the onset of COVID-19:

- A Special Risk and Capital Committee was triggered to respond to the change in risk profile of the business and to consider potential management actions to implement
- Business Continuity plans have been enacted and the Company stood up its Crisis Management task force. The company is also reviewing what has worked well and where changes can be made for the future
- The Company is reviewing changes in its control environment as a result of the operational environment and assessing where additional controls might be required and/or where there are inherently raised levels of residual risk which may require time-bound risk acceptances to be put in place.
- An interim ORSA report has been triggered by the CRO – this report will review any impacts on financial and operational resilience as well as the control environment as a result of the current crisis and operating environment. The ORSA will be updated at regular intervals as experience emerges and the multi-year budget is reviewed. The ORSA will consider various stress scenarios.
- A robust governance framework has been maintained, but with increased and regular updates shared with the Board of Directors on the firm's solvency position and the broader operating environment.
- Regular communications are in place with stakeholders, including our staff, policyholders, shareholder, Board of Directors, and regulators. These communications serve to update stakeholders on the Company's position and to help manage people, reputational, brand, and regulatory risks.



Solvency & Financial Condition Report 2019

C. Risk Profile

The Risk Profile section of the report captures the complexity of the overall risk status of the Company, taking into account all the material risks to which the Company is exposed. For each major risk grouping, this section provides a description of:

- Risk exposure;
- Measures used to assess the risk;
- Risk concentration;
- Risk mitigation; and
- Risk sensitivities

C. RISK PROFILE

AIG Life writes long term protection business providing individual and group life cover, critical illness and income protection products to its policyholders, targeting individual policies through the intermediary market and partnership distribution channels, and targeting group programmes following its purchase of the group protection business (Ellipse) on 31 December 2018 from Munich Re.

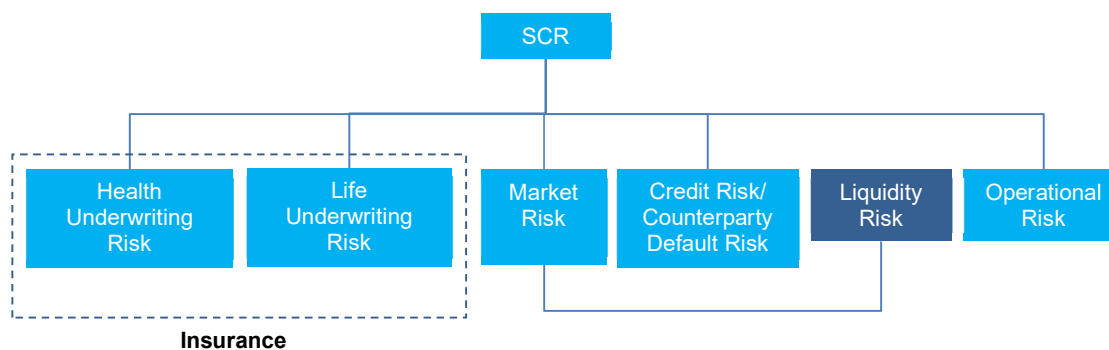
The Company believes that a strong, effective and embedded risk management framework is crucial to maintaining successful business operations and delivering sustainable, long-term profitability. The Company's goal is to achieve this through a risk culture and embodied by management at all levels through the governance structure and risk management processes.

AIG Life calculates its SCR using the Standard Formula. On an annual basis an assessment is carried out to review the appropriateness of AIG Life using the Standard Formula and the outcome of this is presented in a report for the BARC review and summarised in the latest ORSA. The conclusion for 2019 was that the standard formula was considered to be appropriate and to reflect the risk profile of the Company.

Risk Profile, Measurement and Assessment

AIG Life's Risk Management Framework supports the identification, measurement, management, monitoring and reporting of the five major risk groupings the Company is exposed to, including:

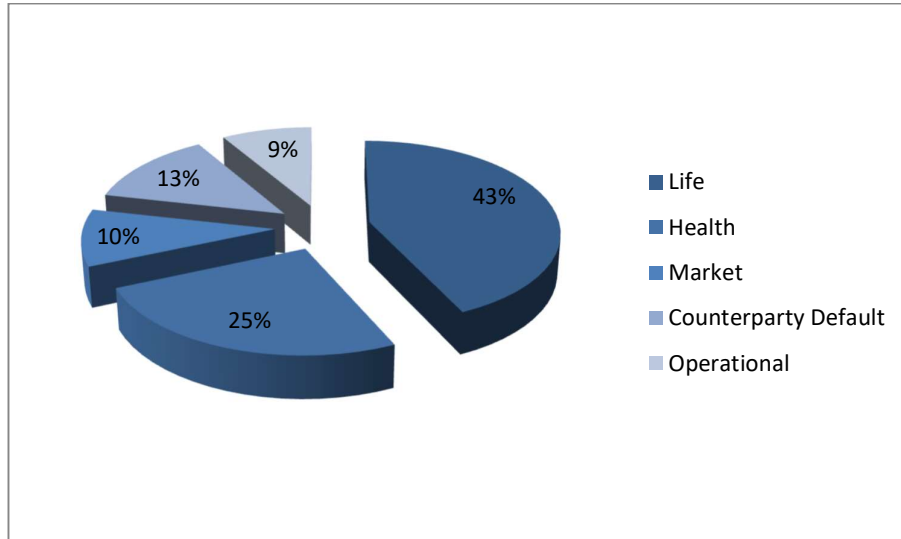
- Insurance risk (Underwriting Risk – Life & Health);
- Market Risk;
- Credit Risk (Counterparty default);
- Liquidity Risk; and
- Operational Risk.



Liquidity risk is not a risk module in the Standard Formula but is considered under ORSA stress testing scenarios and assessments. For AIG Life, liquidity risk is monitored and managed by Finance and reported to the Investment Committee where market risk is discussed.

AIG LIFE 2018 SOLVENCY CAPITAL REQUIREMENT BY MODULE

The Solvency Capital Requirement for AIG Life as at 31 December 2019 was analysed into the key components shown in the chart below. As can be seen in the chart below which shows SCR by Risk Module, Life and Health (Insurance) risks are the dominant risks of the solvency capital requirement with Life Risk accounting for 43% of the SCR at 31 December 2019 with Health Risk accounting for 25%.



Risk Sensitivities

AIG Life carries out various types of Stress and Scenario Testing (SST) in order to inform the Board about any changes in its risk appetite, to assist the management in efficient use of the Company's capital resources and to make recommendations to the Board regarding dividend payments. Various tests are conducted to identify the implications of a wide-range of risks within the SST Framework. This ensures that potential adverse scenarios are considered and negative outcomes can be adequately mitigated either through controls implemented in advance or through timely remedial measures.

SST (including Reverse Stress Testing) is a key risk management tool used within the Company. AIG Life also conducts reverse stress tests on an annual basis that examine the conditions that would render the Company business model unviable. The stress tests and specific parameters used are reviewed and approved by the Board prior to execution with the outcomes included in the ORSA report. The impact of the stress tests used during the 2019 ORSA process is provided under each risk type.

The details of various SSTs are as follows:

Types of SSTs	Risks covered	Timeline
Business Plan SST	All material risks over 1 year planning period	Performed annually
	All material risks over 3 years planning period	
Reverse Stress Testing (RST)	Solvency/Capital RSTs	Performed annually
	Reputational & Strategic RSTs	
Risk Specific SST	Interest rate risk	Performed quarterly
	Liquidity risk	Performed quarterly
	Spread risk	Performed quarterly
	Counterparty default risk	Performed quarterly
Regulatory SST	PRA Life Insurance Data Requests	Performed on an ad hoc basis as requested by the PRA

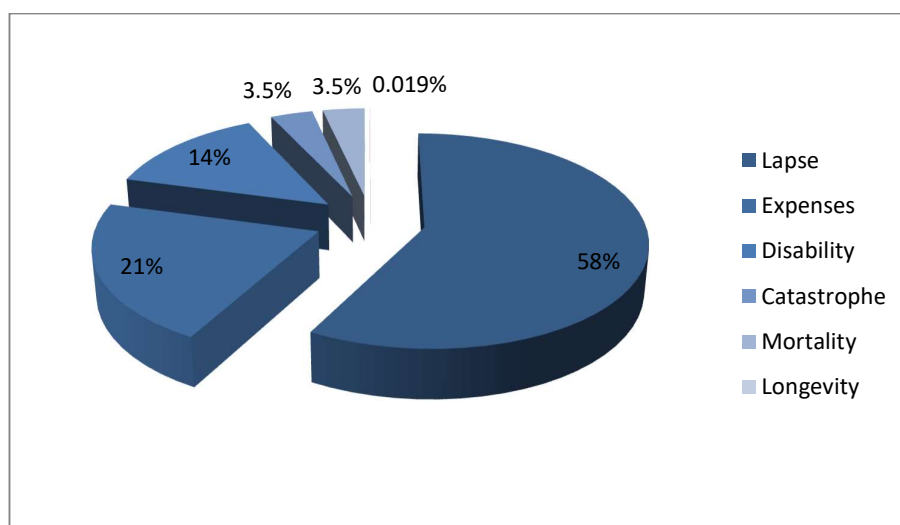
Types of SSTs	Risks covered	Timeline
	EIOPA	Performed every two years (even years)
Strategic planning SSTs	Identified key risks	Performed annually
Emerging Risks SSTs	Identified key risks	Performed annually

C.1. INSURANCE RISK (UNDERWRITING 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.

C.1.1. INSURANCE RISK EXPOSURE FOR AIG LIFE

As can be seen from the chart below, the most material of the Life & Health sub-risks for AIG Life is lapse risk which accounts for 58% of the combined Life and Health SCR. Expense risk is 21% and morbidity/disability is 14%.



1. LAPSE RISK

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.

There is a risk of there being high numbers of lapses during the early years of a policy before the acquisition costs have been recouped. Lower levels of lapses result in a more policies in-force and therefore higher claims and reinsurance premiums than expected. A mass lapse scenario would result in less in-force policies and lower claims but also lower profits than expected for those policies.

2. EXPENSE RISK

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.

3. MORBIDITY/DISABILITY RISK

Morbidity/disability 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.

4. CATASTROPHE RISK

Catastrophe risk relates to a single event, or series of events of major magnitude usually over a short period (often 72 hours) that lead to a significant deviation in actual claims from the total expected claims.

5. MORTALITY RISK

On a gross of reinsurance basis, AIG Life 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. However, net mortality risk is low for AIG Life due to the level of reinsurance undertaken.

C.1.2. CHANGES IN INSURANCE RISK OVER THE REPORTING PERIOD

The SCR for Insurance risk has increased over the year from £76,275k to £85,395k for Life risk and from £38,768k to £50,313k for Health risk. The increase in both Life & Health Risk SCR is driven from an increase in the Lapse Risk SCR where the biting scenario is Lapse Down.

C.1.3. MEASURES USED TO MITIGATE INSURANCE RISKS

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.
- 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.

C.1.4. INSURANCE RISK MITIGATION TECHNIQUES

AIG Life manages insurance risks primarily by the use of reinsurance. In 2019, AIG Life had reinsurance arrangements to mitigate mortality, longevity, morbidity, lapse and catastrophe risks with seven different reinsurers, thus also reducing the concentration risk with any one reinsurer. Mortality and morbidity reinsurance is typically based on a quota share with maximum retention limits per life and is spread across the different reinsurers depending upon the type of cover.

Regular monitoring of individual and scheme underwriting decisions is carried out through checking and audits internally and the reinsurers undertaking case audits at least on an annual basis. Results are reviewed and fed back to underwriters where appropriate. Various workshops are held with reinsurers

to consider enhancements to products through improved underwriting rules, post issue sampling and the pricing of the associated risks being taken.

