AIG Life Limited

Directors' Report and Financial Statements

For the year ended 31 December 2017

Registered Number: 6367921

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AIG Life Limited

Directors' Report and Financial Statements

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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 2017, the Company has achieved a year to date 11.7% share of the intermediated market (7.7% of the total published UK individual protection market). The award-winning business is designed around a technology led proposition which makes it easier for both intermediaries and customers to buy protection products and is focused on:

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

AIG Life (formerly Ageas Protect Limited) was acquired by 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. As a result AIG Life's 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 third 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 July 2017 the Company launched a major distribution partnership with the Royal Bank of Scotland with AIG Life becoming the sole provider of life insurance products for Royal Bank of Scotland, NatWest and Ulster NI banking customers. A new proposition was designed for bank customers based on simple life insurance offering value for money and a clear, jargon-free application process that should take less than 15 minutes to complete.

Further product innovation continued throughout 2017, for example, with the launches of a Guaranteed Acceptance Whole of Life contract and a 100% automated underwriting term life product launched in the intermediary market in November.

High levels of service are the backbone of AIG Life and 2017 was our best year to date for industry, distributor and customer recognition. We won a total of 20 awards for excellence in e-commerce, underwriting, customer service and product innovation, and retained the prestigious Incisive Media "Gold Standard" for the fourth 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 2017 there was an increase of 26.3% in the level of new business achieved with an Annual Premium Equivalent ("APE") of £52.2 million (2016: £41.4 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 2017 continued to come from the IFA / intermediary sector (93%) with the remaining 7% from distribution partners (Royal Bank of Scotland and NFU Mutual). The IFA sector is intended to remain a core distribution channel however the Company's ambition is to continue to broaden its distribution footprint. The Company has successfully completed its largest partnership deal to date in 2017 (Royal Bank of Scotland) and has won further partnership deals (to be announced and launched in 2018) which will contribute materially to the growth of the partnerships channel. 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 £160.6 million in 2016 to £189.0 million in 2017, an increase of 17.8%.

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 2016. Excluding the exceptional expenses, total administration expenses were £37.6 million compared with £29.9 million in the prior year, in line with the increase in the total in-force policy numbers from 461k to 552k.

IFRS Results:

Before financing costs the Company achieved an operating profit of £24.5 million compared with £20.3 million in 2016.

After financing costs as shown in the Statement of Comprehensive Income, the Company achieved a profit before tax of £23.3 million in 2017 compared with £18.7 million in 2016.

The profit after tax was £19.2 million compared with £14.9 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 reassurance reserves are shown on both sides of the balance sheet for presentation purposes only) and their underlying value supports the DAC asset. In the early days of the business the capital was provided by the Company's then parent in the form of share capital. Subsequent funding has been provided in the form of 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 2017 was 226% (31 December 2016 was 158%). The significant strengthening in the capital position was largely due to enhanced modelling of expenses, capital efficient reinsurance arrangements and lengthening in the asset portfolio, combined with increases in yields. This strengthening in the capital position was reflected in the AIG Life rating from AKG increasing from B to B+.

Future Developments

During 2018 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 and innovative products 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 2018. 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. Sensitivity to yields movements remains a key risk and while global market conditions are outside the control of management, yields are monitored on an ongoing basis and the Company have a number of levers that can be used to mitigate this risk, including taking out a swaption in the second half of 2017. This risk was managed constructively throughout the unprecedented market conditions of 2016.

The Company will be performing a Strategic Asset Allocation Review during 2018 to review investment yields and bring the investment portfolio of the Company more in line with other Life Insurance Companies.

This report was approved by the Board of Directors on 1st May 2018 and signed on its behalf by:



Donald MacLean

Chief Financial Officer

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

Report of the Directors

Registered Number: 6367921

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

Directors

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

Adam Winslow

Gavin Lock (resigned 1st April 2017)

Donald MacLean (appointed 7th June 2017)

Tim Heslin

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 £19.2 million, (2016: profit of £14.9 million). In addition, in 2017 a pre-tax amount of £0.5m 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 2017 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 2017 include creditors in respect of the Company's day to day trading activities and reserves for insurance contract liabilities.

