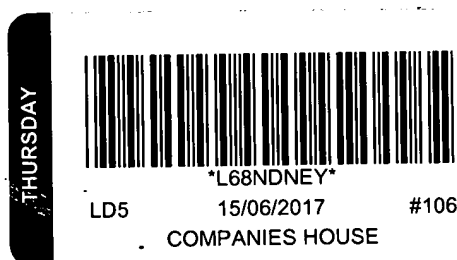


AIG Life Limited

Directors' Report and Financial Statements
For the year ended 31 December 2016

Registered Number: 6367921



AIG Life Limited

Directors' Report and Financial Statements

Contents

Strategic Report	3 - 5
Report of the Directors	6 - 7
Statement of Comprehensive Income	8
Statement of Changes in Equity	9
Statement of Financial Position	10
Statement of Cash flows	11
Notes to the Financial Statements	12 - 36
Statement of Directors' Responsibilities	37
Independent Auditors' Report	38 - 39

AIG Life Limited

Strategic Report

The Company

AIG Life Limited ("the Company") was established in 2008 as an innovative provider of long term life insurance, critical illness and income protection products, sold through Independent Financial Advisers (IFAs), intermediaries and distribution partners. As at the end of December 2016, the Company has achieved a year to date 10.4% share of the intermediated market (5.9% of the total published UK protection market). The award-winning business is designed around a technology led proposition which makes it easier for both intermediaries and customers to buy protection products and is focused on:

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

Following its strategic decision to focus in the UK on its core Non-Life activities, the previous shareholder Ageas sold the Company (formerly Ageas Protect Limited) to AIG Europe Holdings Limited ("AEHL"), part of American International Group ("AIG"), on 31st December 2014. AIG effected a restructure in 2016 in order to simplify its international legal entity structure and improve international capital efficiency. The restructure maintained unchanged management and regulation of the regional holding companies and their insurance subsidiaries. In particular for AIG Life, there was fundamentally no change as a result of this transaction. Its previous parent, AIG Europe Holdings Limited (AEHL), was replaced by a new European holding company, AIG Holdings Europe Limited (AHEL). AHEL is a mirror image of AEHL in terms of its operations, management, governance and regulation.

The directors are pleased to report that the Company continued to make good progress with its growth strategy in the second year following acquisition by AIG. The Company grew intermediary business in line with its plans and there has been significant focus on positioning the Company for achieving sales growth in the future through partnerships.

Product Development & Awards

In August 2016 the Company launched a simpler, more affordable critical illness product known as Key3 which pays out on diagnosis of cancer, heart attack or stroke. The product has won plaudits as, in contrast to industry products becoming more complex, Key3 opens the market to new customers who either could not afford comprehensive critical illness insurance or wanted a simple offering. Sales of this new product have been encouraging.

High levels of service are the backbone of AIG Life and 2016 was our best year to date for industry, distributor and customer recognition. We won a total of 14 awards for excellence in e-commerce, underwriting, customer service and product innovation, and retained the prestigious Incisive Media "Gold Standard" for the third year in a row.

Key Performance Indicators (KPI's)

The Company uses a large number of KPI's to manage its performance, both financial and non-financial. Key financial KPI's for the Company are:

- New business levels, which are key to achieving the necessary scale
- Expenses, including acquisition and renewal costs, which need to be tightly managed to deliver unit cost efficiency
- IFRS results
- USGAAP results and other shareholder metrics on new business profitability.

Given the age of the Company and its high levels of reinsurance, claims are not yet material to the financial performance of the business but they receive significant management focus to ensure appropriate customer outcomes are delivered.

The following section sets out the Company's performance using these key indicators.

Business Performance

New Business:

During 2016 there was an increase of 6.6% in the level of new business achieved with an Annual Premium Equivalent ("APE") of £41.4 million (2015: £38.8 million). APE is one year's worth of premiums for a new policy sold and is a standard measure used by insurance companies. This was a significant achievement in a competitive market and given the challenging economic conditions impacting all insurers.

The majority of new business sales in 2016 continued to come from the IFA / intermediary sector (97%) with the remainder from distribution partners. The IFA sector is intended to remain a core distribution channel however the Company's ambition is to broaden its distribution footprint and there has therefore been significant focus on developing capabilities and propositions to serve the needs of prospective partners. The Company has successfully launched its first partnership deal under AIG ownership in 2016 and has additionally won a further major partnership deal (to be launched in 2017) which will in time contribute materially to the growth of the Company. The Company will continue to seek to be involved in suitable partnership opportunities as they come up for tender.

Gross Earned Premiums also continued to grow substantially, from £134.6 million in 2015 to £160.6 million in 2016, an increase of 19.3%.

Expenses:

The Company maintained its focus on cost efficiency although various exceptional expenses, together with higher expenses associated with writing higher volume and higher value new business, resulted in an increase in expenses compared to 2015. Excluding the exceptional expenses, total administration expenses were £29.9 million compared with £27.1 million in the prior year, in line with the increase in the total in-force policy numbers from 365k to 443k.

IFRS Results:

Before financing costs the Company achieved an operating profit of £20.3 million compared with £5.1 million in 2015.

After financing costs as shown in the Statement of Comprehensive Income, the Company achieved a profit before tax of £18.7 million in 2016 compared with £2.7 million in 2015.

The profit after tax was £14.9 million compared with £2.1 million in the prior year.

Capital and Funding

The cash flows of the Company are negative in the first year of a policy due to the high up-front costs, including indemnity commission paid to intermediaries and the costs of setting up a policy, including medical underwriting. Thereafter the cash flows will be positive for several years as premiums continue to be received but may return to negative after a certain time as claims are more likely to become payable. This means that the Company has "negative reserves" (i.e. future cash flows are an asset of the business); in these IFRS accounts the negative reserves are held at zero value (the gross of reinsurance reserves are shown on both sides of the balance sheet for presentation purposes only) and their underlying value supports the DAC asset. In the early days of the business the capital was provided by the Company's then parent in the form of share capital. Subsequent funding has been provided in the form of Subordinated Loans (now classified as equity from the date of acquisition by AIG) and further share capital. The Company has also entered reinsurance agreements with Munich Re which supported the Company's capital funding requirements in respect of the acquisition of new business between Q1 2013 and Q1 2015. The obligation to pay reinsurance premiums under these contracts represents a liability on the IFRS balance sheet.

The final Solvency II solvency capital requirement coverage ratio at 31 December 2016 was 158%. In order to support the Company's planned capital and liquidity funding needs and in response to the global market turmoil resulting in historically low risk free yields which affect the Solvency II balance sheet, 70,000,000 shares of £1 each for an aggregate subscription of £80,000,000, were issued to AEHL in February 2016. As a response to the further market lows experienced due to uncertainty created by the Brexit vote in the UK, an additional 20,000 shares of £1 each for an aggregate subscription of £20,000,000 were issued and £26,000,000 of perpetual debt was exchanged for share capital.

