GUARDIAN ASSURANCE LIMITED

COMPANY NUMBER 38921

STRATEGIC REPORT, DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

GUARDIAN ASSURANCE LIMITED

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Strategic Report

Our Performance over the Year

Guardian Assurance Limited ("Guardian" or "the Company") continued to make strong financial progress during 2015 as it delivered against its strategy to provide capital release solutions to banks and insurers while generating operational efficiencies on the books of business it controls.

Operating profit after tax for the year was £97.8 million compared to £252.2 million in 2014, with net income at £108.2 million compared to £234.2 million in 2014. In December 2015, the Company's investment in Empire Life Insurance Company Limited was sold which resulted in a pre-tax loss on disposal of £67.4million.

Total assets of £15.8 billion at the end of 2015 are lower than those at the end of 2014 of £17.5 billion, primarily due to market movements and the run-off of the book. Of the total figure, £12.6 billion was represented by investments compared with £13.4 billion one year earlier.

Post Balance Sheet Events

On 6 January 2016, the shareholders sold 100% of the issued share capital of Guardian Holdings Europe Limited and its immediate and indirect subsidiary undertakings, including the Company, to Swiss Re Life Capital Limited, the parent company of Admin Re UK Limited, Swiss Re's Life Capital Limited unit active in the closed life book business, for a total consideration of £1.6 billion.

Strategic Report (continued)

Key Performance Indicators

The main objective for the Company is to maintain solvency and generate profits while fulfilling all of its obligations to customers under their policies. This objective is monitored by the Board on a regular basis by reference to formal key performance indicators:

Number of policies

610,000

Customers remain at the heart of Guardian's business. The number of policies reduced by 7% as a result of the run-off of the book.

Operating profit

£97.8 million

Generate operating profit after tax, calculated as results from core operations and related activities. The Company generated operating profit after tax of £97.8 million in 2015, a reduction compared with £252.2 million in 2014.

Market Consistent Embedded Value

£2.2 billion

Enhance Market Consistent Embedded Value plus unencumbered cash at bank through shareholder value-accretive initiatives. Market Consistent Embedded Value stood at £2.2 billion at the end of 2015 compared with £2.3 billion one year earlier, a reduction of 4%. Both the 2015 and 2014 figures are unaudited.

Strategic Report (continued)

Social and Corporate Responsibility

Social and corporate responsibility is important to the Guardian Holdings Europe Limited Group ("the Group"). The commitment of the Group to responsible business is reflected in our approach to our employees, the environment and social and community engagement.

Our employees

The Group is an equal opportunity employer, operating in the UK and Ireland. We actively seek to promote equal opportunities for all employees and we do not discriminate on grounds of colour, ethnic origin, gender, age, religious belief, disability, sexual orientation or marital status. The Group expects its employees to act with a high degree of dignity, respect, integrity and commitment in all their business activities.

The Group gives full consideration to applications for employment from persons with a disability, where the requirements of the job can be adequately fulfilled by a disabled person. In instances where existing employees become disabled, it is the Group's policy wherever practical to provide continuing employment under normal terms and conditions and to provide training, career development and promotion to disabled employees wherever possible and appropriate.

During the past year, the policy of providing employees with detailed information about the Group has been continued through internal presentations and the publication of relevant information. Wherever appropriate, employees are consulted to ensure that their views are understood before decisions are taken that are likely to affect their interests.

The environment

The Group recognises that we all have a role to play in looking after the environment for future generations and it has adopted a number of environmental policies to promote recycling and encourage energy saving and efficient travel.

Social and community engagement

It is the Group's ambition to grow the business in a way that benefits all our stakeholders while being aware of, and sensitive to, the wider environment in which we operate. The Group takes an active interest in the communities in which it is based and supports regional and national charitable causes.

Strategic Report (continued)

Capital and Risk Management

Robust risk and capital management is core to all of the Group's activities.

Risk management framework

As described on page 3, there has been a change in ownership since the year end and therefore the details that follow describe the position within the Group during 2015. During the reporting period, overall responsibility for the day-to-day management of the various financial and operational risks to which the Group is exposed sat with the Executive Management Group, under the authority of the Board of Directors (the "Board"). The Group had a risk management framework in place comprising formal committees, risk assessment processes and risk review functions (see Corporate Governance section for more details). The Group had a defined risk appetite across all areas of the business.