Share capital

At 31 December 2017 the authorised share capital comprised 311,110,000 ordinary shares of £1 each, fully paid up, (2016: 311,110,000 ordinary shares of £1 each, fully paid up).

Shareholder's equity

Unrealised gains on investments net of taxation of £3.1 million (2016: loss of £7.3 million) were recorded in Other Comprehensive Income on page 8. At 31 December 2017 the total shareholders' equity stood at £327.6 million, (2016: £305.8 million).

Cash Flow

Cash and cash equivalents available to the Company have decreased by £24.6 million during the year principally used to reduce the financing reinsurance agreement with Munich Re. The year-end position of £18.2 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 249 (2016: 232) 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.

Independent Auditors

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

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

Information provided to the auditor

The members of the Board, and the dates of their appointment and resignation as applicable, are shown on page 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 1st May 2018 and signed on its behalf by:



Donald MacLean
Chief Financial Officer

AIG Life Limited

Statement of Comprehensive Income for the year ended 31 December 2017

	Note	2017	2016
Revenues			
		£'000	**£'000**
Gross earned premiums	2	189,044	160,550
Outward Reinsurance premiums		(81,545)	(64,713)
Net earned premiums		**107,499**	**95,837**
Investment Income	3	2,484	12,170
Total revenues		**109,983**	**108,007**
Policyholder benefits and claims			
Claims paid, before reinsurance	7	(74,082)	(69,337)
Reinsurer's share of claims paid	7	64,958	54,402
Claims paid, after reinsurance		(9,124)	(14,935)
Increase in insurance contract liabilities, before reinsurance	13	(365,407)	(396,649)
Increase in reinsurance share of insurance contract liabilities	13	369,508	406,651
Increase in insurance contract liabilities, after reinsurance	13	4,101	10,002
Total policyholder benefits and claims		**(5,023)**	**(4,933)**
Operating expenses			
Acquisition expenses	4	(95,490)	(75,219)
Administrative expenses	4	(9,382)	(7,259)
Depreciation and Amortisation expenses	4	(147)	(264)
Other Operating Income		24,591	-
Total operating expenses		**(80,428)**	**(82,742)**
Profit for the period before tax and interest		**24,532**	**20,332**
Finance costs	17	**(1,253)**	**(1,663)**
Profit before tax		**23,279**	**18,669**
Tax income	6	(4,052)	(3,815)
Profit for the year		**19,227**	**14,854**
Other comprehensive income			
Net change in fair value of available for sale financial assets		3,872	(9,102)
Income tax on other comprehensive income		(774)	1,823
Other comprehensive income for the period, net of income tax		*3,098*	*(7,279)*
Total comprehensive income for the period		**22,325**	**7,575**

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 2017

	Share capital	(Accumulated Losses)/Retained Earnings	AFS Reserve	Perpetual Debt	Total
	£'000	£'000	£'000	£'000	£'000
Opening Balance 01.01.2016	185,110	(27,985)	980	41,000	199,105
Shares issued during the year	116,000	-	-	(26,000)	90,000
Share premium	10,000	-	0		10,000
Loss on AFS reserve	-	-	(7,279)		(7,279)
Dividend	-	(900)			(900)
Profit for the year	-	14,854	-	-	14,854
At the end of the year 31.12.2016	**311,110**	**(14,031)**	**(6,299)**	**15,000**	**305,780**
Shares issued during the year	0	-	-	0	0
Share premium	0	-	0		0
Gain on AFS reserve	-	-	3,098		3,098
Dividend	-	(464)			(464)
Profit for the year	-	19,227	-	-	19,227
At the end of the year 31.12.2017	**311,110**	**4,732**	**(3,201)**	**15,000**	**327,641**