During the year the Company also implemented two letters of credit (for a total £80,000,000) in order to provide further cost effective support to the Solvency II balance sheet.

Future Developments

During 2017 the Company will continue to enhance its long term protection business within its core markets by continuing to develop new product propositions and offering excellent service to intermediaries, partnerships and customers. The market for protection remains price competitive and we expect this to continue; the Company believes that its excellent service, together with value added propositions such as Best Doctors (which provides a second opinion to all our customers) position it well to compete in this market.

Going Concern

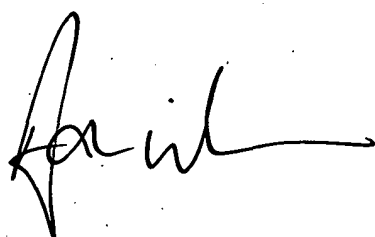
The financial statements have been prepared on a going concern basis. The issuance of share capital in 2016 together with other initiatives designed to reduce the volatility of the Solvency II balance sheet to changes in risk free yields is expected to support the capital needs of the Company through 2017. The directors consider that the actions that have been taken act as sufficient comfort that the Company will remain adequately capitalised during 2018. The directors are also of the opinion that there are sufficient liquid funds available for the Company to meet its liabilities as they fall due.

Principal Risks and Uncertainties

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

As indicated above, low yields have historically been a significant risk to the Company's results and capital coverage. Actions taken in 2016 (and noted above) together with changed reinsurance structures on new business from 15th January 2017 reduce the sensitivity of the company to interest rates. Nonetheless sensitivity to yields movements remains a key risk and while global market conditions are outside the control of management however yields are continuously monitored. This risk was managed constructively throughout the unprecedented market conditions of 2016 through the Change of Control process.

This report was approved by the Board of Directors on 9th May 2017 and signed on its behalf by:



Adam Winslow

Chief Executive Officer

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

Report of the Directors

Registered Number: 6367921

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

Directors

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

Adam Winslow

Gavin Lock (resigned 1st April 2017)

Federico Spagnoli, non-executive (resigned 31st March 2016)

Peter Thomas (resigned 30th April 2016)

Mark Winlow, Independent Non-Executive

Michael Urmston, Independent Non-Executive Chairman

Results and Dividends

As set out in the Strategic Report above the result for the year is a profit after taxation of £14.9 million, (2015: profit of £2.1 million). In addition, in 2016 a pre-tax amount of £1.1m was paid during the year in respect of interest on the subordinated loan that was reclassified as a perpetual loan in 2015.

Assets

The primary assets held by the Company at 31 December 2016 are cash and fixed term investments. These assets represent the Company's expected working and solvency capital requirements. In addition the DAC asset is supported by the value of future expected cash flows and is tested regularly to ensure that this remains the case.

Liabilities

The liabilities at 31 December 2016 include creditors in respect of the Company's day to day trading activities and reserves for insurance contract liabilities. The Subordinated Debt (now reclassified as Equity) and Munich Re reinsurance agreements are referred to in the Strategic Report above.

Share capital

At 31 December 2016 the authorised share capital comprised 311,110,000 ordinary shares of £1 each, fully paid up, (2015: 185,110,000 ordinary shares of £1 each, fully paid up), of which 10,000,000 shares of £1 each with £1 premium per share was issued to AEHL on 12 February 2016.

Shareholder's equity

Unrealised losses on investments net of taxation of £7.3 million (2015: loss of £1.0 million) were recorded in Other Comprehensive Income on page 8. At 31 December 2016 the total shareholders' equity stood at £305.8 million, (2015: £199.1 million).

Cash Flow

Cash and cash equivalents available to the Company have increased by £12.2 million during the year and the year-end position of £42.8 million remained comfortably above the Company's liquidity needs. Surplus cash funds are transferred to the investment manager for investment in fixed income securities where appropriate.

Employees

The average number of employees in the United Kingdom during the year was 232 (2015: 221) and their aggregate remuneration is shown in note 5.

Employee involvement

Employees are kept up to date about a wide range of Company developments through a programme of engagement activities, delivered through a variety of channels. This includes formal quarterly Director briefings for all employees as well as regular bulletins and employee newsletters. In addition, informal discussions take place between senior management and the formal employee consultation bodies. In addition, AIG Life continued to run an annual engagement survey of all AIG Life employees.

Disabled persons

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

Auditors

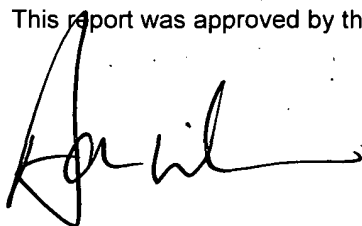
Following the sale of the Company to AIG, PricewaterhouseCoopers LLP was appointed as auditor of the Company on 15 June 2015.

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

Information provided to the auditor

The members of the Board, and the dates of their appointment and resignation as applicable, are shown on page 6. The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This report was approved by the Board of Directors on 9th May 2017 and signed on its behalf by:



Adam Winslow
Chief Executive Officer

AIG Life Limited

Statement of Comprehensive Income for the year ended 31 December 2016

		2016	2015
Revenues	Notes	£'000	£'000
Gross earned premiums	2	160,550	134,612
Outward Reinsurance premiums		(64,713)	(50,516)
Net earned premiums		95,837	84,096
Investment Income	3	12,170	2,251
Total revenues		108,007	86,347
Policyholder benefits and claims			
Claims paid, before reinsurance	7	(69,337)	(44,265)
Reinsurer's share of claims paid	7	54,402	38,987
Claims paid, after reinsurance		(14,935)	(5,278)
Increase in insurance contract liabilities, before reinsurance	13	(396,649)	(124,684)
Increase in reinsurance share of insurance contract liabilities	13	406,651	125,562
Increase in insurance contract liabilities, after reinsurance	13	10,002	878
Total policyholder benefits and claims		(4,933)	(4,400)
Operating expenses			
Acquisition expenses	4	(75,217)	(71,019)
Administrative expenses	4	(7,259)	(5,382)
Depreciation and Amortisation expenses	4	(265)	(416)
Other Operating Income			
Total operating expenses		(82,741)	(76,816)
Profit for the period before tax and interest		20,333	5,131
Finance costs	17	(1,664)	(2,478)
Profit for the period before tax		18,669	2,653
Tax income /(expense)	6	(3,815)	(603)
Profit for the period after tax		14,854	2,050
Other comprehensive income / (expense)			
Net change in fair value of available for sale financial assets		(9,101)	(1,247)
Income tax on other comprehensive income		1,823	284
<i>Other comprehensive income/ (expense) for the period, net of income tax</i>		<i>(7,278)</i>	<i>(963)</i>
Total comprehensive income / (expense) for the period		7,576	1,087

All of the above results relate to continuing operations.
The notes on pages 12 to 36 form an integral part of these financial statements.