Capital management

The Group and each regulated company within the Group will hold sufficient capital on an ongoing basis to meet regulatory and internal requirements in a number of asset and liability stress conditions.

Liquidity management

The Group and each regulated company within the Group will manage its affairs to ensure that it has sufficient cash flow to meet its financial obligations when they fall due.

Embedded value

The Group and each regulated company within the Group will take action to protect and enhance embedded value.

Regulatory

The Group and each regulated company within the Group will, at all times, operate an appropriate control environment to ensure compliance with all laws, regulations and internal policies, in a commercially effective manner.

Strategic Report (continued)

Capital and Risk Management (continued)

Principal risk factors

Risk definition	Potential impact	Risk management actions and controls
Conduct risk Risks arising from behaviours or actions that result in customer detriment, or from taking decisions with inadequate consideration of the impact on customers.	Unfair outcomes for customers, which may also lead to potential compensation payments, reputational damage and regulatory intervention.	• Treating different groups of customers equitably, with customer interests and the integrity of the market at the centre of Group risk management • Monitoring Key Performance Indicators for post sales customer services, including the resolution of identified incidents, breaches and complaints • Root cause analysis performed over complaints and incidents, with appropriate actions undertaken to remedy root causes • Relevant mandatory training on conduct risk • Guardian's Customer Proposition is clearly and consistently articulated and responsibilities understood across the business for the fair treatment of customers • Risk based product review process through a product governance forum and compliance monitoring against Principles and Practices of Financial Management • Ongoing oversight of providers of customer-related outsourcing services

Strategic Report (continued)

Capital and Risk Management (continued)

Principal risk factors (continued)

Risk definition	Potential impact	Risk management actions and controls
Strategic risk Risks arising from sub optimal business strategy or plans and/or implementation.	A reduction in earnings or value and potential reputational damage.	• Executive Management Group responsibilities for delivery of respective elements of the strategy, with oversight by the Board and relevant committees • Periodic stress and scenario testing, including reverse stress testing, of the Group's business plans to give confidence in the strength of the capital position and ability to deliver strategic objectives, now and over the planning horizon • Regular daily monitoring of the external environment (regulatory, political, economic, commercial), supplemented by periodic emerging risk summaries • Rigorous due diligence of proposed transactions, led by internal experts, with support from external specialists as required
Compliance risk Risks arising from a failure to comply with legal or regulatory requirements or obligations.	A reduction in earnings or value, through financial or reputational loss or penalties imposed.	• Regular compliance monitoring and reporting, including horizon scanning, monitoring industry announcements, reviewing and analysing consultation papers and attendance at industry and regulatory meetings and workshops • Executive Management Group fully engaged with the regulators at a senior level and regular meetings are held with the Group's Regulatory Relationship Manager • Mandatory training sessions in place for all staff • An effective approved persons framework in place with clear accountabilities • Annual attestation against Board approved policies

Strategic Report (continued)

Capital and Risk Management (continued)

Principal risk factors (continued)

Risk definition	Potential impact	Risk management actions and controls
Credit risk Risks arising from default of a party or associate of a party to which we have exposure, including failure to meet contractual obligations, performance in a timely manner, or failure of collateral to perform as required (both on and off balance sheet). These risks include counterparty default risk, credit spread (default risk and illiquidity risk) and credit concentration risk.	A reduction in earnings or value and potential reputational damage.	• Investment Mandates are established, and maintained, which detail the permitted credit spread risk exposures consistent with the Investment Strategy, regulatory requirements and own assessed criteria, with tolerance levels in aggregate and for variations by fund and asset class • Monitoring of credit exposures (by rating, sector and duration), credit concentrations, cash positions and counterparty exposures against Board approved limits • Daily monitoring of credit sensitivity of the market value of assets • Maintenance of an internal credit watchlist • Periodic stress and scenario testing, including reverse stress testing • Monitoring, limits and reporting framework is operated, covering incidents and restoration, performance assessment, downgrade activity and sub-investment grade asset monitoring (including unrated investments) • The use of multiple counterparties to reduce our exposure to any one counterparty (limiting counterparty concentration risk) • The use of collateral accounts held by a third party to each interest rate swap agreement to mitigate counterparty default risk exposure