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 2017

		2017	2016
ASSETS	**Note**	**£'000**	**£'000**
Intangible Assets			
Deferred acquisition costs	8	151,420	137,128
Development expenditure	9	0	0
Total Intangible Assets		**151,420**	**137,128**
Property, plant and equipment	11	301	219
Reinsurers' share of insurance contract liabilities	13	1,212,089	848,463
Financial Assets			
Loans and receivables, including insurance receivables	10	47,325	29,421
Investments	12	170,001	161,256
Deferred tax asset	16	1,066	-
Cash and cash equivalents	12	18,183	42,807
Total Financial Assets		**236,575**	**233,484**
Total Assets		**1,600,385**	**1,219,294**
Liabilities			
Insurance contract liabilities	13	1,215,869	850,617
Payables and other financial liabilities	15	41,034	33,466
Financial Liabilities - Loans & Borrowings	17	10,171	26,113
Current tax liabilities	19	5,670	1,155
Deferred tax liability	16	-	2,163
Total Liabilities		**1,272,744**	**913,514**
Shareholders' Equity			
Share capital		311,110	311,110
Perpetual debt	21	15,000	15,000
Retained earnings/(Accumulated losses)		1,531	(20,330)
Total Shareholders' Equity		**327,641**	**305,780**
Total Liabilities and Shareholders' Equity		**1,600,385**	**1,219,294**

These financial statements were approved by the Board of Directors on 1st May 2018 and signed on its behalf by:

Donald MacLean
Chief Financial 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 2017

	2017	2016
	£'000	£'000
Cash flows from operating activities		
Profit before tax	23,279	18,669
Adjustments for cash and non cash items		
Depreciation	147	211
Deferred acquisition costs	(14,292)	(9,731)
Investment Income	(2,484)	(12,170)
Amortisation of intangible assets	0	53
Finance Costs	1,253	1,663
Operating loss before working capital changes	**7,903**	**(1,305)**
Changes in operating assets and liabilities		
Changes in operating receivables	(381,530)	(408,014)
Changes in operating payables	372,806	411,933
Net cash from operating activities before tax	**(821)**	**2,614**
Tax paid	(3,430)	(1,734)
Group tax relief cash received	0	0
Net cash flows from operating activities	**(4,251)**	**880**
Cash flows from investing activities		
Acquisition of property, plants and equipment	(229)	(197)
Investment	(2,485)	(60,958)
Net cash flows from investing activities	**(2,714)**	**(61,155)**
Cash flows from financing activities		
Capital Injection	0	100,000
Dividend paid	(464)	(900)
External Financing	(15,942)	(24,916)
Finance cost	(1,253)	(1,663)
Net cash flows from financing activities	**(17,659)**	**72,521**
Net Increase in cash and cash equivalents	**(24,624)**	**12,246**
Balance Brought Forward	**42,807**	**30,561**
Cash and cash equivalents at 31 December	**18,183**	**42,807**

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 2017

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 1st May 2018.

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.

h. 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 an appropriate blend of corporate and 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	2016
	£'000	£'000
Gross earned premiums		
Regular premiums	189,044	160,550

3. Investment Income

	2017	2016
	£'000	£'000
Investment income		
Income from investments	2,706	6,316
Realised Gain/(Loss)	(222)	5,852
Interest on cash and cash deposits	0	2
	2,484	**12,170**

4. Operating expenses by type

	2017	2016
	£'000	£'000
Acquisition costs		
Operational expenses	28,573	24,144
Commission *	81,209	60,806
Change in deferred acquisition costs	(14,292)	(9,731)
	95,490	**75,219**
Administrative expenses		
Maintenance expenses	9,382	7,259
	9,382	**7,259**

	2017	2016
	£'000	£'000
Depreciation of property, plant and equipment	147	211
Amortisation of intangible assets	0	53

* Includes Bad Debts Provisions

	2016	2016
	£'000	£'000
Auditor's remuneration (net of VAT)		
Fees payable to the company's Auditor for the audit of the company's annual accounts	166	148
Other services supplied pursuant to legislation	110	278
Total	**276**	**426**

5. Staff costs

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

	2017 Number	2016 Number
Sales and sales support	161	155
Administration	88	77
	249	**232**

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

	2017 £'000	2016 £'000
Wages and salaries	13,782	12,639
Social security costs	1,329	1,231
Other pension costs	1,351	1,288
	16,462	**15,158**

6. Tax Income

Tax has been provided as follows:

	Note	2017 £'000	2016 £'000
Tax has been provided as follows:			
UK Corporation tax charge			
Current		(4,565)	(4,949)
Prior year adjustment		509	(80)
Prior year tax settlement			
Deferred tax	16	4	1,214
Tax income		(4,052)	(3,815)

The UK corporation tax rate reduced to 19% from April 2017. A rate of 19% 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 19.25% (2016: 20%) applicable to profits as follows:

	2017 £'000	2016 £'000
Profit before tax	23,280	18,669
Tax calculated at the standard rate of corporate tax in the UK at 19.25% (20% for 2016)	(4,481)	(3,734)
(Under)/Over Provided in Prior years	509	(65)
Changes in Current year	(80)	(16)
	(4,052)	**(3,815)**

7. Claims

	2017 £'000 Claims	2017 £'000 Reinsured	2016 £'000 Claims	2016 £'000 Reinsured
Paid	74,082	64,958	69,337	54,402

8. Deferred Acquisition Costs

	2017 £'000	2016 £'000
Cost		
At 1 of January	523,007	442,813
Additions	92,315	80,194
At 31 December	615,322	523,007
Amortisation		
At 1 of January	385,879	315,416
Charge for the year	78,023	70,463
Impairment	-	-
At 31 December	463,902	385,879
Net Book Value at 31 December	**151,420**	**137,128**

9. Development Expenditure

	Internal Software £'000	Purchased Software £'000	Other £'000	Total £'000
Cost				
At 1 January 2017	10,777	1,208	283	12,268
Additions	-	-	-	-
At 31 December 2017	10,777	1,208	283	12,268
Amortisation				
At 1 January 2017	10,777	1,208	283	12,268
Amortisation for the year	-	-	-	-
At 31 December 201	10,777	1,208	283	12,268
Net Book Value at 31 December 2017	**0**	**0**	**0**	**0**

	Internal Software £'000	Purchased Software £'000	Other £'000	Total £'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	-	-	53
At 31 December 2016	10,777	1,208	283	12,268
Net Book Value at 31 December 2016	**0**	**0**	**0**	**0**

10. Loans and Receivables, including Insurance Receivables

	2017	2016
	£'000	£'000
Amounts due from customers	12,517	10,772
Amounts due from brokers	437	676
Amounts due from reinsurers	22,674	16,792
Other receivables	11,697	1,181
	47,325	**29,421**

11. Property, Plant and Equipment

	Leasehold	Furniture & Fixture	IT Equipment	Total
	£'000	£'000	£'000	£'000
Cost:				
At 1 January 2017	395	818	2,484	3,697
Additions	0	51	178	229
At 31 December 2017	395	869	2,662	3,926
Depreciation:				
At 1 January 2017	395	691	2,392	3,478
Charge for the period	0	7	140	147
At 31 December 2017	395	698	2,532	3,625
Net book value at 31 December 2017	**0**	**171**	**130**	**301**

	Leasehold Improvements	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**

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:

		2017	£'000			2016	£'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	-	151,420	151,420		-	137,128	137,128	
Development Expenditure	-	-	-		-	0	0	
Total	-	**151,420**	**151,420**		-	**137,128**	**137,128**	
Other non-investment and non-cash assets								
Prpoerty, plant and equipment	-	301	301		-	219	219	
Reinsurers' share of insurance contract liabilities	-	1,212,089	1,212,089		-	848,463	848,463	
Deferred Tax Assets	-	1,066	1,066		-	-	-	
Loans and receivables including insurance receivables	-	47,325	47,325	47,325	-	29,421	29,421	29,421
	-	**1,260,781**	**1,260,781**		-	**878,103**	**878,103**	
Investments	170,001	-	170,001	170,001	161,256	-	161,256	161,256
Cash and Cash equivalents	-	18,183	18,183	18,183	-	42,807	42,807	42,807
Total Assets	**170,001**	**1,430,384**	**1,600,385**		**161,256**	**1,058,038**	**1,219,294**	
Liabilities:								
Insurance contract liabilities	-	1,215,869	1,215,869		-	850,617	850,617	
Payables and other financial liabilities	-	41,034	41,034	41,034	-	33,466	33,466	33,466
Financial liabilities - loans and borrow ings	-	10,171	10,171		-	26,113	26,113	
Current Tax liabilities	-	5,670	5,670		-	1,155	1,155	
Deferred Tax liabilities	-				-	2,163	2,163	
Total Liabilities	-	**1,272,744**	**1,272,744**		-	**913,514**	**913,514**	