Risk Category	Type of risk	Risk mitigation techniques
Premium Risk - Failure of pricing	Pricing guidelines	AIG Life seeks to manage pricing risk through the setting and review of pricing guidelines relevant to each product type and the application of a strict hierarchy of underwriting authorities to ensure that policies are underwritten with management oversight.
	Purchase of reinsurance	The Company mitigates exposure to pricing risk through the purchase of reinsurance.
	Review of large transactions	Large transactions are referred to the Senior Underwriters and in some cases to the specific Reinsurer to confirm the risk is assessed appropriately, and as required to the Pricing team to ensure it is priced appropriately, before the Company becomes committed.
Premium Risk - Ineffective strategy / Failure of product	Review of business plans and new products	The Company seeks to manage this risk through the use of processes and procedures over the production, review and analysis of annual business plans and the introduction of new products for each line of business, prior to approval and execution.
	Assessment of key projects and strategic investments	The Company also has processes in place for the identification, assessment and approval of key projects and strategic investments.
Assumption Risk - Adverse reserve development	Monitoring of mortality, morbidity, lapse and expenses experience	AIG Life seeks to manage this risk through monitoring of actual claims experience, lapse activity and expenses compared to the assumptions in place. Specific governance committees are in place to review findings, and where appropriate, take remedial actions.

C.1.5. MONITORING THE EFFECTIVENESS OF INSURANCE RISK MITIGATION TECHNIQUES

There is regular monitoring of the effectiveness of the various risk mitigation actions provided above at the various governance committees. Underwriting performance is monitored via the underwriting audits carried out both internally and by the reinsurers. Reinsurance activity is monitored and managed via the Reinsurance Steering Committee and a review of reinsurer effectiveness is performed annually. The monthly Senior Leadership Committee meeting reviews business performance including underwriting activity and results, general business performance and project benefit realisation. The Risk and Capital Committee also actively monitors the continued effectiveness of the above risk mitigation techniques through processes and deliverables including the Risk Register, Risk Appetite Framework, Stress and Scenario Testing and Key Risk Indicator reporting. The outputs of these risk processes are fundamental to the delivery of the Own Risk and Solvency Assessment (ORSA) and, any interim updates that are required if the risk profile materially changes.

C.1.6. STRESS SENSITIVITIES FOR INSURANCE RISK

A number of stress and scenario tests are undertaken covering the different sub risks under insurance risk. The impact of each test on the company's required capital resources is assessed as specified in the 2019 ORSA over the planning period.

Lapse risk: This is the most material component of AIG Life’s SCR calculated using the standard formula approach. A twisted lapse scenario test where lapse rates are higher at earlier durations and lower at later durations was performed as this is the lapse scenario that is most detrimental to capital resources.

Mortality and Morbidity risk: AIG Life considered an increase in claims and the impact that would have on the capital resources required. The company is well protected from this risk due to use of reinsurance.

Expense risk: A 20% increase in the expense base was used as a stress for expense risk and whilst the SCR ratio decreased the company remained within current risk appetite limits with no capital injection required over the planning period.

C.2. MARKET RISK

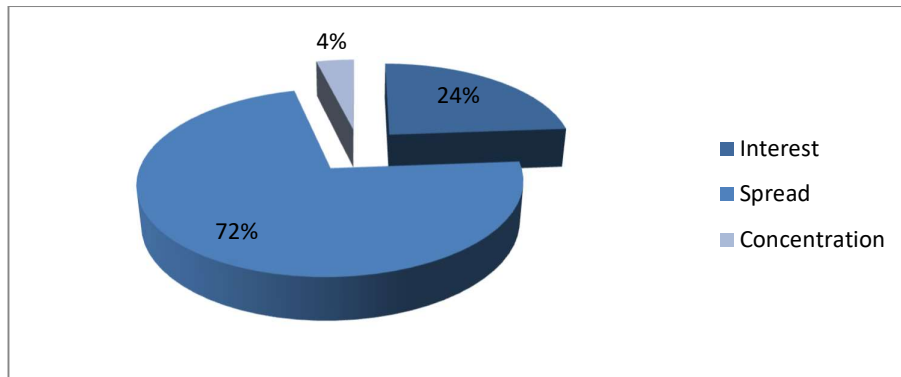
Market risk is the risk that the Company is adversely affected by movements in the fair value of its liabilities and financial assets arising from market movements, for example due to credit spreads, interest rates and foreign exchange rates or other price risks. AIG Life is exposed to Market Risk on both the asset and the liability sides of its balance sheet. Market risk accounted for 10% of the SCR for AIG Life as at 31 December 2019. The sub risks associated with Market risk are shown below:



C.2.1. MARKET RISK EXPOSURE

AIG Life has no material exposure to currency risk, property or equities. As shown in the below chart, the most material element of SCR market risk for AIG Life is spread risk making up 72% of the total market risk. The remainder is largely interest rate risk at 24%.

Investment assets are held in low risk and highly-liquid bonds, principally UK government bonds and corporate bonds. For liquidity purposes a proportion of assets are also held in a short-term liquidity fund.



C.2.2. MARKET RISK AND CHANGES OVER THE REPORTING PERIOD

Market risk is driven by risks inherent within the Company’s assets and liabilities portfolio. During the reporting period the Market Risk SCR has decreased from £27,951k to £19,788k. The decrease is primarily driven by a reduction in Interest Rate Risk SCR due to lower yields and greater interest rate hedging.

C.2.3. MARKET RISK CONCENTRATION

AIG Life has an immaterial exposure to market risk concentration due to the use of UK government bonds and limits within the investment mandate which strictly limits exposure to the type of assets held.

C.2.4. MARKET RISK MITIGATION TECHNIQUES

AIG Life manages its market risk primarily through the Investment Committee which monitors and manages the impacts of external economic factors, AIG Life's investment portfolio and the company's liquidity position and forecasts. The investment portfolio is managed with respect to the market risk profile of its liabilities in order to minimise the impact on its solvency position due to adverse market movements. Risk mitigation of market risk is executed through the combined use of investment limits, guidelines and principles detailed below.

- AIG Life monitors market risk via reviewing the regular management information at the AIG Life Investment Committee which meets at least quarterly and oversees the investment activity within the Investment mandate and investment strategy as approved by the Board.
- The investment managers provide a quarterly overview of the economic markets and performance of the assets held.
- Where possible, assets of a similar duration to the liabilities are held to mitigate interest rate risk.
- Stress and scenario testing is carried out as part of the ORSA process.

C.2.5. RISK MITIGATION AND THE PRUDENT PERSON PRINCIPLE

The Company's investment management policy ensures its continued compliance with the Prudent Person Principle (PPP) as laid down in Article 132 of the Directive 2009/138/EC. Through execution of permissible asset classes and investment limits, the Company is able to ensure that it:

1. Only invests in those assets whose risks it can properly identify, measure, monitor, control and report.
2. Invests in assets in such a manner that ensures the security, quality, liquidity and profitability of the asset portfolio.
3. Invests assets held in a manner appropriate to the nature and duration of the insurance liabilities and in the best interest of policyholders and beneficiaries.
4. Uses derivatives for risk management and to facilitate efficient portfolio management.
5. Keeps to prudent levels the investment in assets which are not admitted to trading on a regulated market.
6. Properly diversifies its investments so that it can avoid excessive reliance on any particular asset, issuer or group of undertakings, or geographical area and excessive accumulation of risk in the portfolio as a whole.
7. Does not expose itself to excessive risk concentration that arises from investments in assets issued by the same issuer or by issuers belonging to the same group.

As detailed in the Investment Performance section above, the Company's investment management framework sets out its processes and procedures to manage its investment portfolio. This includes the investment strategy which is approved by the Board and implemented via the investment mandate by AIG Life's investment managers.

Assets categories that are included in the investment mandate are those that are suitable for the nature, term and currency of the Company's liabilities profile and for which the investment manager could assess, monitor and control risks. The Company does not invest in any asset category that is not included in the Investment mandate.

Tactical deviations from the limits imposed by the mandate to maximise investment returns are only permitted on prior approval by the Directors and are limited to changes in allocation of asset categories covered by the mandate. The investment strategy implemented by the investment manager sets out limits in order to avoid concentration of risks in a particular sector, issuer, currency, credit rating or country.

C.2.6. PROCESS FOR MONITORING THE EFFECTIVENESS OF MARKET RISK MITIGATION TECHNIQUES

The scope and magnitude of the Company's market risk exposures is managed under a robust framework that contains documented risk-taking authorities, defined risk limits and minimum standards for managing market risk in a manner consistent with the Company's Risk Appetite.

The AIG Life Board, either as a whole or through its committees, oversees market risk, and

- Approves annually the Company's Risk Appetite Framework and the specific Market Risk limits and minimum standards which reflect the Board approved investment mandate;
- Receives reports on the investment performance and breakdown of assets; and
- Receives reports on the adherence to AIG Life's Market Risk policy.

The AIG Life Board discharges its responsibility for oversight of the Risk Policies and Procedures through the Risk and Capital Committee and BARC. The Risk and Capital Committee is chaired by the CRO and the BARC by one of the Independent Non-Executive Directors.

The Investment Committee is chaired by the Company's CFO; the primary purpose of the Investment Committee is to monitor and manage the Market Risk profile of the Company against the Board approved Investment Strategy and mandate. The Investment Committee regularly reviews the latest market risk developments and requests more detailed market information when needed.

C.2.7. RISK SENSITIVITIES FOR MARKET RISK

During 2019, AIG Life performed regular stress testing of interest rates to assess the impact on the AIG Life solvency position. This ensured that the Company maintained sufficient solvency capital to withstand shocks within the market.

During the ORSA process, several market risk scenarios were considered including yield curve scenarios where the yield curve is increased and decreased by 0.5% and 1.0%. The reduction in yields allowed for negative interest rates and produced an outcome showing a significant reduction in net assets. However, the modelled scenario did not allow for any management actions in response to the stress – in particular, any pricing activity in this low yield environment, de-risking of the asset portfolio and the purchase of derivatives to hedge against downward interest rate movements. Downward yield curve changes were unfavourable to the company while upwards movements increased the solvency ratio.

C.3. 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. At 31st December 2019, credit risk or counterparty default risk was 13% of the SCR.

C.3.1. CREDIT RISK EXPOSURE FOR AIG LIFE

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:** all policyholders are individual consumers and pay monthly premiums by direct debit; the risk of material default is therefore very low.

These risks are managed by two sub-committees within AIG Life. Reinsurer default falls within the remit of the Reinsurance Steering Committee (RSC) chaired by the CFO. Credit risk related to intermediaries is monitored and managed by the Distribution Risk Review Forum (DRRF) and is chaired by the CFO.

C.3.2. CREDIT RISKS AND CHANGES OVER THE REPORTING PERIOD

Credit risk comprises circa 10% of the Company's SCR as at 2019. The SCR has increased from £17,985k at Q4 2018 to £25,614k at Q4 2019. The increase in reinsurance exposure is due to the growth in the inforce portfolio caused an underlying growth in Counterparty Default Risk SCR.

C.3.3. MEASURES USED TO ASSESS CREDIT RISK

To assess the credit risk associated with the reinsurers, the firms are assessed both locally by AIG Life and at a global level by the parent company. AIG Life monitors the Solvency II Credit Quality Step (CQS) of each reinsurer; the scores can have values from 0 to 6, with 0 being the CQS given to the most creditworthy (AAA rated entities). The CQS of a reinsurer is based on credit ratings from the credit rating agencies. All of the reinsurers that AIG Life works with have scores of 2 or less. The RSC monitors any changes in reinsurer's credit ratings together with concentration exposure.

At Group level, the Reinsurance Credit Department conducts the following principal control activities to assess Credit Risk associated with them globally:

- Periodic detailed assessments of the financial strength and condition of current and potential reinsurers, both foreign and domestic.
- Monitoring the financial condition of reinsurers as well as the total reinsurance recoverable and set limits with regard to the amount and type or exposure the Company is willing to take with reinsurers.
- Reviews the nature of the risks ceded and the need.