Strategic Report (continued)

Capital and Risk Management (continued)

Principal risk factors (continued)

Risk definition	Potential impact	Risk management actions and controls
Insurance risk Risks arising from fluctuations in the timing, frequency and severity of insured/underwritten events or fluctuations in the timing and amount of claim settlements, including fluctuations in profits resulting from changes in customer behaviour. These primarily relate to adverse claims experience from increasing life expectancy or deviations in the expected lapse rates.	Increased claim pay-out levels that lead to an adverse effect on the Group's financial condition and cash flows.	• Regular monitoring of risk exposure, for example actual versus expected annuitant payments made • Appropriate assumption setting to ensure strong reserves are maintained at all times Annual demographic experience analysis to inform assumption-setting • Selective use of exposure limiting mitigants, such as reinsurance and longevity swaps • Management of persistency through good customer service and appropriate investment returns to customers
Market risk Risks arising from unfavourable market movements in equity, property, bond and alternative asset class investments, or the impact of changes in interest rates, inflation and currency exchange rates on investments returns. These primarily relate to interest rate risk, equity risk and currency risk	A reduction in earnings or value through financial loss.	• An Investment Committee is established with the appropriate expertise, Terms of Reference and delegated authorities to facilitate it being able to oversee the effective management of market risk, including receiving reports and information to enable it to discharge its responsibilities. The Investment Committee meets on a quarterly basis • Daily oversight of market risk exposures, including interest rate and currency exposures against limits • Derivatives, such as interest rate swaps, short-dated currency forwards and equity futures, are used to manage and match asset-liability interest rate risk, currency risk and equity risk

Strategic Report (continued)

Capital and Risk Management (continued)

Principal risk factors (continued)

Risk definition	**Potential impact**	**Risk management actions and controls**
Liquidity risk Risks arising from failure to manage funding, investments and liquid holdings to ensure that there is an appropriate level of liquid assets sufficient to further strategic objectives, and meet both foreseen and unforeseen liquidity requirements as they fall due.	Inability to meet liabilities as they fall due or to realise asset sales to meet liabilities as they fall due, potentially also leading to legal and reputational risk.	• Daily monitoring of liquidity risk • Investment in liquid assets together with positive income generation from assets held to meet foreseeable liquidity requirements under stress scenarios • Predictable cash flows (such as policyholder payments and upcoming investments) are monitored and funded in advance • Daily scenario testing is applied to assess remaining value of liquid assets after mark to market changes in the derivative portfolio • Weekly liquidity dashboard reporting on the cash inflows and outflows, stresses on hedging instruments and collateral requirements
Financial risk Risks arising from a lack of capital, and/or the inappropriate recording, reporting and disclosure of financial, taxation and regulatory information.	A reduction in earnings or value and potential reputational damage.	• Matching as far as possible asset inflows to liability outflows in terms of quantum and timing including use of interest rate swaps • Peer reviews, documented controls and validation to ensure accuracy of data and results • Timetabling and planning to ensure deliverables are met and are accurate • Segregation of duties

Strategic Report (continued)

Capital and Risk Management (continued)

Risk appetite

The risk appetite framework comprises the Group's risk appetite statements expressed through the risk strategy document, which articulates the Board's preference for the range of risks the Group may be exposed to. The risk strategy is reviewed annually by each regulated entity Board and outlines whether the Board is averse, neutral or seeking for each risk. The implementation of these preferences is then measured using relevant risk metrics and controlled using risk tolerances and limits applied on these metrics, with regular reporting thereon through risk appetite dashboards.

Risk management

The Enterprise Risk Management Framework provides the risk management approach within the Group. The processes to identify, monitor, report and manage risks are supported by a set of enabling capabilities encompassing people, processes, tools and documents. The framework is underpinned by an effective system of governance including appropriate committee structures, clear accountabilities and a suite of supporting risk policies. The fundamental principle is the alignment of the risk management activities to the wider business strategy and risk strategy, to support a range of business decisions that are facilitated by a proactive approach to risk and capital management.