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 £48,816K current liabilities payable within 12 months. This comprises payables and other financial liabilities, current tax liabilities and £2,112k of the £10,171k 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 £8,059k of the £10,171k loans and borrowings.

d) Cash and Cash Equivalents

	2017	2016
	£'000	£'000
Short term deposits	18,183	42,807
	18,183	**42,807**

e) Investments

	2017	2016
	£'000	£'000
UK Government Securities	104,702	105,148
Agencies	18,369	18,194
Corporate Bonds	30,171	20,807
Supranationals	16,759	17,107
	170,001	**161,256**

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 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Supranational, Agencies and Corporate Bonds	-	65,299	-	65,299
UK Government Securities	104,702	-	-	104,702
Available for sale financial assets	**104,702**	**65,299**	**-**	**170,001**

31 December 2016	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'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**

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 2017 the credit ratings of the debt securities were as follows: second best ratings are used.

Credit rating – Second best	2017 £'000	2016 £'000
AAA	22,093	20,383
AA+	3,629	3,471
AA	113,138	112,149
AA-	15,220	12,440
A+	10,748	8,534
A	5,173	4,279
BBB	-	-
Total	**170,001**	**161,256**

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:

	2017 £'000		2016 £'000	
	Fair value	**Unrealised loss**	**Fair value**	**Unrealised loss**
Between 90% and 100%	72,007	4,390	101,219	905
Between 80% and 90%	29,526	3,603	-	-
Total	**101,533**	**7,993**	**101,219**	**905**

ii. Unrealised losses by maturity of security

	2017 £'000	2016 £'000
Less than 1 year	-	-
1 year to 5 years	-	-
5 years to 10 years	-	-
More than 10 years	-7,993	-905
Total	**-7,993**	**-905**

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 2017	850,617	848,463	2,154
Experience variations	(265)	-	(265)
Changes in Technical Provision	353,157	353,157	-
Claims paid	(74,082)	(64,958)	(9,124)
Claims incurred	86,442	75,427	11,015
At 31 December 2017	1,215,869	1,212,089	3,780

	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	450,874	3,164
Experience variations	(252)	-	(252)
Changes in Technical Provision	388,841	388,841	-
Claims paid	(69,337)	(54,402)	(14,935)
Claims incurred	77,327	63,150	14,177
At 31 December 2016	850,617	848,463	2,154

	Insurance contract liabilities, gross of reinsurance	Reinsurer's share of insurance liabilities	Insurance contract liabilities, net of reinsurance
	£'000	£'000	£'000
Technical Provision	1,168,883	1,168,883	0
Claims Payable	36,306	33,688	2,618
IBNR	10,680	9,518	1,162
At 31 December 2017	1,215,869	1,212,089	3,780
Technical Provision	815,726	815,726	0
Claims Payable	25,677	24,585	1,092
IBNR	9,214	8,152	1,062
At 31 December 2016	850,617	848,463	2,154

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 AIG Life's product features, distribution channels and socio-economic profile. Future trends in mortality experience are only allowed for where they would increase the overall liability. The assumptions include margins for adverse deviations as required to set prudent assumptions under IFRS. 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 as well as industry-wide expertise. The persistency assumptions include margins for adverse deviations as required for IFRS prudent requirements.