AIG Life is also exposed to credit risk from the commission paid to intermediaries in advance of the earnings period. As a result there are a number of factors that are assessed prior to and once an agency is agreed with a firm:

- Due diligence on the intermediary firm being undertaken prior to an agency being given to sell AIG Life products.
- Monitoring of any debts associated with the agency and escalation if debts are not settled in a timely manner using standard industry process i.e. the use of the Elixir system.
- Regular reviews of firms and the associated key risk indicators leading to direct actions agreed with firms to reduce potential debt.

C.3.4. CREDIT RISK CONCENTRATION

Credit Risk concentration is associated with any single exposure or group of exposures with the potential to produce large losses to threaten the Company's core operations. It may arise either in the form of single name concentration or industry concentration.

AIG Life's most material Credit Risk concentration relates to exposure caused by reinsurance arrangements (reinsurance recoverables and receivables). There is relatively low concentration risk in relation to intermediary credit risk.

C.3.5. CREDIT RISK MITIGATION TECHNIQUES

AIG Life has established an effective Credit Risk management framework that includes guidelines and processes to govern day-to-day credit risk-taking activities. The CFO and the Senior Leadership Committee are primarily responsible for implementing and maintaining a risk management framework consistent with the AIG Life Counterparty Default Risk Policy.

The Company monitors and controls its Credit Risk through the RSC and DRRF. To minimize the level of Credit Risk in some circumstances, the Company may require personal or third-party guarantees, or specific arrangements through the individual reinsurance treaties. AIG Life also identifies its aggregate credit exposures to its underlying counterparty risks.

Credit risks are managed and controlled through techniques listed below:

- Aggregating the Company's credit exposure data by counterparty, regularly reporting and reviewing risk concentrations against risk appetite limits at the RSC and the DRRF;
- Reviewing the outcome of Reinsurance tenders and approving the concentration risk associated with the outcome;
- Overseeing the submission of individual transactions which result in high value commission payments and credit exposures to the Company;
- Overseeing the Watch List process within the Company portfolios; and
- Monitoring reinsurers credit ratings against risk appetite limits

C.3.6. PROCESS FOR MONITORING THE EFFECTIVENESS' OF CREDIT RISK MITIGATION TECHNIQUES

Both the RSC and DRRF to monitor, manage and report the credit risks within the Company. The RSC meets each month and the DRRF meets at least quarterly. The committees adhere to their terms of reference with respect to their membership, chair, the frequency of meetings, and record keeping. Reviews of the terms of reference take place on at least an annual basis.

For reinsurance exposure, AIG Life monitors the Solvency II CQS of each reinsurer and compares the exposure, expressed as a percentage of total exposure, to internal limits in order to control the concentration risk. In addition, the Risk Appetite includes an assessment of the impact of the default of AIG Life's largest reinsurance counterparty and this is monitored quarterly by the BARC.

Intermediary default credit risk is monitored at the DRRF where various key risk indicators are monitored and reported, together with an update on specific actions being taken with the respective firms that are

of concern. Updates are also provided regarding those firms that have had agencies cancelled due to credit risk concerns or where debts have occurred and credit control activity is being progressed.

C.3.7. STRESS TEST SENSITIVITIES FOR CREDIT RISK

Reinsurer default: AIG Life uses reinsurance arrangements to mitigate mortality, morbidity, lapse and catastrophe risk. A scenario involving the default of the Company's largest reinsurer due to a pandemic was analysed. This default is assumed to mean AIG Life would retain the insurance risk previously ceded to that reinsurer. The risk of a reinsurer defaulting on their arrangement is however considered to be extremely low. AIG Life spreads the risk over seven different reinsurers and in Solvency II terms each has a CQS of 2 or less.

Intermediary default: The risk of intermediaries suffering business failure and being unable to repay commission due from lapsed or cancelled policies. An increase in the level of default commission was assessed as part of a combined scenario test within the ORSA.

C.4. 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.

As mentioned at the start of the Risk Profile section, liquidity risk is not assessed within the Standard Formula. Therefore, no equivalent liquidity risk sub-module under Standard Formula is disclosed.

C.4.1. MEASURES USED TO ASSESS LIQUIDITY RISK

Liquidity is assessed and monitored on a monthly basis by the Finance function and the Senior Leadership Committee and is reviewed in detail at the Investment Committee quarterly. The liquidity risk framework involves monitoring long-term cash flow forecasts under normal, stressed and scenario specific conditions against a system of risk appetite metrics. These measures include minimum acceptable liquidity amounts, ratio of liquidity sources against cash outflows and assessment of the viability of contingent funds.

C.4.2. LIQUIDITY RISK MITIGATION TECHNIQUES AND THE PROCESSES FOR MONITORING THE EFFECTIVENESS OF THESE TECHNIQUES

AIG Life has a Liquidity Risk Policy which outlines the principles and guidelines for the company to adhere to. The purpose of the framework is to establish minimum liquidity requirements that protect the Company's long-term viability and ability to fund its ongoing business and meet short-term financial obligations in a timely manner in both normal and stressed conditions.

Liquidity risk is managed by Finance with quarterly reporting to the Investment Committee. Liquidity risk is mitigated through investment in predominately liquid financial assets and constant monitoring of expected asset and liability maturities.

The AIG Liquidity Management Policy prescribes procedures to maintain sufficient liquidity to meet the obligations as they become due and the Company complies with this policy. The AIG Life risk appetite is set to maintain defined target liquid asset levels under both baseline and stressed conditions.

C.4.3. STRESS SENSITIVITIES FOR LIQUIDITY RISK

AIG Life undertakes liquidity stress testing on a forward looking basis over the planning period, in order to identify any future liquidity needs. This includes a range of sensitivities, such as to the level of new business assumed and the future use of coinsurance. The ORSA process also includes additional testing to assess the viability of alternative liquidity sources in certain stress scenarios.

C.4.4. EXPECTED PROFIT IN FUTURE PREMIUMS (EPIFP)

The Solvency II Delegated Acts (Article 260 numbers 2-4) define EPIFP as:

1. The expected profit included in future premiums shall be calculated as the difference between the technical provisions without a risk margin and a calculation of the technical provisions without a risk margin under the assumption that the premiums relating to existing insurance and reinsurance contracts that are expected to be received in the future are not received for any reason other than the insured event having occurred, regardless of the legal or contractual rights of the policyholder to discontinue the policy.
2. The calculation of the expected profit included in future premiums shall be carried out separately for the homogeneous risk groups used in the calculation of the technical provisions, provided that the insurance and reinsurance obligations are also homogeneous in relation to the expected profit included in future premiums.
3. Loss-making policies may only be offset against profit-making policies within a homogeneous risk group.

As a mono-line protection provider, the majority of AIG Life's policies currently do not carry a surrender value, so the technical provisions in the case of the cessation of all future premiums would be negligible and the EPIFP is equal to the technical provisions without a risk margin offset by the commission we expect to claw back.

The EPIFP as calculated in accordance with Article 260(2) for 2019 is £181.2m.

C.5. OPERATIONAL RISK

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

Operational risks can have many impacts, including but not limited to unexpected economic losses or gains, reputational harm due to negative publicity, regulatory action from supervisory agencies, operational and business disruptions and damage to customer relationships.

C.5.1. OPERATIONAL RISK EXPOSURE FOR AIG LIFE

We identify ten major sources of operational risk which are described below:

Operational Risk Components	Description
Execution, Delivery and Process Management	<p>Losses from failed transaction processing or process management. It includes the inability to deliver and execute according to budget and/or strategic plan due to shortage of staff or supplies and risk of losses related to inadequately designed or implemented governance bodies, policies, guidance, processes and decision-rights.</p> <p>Model Process & Governance</p> <p>The risk that model governance (as defined in the Model Governance Policy) is not complied with and/ or that models are badly implemented or their information misunderstood or misused. This includes data quality issues as well as data errors.</p>
Clients, Products and Business Practices	<p>This risk refers to losses arising from an intentional, unintentional or negligent failure to meet an obligation to specific clients (including fiduciary and suitability requirements), or from the nature or design of a product.</p> <p>Legal risk</p> <p>Legal risk refers to the possibility that lawsuits, contracts that turn out to be unenforceable or breaches to contracts disrupt or adversely affect the operation or condition of AIG Life.</p>
Compliance Risk	<p>Compliance risks are defined by the cause and the consequences of their occurrence.</p> <p>Cause is the failure to fully comply with laws, regulations, internal rules and standards applicable to AIG Life.</p> <p>Consequences can be of a financial nature (administrative sanctions; damages), of a commercial nature (withdrawal of licence; limitation thereto) or of a reputational nature. They can also be of a criminal nature, in which case directors and/or officers can be prosecuted together with their company.</p>
Fraud	<p>Fraud risk arises from misconduct or abuse, using deception as principal modus operandi, for enrichment or benefit of the perpetrator, or AIG Life, or of a third party.</p> <p>Internal Fraud</p> <p>Losses (direct or indirect) due to acts of a type intended to defraud, misappropriate property or circumvent regulations, the law or company policy, which involves at least one internal party.</p> <p>External Fraud</p> <p>Losses (direct or indirect) due to acts of a type intended to defraud, misappropriate property or circumvent the law, by a third party without the assistance of an internal party.</p>
Employment Practices and Workplace Safety	<p>Losses arising from acts inconsistent with employment, health or safety laws, or agreements, from payment of personal injury claims, or from diversity/discrimination events.</p>
Business Disruption and Systems Failure	<p>This risk refers to losses arising from disruptions of infrastructure or system failures or unavailability of human capital due to the inexistence of business continuity plans or the inappropriate implementation of such plans. Note that losses due to not having suitable IT strategy should be covered under strategic risks.</p> <p>IT-Security</p> <p>Losses due to the intentional misuse of IT applications, e.g. through misappropriation of system access.</p>

Operational Risk Components	Description
Damage to Physical Assets	Losses arising from loss or damage to assets (physical or people) from natural disaster or other events such as malicious damage (i.e. acts of malice, spite, terrorism or the like, with no profit intention).
Model Adequacy	Model Adequacy Risk refers to the risk of losses resulting from inadequately designed models or models that are not fit for purpose.
Outsourcing Risk	Risk of loss due to the reliance on controls of the outsourcer over major processes, key operations, functions and knowledge that are critical to the business undertaking. Moreover it includes the risk of needing to bring back in-house the key operations and not having the capacity.
Intangible Asset Risks	Intangible asset risk is the risk of loss, or of adverse change in the value of intangible assets (such as rights to service properties or software platforms) to a change in expected future benefits to be gained from the intangible assets.

C.5.2. OPERATIONAL RISK AND CHANGES OVER THE REPORTING PERIOD

The Company calculates its SCR using the Standard Formula. The Operational Risk SCR of the Company is driven by the level of earned premiums. Operational Risk comprises 9% of the Company's SCR. As the company grows in size, the Operational Risk SCR will also increase (as has been the case over the last year).