AIG Life Limited

Statement of Changes in Equity for the year ended 31 December 2016

	Share capital	Retained Earnings	AFS Reserve	Perpetual Debt	Total
	£'000	£'000	£'000	£'000	£'000
Opening Balance 01.01.2015	160,110	(28,701)	1,944	41,000	174,353
Shares issued during the year	25,000	-	-	-	25,000
Gain/(loss) on AFS reserve	-	-	(964)	-	(964)
Dividend	-	(1,335)	-	-	(1,335)
Profit for the year	-	2,050	-	-	2,050
At the end of the year 31.12.2015	185,110	(27,986)	980	41,000	199,104
Shares issued during the year	116,000	-	-	(26,000)	90,000
Share premium	10,000	-	-	-	10,000
Gain/(loss) on AFS reserve	-	-	(7,278)	-	(7,278)
Dividend	-	(900)	-	-	(900)
Profit for the year	-	14,854	-	-	14,854
At the end of the year 31.12.2016	311,110	(14,032)	(6,298)	15,000	305,780

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

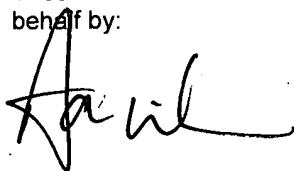
The notes on pages 12 to 36 form an integral part of these financial statements.

AIG Life Limited

Statement of Financial Position as at 31 December 2016

	Notes	2016	2015
		£'000	£'000
ASSETS			
Intangible Assets			
Deferred acquisition costs	8	137,128	127,397
Development expenditure	9	0	53
Total Intangible Assets		137,128	127,450
Property, plant and equipment	11	219	234
Reinsurers' share of insurance contract liabilities	13	848,463	450,874
Financial Assets			
Loans and receivables, including insurance receivables	10	29,421	18,997
Investments	12	161,256	97,459
Cash and cash equivalents	12	42,807	30,561
Total Financial Assets		233,484	147,017
Total Assets		1,219,294	725,575
Liabilities			
Insurance contract liabilities	13	850,617	454,038
Payables and other financial liabilities	15	33,466	18,110
Financial Liabilities - Loans & Borrowings	17	26,113	51,029
Current tax liabilities	19	1,155	1,740
Deferred tax liability	16	2,163	1,554
Total Liabilities		913,514	526,473
Shareholders' Equity			
Share capital		311,110	185,110
Perpetual debt	20	15,000	41,000
Retained reserves		(20,330)	(27,006)
Total Shareholders' Equity		305,780	199,104
Total Liabilities and Shareholders' Equity		1,219,294	725,575

These financial statements were approved by the Board of Directors on 9th May 2017 and signed on its behalf by:



Adam Winslow
Chief Executive Officer



Kate Hillery
Company Secretary

The notes on pages 12 to 36 form an integral part of these financial statements.

AIG Life Limited

Statement of Cash flows for the year ended 31 December 2016

	2016	2015
	£'000	£'000
Cash flows from operating activities		
Loss before tax	18,669	2,653
Adjustments for cash and non cash items		
Depreciation	211	309
Deferred acquisition costs	(9,731)	(8,780)
Investment Income	(12,170)	(2,251)
Amortisation of intangible assets	53	107
Finance Costs	1,663	2,478
Operating loss before working capital changes	(1,305)	(5,484)
Changes in operating assets and liabilities		
Changes in operating receivables	(408,014)	(128,337)
Changes in operating payables	411,933	133,438
Net cash from operating activities before tax	2,614	(383)
Tax paid	(1,734)	(5,074)
Group tax relief cash received	0	0
Net cash flows from operating activities	880	(5,457)
Cash flows from investing activities		
Acquisition of property, plants and equipment	(171)	(98)
Investment	(54,696)	(6,406)
Net cash flows from investing activities	(54,867)	(6,504)
Cash flows from financing activities		
Capital Injection	100,000	25,000
Dividend paid	(1,379)	(1,674)
External Financing	24,916	(7,765)
Finance cost	(1,663)	(2,478)
Net cash flows from financing activities	121,874	13,083
Net Increase in cash and cash equivalents	12,246	1,122
Balance Brought Forward	30,561	29,440
Cash and cash equivalents at 31 December	42,807	30,562

The notes on pages 12 to 36 form an integral part of these financial statements.

AIG Life Limited

Notes to the financial statements for the year ended 31 December 2016

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

The financial Statements were approved for issue by the Board of Directors on 2nd May 2017.

1. Accounting Policies

a. Basis of Presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as adopted for use in the European Union. The financial statements have also been prepared in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

All new standards and interpretations released by the International Accounting Standards Board (IASB) have been considered. The following new and amended standards that came into effect in the year have been adopted by the Company during the period as appropriate:

- IAS 1: Amendment: Presentation of Financial Statements (effective 1 January 2016)

This amendment has had no impact on the financial statements.

In addition, the following is a list of standards that are in issue / amended but are not effective in 2016, and have not yet been adopted in the EU, together with the effective date of application to the Company:

- IFRS 9 (2014): Amendment: Financial Instruments (effective 1 January 2018)
- IFRS 15: Revenue for Contracts with Customers (effective 1 January 2017)

The implications of these standards and interpretations are under review.

The financial statements have been prepared on a going concern and historical cost basis as modified by the inclusion of certain assets and liabilities at fair value as permitted or required by IFRS. As set out in the Strategic Report, the directors are satisfied that this is appropriate. The Company, in the opinion of the directors, believes it will meet all debts as they fall due, has significant net assets and expects to meet the requirements of Solvency II from 1st January 2016.

The Company presents its statement of financial position in order of liquidity in accordance with IAS 1 Presentation of Financial Statements. The disclosures in the notes for these classifications are distinguished as follows:

- Amounts expected to be recovered in less than one year are referred to as current
- Amounts expected to be received in more than one year are referred as non-current

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Significant accounting judgements, estimates and assumptions

In applying the Company's accounting policies, the judgements, estimations and assumptions made by management which have the most significant effect on the financial statements are in relation to the valuation of deferred acquisition costs (as described in note 1(g) below) and the valuation of insurance contract liabilities and reinsurance assets (as described in note 14 below).

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both current and future years.

The accounting policies are set out below and have been applied consistently to the year presented in these financial statements.