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 2017 the renewal expense assumption for the majority of contracts ranges from £11.97 to £19.96 (2016: £11.61 to £19.38), 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 2017 derived from the swap yield curve with a 10bps deduction for credit risk. These yields are adjusted based on the previous years' PRA rules for regulatory reporting 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

	2017	2016
	£'000	£'000
Amounts due to customers	53	45
Amounts due to brokers	1,056	761
Trade creditors	11,146	6,811
Amounts due to Group companies	3,886	5,832
Other creditors	24,893	20,017
Total	**41,034**	**33,466**

16. Deferred tax liabilities

	1 January 2017	Recognised in Statement of Comprehensive Income	31 December 2017
	£'000	£'000	£'000
Deferred acquisition expenses	-	-	-
Closure reserve	317	(4)	313
Extra IBNR for Solvency I requirements	23	-	23
Adjustments in respect of prior years	-	-	-
	340	**(4)**	**336**
Deferred tax not recognised in statement of Financial Positions			
Revaluation of Unrealised gain on investments	1,824	(3,226)	(1,402)
	2,164	**(3,230)**	**(1,066)**

	1 January 2016	Recognised in Statement of Comprehensive Income	31 December 2016
	£'000	£'000	£'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	-	1,824	1,824
	1,554	**610**	**2,164**

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 £218.0m (2016: £195.0m). 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 2017 the balance due to Munich Re under the agreement was £10.2 million. The Company still has the Letter of Credit with Barclays bank as at the end of 2017.

The Company still has £15.0 million of perpetual debts.

18. Operating Leases

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

Future minimum lease payments

	2017	2016
	£'000	£'000
Less than one year	400	400
Between one and five years	800	1,200
More than five years	-	-

Amounts recognised in profit or loss

	2017	2016
	£'000	£'000
Lease expense	400	400

The Company leases an office building in Reigate under an operating lease, which has a remaining 2 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 2017 is estimated to be £5.7 million and none of this liability is settled in 2017 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 2017	301,110
In issue at 31 December 2016	301,110

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, a further tranche of 10,000,000 shares of £1 each, for an aggregate subscription of £20,000,000 was issued to AEHL on 12 February 2016, and a further tranche of 20,000,000 shares of £1 each was issued to AEHL in August 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:

	2017	2016
	£'000	£'000
Short-term employee benefits	972	994
Post-employment benefits	206	270
Total	**1,178**	**1,264**
In respect of the highest paid Executive Director	**548**	**484**
Short-term employee benefits	514	270
Post-employment benefits	34	214

In the ordinary course of business in 2017, the Company carried out transactions with related parties as defined in IAS 24, Related Party Disclosures. This related to AIG group companies:

Fellow subsidiary company	Transaction Value		Balance outstanding	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Management services	742	742	2,226	1,484
Rental income	-	-	-	-
Commission paid	-	-	-	-
Rent paid	518	212	196	242
	1,260	**954**	**2,422**	**1,726**

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 £0.6m due on the perpetual loan in 2017.

23. Risk Management

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

As such an appropriate balance between risk and reward is sought in the business, and the risk management capabilities that assist in delivering the growth plans in a controlled environment are developed and enhanced continually, as required.

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

Risk management processes have proven effective throughout 2017 and there have been only a small number of changes in the system of governance during 2017 related to some changes in the membership of the Board sub-committees.

Responsibility and accountability for risk management resides at all levels within the Company, from the parent company down through the Company's organisation to each business manager and 2nd line specialist, be they risk or compliance specialists. Risks are controlled at the level of individual exposures and at portfolio level, as well as in aggregate across 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 ongoing 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, 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 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 Committee, Board Audit and Risk Committee, and the 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 2017 reported to the Board through the AIG Life Board Audit and Risk Committee.

Corporate Governance Map

The governance arrangements and standards operated by AIG Life throughout 2017 have changed from previous years, reflecting management changes, 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.

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 suite of Solvency II risk policies in place that are aligned with AIG Group Policies but are specific for AIG Life Business. AIG Life Risk Policies have 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 other supporting materials as may be considered helpful to ensure interpretation and implementation of each policy. Processes are specific to the Company reflecting the needs of the business but must respect the minimum standards set out within the relevant policies and guidance.

A master list of risk policies (the Risk policy library) is maintained by Risk management and all policies and guidance documentation is reviewed on an at least annual cycle as circumstances require.