C.5.3. MEASURES USED TO ASSESS OPERATIONAL RISK

The Company monitors various components of its operational risks using the following measures:

Operational Risk Component	Description	Metrics
Execution, Delivery & Process Management	Risk of process errors as a result of migration and other transformation projects	<ul style="list-style-type: none"> • Credible MI on SLA management • Risk Events Complaints
Clients, Products & Business Practices	Risk of inadequate management of Conduct Risk - Conduct risk Management Information (including complaints, ombudsman actions, claims and new business SLA measurement, product development, post-implementation reviews). Program execution risk, as a result of change fatigue	<ul style="list-style-type: none"> • Risk Events • Operational MI
	The risk of inadequate management of operational risk of services provided by third parties including broker facility management	<ul style="list-style-type: none"> • Risk rating of third parties • Number of Audits and Findings
Internal Fraud	Risks associated with acts intended to defraud, misappropriate property or circumvent regulations, the law or company policy which involves at least one internal party.	<ul style="list-style-type: none"> • Risk Events

Operational Risk Component	Description	Metrics
External Fraud	Cyber-attack risk, either through information theft or denial of service (DoS)	<ul style="list-style-type: none"> Risk Events Results of Vulnerability Testing
Employment Practices & Workplace Safety	Risk of not attracting, retaining and developing key staff to achieve business plan	<ul style="list-style-type: none"> Staff turnover, staff surveys and exit interviews Risk Events
Business Disruption & Systems Failure	Business Continuity risk	<ul style="list-style-type: none"> Business continuity plan status and testing results System incident reviews
Damage to Physical Assets	The damage or unavailability of physical assets (e.g. offices, laptops, archives, key staff members) as a result of a natural disaster or other traumatic event can affect company's operation.	<ul style="list-style-type: none"> Risk Events

C.5.4. OPERATIONAL RISK MITIGATION TECHNIQUES

AIG Life's Risk Management Framework facilitates the identification, assessment, monitoring, and measurement of operational risk and promotes a culture where each employee has responsibility for managing operational risk. There is a robust internal controls system in place across all functions and sample audits are undertaken. System controls are in place and the company is certified under ISO27001. Controls are reviewed regularly with reporting to the BARC. Internal Audit undertakes reviews to assess the internal control framework and whether it is operating effectively.

C.5.5. PROCESS FOR MONITORING THE EFFECTIVENESS OF OPERATIONAL RISK MITIGATION TECHNIQUES

AIG Life has a fully embedded risk management framework. Quarterly risk reviews are carried out between the functional Heads and Enterprise Risk Management (ERM) to review risks and identify and assess any new and emerging risks for the area/company. Controls are regularly reviewed and improvements implemented as appropriate.

The Risk Event reporting process for the Company is well established and ERM supports the business in the logging and the rectification processes.

A monthly report is presented at the AIG Life Senior Leadership Committee meeting and more detailed analysis including root cause analysis is provided to the quarterly BARC committees.

Quarterly Risk and Control self-assessments are completed by each Function head with a summary reported to the quarterly Risk and Capital Committee.

C.5.6. STRESS SENSITIVITIES FOR OPERATIONAL RISK

Stress testing for operational risk is undertaken for the ORSA using a range of management derived scenarios. In 2018 the scenarios assessed included a substantial system failure and a loss of sensitive data, as well as other scenarios motivated by political uncertainty and strategic risk. The impact was highly dependent on the nature of the stress and was assessed with consideration of potential management actions. The results did not cause AIG Life to consider that any of its residual operational risks were outside of appetite.

C.6. 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.

C.7. 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.

Risk	Description
Transition risk (market risk)	Certain policyholder obligations can stretch decades into the future, which AIG Life seeks to match with equally long-dated assets. In matching assets to these long-duration liabilities, AIG Life seeks out investments that offer sustainable and predictable returns over the long-term. Assets identified as posing an increased credit and / or market risk over the long-term would therefore receive additional scrutiny, or possibly may be excluded from consideration in the portfolio. AIG Life is also exposed to transition risk also on the liability side, for example, in case of a disorderly transition, some economic sectors might be disrupted and we might for example lose group protection volumes from schemes belonging to those sectors; also there could be reputational risk caused by a radical shift of sentiment towards climate change risk and how AIG Life, AIG or the insurance sector in general responds to climate change.
Physical risk (natural catastrophe risk that gives rise to mortality risk)	AIG Life is exposed to climate-related mortality and morbidity risks and potential higher than expected losses from actual mortality and morbidity. Higher mortality and morbidity could arise as a result of atmospheric pollutants and or in the event of an increase in the frequency and intensity of natural catastrophes (e.g., floods, droughts, heatwaves, etc.) associated with climate change. Nevertheless, climate-related insurance risks are placed relatively low on the spectrum of risks. AIG Life could also be exposed to physical risk on the asset side, for example sovereign bonds and currencies of climate change impacted countries, and direct damage to the value of financial assets or collateral such as household and commercial property (e.g. as property investments in the SAA).

Risk	Description
Litigation risk (liability risk)	AIG Life is exposed to strategic (visionary approach, intended to influence public and private climate accountability) and routine (dealing with e.g. planning applications or allocation of emissions allowances; these cases tend to impact on the behaviour and decisions of governments and or private parties) cases of climate change litigation. Routine planning and regulatory cases are increasingly including climate change arguments, exposing courts to climate science and climate-related arguments even where incidental to the main claim. This is an evolving area, but it is likely that AIG Life would be exposed more on the asset side, that is, investing in assets of firms that are involved in litigations or found responsible for pollution. (AIG Life does not offer third party liability protection, professional indemnity insurance etc.)

C.8. OTHER MATERIAL RISKS

The onset of COVID-19 since the end of 2019 has caused the Company to reassess its exposure to the risks outlined earlier in this section. The high-level impact is outlined below.

- **Underwriting Risk:** On individual protection business, there are high levels of reinsurance in place. For Income Protection business (across both our individual and group protection portfolios), it is likely that most incidences of COVID-19 would not drive a claim due to the presence of deferral periods., AIG Life has pandemic reinsurance cover in place on its Group Life portfolio which materially mitigates much of the potential impact of COVID-19 on the balance sheet. Interest rate falls indirectly impact lapse risk and (to a lesser extent) expense risk. The level of lapse reinsurance has been increased to mitigate this impact.
- **Market Risk:** There is exposure to spread risk through our corporate bond portfolio. We have seen these spreads widen following the increased economic uncertainty; however, the impact on the asset portfolio has been more than offset by the reduction in risk-free rates. Our strategic asset allocation ensured our exposure to credit spreads was not a significant driver of solvency.
- **Credit Risk:** The reduction in interest rates has increased our counterparty exposure to reinsurers. Risk appetite limits are in place however to control both the creditworthiness of our chosen reinsurers and the diversification of our counterparty exposure.
- **Liquidity Risk:** COVID-19 can affect liquidity risk in several ways
 - Increased interest rate hedging can drive collateral calls – this has been mitigated for AIG Life by a delta hedging strategy whereby the level of hedging reflects the level of adverse yield movements, As a result, when yields increase the level of hedging is reduced and the resulting collateral calls are less material.
 - Reduced ability of policyholders to pay premiums – at the time of writing we have not seen a material impact yet but will monitor the situation as the economic impact unfolds. The impact here may well be offset by policyholders being keen to retain protection given the increased general mortality risk.
 - Potential delays in reinsurers processing reinsurance payments – again, this has not transpired yet but is being monitored closely.
- **Operational Risk:** The Business Continuity Plan has been implemented successfully - all operational staff are now working remotely and have been since 18th March. AIG Life has not made changes to product terms and conditions
 - Contact centres are operating largely as normal with telephone lines distributed to create a virtual call centre, albeit with operating hours slightly reduced. Service levels remain well within normal tolerance for speed to answer and abandon rates. As at close of business on 31st March, the direct impact of staff absence due to COVID-19 related illness was not significant.
 - For claims, medical reports are still being received but the company recognises that the strain on GPs and hospitals will increase. We are therefore working with

reinsurers to agree a risk-based approach to claims processing. There has been no significant operational impact so far on claims; all claims assessors were already home based, so there has been no change to their ways of working.



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D. Valuation for Solvency Purposes

The 'Valuation for Solvency Purposes' section of the report describes the valuation of assets, technical provisions and other liabilities from a UK GAAP basis to a Solvency basis. The section also outlines the approach and methodology underlying the valuation.

Key elements of the section include:

- Assets;
- Technical Provisions (TPs);
- Other Liabilities; and
- Any other information

D. VALUATION FOR SOLVENCY PURPOSES

In accordance with Article 75 of the Solvency II Directive, the Company's assets and liabilities are fair valued based on principles of an arm's length transaction between knowledgeable willing parties.

D.1. ASSETS

The 'Assets' subsection of the report aims to provide information regarding the valuation of assets held by the Company under the Solvency II regime, including information on the basis, methods and assumptions utilised.

AIG Life holds a mixture of UK gilts, supranational bonds and corporate bonds. These asset classes are traded in deep and liquid markets and have been in high demand throughout 2019.

The assets table below shows the Solvency II Balance Sheet line items, their corresponding UK GAAP values, and the Solvency II adjustments and reclassifications applied.

Assets – Solvency II Balance Sheet	Notes	UK GAAP	Solvency II Adjustment		Solvency II Valuation
		£ '000		£ '000	£ '000
Goodwill	7	30,487	-	30,487	-
Deferred acquisition costs	6	211,820	-	211,820	-
Intangible assets	11	17,271	-	17,271	-
Deferred tax assets	5	-	-	21,727	21,727
Pension benefit surplus		-	-	-	-
Property, plant & equipment held for own use	4	671	-	671	-
Investments (other than assets held for index-linked and unit-linked contracts)	1	185,166	-	9,981	195,146
Loans and mortgages		-	-	-	-
Reinsurance recoverables	8	937,201	-	49,625	986,826
Insurance & intermediaries receivables	9	27,505	-	27,505	-
Reinsurance receivables	12	-	-	-	-
Receivables (trade, not insurance)	2	17,989	-	16,598	1,391
Cash and cash equivalents	3	29,069	-	9,907	19,162
Any other assets, not elsewhere shown	10	13,664	-	1,853	11,812
Total Assets		1,470,843	-	234,779	1,236,064

1. INVESTMENTS (OTHER THAN ASSETS HELD FOR INDEX-LINKED AND UNIT-LINKED CONTRACTS)

Investments are measured and carried at fair value. The valuation difference between UK GAAP and Solvency II relates to the reclassification of cash at the custodian into Cash and Cash Equivalents on the Solvency II Balance Sheet.

2. RECEIVABLES (TRADE, NOT INSURANCE)

The receivables (trade, not insurance balances) relate to prepayments and other receivables which are due within one year, hence the carrying values are taken to approximate fair values under Solvency II.

Trade receivables solely comprise of amounts due within 12 months. The fair value of receivables which are past-due does not differ materially from their amortised cost and are therefore considered to be held at fair value.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprises cash on hand and demand deposits with banks together with short-term highly liquid investments that are readily convertible into known amounts of cash and that are not subject to a significant risk of a change in value. Such investments are classified as cash equivalents where they have maturity dates of three months or less from the date of acquisition.

Cash and cash equivalents are considered to be held at fair value under UK GAAP. The difference of between UK GAAP and Solvency II relates to the reclassification of the bank account balance and cash held by the custodian, as stated in note 1 above.

4. PROPERTY, PLANT & EQUIPMENT HELD FOR OWN USE

Under UK GAAP, plant and equipment are stated at cost less accumulated depreciation. For Solvency II purposes (Market Consistent Balance Sheet) property, plant and equipment is valued at nil because the UK GAAP valuation of cost less depreciation is not permissible under Solvency II rules.

5. DEFERRED TAX

The Solvency II measurement principles for deferred taxes are consistent with the financial statements (IAS 12). Deferred tax asset or liability is therefore calculated based on the temporary difference between Solvency II values and the tax values.

Deferred tax comprises the amounts of income taxes recoverable in future periods (AIG Life uses a planning period of 7 years in this context) in respect of:

- Deductible temporary differences.
- The carry forward of unused tax losses.
- The carry forward of unused tax credits.

Deferred taxes in respect of deductible temporary differences are valued on the basis of the difference between:

- The values ascribed to assets and liabilities recognised and valued in accordance with Solvency II.
- The values ascribed to assets and liabilities as recognised and valued for tax purposes.

Deferred tax asset or liability is calculated by jurisdiction such that applicable national tax rates are used for these calculations. The deferred tax assets and liabilities are only netted off if the counterparty is the same tax authority and there is an ability to settle net. Deferred tax assets are further tested for recoverability from brought-forward losses or expected future taxable profits of the company. There is no expiry date on the deferred tax asset held.