Capital management

Efficient management of capital lies at the heart of the value creation activities that the Group undertakes. The capital management activities undertaken include inter alia, the interaction between a range of potential asset selections, relative to the liabilities, and considers the marginal return on capital arising from different asset selection scenarios.

The Group's Capital Management Policy requires regulated entities to maintain strong capital policies, with capital requirements determined on the basis of an appropriate Economic Capital model, plus a buffer to allow for volatility in the underlying drivers of the capital requirements.

Strategic Report (continued)

Capital and Risk Management (continued)

Capital management (continued)

The Group monitors capital requirements on a regular and frequent basis, in order to confirm that available capital relative to the capital required plus the desired buffer is in line with the Risk Appetite for capital management. It monitors this both on a Regulatory Capital and on an Economic Capital basis.

The Group's capital position is a core input to all decision-making, whether it be in relation to asset allocation, liability determination or considering a variety of scenarios resulting from acquisitions, disposals or reassurance transactions (inwards or outwards). The key assumptions and calibrations used in the model have been reviewed by external parties to ensure they appropriately cover the Group's risks, and regular external benchmarking is utilised to ensure that the Group's position remains prudent in these key assumptions.

The Group also undertakes stress and scenario tests to ensure that the capital held and the contingency plans in place will enable the Company and Ark Life to continue to pay benefits under adverse scenarios. This approach allows the Group to ensure that the capital management activities provide an optimal balance for customers through security of benefits and appropriate outcomes, for supervisors through demonstrating robust risk and capital management and for shareholders through capital efficiency.

Solvency II management information is reported alongside Solvency I Pillar 1 and Pillar 2 metrics in business as usual.

Approval

This report was approved by the Board of Directors on 30 March 2016 and signed on its behalf by:

Paul Shakespeare, Company Secretary

30 March 2016

Directors' Report

The Directors present their report and audited financial statements for the Company for the year ended 31 December 2015. The Company prepares its financial statements in accordance with applicable law and regulations. As detailed in Note 1.1.1, the Company has not elected to prepare consolidated financial statements.

Business review

The Strategic Report reviews the Company's performance throughout the year and subsequent developments. Interim dividends of £170.0m (2014: £80.0m) have been settled in the year ended 31 December 2015.

Corporate governance, capital management and financial instruments

The Group established a governance framework for monitoring and overseeing strategy, conduct of business standards and operations of the entire business. Due to the post balance sheet completion of the acquisition of the Company by Swiss Re Life Capital Limited, the text below details the framework in place for the year ended 31 December 2015. The various boards and committees (as outlined below) may sit across several different companies within the Group but the framework itself works on a group-wide basis and included:

- a clearly stated corporate organisational structure, and written terms of reference for the Board and its committees, with appropriate delegated authorities;
- an Audit, Risk and Compliance Committee, the members of which included Non-Executive Directors, which managed internal control and financial reporting matters; risk and capital matters; and regulatory compliance matters. During 2015, the Guardian Audit, Risk and Compliance Committee was split into a separate Audit Committee and a Risk Committee. The change was aimed at providing increased opportunity for focused, forward-looking debate on risk, compliance, capital, regulatory and policyholder issues at the Risk Committee, while also enabling full consideration of reporting, financial standards and Internal Audit activity across the business.
- a With-Profits Committee, the members of which consisted of experienced experts who were independent of the Company and the Board, who acted to ensure that the With-Profit policyholder interests were fully considered on an independent basis; a risk management function providing a second line of defence, independent of operations and with responsibility for monitoring and reporting of risk; and
- an internal audit function which provided independent, objective assurance over the complete control framework reporting to the Chairman of the Audit, Risk and Compliance Committee and with direct access to all executive members.