All amounts shown in the financial statements are shown in thousands of Pounds Sterling which is the Company's functional currency. All financial information presented in Pounds Sterling has been rounded to the nearest thousand.

b. Classification of Contracts

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

c. Revenue

i) Premiums

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

ii) Investment Income

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

d. Claims

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

e. Income Tax

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

i) Current tax

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

ii) Deferred tax

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

f. Property, plant and equipment

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

The estimated useful lives are as follows:

- i) Leasehold improvement: 5 years
- ii) Furniture & Fixture: 3 years
- iii) IT Equipment: 3 years

g. Intangible Assets

i) Development expenditure

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

The Company capitalises internally generated intangible assets when the following can be demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- Its intention to complete the intangible asset and use or sell it.
- Its ability to use or sell the intangible asset.
- How the intangible asset will generate probable future economic benefits.
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

The Company's only intangible asset is in respect of internally generated computer systems which are being amortised using the straight line method over 5 years.

ii) Deferred acquisition costs

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

Types of acquisition costs and qualification for deferral:

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

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

ii. Commission

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

i. Reinsurance

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

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

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

j. Financial Assets

Financial assets on the statement of financial position, all of which are non-derivative financial assets, are classified as available for sale or as loans and receivables.

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

Realised gains and losses are included in the statement of comprehensive income in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of available for sale financial assets are recognised directly in other comprehensive income. When available for sale financial assets are sold or impaired, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit and loss. Where these investments are interest bearing, interest calculated using the effective interest method is recognised in profit and loss.

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

k. Financial Liabilities

Financial liabilities include payables to related parties and interest-bearing loans and borrowings and other payables. Financial liabilities are recognised in the statement of financial position when the Company becomes a party to the contractual provisions of the financial instrument. Interest-bearing loans and borrowings are recognised initially at fair value less attributable transaction costs and are recognised in the income statement over the year of the borrowings on an effective interest basis. Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled.

The Munich Re contract is classified as a financial liability and is measured at amortised cost using the effective interest method.

l. Impairment

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

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

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

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

m. Insurance Contracts

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

n. Liability Adequacy Testing

The adequacy of insurance liabilities, reinsurance assets and associated deferred acquisition costs are tested based on the best estimates assumptions of the cash flows for insurance policies and related investments using a risk free discount rate based on yields on UK government bonds. This had the effect of increasing the discount rate on average by 42 bps over the first 50 years of the yield curve.

The key measurement estimates at the reporting date are shown in the table below.

Estimation uncertainty

- Liabilities for Life Insurance contracts
 - Actuarial assumptions on mortality, morbidity, lapse rates and expenses
 - Interest rate used in liability adequacy test

o. Cash and Cash Equivalents

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

p. Operating Leases

Rentals payable under operating leases are charged to the statement of comprehensive income over the term of the lease.

q. Finance Costs

Finance costs comprise interest payable on borrowings calculated on the effective interest basis and are expensed in the statement of comprehensive income in the period to which they relate.

r. Perpetual Loan

The perpetual loan is classified as equity. The issued loans have no maturity date and the interest payments can be deferred indefinitely which is consistent with the characteristics of equity.

s. Employee Benefits

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

t. Non-Insurance Provisions

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

u. Share capital

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

v. Dividends

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

2. Analysis of Premiums

It is the opinion of the Board that the Company operates in a single business segment, which is the provision of life assurance products. All business is written in the United Kingdom, Channel Islands or Gibraltar. Gross earned premiums written relate to direct business from continuing operations.

	2016	2015
	£'000	£'000
Gross earned premiums		
Regular premiums	160,550	134,612

3. Investment Returns

	2016	2015
	£'000	£'000
Investment income		
Income from investments	6,316	2,235
Realised Gain/(Loss)	5,852	-
Interest on cash and cash deposits	2	16
	12,170	2,251

4. Operating expenses by type

	2016	2015
	£'000	£'000
Acquisition costs		
Operational expenses	24,144	24,440
Commission *	60,804	55,359
Change in deferred acquisition costs	(9,731)	(8,780)
	75,217	71,019
Administrative expenses		
Maintenance expenses	7,259	5,382
	2016	2015
	£'000	£'000
Depreciation of property, plant and equipment	212	308
Amortisation of intangible assets	53	107

* Includes Bad Debts Provisions

	2016	2015
	£'000	£'000
Auditor's remuneration (net of VAT)		
Fees payable to the company's Auditor for the audit of the company's annual accounts	148	138
Other services supplied pursuant to legislation	278	12
Total	426	150

5. Staff costs

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

	2016	2015
	Number	Number
Sales and sales support	155	148
Administration	77	73
	232	221

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

	2016	2015
	£'000	£'000
Wages and salaries	12,639	12,803
Social security costs	1,231	1,372
Other pension costs	1,288	1,051
	15,158	15,226

6. Tax Income / (Expense)

Tax has been provided as follows:

	Note	2016	2015
		£'000	£'000
Tax has been provided as follows:			
UK Corporation tax charge			
Current		(4,949)	(4,747)
Prior year adjustment		(80)	(52)
Prior year tax settlement			
Deferred tax	16	1,214	4,196
Tax income / (expense)		(3,815)	(604)

The UK corporation tax rate reduced to 20% from April 2016 and 19% from April 2017. A rate of 19.25% is therefore used in the calculation of deferred tax, which forms part of the Statement of Financial Position.

Tax on the Company's result before tax differs from the theoretical amount that would arise using the weighted average tax rate of 20% (2015: 20.25%) applicable to profits as follows:

	2016	2015
	£'000	£'000
Profit/(Loss) before tax	18,669	2,654
Tax calculated at the standard rate of corporate tax in the UK at 20% (20.25% for 2015)	(3,734)	(537)
(Under)/Over Provided in Prior years	(65)	(52)
Changes in Current year	(16)	(14)
	(3,815)	(603)

7. Claims

	2016	2016	2015	2015
	£'000	£'000	£'000	£'000
	Claims	Reinsured	Claims	Reinsured
Paid	69,338	54,402	44,265	38,987

8. Deferred Acquisition Costs

	2016	2015
	£'000	£'000
Cost		
At 1 of January	442,813	365,949
Additions	80,194	76,864
At 31 December	523,007	442,813
Amortisation		
At 1 of January	315,416	247,333
Charge for the year	70,463	68,083
Impairment	-	-
At 31 December	385,879	315,416
Net Book Value at 31 December	137,128	127,397

9. Development Expenditure

	Internal Software	Purchased Software	Other	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2016	10,777	1,208	283	12,268
Additions	-	-	-	-
At 31 December 2016	10,777	1,208	283	12,268
Amortisation				
At 1 January 2016	10,724	1,208	283	12,215
Amortisation for the year	53	0	0	53
At 31 December 2016	10,777	1,208	283	12,268
Net Book Value at 31 December 2016	0	0	0	0

	Internal Software	Purchased Software	Other	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2015	10,777	1,208	282	12,267
Additions	-	-	1	1
At 31 December 2015	10,777	1,208	283	12,268
Amortisation				
At 1 January 2015	10,617	1,208	283	12,108
Amortisation for the year	107	0	0	107
At 31 December 2015	10,724	1,208	283	12,215
Net Book Value at 31 December 2015	53	0	0	53