6. DEFERRED ACQUISITION COST

Deferred acquisition costs are defined as acquisition costs relating to contracts in force at the balance sheet date which are carried forward from one reporting period to subsequent reporting periods, relating to the unexpired periods of risks.

These are permitted assets under UK GAAP subject to impairment testing and are deferred when it is probable that they will be recovered.

In accordance with Article 12 of the Solvency II Delegated Acts, deferred acquisition costs are valued at nil for Solvency II purposes since these cannot be sold separately and no quoted active market exists for the same or similar assets.

7. GOODWILL

Goodwill is defined as the difference between the purchase price of an acquired company, and the fair value of all identifiable tangible and intangible assets purchased in the acquisition and the liabilities assumed in the process. These are permitted assets under UK GAAP.

In accordance with Article 12 of the Solvency II Delegated Acts, Goodwill is valued at nil for Solvency II purposes since these cannot be sold separately and no quoted active market exists for the same or similar assets.

8. REINSURANCE RECOVERABLES

Reinsurance recoverables are calculated as the expected present value of future reinsurance cashflows, comprising reinsurance premium outflows and the inflow for the reinsurer's share of future claim payments. As for the gross Best Estimate Liability (BEL) calculation, assumptions on decrements, yields and lapse rates are made.

9. INSURANCE AND INTERMEDIARY RECEIVABLES

Under UK GAAP, this represents debtor balances which are past due. Insurance and intermediary balances that are not past due are future cash flows and hence are reclassified to Solvency II Technical Provisions.

The fair value of receivables which are past-due does not differ materially from their amortised cost and are therefore considered to be held at fair value.

10. OTHER ASSETS, NOT SHOWN ELSEWHERE

Under UK GAAP, this consists of accrued interest on short term investments and prepayments for rent and IT equipment. The accrued interest is reclassified to Investments under Solvency II.

11. INTANGIBLE ASSETS

Intangible assets are defined as identifiable non-monetary asset without physical substance. The UK GAAP balance sheet shows intangible assets related to IT software, customer relationships and distribution channels acquired in the purchase of Ellipse.

These are permitted assets under UK GAAP as long as it is probable that the expected future economic benefits will flow to the entity and the cost or value of the asset can be measured reliably.

In accordance with Article 12 of the Solvency II Delegated Acts, intangible assets are valued at nil for Solvency II purposes since these cannot be sold separately and no quoted active market exists for the same or similar assets.

12. REINSURANCE RECEIVABLES

Under UK GAAP, this represents balances in relation to reinsurance arrangements which are past due, specifically coinsurance commission. Reinsurer balances that are not past due are future cash flows and hence are reclassified to Solvency II Technical Provisions.

D.2. TECHNICAL PROVISIONS

The below technical provisions table has been extracted from Solvency II Balance Sheet which summarises the calculation of Technical Provisions using aggregated UK GAAP reserves as the starting point. The below table should be viewed in conjunction with the explanatory notes.

Technical Provisions – Solvency II Balance Sheet	UKGAAP	Solvency II Adjustment	Solvency II Valuation
	£ '000	£ '000	£ '000
Technical provisions - health (similar to life)	38,762	2,297	41,059
Technical provisions - life	897,052	-	876,732
Total Technical Provisions	935,814	-	917,791

D.2.1. VALUATION BASIS, METHODS AND MAIN ASSUMPTIONS

The best estimate liabilities are defined as the probability-weighted average of future cash flows, discounted to take into account the time value of money. The cash flow projection used in the calculation of the best estimate takes account of all the cash in-flows and out-flows required to settle the insurance and reinsurance obligations over their lifetime. Policy cashflows are modelled at a granular level (per policy basis in monthly increments) for both the individual and group protection. Uncertainty in the net cashflows to the Company is mitigated via the extensive use of reinsurance.

The key changes related to Technical Provisions in moving from the financial statements balance sheet to the Solvency II balance sheet are:

- Updating the yield curve to the Solvency II risk free rate. (Total £357.1m increase in technical provisions, net of reinsurance.)
- Replacing the UK GAAP Risk Adjustment with the Solvency II Risk Margin (a £213.4m decrease in technical provisions).
- A Transitional Measure on Technical Provisions (TMTP) has been used and has a value of £0 at 31 December 2019. The TMTP has not been subject to audit.

Technical provisions are grouped into the following key components:

- Best Estimate
 - Best Estimate Liability (BEL)
 - Other Best Estimate components
- Risk Margin: Additional provision to bring the Best Estimate to the level required to transfer the obligations to a third party undertaking.

Assumption Changes since 2018

For both individual and group protection, the mortality, morbidity, lapse and expense bases have been reviewed and adjustments were made where necessary to align our expectations to actual experience.

D.2.2. BEST ESTIMATE LIABILITY

In line with Article 77(2), the BEL is determined as a present value of the expected future cash flows using the relevant risk-free interest rate term structure. Neither the Matching Adjustment nor Volatility Adjustment is currently used in the discounting of liabilities. Furthermore, no use is made of transitional measures on risk-free rates.

AIG Life does not perform a stochastic calculation using simulation techniques; BEL is assessed deterministically. This involves determining a fixed set of assumptions (i.e. best estimate assumptions) which are used to project cash flows and calculate the BEL.

This approach is considered appropriate because the nature of the liabilities is simple in that there are no embedded options and guarantees (so no complicated policyholder behaviours to model) and associated management actions. There are no participating products where simulation techniques are more appropriate to use to ensure all likely scenarios are captured. With regard to contract boundaries

- All fixed term individual protection products are projected to the end of their term
- Individual Whole of Life contracts are projected until age 120 (assumed death)
- All group protection products are projected to their scheme renewal date

The projected cash flows are associated with existing contracts and obligations with uncertainty incorporated through an expected lapse rate. For individual protection, lapse rates are set at a policy level whereas for group protection lapse rates are set at a scheme level. Lapse rates for individual business have been estimated based on company experience combined with industry data. They vary principally by duration of policy and type of contract to reflect the anticipated experience of the business. The assumptions have been set based on a combination of the Company's own and other partners experience and other related industry experience. Lapse rates for group business have been set using past scheme lapse experience.

Expected cashflows are also influenced by mortality, morbidity and expense assumptions. These are updated each year and reviewed and approved by the AIG Life Board. For both individual and group protection, 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 specific product features, distribution channels and socio-economic profile. The Company's principal mortality rates on individual business are based on TM00/F00 and the morbidity rates are based on AC08 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. Mortality improvements are allowed for based on standard industry (Continuous Mortality Investigation) models and other related expertise from the industry. Group life mortality tables are mainly based on previous claims experience. The contracts are valued using our long term expense assumptions which reflect the projected expense cost of the Company. Both scheme specific and member specific expenses are allowed for within the group business. The expenses are then applied at member level and subject to contract boundaries.

Assumptions are considered to be best estimate when they represent the "mean" or probability weighted average of possible outcomes to an uncertain event, i.e. actual experience could be equally likely to be better or worse than the assumption.

Article 77(2) also states that the best estimate liability shall be calculated gross, without deduction of the amounts recoverable from reinsurance contracts. The cash flows are therefore calculated gross of reinsurance recoveries expected from the reinsurance arrangement.

D.2.3. OTHER BEST ESTIMATE COMPONENTS

The Best Estimate line of the Solvency II Balance Sheet also contains some other liabilities. The details are as follows:

A. IBNS (Incurred but not settled)

IBNS is a combination of IBNR (Incurred but not reported) and RBNS (reported but not settled).

- IBNR is a liability for unreported claims which AIG Life expects to pay but are not aware yet that the claim incident has occurred. Its value determined using assumptions on the time to report claims, average claims and decrement rates. The same methodology is applied to both individual and group protection business.
- Once a claim is reported, investigations are generally carried out to collect all the required documents or in a small number of cases to probe further into the causes that led to the insured event. An allowance is made for claims that have been reported but not settled at the Solvency II balance sheet reporting date. This comprises of the face value of the claims payable without any adjustment for a level of claim rejection.

B. Policyholder Premiums Due

Premiums which have not yet been paid to the Company also need to be taken into account. Typically policyholders pay their premiums on a monthly basis and this balance sheet line reflects premiums due in the last month of the reporting period which have not been paid in the period.

D.2.4. RISK MARGIN

AIG Life's approach to calculating the Risk Margin is in line with Method 1 in EIOPA's hierarchy of simplifications for the Risk Margin.

The AIG Life Risk Margin is the total of the Risk Margins of the individual and group protection portfolios, where each is produced as follows:

- determine the SCR relating to current obligations at the balance sheet reporting date (time zero)
- project it for each future time period until the existing business runs-off or, in the case of group protection, reaches a contract boundary.
- calculate the cost of holding this capital to support the business for each future year
- discount it using the risk discount rate to determine Risk Margin.

The Standard Formula SCR for Underwriting Risk, Counterparty Default Risk, Operational Risk and Catastrophic Risks are taken into account in Risk Margin calculation. The major component of Market Risk SCR is Interest Rate Risk which is considered hedgeable and therefore not required to be included in the Risk Margin calculation. This methodology breaks down the SCR by risk component and by line of business in order to run them off individually. It allows consideration of duration for each line of business.

The future SCRs for each risk are then aggregated using the correlation matrix in the Standard Formula and the future SCR is discounted with the appropriate GBP yield curve as prescribed by EIOPA (consistent with the yield curve applied for discounting the Technical Provisions). It is then multiplied by the Cost of Capital to obtain the final Company Risk Margin. The Cost of Capital used is 6% as required by EIOPA.

An allocation of the Risk Margin by Solvency II lines of business is also produced using the allocation of the non-hedgeable SCR by lines as a proxy.

The risk drivers used to run off the SCR (for both individual and group protection) for each risk are shown below. For group schemes, number of inforce policies means number of members inforce.

Risk type	Sub-risk type	Risk Driver
Default	n/a	PV of Reinsurance Claims
Life	Mortality	Sum Assured
	Longevity	PV of total outgo
	Disability	Sum Assured
	Lapse	Number of in-force policies
	Expenses	PV of expenses
	Revision	n/a
	CAT	Sum Assured
Health	Mortality	Sum Assured
	Longevity	PV of total outgo
	Disability	Sum Assured
	Lapse	Number of in-force policies
	Expenses	PV of expenses
	Health CAT	Sum Assured
Operational	n/a	Number of in-force policies

D.2.5. VALUE OF TECHNICAL PROVISIONS FOR EACH MATERIAL LINE OF BUSINESS

Line of Business Technical Provisions	Best Estimate		Risk Margin		Reinsurance Recoverable		Net technical provisions				
	2019	2018	2019	2018	2019	2018	2019	2018			
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000			
Life	821,206	526,588	55,526	46,913	917,912	626,659	-	41,180	-	53,158	
Health	12,852	-	14,187	28,208	19,267	68,914	47,934	-	27,855	-	42,854
Total	834,058	512,401	83,733	66,180	986,826	674,593	-	69,035	-	96,013	

After Solvency II adjustments, the gross best estimate for the period is £834m. The Gross Technical Provisions after inclusion of Risk Margin of £84m is £918m. The Net (of reinsurance) Technical Provisions have increased from -£96m to -£69m over 2019.

D.3. OTHER LIABILITIES

The below liabilities table has been extracted from the Economic Balance Sheet (EBS) which details the derivation of Solvency II values from UK GAAP values. The below table should be viewed in conjunction with the explanatory notes.