The Company's objective in managing its capital was to ensure that there were adequate resources to meet the Company's external liabilities as they fell due, and to allocate capital efficiently to support growth and repatriate excess capital where appropriate. The Company's capital was managed in conjunction with that of other companies in the Group. The Company managed its capital by measuring its resources and cash available on a regular basis. The Company's capital position and the movement in this from the prior year are disclosed within the Statement of Changes in Equity.

Directors' Report (continued)

Corporate governance, capital management and financial instruments (continued)

Information about the use of financial instruments by the Company is given in Note 14 along with details of fair value hedge relationships and the impact of hedge accounting applied. The hedge accounting policy is described in Note 1.16. In relation to the use of financial instruments, the financial risk management objectives and policies of the Company are explained in the strategic report. The exposure of the Company to price risk, credit risk and liquidity risk is set out in Note 27.

Employee involvement

The Group places considerable value on the involvement of its employees and continues to keep them informed on matters affecting them as employees and various factors affecting the performance of the Group. It is the Group's policy that there shall be no discrimination in respect of age, sex, sexual orientation, colour, religion, race, nationality or ethnic origin and that equal opportunity shall be given to all employees. It is the policy of the Group that all employees be given equal opportunities in respect of training and career development and promotion.

Directors

The Board currently comprises five Non-Executive Directors and three Executive Directors. The Board is responsible for strategy, monitoring of performance, approval of business plans and the framework of internal controls. The Board contains a balance of management, financial, investment, risk, M&A, administrative and market expertise appropriate for the requirements of the business.

The Directors who served during the year ended December 2015 and subsequently to the date of this report are as follows:

Ian Owen	Non-Executive Chairman		Resigned 6 January 2016
Jonathan Yates	Executive Director		Resigned 7 May 2015
Andrew Birrell	Executive Director		Resigned 6 January 2016
Stephen Groves	Non-Executive Director		Resigned 6 January 2016
Michel Tilmant	Non-Executive Director		Resigned 8 May 2015
John Wybrew	Non-Executive Director		Resigned 8 May 2015
Mark Preston	Non-Executive Director	Appointed 27 May 2015	Resigned 6 January 2016
Brian Dunne	Non-Executive Director	Appointed 10 July 2015	
Michael Eves	Non-Executive Director	Appointed 6 January 2016	
James Gallagher	Non-Executive Director	Appointed 6 January 2016	
Richard Hudson	Non-Executive Director	Appointed 6 January 2016	
Maxwell Ledlie	Non-Executive Director	Appointed 23 September 2015	
Matthew Cuhls	Executive Director	Appointed 6 January 2016	
Robert Ratcliffe	Executive Director	Appointed 6 January 2016	
Michael Woodcock	Executive Director	Appointed 6 January 2016	

Directors' Report (continued)

Directors (continued)

A number of the Directors had been granted a qualifying third party indemnity by the Group, in terms of the relevant sections of the Companies Acts 2006 which was in place until completion of the sale of the Group on 6 January 2016 from which time the Company's Directors are covered by the Swiss Re Limited indemnity provision policy. This indemnifies directors in respect of payments, as well as any costs associated with legal proceedings brought by third parties. Any Director who serves or served for the Company is covered to the fullest extent permitted by law and stated in the certificate of incorporation, articles of association, by-laws and other similar constituent documents of the Company. Swiss Re Limited unconditionally guarantees payment of such sums by the Company.

The Strategic Report on page 3 provides information with regards to the sale of Company on 6 January 2016.

Going concern

In assessing whether the Company is a going concern the Directors have taken into account the guidance issued by the Financial Reporting Council in October 2009. The economic outlook for 2016 remains uncertain and whilst the UK market continues to show positive signs, there will be further challenges and opportunities that continue to arise through regulatory and market changes. The Directors consider that the Company has the plans and resources to manage its business risks successfully despite this economic and regulatory uncertainty.

The Directors have made enquiries, which include considering the liquidity of the Company's assets, the regulatory required capital and the capital available to cover this requirement, together with the intentions of the new owners, Swiss Re Life Capital Limited. Based on this assessment, the Directors had a reasonable expectation that the Company had adequate resources to continue in operational existence for the foreseeable future (being 12 months from the date of this report). Accordingly, they continued to adopt the going concern basis in preparing the financial statements.