10. Loans and Receivables, including Insurance Receivables

	2016	2015
	£'000	£'000
Amounts due from customers	10,772	9,363
Amounts due from brokers	676	996
Amounts due from reinsurers	16,792	7,731
Other receivables	1,181	907
	29,421	18,997

11. Property, Plant and Equipment

	Leasehold	Furniture & Fixture	IT Equipment	Total
	£'000	£'000	£'000	£'000
Cost:				
At 1 January 2016	395	815	2,290	3,500
Additions	0	3	194	197
At 31 December 2016	395	818	2,484	3,697
Depreciation:				
At 1 January 2016	393	680	2,194	3,267
Charge for the period	2	11	198	211
At 31 December 2016	395	691	2,392	3,478
Net book value at 31 December 2016	0	127	92	219

	Leasehold Improvements	Furniture & Fixture	IT Equipment	Total
	£'000	£'000	£'000	£'000
Cost:				
At 1 January 2015	395	717	2,290	3,402
Additions	0	98	0	98
At 31 December 2015	395	815	2,290	3,500
Depreciation:				
At 1 January 2015	360	647	1,950	2,957
Charge for the period	33	32	244	309
At 31 December 2015	393	679	2,194	3,266
Net book value at 31 December 2015	2	136	96	234

12. Assets and Liabilities – Classification and Measurement

a) Assets and Liabilities – Classification

Assets and liabilities have been classified and valued in accordance with the requirements of IFRS. For investments the basis of valuation is set out further below. Other assets valued at fair value are in accordance with the principles set out in IFRS13 'Fair Value Measurement'. The basis applied is summarised below:

	2016 £'000				2015 £'000			
	Available for Sale through OCI	Cost/Amortised Cost/IFRS4 basis	Total Carrying Value	Fair value, where applicable	Available for Sale through OCI	Cost/Amortised Cost/IFRS4 basis	Total Carrying Value	Fair value, where applicable
Assets:								
Intangible Assets:								
Deferred Acquisition Costs	-	137,128	137,128	-	-	127,397	127,397	-
Development Expenditure	-	-	-	-	-	53	53	-
Total	-	137,128	137,128	-	-	127,450	127,450	-
Other non-investment and non-cash assets								
Property, plant and equipment	-	219	219	-	-	234	234	-
Reinsurers' share of insurance contract liabilities	-	848,463	848,463	-	-	450,874	450,874	-
Current Tax Assets	-	-	-	-	-	-	-	-
Loans and receivables including insurance receivables	-	29,421	29,421	29,421	-	18,996	18,996	18,996
	-	878,103	878,103	-	-	470,104	470,104	-
Investments	161,256	-	161,256	161,256	97,459	-	97,459	97,459
Cash and Cash equivalents	-	42,807	42,807	42,807	-	30,561	30,561	30,561
Total Assets	161,256	1,058,038	1,219,294		97,459	628,115	725,574	
Liabilities:								
Insurance contract liabilities	-	850,617	850,617	-	-	454,038	454,038	-
Payables and other financial liabilities	-	33,466	33,466	33,466	-	18,112	18,112	18,112
Financial liabilities - loans and borrowings	-	26,113	26,113	-	-	51,029	51,029	-
Current Tax liabilities	-	1,155	1,155	-	-	1,740	1,740	-
Deferred Tax liabilities	-	2,163	2,163	-	-	1,554	1,554	-
Total Liabilities	-	913,514	913,514		-	526,473	526,473	

b) Assets and Liabilities – Measurement

The fair value of investments are determined by the use of current market bid prices for exchange-quoted investments or by using quotations from independent third parties such as brokers and pricing services.

The carrying value of Loans & receivables and Payables and other financial liabilities is assumed to be the same as fair value; the directors have determined that these amounts reasonably approximate their fair values as they are short term in nature.

c) Current and non-current assets and liabilities

Current Assets

All loans and receivables in the assets are current assets recoverable within 12 months after the reporting period.

Current/Non-current Liabilities

Of the above items, there are £56,208K current liabilities payable within 12 months. This comprises payables and other financial liabilities, current tax liabilities, deferred tax liability and £19,424k of the £26,113k loans and borrowings. Loans and borrowings represent the contractual repayments to Munich Re via the Treaty agreement in place.

Non-current liabilities due more than 12 months after the reporting period comprise the remaining £6,689k of the £26,113k loans and borrowings.

d) Cash and Cash Equivalents

	2016	2015
	£'000	£'000
Short term deposits	42,807	30,561
	42,807	30,561

e) Investments

	2016	2015
	£'000	£'000
UK Government Securities	105,148	13,310
Agencies	18,194	10,313
Corporate Bonds	20,807	65,944
Supranationals	17,107	7,892
	161,256	97,459

The table below analyses financial instruments measured at fair value, into a fair value hierarchy based on the valuation technique used to determine fair value.

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

31 December 2016	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Supranational, Agencies and Corporate Bonds	-	56,108	-	56,108
UK Government Securities	105,148	-	-	105,148
Available for sale financial assets	105,148	56,108	-	161,256

31 December 2015	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Supranational, Agencies and Corporate Bonds	-	84,149	-	84,149
UK Government Securities	13,310	-	-	13,310
Available for sale financial assets	13,310	84,149	-	97,459

f) Valuation Approach for Level 1 and Level 2 fair valued assets

- Level 1: Level 1 principally includes exchange quoted national government bonds. It is also includes other financial instruments where there is clear evidence that the year-end valuation is based on a traded price and active market.
- Level 2: As set out above, Level 2 assets comprise Supranational, Agencies and corporate bonds which are valued using observable inputs; the fair values are determined by the use of current market bid prices for exchange-quoted investments apart from German bonds which are valued with midday price or by using quotations from independent third parties such as brokers and pricing services.

g) Debt Securities - Credit Rating

At the 31 December 2016 the credit ratings of the debt securities were as follows: second best ratings are used.

Credit rating – Second best	2016 £'000	2015 £'000
AAA	20,383	14,842
AA+	3,471	13,310
AA	112,148	14,905
AA-	12,440	-
A+	8,535	5,433
A	4,279	26,182
BBB	-	22,788
Total	161,256	97,460

h) Debt securities classified as available-for-sale in an unrealised loss position

i. Fair value of securities as a percentage of book value

The following table shows the fair value of the debt securities in a gross unrealised loss position for various percentages of book value:

	2016 £'000	Unrealised loss	2015 £'000	Unrealised loss
Between 90% and 100%	101,219	905	63,924	1,791
Between 80% and 90%	-	-	224	40
Total	101,219	905	64,148	1,831

ii. Unrealised losses by maturity of security

	2016 £'000	2015 £'000
Less than 1 year	-	23
1 year to 5 years	-	1,572
5 years to 10 years	-	236
More than 10 years	-905	-
Total	-905	1,831