Liabilities (excluding technical provisions) – Solvency II Balance Sheet	Notes	UK GAAP	Solvency II Adjustment	Solvency II Valuation
		£ '000	£ '000	£ '000
Provisions other than technical provisions	1	-	8,989	8,989
Pension benefit obligations		-	-	-
Deposits from reinsurers		-	-	-
Deferred tax liabilities	2	5,565	- 5,565	-
Insurance & Intermediaries payable	3	121,994	- 120,277	1,716
Reinsurance payables	4	49,560	- 3,375	46,185
Payables(trade, not insurance)	5	9,605	- 3,503	13,108
Subordinated liabilities not in Basic Own Funds		-	-	-
Any other liabilities, not elsewhere shown	6	18,051	- 10,631	7,421
Total Technical Provisions		815,945	- 101,847	917,791
Total Liabilities (including technical provisions)		1,020,720	- 25,511	995,210

D.3.1. VALUATION BASIS, METHODS AND MAIN ASSUMPTIONS

In Solvency II, the valuation of liabilities other than technical provisions is recognised in accordance with market consistent valuation methods as set out in the Solvency II Directive and the Technical Specifications for Solvency II. There have been no changes to the recognition and valuation bases used or estimations during the period. The applicable areas where differences were identified for the Company are set out as below:

1. PROVISIONS OTHER THAN TECHNICAL PROVISIONS

These comprise liabilities of uncertain timing or amount. The provisions are recognised as liabilities (assuming that a reliable estimate can be made) when they represent obligations and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations.

Provisions and accruals are valued using discounted best estimate liabilities that are probability weighted in accordance with IAS 37.

2. DEFERRED TAX LIABILITIES

A net deferred tax asset has been calculated under Solvency II. (See section D1.5 Deferred Tax Assets). Hence when moving from the UK GAAP balance sheet to the Solvency II balance sheet, the UK GAAP Deferred Tax Liability is first removed and the balance of the SII Deferred Tax Asset is shown as a SII asset.

3. INSURANCE & INTERMEDIARIES PAYABLE

On both the UK GAAP and Solvency II balance sheets, Insurance and Intermediaries payables represents commission due to intermediaries that has fallen due by the balance sheet date but has not yet been settled.

4. REINSURANCE PAYABLES

Under UK GAAP, Reinsurance Payables represents “creditors arising out of reinsurance operations” and “Loans”.

In the case of AIG Life, “Loans” represents the amount due to reinsurers under external financing arrangements. This liability are measured as the amount due, which represents the amount expected to be paid. This is considered a fair market value of this liability and no allowance is made for “own credit risk”. An adjustment is needed because under Solvency II, the liability forms part of the Technical Provisions as it is not past-due.

5. PAYABLES (TRADE, NOT INSURANCE)

Under UK GAAP, Trade Payables are carried at amortised cost using the effective interest method. Trade Payables solely comprise amounts which fall due within 12 months and are considered to be held at fair value under UK GAAP. It typically includes amounts due to employees, suppliers, public entities, etc. which are not insurance-related.

In the Solvency II balance sheet, all these items are reclassified to “Provisions other than Technical Provisions” and Trade Payables only holds a provision for tax (which was classified under Any Other Liability on the UK GAAP balance sheet).

6. ANY OTHER LIABILITIES, NOT ELSEWHERE SHOWN

On the UK GAAP balance sheet, this consists of accrued charges and provisions for tax. Two changes are made to produce Any Other Liabilities on the Solvency II balance sheet:

- the tax provision is transferred out into the Trade Payables and
- the cash balance from Cash and Cash Equivalents is included

D.4. ALTERNATIVE METHODS FOR VALUATION

AIG Life does not use any alternative methods of Valuation.

D.5. ANY OTHER MATERIAL INFORMATION

The reduction in risk free rates since the COVID-19 outbreak has caused AIG Life to take management actions to mitigate the impact of falling yields on our solvency position. Following a Special Risk & Capital Committee, action was taken to increase the use of coinsurance and lapse reinsurance on our most interest rate sensitive products.



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E. Capital Management

The 'Capital Management' section of the report describes the internal operational structures/procedures underlying capital management within the Company as well as the projections of capital position over a three year planning horizon. The Capital Plan is updated at least annually or more frequently if a material change occurs to the Company's risk or capital profile, business strategy, the macro-economic outlook or if regulatory feedback warrants a change.

Key elements include:

- Own Funds;
- SCR and MCR;
- Non-compliance with SCR and MCR.

E. CAPITAL MANAGEMENT

E.1. OWN FUNDS

The Company's Own Funds are comprised of items on the balance sheet which are referred to as basic Own Funds and off balance sheet items that may be called up to absorb losses referred to as ancillary Own Funds. This sub-section of the report aims to provide a view of capital management activities in the Company over the period, its capital management methods and the structure, amount and quality of Own Funds.

E.1.1. APPROACH TO CAPITAL MANAGEMENT

The Company's Actuarial Function is responsible for its capital management. Capital planning is considered pivotal in decision making and for the production of the Board approved annual business and capital plan.

Capital management focuses on two aspects:

- Ensuring that there is sufficient coverage of both the regulatory capital requirements (MCR and SCR) as well as the economic capital targets set.
- Optimisation of the quality of available Own Funds, in respect of the capital position of the wider organisation.

The Actuarial function provides the Board and BARC with information on the Company's capital position and monitors the surplus over internal and regulatory capital requirements. The Chief Actuary leads the internal and regulatory stress and scenario testing.

The AIG Life Target Solvency Ratio documents internal minimum capital levels. It is designed to ensure the Company can meet its regulatory capital requirements in a 1 in 30 year stress. The Multi-Year Budget shows capital projections for the upcoming three years under a baseline scenario which allows for future strategic initiatives. These projections are also produced under stressed demographic, macroeconomic and financial market scenarios via the Own Risk and Solvency Assessment (ORSA). The ORSA describes the capital implications and actions required in the event that a stress scenario occurs. These actions are documented in the Capital Management Action Plan, approved by the AIG Life Board.

E.1.2. CAPITAL MANAGEMENT PROCESS AND POLICY

AIG Life has a Capital Management Policy in place which is approved by the Board, concerned with all matters relating to the capital level and capital structure of the Company. It establishes a formal capital assessment and management framework in order to achieve the following objectives:

- Ensuring adequate capital is maintained within the Company to meet regulatory requirements and ensuring capital is available to support strategic plans.
- Optimising the Company's sources and usage of capital.
- Ensuring that excess capital is returned to Group on a timely basis without compromising the other objectives, as above.

The Capital Management Policy has regard to the level and structure of capital. It aims to ensure the Company's capital resources:

- Cover the PRA's requested amount above Minimum Capital Level, where relevant.
- Ensure the risk appetite approved by the Board as part of the Risk Appetite Framework is not breached.

The Company has an active capital management process to ensure it meets regulatory capital requirements.

E.1.3. COMPOSITION AND QUALITY OF OWN FUNDS

Under Solvency II regulation, capital is referred to as Own Funds and the regulation distinguishes between Basic Own Funds and Ancillary Own Funds. Capital under Solvency II the excess of assets over liabilities and is known as Basic Own Funds. This is classified into tiers of Own Funds. Restrictions are applied to limit the extent to which the various components of Own Funds can be used to meet the capital requirements.

E.1.3.1. BASIC OWN FUNDS TIER 1

The Basic Own Funds Tier 1 criteria are met by:

- Ordinary share capital.
- Share premium account related to ordinary share capital.
- Solvency II Reconciliation reserve (UK GAAP to EBS adjustments).

The Basic Own Funds have been classified and tiered in accordance with the Company Own Funds Policy. The Company's ordinary share capital and the related share premium amount are classified as Tier 1 capital since the Company's Articles of Association permit the cancellation of dividends after they have been declared.

The reconciliation reserve comprises the remainder of the excess of assets over liabilities, after deductions for any net deferred tax assets classified under Tier 3 and any foreseeable dividends.

E.1.3.2. BASIC OWN FUNDS TIER 2

The maximum eligible Tier 2 own funds, as at 31/12/19, is £71.3m. The Tier 2 basic own funds have been classified and tiered in accordance with the Company Own Funds Policy document.

E.1.3.3. ANCILLARY OWN FUNDS

Subordination

Tier 2 and 3 Ancillary Own Funds rank after all other claims in the event of winding-up proceedings regarding the company. Ancillary Own Funds must satisfy the following conditions i.e. they:

- Do not include any features which may cause or accelerate the insolvency of the Company.
- Are immediately available to absorb losses.
- Are undated and non-redeemable.
- Allow the cancellation of dividends (since the Articles of Association do not prohibit such cancellation).
- Allow the Company full flexibility over the payment of dividends.
- Are free of encumbrances and are not connected with any other transaction which when considered with the shares (and related share premium) could result in the shares not satisfying the other Tier 1 requirements.

Ancillary Own Funds

The Ancillary Own Funds held by the Company amount to a total £80m across two Letters of Credit. These are classified as Tier 2 Capital under Solvency II. As at 31/12/2019, £71.3m qualified as eligible own funds.

E.1.3.4. RECONCILIATION RESERVE

The reconciliation reserve is classified as Tier 1 capital in accordance with the Solvency II regulations. It is calculated as per the table below. Movements in the reconciliation reserve will be largely driven by movements in the excess of assets over liabilities. This excess has sensitivity to the level of interest rates however this is monitored and mitigated by asset-liability management.

Reconciliation Reserve	
	£ '000
Excess of assets over liabilities	240,854
Less:	
Ordinary share capital	316,885
Share premium	86,725
Net deferred tax assets (Tier 3)	21,727
Foreseeable dividend	-
Reconciliation Reserve	- 184,483

E.1.3.5. SUBORDINATED LIABILITIES

Subordinated liabilities qualify as Tier 2 capital under the transitional measures for Solvency II. During 2019, the £15m of subordinated debt provided by AHEL was capitalised.

E.1.3.6. NET DEFERRED TAX ASSETS

This comprises the deferred tax assets on the Solvency II balance sheet. This is classified as Tier 3 capital in accordance with the Solvency II regulations.

E.1.3.7. ELIGIBLE OWN FUNDS

The classification into tiers is relevant to the determination of eligible own funds. These are the own funds that are eligible for covering the regulatory capital requirements – the solvency capital requirement and the minimum capital requirement. For example, the minimum capital requirement must be covered by Tier 1 and Tier 2 capital and may not therefore be covered by Tier 3 capital. The extent to which the tiers are eligible to cover the capital requirements is set out in the implementing measures (also known as Delegated Acts).

The tables below presents the amount of total eligible funds to the SCR and basic own funds for MCR with respect to tiers as at 2019 and 2018:

2019 YE

Available funds	Total	Tier 1 – restricted	Tier 2	Tier 3
	£ '000		£ '000	£ '000
Ordinary share capital	316,885			
Share premium	86,725			
Net deferred tax assets	21,727			21,727
Reconciliation Reserve	- 184,483			
Subordinated Liabilities	-		-	
Ancillary Own Funds (LOC)	80,000		80,000	
Total available own funds	320,854	-	80,000	21,727
Total eligible own funds to meet the SCR	290,469	-	71,341	-
Total eligible own funds to meet the MCR	219,127	-	-	-

2018 YE

Available funds	Total	Tier 1 – restricted	Tier 2	Tier 3
	£ '000		£ '000	£ '000
Ordinary share capital	301,885			
Share premium	86,725			
Net deferred tax assets	22,110			22,110
Reconciliation Reserve	- 181,075			
Subordinated Liabilities	15,000		15,000	
Ancillary Own Funds (LOC)	80,000		80,000	
Total available own funds	324,645	-	95,000	22,110
Total eligible own funds to meet the SCR	267,374	-	59,839	-
Total eligible own funds to meet the MCR	216,679	-	9,144	-

Movements over the Reporting Period

The AIG Life ordinary share capital increased in the year by £15,000,000 to £316,885,000 due to the capitalisation of subordinated debt (detailed below). The share premium account remained at £86,725,000.

Tier 2 basic own funds reduced from £15m to £0m over 2019. This was due to the capitalisation of a tranche of subordinated debt where AHSL was the counterparty.

E.1.3.8. ELIGIBLE OWN FUNDS TO COVER CAPITAL REQUIREMENTS

The Solvency Capital Requirement (SCR) reflects a level of eligible own funds that enables the Company to absorb significant losses and that gives reasonable assurance to policyholders and beneficiaries that payments will be made as they fall due.