Model and Risk Methodology Framework

Risk policies define high level requirements on analyses and data which need to be calculated and reported. The methodologies to calculate these and the models to do so are documented by the Actuarial Function 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: solvency reports; Key Risk Report (qualitative); Intermediary Credit Risk Report; Investment Breaches Report; Liability Adequacy reporting; Risk Appetite reporting; Business Continuity Report; Risk Incident reporting; Stress and Scenario testing; Reverse Stress Testing; and the Own Risk and Solvency Assessment 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 risk management processes 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 the Audit and Risk 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 summarised below.

a. Financial risk

Financial risks relate to the impacts of the external markets on the business and potential losses from another party if they fail to meet their obligations to the Company. 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 as a result of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments. The Company manages its market risk using techniques consistent with its risk appetite and cash flow matching. As the Company has negative reserves (an asset) it is unable to apply traditional asset and liability matching techniques.

Interest Rate risk

Interest rate risk exists for all assets, liabilities and financial instruments sensitive to changes in the term structure of interest rates or interest rate volatility. This applies to both real and nominal term structures. For the Company this risk arises from the holding of assets and liabilities with differing maturities, creating an exposure to changes in the level of interest rates. 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 £38,290k (2016: £55,343k). A 0.5% decrease would reduce the profit/loss of the Company by £10,191k (2016: £22,050K).

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 2017 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 2017 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 (e), page 36. Customers are required to continue paying premiums for the policies to stay in-force.

Payment Period	2017	2017	2016	2016
	£'000	%	£'000	%
0-1 year	99,504	4%	79,636	4%
2-10 year	931,707	36%	730,240	36%
10 years+	1,582,482	61%	1,241,396	61%
Total	**2,613,693**	**100%**	**2,051,272**	**100%**

a. 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 50% 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 £0.8m and the post-tax impact on earning is estimated to be £0.3 million (£0.8 million * 50%*(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 £6.1 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 £21.4 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 £32.2m.
- **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 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.

b. 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.

c. Capital management

i. Aims of capital management policy

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

ii. Definitions of capital management (and supporting terms)

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

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

iii. Approach to capital management

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

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

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

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

As of 31 December 2017, the Company had capital resources of £234.2 million and Solvency Cover Ratio of 226% on a Solvency II basis.

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

d. Group risk

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

The 2018 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, AHEL is aware of the baseline capital needs and sensitivity tests to the capital position of the Company.

e. Reinsurance

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

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

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

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% and 80%	Guaranteed Whole of Life
60%	Income Protection

f. 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 audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Directors' Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2017; the statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

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

Independence

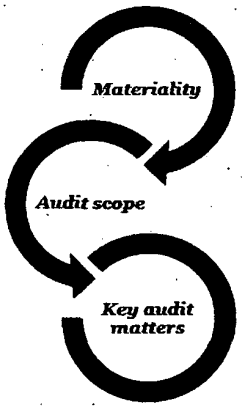
We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance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

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

Other than those disclosed in note 4 to the financial statements, we have provided no non-audit services to the company in the period from 1 January 2017 to 31 December 2017.

Our audit approach

Overview



Overall materiality: £3,780,000, based on 2% of gross earned premiums.

The Company consists of one legal entity in the UK, and we performed a full scope audit of the company's financial statements.

Risk of misstatement due to subjectivity in key actuarial reserving assumptions.

Recoverability of DAC.

The scope of our audit

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

We gained an understanding of the legal and regulatory framework applicable to the company and the industry in which it operates, and considered the risk of acts by the company which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the company's financial statements, including, but not limited to, the Companies Act 2006, the Prudential Regulation Authority's regulations, and the UK tax legislation. Our tests included, but were not limited to, review of the Financial statement disclosures to underlying supporting documentation, review of correspondence with the regulators, enquiries of management, and review of internal audit reports in so far as they related to the Financial statements. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