13. Insurance Contract Liabilities and Reinsurance Assets

	Insurance contract liabilities, gross of reinsurance	Reinsurer's share of insurance liabilities	Insurance contract liabilities, net of reinsurance
	£'000	£'000	£'000
At 1 January 2016	454,038	450,876	3,164
Experience variations	(251)	-	(251)
Changes in Technical Provision	388,841	388,841	-
Claims paid	(69,338)	(54,402)	(14,935)
Claims incurred	77,327	63,150	14,177
At 31 December 2016	850,617	848,463	2,155

	Insurance contract liabilities, gross of reinsurance	Reinsurer's share of insurance liabilities	Insurance contract liabilities, net of reinsurance
	£'000	£'000	£'000
At 1 January 2015	327,937	325,320	2,617
Experience variations	284	-	284
Changes in Technical Provision	122,202	122,202	-
Claims paid	(44,265)	(38,987)	(5,278)
Claims incurred	47,880	42,340	5,540
At 31 December 2015	454,038	450,875	3,164

	Insurance contract liabilities, gross of reinsurance	Reinsurer's share of insurance liabilities	Insurance contract liabilities, net of reinsurance
	£'000	£'000	£'000
Technical Provision	815,726	815,726	0
Claims Payable	25,678	24,585	1,093
IBNR	9,214	8,152	1,062
At 31 December 2016	850,618	848,463	2,155
Technical Provision	426,885	426,885	0
Claims Payable	20,516	18,200	2,316
IBNR	6,637	5,789	848
At 31 December 2015	454,038	450,874	3,164

14. Insurance Contract Liabilities and Reinsurance Assets – Valuation Assumptions

The assumptions used to determine insurance contract liabilities are set by the Board of Directors based on advice given by the Chief Actuary. These assumptions are updated at least at each reporting date to reflect latest estimates. The assumptions used are as follows:

a. Mortality and morbidity

Mortality and morbidity assumptions are set for each product based on the anticipated future experience of the business. The rates are based on published industry tables adjusted to take account of the distribution channels and socio-economic profile. Future trends in mortality experience are only allowed for where they would increase the liability. The assumptions include margins for adverse deviations as required by PRA rules for regulatory reporting applicable as at 31st December 2015. The Company's principal mortality rates are based on TM00/F00 and the morbidity rates are based on ACL04 for Critical Illness and CMIR12 for income protection. These tables are public data tables set by the Continuous Mortality Investigation supported by the Institute and Faculty of Actuaries.

Persistency

Persistency assumptions vary principally by duration of policy and type of contract to reflect the anticipated experience of the business. The assumptions have been set based on a combination of the Company's own and other Independent Financial Advisors (IFA) offices experience and include margins for adverse deviations as required by PRA rules for regulatory reporting applicable as at 31st December 2015.

b. Expenses

The contracts are valued using our long term expense assumptions which reflect the projected expense cost of the Company. Future expense inflation of 3.5% per annum is assumed to reflect the mix of salary based inflation and inflation on goods. At 31 December 2016 the renewal expense assumption for the primary contracts ranges from £11.61 to £19.38 (2015: £14.95), per policy.

c. Economic

Discount rates used to value insurance contract liabilities and reinsurance assets are based on risk free yields as at 31 December 2016 derived from the swap yield curve with a 16bps deduction for credit risk. These yields are adjusted based on PRA rules for regulatory reporting applicable as at 31st December 2016 on the maximum interest rates permitted for contracts where reserves are positive. For contracts with negative reserves, the risk free yields are used without further adjustment.

15. Payables and other Financial Liabilities

	2016	2015
	£'000	£'000
Amounts due to customers	45	30
Amounts due to brokers	761	759
Trade creditors	6,811	1,611
Amounts due to Group companies	5,832	4,103
Other creditors	20,017	11,607
Total	33,466	18,110

16. Deferred tax liabilities

	1 January 2016 £'000	Recognised in Statement of Comprehensive Income £'000	31 December 2016 £'000
Deferred acquisition expenses	1,051	(1,051)	0
Closure reserve	467	(150)	317
Extra IBNR for Solvency I requirements	36	(13)	23
Transfer to Current Tax	-	-	-
Adjustments in respect of bad debts	-	-	-
Adjustments in respect of prior years	-	-	-
	1,554	(1,214)	340
Deferred tax not recognised in statement of Financial Positions			
Revaluation of Unrealised gain on investments	-	1,823	1,823
	1,554	609	2,163

	1 January 2015 £'000	Recognised in Statement of Comprehensive Income £'000	31 December 2015 £'000
Deferred acquisition expenses	5,176	(4,125)	1,051
Closure reserve	534	(67)	467
Extra IBNR for Solvency I requirements	41	(5)	36
Transfer to Current Tax	-	-	-
Adjustments in respect of bad debts	-	-	-
Adjustments in respect of prior years	-	-	-
	5,751	(4,197)	1,554
Deferred tax not recognised in statement of Financial Positions			
Revaluation of Unrealised gain on investments	-	-	-
	5,751	(4,197)	1,554

The amount of temporary differences, unused tax losses and unused tax credits for which no deferred tax asset is recognised in the statement of financial position is £195.0m (2015: £160.0m). These amounts have no expiry date.

17. Loans and Borrowings

The Company has entered into two financing reinsurance agreements with Munich Re which were intended to be capital efficient under Solvency I as they are designed such that the repayment of funds is contingent on the future emergence of surplus. As at the end of 2016 the balance due to Munich Re under the agreement was £26.1 million. The Company also agreed a Letter of Credit with Barclays bank on 17th June 2016.

£26.0 million pounds worth of perpetual debts are capitalised as of 1st July 2016.

18. Operating Leases

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

Future minimum lease payments

	2016	2015
	£'000	£'000
Less than one year	400	400
Between one and five years	1,200	1,600
More than five years	-	-

Amounts recognised in profit or loss

	2016	2015
	£'000	£'000
Lease expense	400	400

The Company leases an office building in Reigate under an operating lease, which has a remaining 3 year term.

19. Current Tax Liability

Due to changes in Insurance tax rules from 1 January 2013 which taxes the Company on its IFRS results rather than its regulatory returns, the Company is now paying tax to HMRC on business written before 31 December 2012. The tax liability for 2016 is estimated to be £3.0 million and none of this liability is settled in 2016 due to expected group relief arrangement.

There was a change to the tax legislation for accounting periods commencing on or after 1 January 2016. Amounts that were recognised in Other Comprehensive Income were no longer taxable or deductible and only taxable when they are matured or traded. Therefore they are recognised as deferred tax.

20. Parent Company

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

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

21. Shareholders' Equity

	Ordinary Shares
	£'000
In issue at 31 December 2016	301,110
In issue at 31 December 2015	185,110

At 31 December 2015, the authorised share capital comprised 185,110,000 ordinary shares. The ordinary shares have a par value of £1 and were fully paid up at the end of the year. A tranche of 60,000,000 shares of £1 each was issued to AEHL on 3 February 2016 and a further tranche of 10,000,000 shares of £1 each, for an aggregate subscription of £20,000,000 was issued to AEL on 12 February 2016.