The Minimum Capital Requirement (MCR) is a minimum level below which the amount of resources should not fall. It is necessary that it is calculated in accordance with the standard formula, which is subject to a defined floor and cap based on the risk-based SCR.

The table below presents the ratio of eligible own funds that the Company holds to cover the SCR and MCR:

Eligible Own Funds	
	£ '000
SCR	142,683
MCR	64,207
Ratio of Eligible own funds to SCR	204%
Ratio of Eligible own funds to MCR	341%

E.1.3.9. STRUCTURE, AMOUNT AND QUALITY OF BASIC ANCILLARY OWN FUNDS

Own funds that do not fall within the definition of basic own funds are known as ancillary own funds. The Company currently has two Letters of Credit which are classified as Tier 2 Capital which count toward the capital buffer under Solvency II as permitted by the PRA.

The first Letter of Credit for £45m was approved on the 14/06/2016 and executed on the 17/06/2016 with a 4-year duration until 01/01/2020. The second Letter of Credit approved on the 15/11/2016 and executed on the 16/11/2016 was for £35m and also had a 4-year duration until 01/01/2020. Both Letters of Credit are provided by Barclays Bank Plc. The approval of both letters was extended during 2019 to 01/01/2023.

E.1.4. TRANSITIONAL ARRANGEMENTS

AIG Life received approval to use a Transitional Measure on Technical Provisions during 2017. This had a £0 value as at 31 December 2019. No other transitional measures are in place.

E.1.5. MATERIAL DIFFERENCES BETWEEN EQUITY IN THE FINANCIAL STATEMENTS AND THE EXCESS OF ASSETS OVER LIABILITIES

Capital resources are calculated differently under Solvency II and UK GAAP resulting from differences in the classification and valuation of certain items under Solvency II definitions compared to UK GAAP:

- Deferred acquisition costs are not recognised under Solvency II.
- Intangibles are disallowed unless they can be readily sold.
- Technical provisions are recalculated under Solvency II on a discounted best estimate basis.
- Unearned premium reserves, generated by Group Protection business, are not separately recognised under Solvency II. Under Solvency II, all future Group Protection cashflows are included in the best estimate liability.
- Deferred tax value changes due to all of the above.
- Debts owed to credit institutions qualify as being recognised as a Tier 2 instrument.

The Company's Own Funds position is different from the equity stated in its financial statements for a number of reasons.

The following table reconciles the equity in the financial statements to the excess of assets over liabilities under Solvency II. Further details regarding reconciling items are set out in the respective notes identified below:

Excess of Assets over Liabilities – Attribution of Valuation Difference	
	£ '000
Equity in Financial Statements	450,123
Difference in the valuation of assets	- 234,779
Difference in the valuation of technical provisions	18,022
Difference in the valuation of other liabilities	7,488
Excess of assets over liabilities	240,854
Add: Subordinated liabilities	-
Less: Foreseeable dividends	-
SII Basic own funds	240,854

Valuation differences are representative of items of assets and liabilities which have been valued on a different basis for Solvency II reporting purposes compared with UK GAAP.

Ancillary Own Funds represent a difference as these are off-balance sheet items for UK GAAP reporting, but have been approved for use as Own Funds for Solvency II.

Deductions made to Own Funds are those explicitly required under Solvency II for solo insurers, both in respect of available Own Funds and also as a result of applying tiering to Own Funds to reflect the relative quality of items of Own Funds eligible to cover the SCR.

E.1.6. CAPITAL INSTRUMENTS AND RING FENCED FUNDS

During the period, no capital instruments were issued or redeemed. In addition, there were no restricted own funds due to ring fencing.

E.1.7. ANY MATERIAL CHANGES TO THE SOLVENCY CAPITAL REQUIREMENT AND TO THE MINIMUM CAPITAL REQUIREMENT OVER THE REPORTING PERIOD.

The SCR increased over 2019 due to adverse movements in the EIOPA yield curve and the increasing size of the business. This was partly offset by increased use of reinsurance and interest rate hedging. Compared to Q4 17, the SCR has increased from £119,678k to £142,683k at Q4 19. The MCR has moved from £45,721k to £64,207 at Q4 19.

E.2. SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

The SCR and MCR requirement section of the report aims to provide a comprehensive view to assess the adequacy of the Company's capital in line with the regulatory requirements.

E.2.1. SOLVENCY CAPITAL REQUIREMENT (SCR)

The SCR is the amount of funds that the Company is required to hold in line with the Solvency II Directive issued by the European Union (EU) in 2009. SCR is a formula based figure calibrated to ensure that all quantifiable risks are taken into account, including life and health underwriting, market, credit, operational, and counterparty risk.

The Company uses the Standard Formula to calculate its Solvency Capital Requirement. The amount of the SCR at the end of the period is £142.7m.

The assessment of the SCR using the standard formula approach is based on a modular approach consisting of a core of life; market; health and counterparty default risks with associated sub-modules. These are aggregated in the standard formula using correlation matrices, both at the sub-module and the main module level. The operational risk component and adjustments for risk absorbing effect of deferred taxes are then allowed for, to give the overall SCR.

Hence, the Solvency Capital Requirement (SCR) is calculated as follows:

$$\text{SCR} = \text{BSCR} + \text{SCR}_{\text{op}} - \text{Adj}$$

Where

- SCR = The Overall Standard Formula Capital Requirement.
- BSCR = Basic Solvency Capital Requirement.
- Adj = Adjustment for Loss Absorbing Capacity of Deferred Taxes.
- SCR_{op} = The Capital Charge for Operational Risk.

The "Change in Basic Own Funds" (ΔBoF) approach is used for capturing the impact of the underlying risk module. Note that the expression ΔBoF has a sign convention whereby positive values signify a loss.

In order to calculate ΔBoF , the base scenario as well as the stressed assets and liabilities will need to be calculated. The cashflows for each of these scenarios is then discounted to determine the corresponding present value of assets and liabilities. The difference between the base and the stressed assets and liabilities is the ΔBoF .

The ΔBoF is based on a Solvency II balance sheet that excludes the risk margin component of the technical provisions (i.e. uses only the best estimate liability component of the technical provisions). Furthermore when calculating ΔBoF the following need to be allowed for:

- Where risk mitigation techniques are used in the calculation of the SCR, the scenarios required for the calculation of the life, health, market and default risk modules incorporate its effect;
- The impact of hedging instruments where a financial risk mitigation instrument has been utilised; and
- The revaluation of technical provisions allowing for any relevant adverse changes in the option take-up behaviour of policyholders in the scenario.

AIG Life uses interest rate swaps to mitigate financial risk.

AIG Life does not use any undertaking specific parameters. The only simplification used is in the Life Catastrophe sub-module, where the simplification laid out in Article 96 of the Delegated Acts is used i.e. SCR is a fixed percentage of the capital at risk. The use of TMTP has no impact on the SCR.

The stress scenarios for underwriting risks in life insurance and SLT health insurance are instantaneous, and do not allow for future new business.

The table below highlights the capital requirements for each risk module. Diversification is calculated using the standard formula correlation matrices and largely arises from diversification between modules (£53,229k) and diversification within the Health module between Lapse and Disability Risk (£18,972k in total for the Health module):

Capital Requirement for each risk module	Net solvency capital requirement
	£'000
Total Capital Requirement For Market Risk	19,789
Total capital requirement for counterparty default risk	25,614
Total capital requirement for life underwriting risk	85,395
Total capital requirement for health underwriting risk (Net)	50,313
Total capital requirement for non-life underwriting risk	-
Diversification	- 53,229
Intangible asset risk	-
Basic Solvency Capital Requirement	127,883
Capital requirement for operational risk	16,953
Loss-absorbing capacity of technical provisions	
Loss-absorbing capacity of deferred taxes	- 2,153
Diversification within ring fenced funds and between ring fenced funds and remaining part	
Net Solvency Capital Requirements calculated using standard formula	142,683

The operational risk capital is calculated based on factors applied to the technical provisions and premiums for each line of business underwritten. This is subject to regulatory minimum capital holdings.

E.2.2. MINIMUM CAPITAL REQUIREMENT (MCR)

The Company uses the Standard Formula to calculate its Minimum Capital Requirement (MCR). The amount of the MCR for the reporting period is £64.2m. The Linear MCR is calculated as a function of capital at risk and the best estimate liability. The following table shows the MCR calculation:

MCR Calculation	MCR
	£ '000
Linear MCR	67,579
SCR	142,683
MCR cap	64,207
MCR floor	35,671
Absolute floor of the MCR	3,187
Minimum Capital Requirement	64,207

Information on the Inputs used to calculate the MCR

The MCR calculation uses inputs as required by the standard formula. In particular, the SCR, Capital At Risk, BEL and Sum Assured are required. This data is provided at the same granularity and accuracy

as for the SCR calculation itself. The use of Transitional Measures on Technical Provisions (TMTP) has no impact on the MCR.

E.3. USE OF DURATION-BASED EQUITY RISK SUB-MODULE IN THE CALCULATION OF THE SOLVENCY CAPITAL REQUIREMENT

The Company did not make use of the duration-based equity risk sub-module in the reporting during the reporting period.

E.4. DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY INTERNAL MODEL USED

The Company uses the Standard Formula to calculate the SCR and therefore no differences exist.

E.5. NON-COMPLIANCE WITH THE MCR AND NON-COMPLIANCE WITH THE SCR

During the reporting period, there were no instances of non-compliance with the Solvency II capital requirements. In addition, the Company held Own Funds in excess of both the SCR and MCR requirements over the reporting period.

E.6. ANY OTHER INFORMATION

As referenced in Section D.6, there was an increased use of coinsurance and lapse reinsurance following significant yield movements after the COVID-19 outbreak. These actions restored the solvency ratio to the midpoint of the target operating range (as at time of writing) and reduced the sensitivity of the Company's solvency position to potential further yield falls.

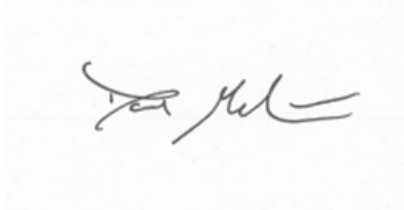
STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE SOLVENCY AND FINANCIAL CONDITION REPORT (SFCR)

We acknowledge our responsibility for preparing the SFCR in all material respects in accordance with the PRA Rules and the Solvency II Regulations.

We are satisfied that:

- a) throughout the financial year in question, the insurer has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable to the insurer; and
- b) it is reasonable to believe that the insurer has continued so to comply subsequently and will continue so to comply in future.

The SFCR was approved by the Board of Directors on 2 April 2020 and was signed on its behalf by:

A handwritten signature in black ink, appearing to read 'Donald MacLean', is centered on a light gray rectangular background.

Donald MacLean
Chief Financial Officer & Director
The AIG Building, 58 Fenchurch Street, London, EC3M 4AB

REPORT OF THE EXTERNAL INDEPENDENT AUDITORS TO THE DIRECTORS OF THE COMPANY

Report of the external independent auditors to the Directors of AIG Life Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the relevant elements of the Solvency and Financial Condition Report

Opinion

Except as stated below, we have audited the following documents prepared by the Company as at 31 December 2019:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2019, (**the Narrative Disclosures subject to audit**); and
- Company templates S.02.01.02, S.12.01.02, S.22.01.21, S.23.01.01, S.25.01.21 and S.28.01.01 (**the Templates subject to audit**).

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the '**relevant elements of the Solvency and Financial Condition Report**'.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the **Other Information** which comprises:

- The 'Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;
- Company templates S.05.01.02;
- Information calculated in accordance with the previous regime used in the calculation of the transitional measure on technical provisions, and as a consequence all information relating to the transitional measure on technical provisions as set out in the Appendix to this report; and
- The written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report (**the Responsibility Statement**).