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

Key audit matter	***How our audit addressed the key audit matter***
Risk of misstatement due to subjectivity in key actuarial reserving assumptions (refer to pages 16 and 26 (notes)). **Expense assumptions** AIG Life is required to include the cost of servicing policies within the calculation of actuarial liabilities. There is significant judgement involved in setting the expense assumptions and the long-term per policy expense rate, including: The assumed growth of expenses in future years, including inflation and economies of scale; The allocation of expenses between maintenance and new business and to different policy types; and Treatment of any project costs and other non-standard expenditures.	**Expense assumptions** We performed the testing set out below on the significant judgements made in setting the expense assumptions, including the rationale for the expense inflation assumption:. We tested and challenged the appropriateness of the split between maintenance and new business expense by selecting a sample of cost centres and assessing the appropriateness of the allocation, including agreement back to supporting evidence. We reviewed and, where relevant, challenged the appropriateness of these cost allocations given actual costs at 31 December 2017. We assessed the appropriateness of the allocation of maintenance expenses by product type and the numbers of policies over which expenses were spread.. We evaluated the design and tested the operating effectiveness of controls within the expense assumption setting process. *From the evidence obtained we found the assumptions and methodology used to be appropriate.*
Risk of misstatement due to subjectivity in key actuarial reserving assumptions (refer to pages 16 and 26 (notes)). **Persistency, mortality and morbidity assumptions** The gross actuarial liabilities are sensitive to the choice of assumptions regarding persistency, policyholder mortality and morbidity. The persistency assumption is set using a combination of the company's own experience data and wider market information. The company sets mortality and morbidity assumptions based on experience, with some weight placed on relevant	**Persistency, mortality and morbidity assumptions** We examined the experience analyses for persistency, morbidity and mortality and the subsequent processes and judgements to derive assumptions based on the results of those analyses, including: Testing the design and operation of controls in the experience analysis processes, as well as the results and judgements applied to the results in the setting of assumptions. Obtaining management's assessments in calculating the assumptions, and ensuring that factors utilised by

Key audit matter	*How our audit addressed the key audit matter*
industry data where the claims volumes are not yet fully credible	management are consistent, based on appropriate data. Challenging the validity of the analysis performed by management and their conclusions based on our understanding of the approaches used in the wider market and on the experience data that management have observed in previous periods. Reviewing the sensitivity of management's calculations and as such their susceptibility to manipulation by management. Assessing the appropriateness of the assumptions in light of the specific characteristics of the business, industry practices and other available information such as data from reinsurers. *From the evidence obtained we found the assumptions and methodology used to be appropriate.*
Recoverability of DAC (refer to pages 14-16 (notes)). The Deferred Acquisition Costs (DAC) are a material balance within the financial statements, the recoverability of which will be dependent upon the ultimate profitability of the business underwritten and the timing of profit emergence for this business. The headroom available in the DAC recoverability assessment is sensitive to management's assessments of interest yields on the portfolio of invested assets, including future planned actions. A reduction in headroom within the calculation increases the sensitivity of the assessment to the other estimates/assumptions applied in the estimation of cashflows.	We reviewed and assessed the appropriateness of management's Liability Adequacy assessment which is used by management to support the recoverability of DAC; this included: Assessing the appropriateness of methodology applied in management's model; Assessing the appropriateness of discount rate used in the recoverability assessment; Detailed testing of management's model; and Testing of the data inputs used in the estimation of future cashflows. *From the evidence obtained we found the assumptions and methodology used to be appropriate.*

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

The Company consists of a single legal entity operating out of a single location. The Company outsources its investment management and administration function. In order to gain appropriate audit evidence we performed a combination of testing the Company's internal controls over financial reporting and testing transactions and balances to supporting evidence. In respect of the outsourced investment management and administration service providers we were able to gain appropriate audit evidence through a combination of evaluating the providers' published assurance reports on internal control and testing controls operated by the Company that monitor the procedures carried out by the service providers. This gave us the evidence we needed for our opinion on the Company's Financial statements as a whole.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£3,780,000.
How we determined it	2% of gross earned premiums.
Rationale for benchmark applied	We believe that total revenues is the primary measure used by the shareholders in assessing the performance of the entity, and is a generally accepted auditing benchmark. .

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £189,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

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

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

Reporting on other information

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

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

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

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

Strategic Report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Report of the Directors for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 37, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the directors on 1 September 2015 to audit the financial statements for the year ended 31 December 2015 and subsequent financial periods. The period of total uninterrupted engagement is 3 years, covering the years ended 31 December 2015 to 31 December 2017.

Mark Bolton (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
3 May 2018