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

The perpetual debt of £26.0 million was transferred as ordinary shares, a par value of £1 as of 1st July 2016 reducing the perpetual debts balance to 15.0 million.

22. Related Party Transactions

The Company has a related party relationship with its key management personnel who are all Directors of the Company.

In addition to their salaries, the Company also provides non-cash benefits to the three Directors and contributes to a post-employment defined contribution plan on their behalf. The post-employment costs also include termination costs. The Directors compensation is as follows:

	2016	2015
	£'000	£'000
Short-term employee benefits	994	1,482
Post-employment benefits	270	72
Total	1,264	1,554
In respect of the highest paid Executive Director	484	536
Short-term employee benefits	270	509
Post-employment benefits	214	27

In the ordinary course of business in 2016, the Company carried out transactions with related parties as defined in IAS 24, Related Party Disclosures. This related to AIG group companies:

<i>Fellow subsidiary company</i>	Transaction Value		Balance outstanding	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Management services	742	742	1,484	742
Rental income	-	-	-	-
Commission paid	-	-	-	-
Rent paid	212	212	242	30
	954	954	1,726	772

The Company paid a service charge to AIG Europe Ltd for the office building it occupied. In addition, AIG Europe Limited provided payroll services on the Company's behalf; all costs were reimbursed when they are reconciled and the management services costs shown on the table are still to be agreed with the group. The Company also paid dividends in total of £1.14m due on the perpetual loan in 2016.

23. Risk Management

Effective risk management is fundamental to the business activities of the Company. While we remain committed to providing appropriate solutions to our customers and delivering an acceptable return to our owners by developing and growing our business within our determined risk appetite, we are mindful of achieving this objective in line with the interests of all stakeholders.

We therefore continually seek to achieve an appropriate balance between risk and reward in our business, and continue to consider and enhance as required the risk management capabilities that assist in delivering our growth plans in a controlled environment.

Risk management is central to the operating structure of the business. We seek to limit adverse variations in earnings and capital by managing risk exposures within agreed levels of risk appetite. Our risk management approach includes minimising undue concentrations of exposure, limiting potential losses from adverse events and the prudent management of investments.

Our risk management processes have proven effective throughout 2016, despite a tough economic environment, including the impact of the Brexit vote in June on interest rates and the markets.

There have been a small number of changes in the system of governance during 2016 related to some changes in the membership of the Board and related sub committees. The Senior Insurance Managers regime came into effect on 7th March 2016 replacing the approved persons regime. The regime applies to the most senior executive management and directors who are subject to regulatory approval. Firms must allocate prescribed responsibilities across their Senior Managers setting out their duties. This forms part of the overall firm management and governance map. Conduct Rules now apply to Solvency II firms with notification requirements in certain circumstances.

Responsibility and accountability for risk management resides at all levels within the Company, from the parent company down through the Company's organisation to each business manager and 2nd line specialist, be they risk or compliance specialists. Risks are controlled at the level of individual exposures and at portfolio level, as well as in aggregate across all businesses and risk types. The senior management team were closely involved with important risk management initiatives.

The Company uses the Three Lines of Defence model:

First line of defence	Business management	Primarily responsible for risk management. Assessment, evaluation and measurement of risk is an on-going process that is integrated into the day-to-day activities of the business. This process includes implementing the AIG Life Limited risk management framework, identifying issues and taking remedial action where required and reporting.
Second line of defence	AIG Life risk and compliance functions operate independently of business management	The risk management function is primarily accountable for ensuring the risk management framework is appropriate, providing independent oversight and support to executive management through risk reporting via bodies such as the Risk & Audit committee(s), and Board. The AIG Life Limited risk management function implements the AIG Life risk management framework and policies within the business, oversees risk mandates and provides an independent overview of the effectiveness of risk management by the first line of defence.
Third line of defence	Internal audit function	Provides an independent assessment of the adequacy and effectiveness of the overall internal control framework and during 2016 reported to the Board through the AIG Life Audit Committee.

Corporate Governance Map

The governance arrangements and standards operated by AIG Life throughout 2016 have not changed from previous years and are contained within the AIG Life governance map. The governance map outlines the governance framework including the AIG Life Board and other governance committees in place to ensure that the business is being managed in accordance with the relevant legislative and regulatory requirements and the policies and standards that had been adopted by the company. The only minor difference in governance arrangements during 2016 was that as part of a wider group restructuring, the holding company changed from AIG Europe Holdings Limited to AIG Holdings Europe Limited on 1 June 2016.

Risk Management Framework

Supporting these governance arrangements is an ERM Policy Framework which incorporates the key principles and standards that have been in place for several years. AIG Life has a full set of Solvency II risk policies in place that are aligned with the overall AIG Group Policies but are specific for AIG Life Business. As integration of the business with AIG continues the AIG Life policies will be updated further to also include the overall Group governance and reporting requirements. The updated AIG Life Risk Policies have all been approved by the Risk Committee or AIG Life Board as appropriate.

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 (the Risk policy library) 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 & Risk Methodology Framework

Risk policies define high level requirements on the analysis and information which need to be calculated and reported. The methodologies to calculate these and the models to do so are documented to ensure consistent application and use. The Key Risk Reporting (KRR) and Liability adequacy methodology (LAT) methodologies are two examples of this.

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 Board, whilst also complying with the AIG model governance requirements.

Risk Reporting

The Company monitors all risks through a combination of reports. The main ones include: formal solvency reports, Key Risk Report (qualitative), Intermediary Credit Risk Report, Investment Breaches Report, Liability Adequacy reporting, Risk Appetite reporting, Policy Review, Business Continuity Report, Risk Incident reporting, Stress and Scenario testing, Reverse Stress Testing, and the Own Risk & Solvency Assessment Report as well as various legal, audit and compliance reports. These reports are complemented with reports produced during the annual budget cycle.

Risk Committee

The Company has established a formal governance structure to manage risk.

The Risk Committee's role is to oversee the risk management processes of the Company on behalf of the Board, ensuring that all risks are formally evaluated and categorised, that plans for the management of such risks are effective, and that the Board and Audit Committee are informed of the results of this analysis and monitoring work.

The major risks faced by the Company are categorised within the Company's Risk Taxonomy as Financial risk, Insurance risk, Operational risk and Strategic risk. These categories and the risk mitigation undertaken by the Company in order to manage them are outlined below.

a. Financial risk

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

Market risk

Market risk arises from the possibility that the fair value of cash flows from the Company's financial investments change as a result of interest rates and other market movements. The Company manages its market risk using techniques consistent with its risk appetite and cash flow matching. As the Company has negative reserves (an asset) it is unable to apply traditional asset and liability matching techniques.