To the extent the information subject to audit in the relevant elements of the Solvency and Financial Condition Report includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of the Company as at 31 December 2019 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as supplemented by supervisory approvals.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest

entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

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

Emphasis of Matter - Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' sections and other relevant disclosures of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Other Information

The Directors are responsible for the Other Information.

Our opinion on the relevant elements of the Solvency and Financial Condition Report does not cover the Other Information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the Solvency and Financial Condition Report 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 in this regard.

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations which have been supplemented by the approvals made by the PRA under section 138A of FSMA, the PRA Rules and Solvency II regulations on which they are based, as detailed below:

- Approval to use the transitional measure on technical provisions

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the information subject to audit in the relevant elements of the Solvency and Financial Condition Report is prepared, in all material respects, in accordance with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Solvency and Financial Condition Report 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 it 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 decision making or the judgement of the users taken on the basis of the Solvency and Financial Condition Report.

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

This report, including the opinion, has been prepared for the Board of Directors of the Company in accordance with External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose or to any other party save where expressly agreed by our prior consent in writing.

Report on Other Legal and Regulatory Requirements

In accordance with Rule 4.1 (3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the Company's statutory financial statements. 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 in this regard.



PricewaterhouseCoopers LLP
Chartered Accountants
7 More London Riverside
SE1 2RT
14 May 2020

Appendix – relevant elements of the Solvency and Financial Condition Report that are not subject to audit

The relevant elements of the Solvency and Financial Condition Report that are not subject to audit comprise:

- The following elements of template S.12.01.02
 - Rows R0110 to R0130 – Amount of transitional measure on technical provisions
- The following elements of template S.22.01.21
 - Column C0030 – Impact of transitional on technical provisions
- Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.

F. APPENDICES TO THE SOLVENCY AND FINANCIAL CONDITION REPORT

F.1. GLOSSARY

A

AIG	American Insurance Group
AIRCO	American International Reinsurance Company Ltd.
AHEL	AIG Holdings Europe Limited
BARC	Board Audit & Risk Committee

B

BCM	Business Continuity Management
BoE	Bank of England

C

CAT	Catastrophe
CCO	Chief Compliance Officer
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CRO	Chief Risk Officer

D

DAC	Deferred Acquisition Costs
DM	Direct Marketing
DTA	Deferred Tax Asset
DRRF	Distribution Risk Review Forum

E

EBS	Economic Balance Sheet
EIOPA	European Insurance and Occupational Pensions Authority
ERM	Enterprise Risk Management
EU	European Union

F

FCA	Financial Conduct Authority
FOS	Financial Ombudsman Service

G

GAAP	Generally Accepted Accounting Principles
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H

HSBC	Hong Kong Shanghai Banking Corporation
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L

LAC - DT	Loss Absorbing Capacity of Deferred Taxes
LIBOR	London Interbank Offer Rate
LoC	Letters of Credit

M

MCR	Minimum Capital Requirement
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N

NB	New Business
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O

ORSA	Own Risk Solvency Assessment
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P

P&L	Profit and Loss
PRA	Prudential Regulatory Authority
PWC	Pricewaterhousecoopers

R

RCC	Risk and Capital Committee
RI	Reinsurance
RM	Risk Management

S

SAA	Strategic Asset Allocation
SCR	Solvency Capital Requirement
SII	Solvency II
SM&CR	Senior Managers & Certification Regime

STI	Short Term Incentive
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T

TDC	Total Direct Compensation
TMTF	Transitional Measures on Technical Provisions

V

VAT	Value Added Tax
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F.2. PUBLIC QRTS

MONETARY AMOUNTS IN GBP £000'S

S.02.01.02
Balance sheet

		Solvency II value
		C0010
Assets		
R0010	Goodwill	
R0020	Deferred acquisition costs	
R0030	Intangible assets	
R0040	Deferred tax assets	21,727
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	195,146
R0080	<i>Property (other than for own use)</i>	
R0090	<i>Holdings in related undertakings, including participations</i>	1,700
R0100	<i>Equities</i>	
R0110	<i>Equities - listed</i>	
R0120	<i>Equities - unlisted</i>	
R0130	<i>Bonds</i>	184,777
R0140	<i>Government Bonds</i>	74,588
R0150	<i>Corporate Bonds</i>	110,188
R0160	<i>Structured notes</i>	
R0170	<i>Collateralised securities</i>	
R0180	<i>Collective Investments Undertakings</i>	
R0190	<i>Derivatives</i>	-1,331
R0200	<i>Deposits other than cash equivalents</i>	10,000
R0210	<i>Other investments</i>	
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	
R0240	<i>Loans on policies</i>	
R0250	<i>Loans and mortgages to individuals</i>	
R0260	<i>Other loans and mortgages</i>	
R0270	Reinsurance recoverables from:	986,826
R0280	<i>Non-life and health similar to non-life</i>	
R0290	<i>Non-life excluding health</i>	
R0300	<i>Health similar to non-life</i>	
R0310	<i>Life and health similar to life, excluding index-linked and unit-linked</i>	986,826
R0320	<i>Health similar to life</i>	68,914
R0330	<i>Life excluding health and index-linked and unit-linked</i>	917,912
R0340	<i>Life index-linked and unit-linked</i>	
R0350	Deposits to cedants	
R0360	Insurance and intermediaries receivables	
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	1,391
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	
R0410	Cash and cash equivalents	19,162
R0420	Any other assets, not elsewhere shown	11,812
R0500	Total assets	1,236,064

		Solvency II value
		C0010
Liabilities		
R0510	Technical provisions - non-life	
R0520	<i>Technical provisions - non-life (excluding health)</i>	
R0530	<i>TP calculated as a whole</i>	
R0540	<i>Best Estimate</i>	
R0550	<i>Risk margin</i>	
R0560	<i>Technical provisions - health (similar to non-life)</i>	
R0570	<i>TP calculated as a whole</i>	
R0580	<i>Best Estimate</i>	
R0590	<i>Risk margin</i>	
R0600	Technical provisions - life (excluding index-linked and unit-linked)	917,791
R0610	<i>Technical provisions - health (similar to life)</i>	41,059
R0620	<i>TP calculated as a whole</i>	
R0630	<i>Best Estimate</i>	12,852
R0640	<i>Risk margin</i>	28,208
R0650	<i>Technical provisions - life (excluding health and index-linked and unit-linked)</i>	876,732
R0660	<i>TP calculated as a whole</i>	
R0670	<i>Best Estimate</i>	821,206
R0680	<i>Risk margin</i>	55,526
R0690	Technical provisions - index-linked and unit-linked	
R0700	<i>TP calculated as a whole</i>	
R0710	<i>Best Estimate</i>	
R0720	<i>Risk margin</i>	
R0730	Other technical provisions	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	8,989
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	1,716
R0830	Reinsurance payables	46,185
R0840	Payables (trade, not insurance)	13,108
R0850	Subordinated liabilities	
R0860	<i>Subordinated liabilities not in BOF</i>	
R0870	<i>Subordinated liabilities in BOF</i>	
R0880	Any other liabilities, not elsewhere shown	7,421
R0900	Total liabilities	995,210
R1000	Excess of assets over liabilities	240,854

S.05.01.02

Premiums, claims and expenses by line of business

Life

Line of Business for: life insurance obligations		Total
Health insurance	Other life insurance	

C0210

C0240

C0300

Premiums written

R1410	Gross	78,982	308,496	387,477
R1420	Reinsurers' share	37,025	144,617	181,643
R1500	Net	41,956	163,878	205,835

Premiums earned

R1510	Gross	78,982	308,496	387,477
R1520	Reinsurers' share	37,025	144,617	181,643
R1600	Net	41,956	163,878	205,835

Claims incurred

R1610	Gross	59,267	141,298	200,565
R1620	Reinsurers' share	37,906	90,372	128,278
R1700	Net	21,361	50,926	72,286

Changes in other technical provisions

R1710	Gross			
R1720	Reinsurers' share			
R1800	Net			
R1900	Expenses incurred	42,993	167,927	210,920
R2500	Other expenses			
R2600	Total expenses			210,920

S.05.02.01

Premiums, claims and expenses by country

	C0150	C0160	C0170	C0180	C0190	C0200	C0210
Life	Home Country	Top 5 countries (by amount of gross premiums written) - life obligations					Total Top 5 and home country
		JE	GG	IM	GI		
R1400	C0220	C0230	C0240	C0250	C0260	C0270	C0280
Premiums written							
R1410	Gross	382,647	2,203	1,492	721	414	387,477
R1420	Reinsurers' share	179,378	1,033	699	338	194	181,643
R1500	Net	203,269	1,170	792	383	220	205,835
Premiums earned							
R1510	Gross	382,647	2,203	1,492	721	414	387,477
R1520	Reinsurers' share	179,378	1,033	699	338	194	181,643
R1600	Net	203,269	1,170	792	383	220	205,835
Claims incurred							
R1610	Gross	198,320	321	641	1,122	160	200,565
R1620	Reinsurers' share	126,843	205	410	718	103	128,278
R1700	Net	71,477	116	231	404	58	72,286
Changes in other technical provisions							
R1710	Gross						
R1720	Reinsurers' share						
R1800	Net						
R1900	Expenses incurred	208,291	1,199	812	392	226	210,920
R2500	Other expenses						
R2600	Total expenses						210,920

S.12.01.02
Life and Health SLT Technical Provisions

Other life insurance			Total (Life other than health insurance, incl Unit-linked)
Contracts without options and guarantees	Contracts with options or guarantees		
C0060	C0070	C0080	C0150

Health insurance (direct business)			Total (Health similar to life insurance)
Contracts without options and guarantees	Contracts with options or guarantees		
C0160	C0170	C0180	C0210

R0010 **Technical provisions calculated as a whole**
R0020 Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole

Technical provisions calculated as a sum of BE and RM

Best estimate
R0030 **Gross Best Estimate**
R0080 Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default
R0090 Best estimate minus recoverables from reinsurance/SPV and Finite Re

	821,206		821,206
	917,912		917,912
	-96,706		-96,706

	12,852		12,852
	68,914		68,914
	-56,062		-56,062

R0100 **Risk margin**

	55,526		55,526
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	28,208		28,208
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Amount of the transitional on Technical Provisions

R0110 Technical Provisions calculated as a whole
R0120 Best estimate
R0130 Risk margin

R0200 **Technical provisions - total**

	876,732		876,732
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	41,059		41,059
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S.22.01.21

Impact of long term guarantees measures and transitionals

- R0010 **Technical provisions**
- R0020 **Basic own funds**
- R0050 **Eligible own funds to meet Solvency Capital Requirement**
- R0090 **Solvency Capital Requirement**
- R0100 **Eligible own funds to meet Minimum Capital Requirement**
- R0110 **Minimum Capital Requirement**

Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
C0010	C0030	C0050	C0070	C0090
917,791				
240,854				
290,469				
142,683				
219,127				
64,207				

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

	Gross solvency capital requirement	USP	Simplifications
	C0110	C0090	C0120
R0010 Market risk	19,789		
R0020 Counterparty default risk	25,614		
R0030 Life underwriting risk	85,395		
R0040 Health underwriting risk	50,313		
R0050 Non-life underwriting risk			
R0060 Diversification	-53,229		
R0070 Intangible asset risk			
R0100 Basic Solvency Capital Requirement	127,883		
	C0100		
R0130 Operational risk	16,953		
R0140 Loss-absorbing capacity of technical provisions			
R0150 Loss-absorbing capacity of deferred taxes	-2,153		
R0160 Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC			
R0200 Solvency Capital Requirement excluding capital add-on	142,683		
R0210 Capital add-ons already set			
R0220 Solvency capital requirement	142,683		
Other information on SCR			
R0400 Capital requirement for duration-based equity risk sub-module			
R0410 Total amount of Notional Solvency Capital Requirements for remaining part			
R0420 Total amount of Notional Solvency Capital Requirements for ring fenced funds			
R0430 Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios			
R0440 Diversification effects due to RFF nSCR aggregation for article 304			