Interest Rate risk

Interest rate risk is the risk that the fair value or cash flows will vary as market rates on interest vary. For the Company this risk arises from the holding of assets and liabilities with differing maturities, creating an exposure to changes in the level of interest rates. Exposure to interest rate risk is monitored by scenario testing and stress testing. A 1% decrease in interest rates would prospectively reduce the profit/loss of the Company by £55,343k (2015: £23,867K). A 0.5% decrease would reduce the profit/loss of the Company by £22,050K (2015: £5,632K).

Credit risk

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

The Company's primary exposure to credit risk is in respect of its investments with third parties, commission payments made to brokers, IFAs and reinsurance agreements. Investment and commission exposures to individual counterparties are monitored on a regular basis. At 31 December 2016 there are assets past their due date in respect of commission recoveries from a broker which have been provided for. The Company does not have any exposure to Sovereign debts issued by Portugal, Italy, Ireland, Greece and Spain.

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

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents and other receivables, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure to the carrying amount of these assets. All receivables on the balance sheet at 31 December 2016 are within terms and no amounts are overdue.

Liquidity risk

Liquidity risk is the risk that adequate liquid funds are not available to settle liabilities as they fall due. This is managed by maintaining forecasts of cash requirements and by adjusting investment management strategies as appropriate to meet these requirements, both in the short and longer term. In most instances, liquidity risk is avoided by holding sufficient assets in investments which are readily marketable in a sufficiently short timeframe to be able to settle liabilities as they fall due.

The future estimated undiscounted payment profile for insurance contracts, gross of reinsurance recoverable, is as follows. Volatility in the claim payments are mitigated by reinsurance shown under sub note (f), page 36. Customers are required to continue paying premiums for the policies to stay in-force.

Payment period	2016	2016	2015	2015
	£'000	%	£'000	%
0 – 1 year	79,636	4	59,694	4
2 – 10 years	730,240	36	553,896	38
10 years +	1,241,396	60	859,615	58
Total	2,051,272	100	1,473,205	100

b. Insurance risk

Insurance risk arises from the uncertainty over the occurrence, amount and timing of claims payments arising under insurance contracts. The exposure of the Company depends to a significant extent on the value of claims to be paid in the future, relative to the assets accumulated to the date of the claim. The amount of such future obligations is assessed by reference to assumptions with regard to future mortality and morbidity rates, persistency rates, expenses, investment returns, interest rates and tax rates. Each rate is monitored against the Company's risk appetite limits on a 1 in 10 year basis. The impact is calculated by applying a scaling factor of 60% to the capital determined based on the Solvency II Standard Formula. For example, under the Solvency II Standard Formula, mortality risk capital is calculated by applying a 15% permanent increase in mortality term structure which results in a capital requirement before diversification of £0.7m and the post-tax impact on earning is estimated to be £0.3 million ($£0.7 \text{ million} * 60\% * (1 - 20\%)$).

The main insurance risks can be summarised as follows:

- **Mortality** – the risk that policyholder death experience is different from that expected. For life assurance the risk is that policyholders die earlier than expected. The impact of a 9% increase to the frequency of claims in the year would prospectively reduce the result by £0.3 million (net of reinsurance).
- **Morbidity** – the risk that policyholder health experience is different from that expected. For life assurance the risk is that policyholders have a greater frequency of illness. The impact of a 15% increase to the frequency of critical illness claims in the year would prospectively reduce the result by £6.7 million.
- **Persistency** – the risk that policies do not remain in force and are for any reason lapsed, prior to maturity from that expected. For life assurance the risk is that policyholder's lapse earlier than expected. The impact of a 24% mass lapse rate would prospectively reduce the result by £23.9 million. In addition if lapse rates reduce significantly from that expected this can also have an adverse impact. The impact of a 30% decrease in lapses would reduce the result by £85.6m.
- **Expenses** – the risk that actual expenses are different from those expected. For life assurance the risk is that expenses are greater than expected. The impact of a 6% increase in our renewal cost assumption in the year would prospectively reduce the result by £10.9 million.

Insurance risks are managed through the following mechanisms:

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

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

Concentration risk

The Company writes the majority of its business in the United Kingdom and so the results are sensitive to demographic and economic changes arising in the United Kingdom. Concentrations of insurance risk are considered by the Risk Committee.

c. Operational risk

Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. Operational risks include, but are not limited to, information technology, human resources, project management, tax, legal, fraud and compliance. Senior management has primary responsibility for the management of operational risks through developing policies, procedures and controls across the activities, processes and systems under their control and for the allocation of responsibilities.

Strategic risk

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

Managing risks

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

d. Capital management

i. Aims of capital management policy

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

ii. Definitions of capital management (and supporting terms)

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

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

iii. Approach to capital management

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

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

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

- Capital required to support the planned growth in new business
- The required rate of return on capital employed
- The Solvency II requirements based on the standard formula
- As of 31 December 2016, the Company had capital resources of £146.6 million which is 158% of MCR.

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

e. Group risk

Group risk is defined as the potential impact on the firm of risks arising in other parts of the Company's group as well as the Company's impact on the group. This is managed and controlled through the Board of Directors.

The Company's Statement of financial position at 31 December 2016 has net assets of £305.8 million, (2015: £199.1 million).

The final Solvency II capital coverage ratio at 31st December 2016 was 158%.

The 2017 business plan for the Company shows no requirement for additional capital to fund new business. However, under certain adverse economic conditions capital may be required. The parent company, AEHL Limited, is fully aware of the baseline capital needs and sensitivity tests to the capital position of the Company.

f. Reinsurance

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

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

The major uses of external reinsurance include the mitigation of the large single claims from policies with high limits as well as multiple claims on income protection.

The table below provides details of the reinsurance recovery rate by the principal product lines for current new business:

% Reinsurance	Product line
100%	Life Level Term
90%	Critical Illness cover
95%	Underwritten Whole of Life
75%	Guaranteed Whole of Life
60%	Income Protection

g. Sensitivity to key business drivers

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

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

The directors are responsible for preparing the Strategic Report and the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Independent auditors' report to the members of AIG Life Limited

Report on the financial statements

Our opinion

In our opinion, AIG Life Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit and cash flows for the year then ended;
 - have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
 - have been prepared in accordance with the requirements of the Companies Act 2006.
-

What we have audited

The financial statements, included within the Directors' Report and Financial Statements (the "Annual Report"), comprise:

- the Statement of Financial Position as at 31 December 2016;
- the Statement of Comprehensive Income for the year then ended;
- the Statement of Cash Flows for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Report of the Directors have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Report of the Directors. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
 - adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
 - the financial statements are not in agreement with the accounting records and returns. We have no exceptions to report arising from this responsibility.
-

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 37, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Report of the Directors, we consider whether those reports include the disclosures required by applicable legal requirements.



Matthew Nichols (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

15th May 2017