Disclosure of information to auditors

The Directors who held office at the date of approval of the Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware. Each Director has taken all the steps necessary to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

By order of the Board

Paul Shakespeare, Company Secretary

30 March 2016

GUARDIAN ASSURANCE LIMITED

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Company financial statements in accordance with applicable United Kingdom law and regulations. Company law requires the Directors to prepare Company financial statements for each financial year. Under that law, the Directors have elected to prepare Company financial statements under International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

- present fairly the financial position, financial performance and cash flows of the Company;
- select suitable accounting policies in accordance with IAS 8: *Accounting Policies, Changes in Accounting Estimates and Errors* and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgments that are reasonable;
- provide additional disclosures when compliance with the specific requirements in IFRSs as adopted by the European Union is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- state whether the Company financial statements have been prepared in accordance with IFRSs as adopted by the European Union.

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 Company financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Board of Directors and agreed on behalf of the Board on 30 March 2016.

Paul Shakespeare, Company Secretary
30 March 2016

GUARDIAN ASSURANCE LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GUARDIAN ASSURANCE LIMITED

We have audited the financial statements of Guardian Assurance Limited for the year ended 31 December 2015 which comprise the Income Statement, the Statement of Operating Profit, the Balance Sheet, Cash Flow Statement, the Statements of Changes in Equity and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of Directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 17, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic Report, Directors' Report and the Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 and of its profit 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.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

John Headley (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
30 March 2016

GUARDIAN ASSURANCE LIMITED
INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 £m	*Restated* 2014 £m
Gross premiums written		**11.8**	1,832.1
Less: premiums ceded to reinsurers		**(7.8)**	(15.0)
Net premiums written		**4.0**	1,817.1
Fee and commission income		**12.9**	15.1
Investment income	5	**568.6**	546.7
Fair value gains and losses	6	**(217.2)**	1,217.7
Other revenue		**364.3**	1,779.5
Total revenue		**368.3**	3,596.6
Gross benefits and claims paid		**(1,014.5)**	(942.7)
Less: claims ceded to reinsurers		**73.3**	75.9
Gross change in insurance contract liabilities		**835.6**	(2,488.8)
Gross change in investment contract liabilities		**32.6**	16.0
Change in contract liabilities ceded to reinsurers		**(101.1)**	84.7
Net benefits and claims		**(174.1)**	(3,254.9)
Other operating and administrative expenses	7	**(45.4)**	(48.5)
Total benefits, claims and other expenses		**(219.5)**	(3,303.4)
Profit before tax		**148.8**	293.2
Income tax	8	**(40.6)**	(59.0)
Net income from continuing operations attributable to equity holders of the Company		**108.2**	234.2

The profit for the year is consistent with Total Comprehensive Income and there were no other items of comprehensive income not already reflected within the profit for the year (2014: same)

GUARDIAN ASSURANCE LIMITED
STATEMENT OF OPERATING PROFIT
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	**2015 £m**	2014 £m
Profit before tax		**148.8**	293.2
(Gain)/loss on fair value of hedging instruments		**(11.0)**	2.8
(Gain)/loss on fair value of designated hedged item		**(3.7)**	-
Amortisation of asset arising from a previously designated hedged item		**1.1**	-
Loan income	5	**(0.5)**	(0.7)
Amortisation of intangibles	7	**6.0**	6.8
Acquisition and migration costs	3	**-**	5.8
Loss on reinsurance of general insurance business	4	**-**	6.4
Operating profit before tax from continuing operations		**140.7**	314.3
Tax on operating profit		**(42.9)**	(62.1)
Operating profit after tax attributable to equity holders of the Company		**97.8**	252.2

GUARDIAN ASSURANCE LIMITED
BALANCE SHEET
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 £m	*Restated* 2014 £m
Assets			
Intangible assets	9	**29.3**	35.3
Investment in subsidiary undertakings	10	**288.2**	288.2
Investments	11	**12,568.3**	13,399.3
Derivatives	14	**366.9**	911.3
Reinsurance assets	15	**1,332.8**	1,433.9
Other assets and receivables	16	**262.5**	551.6
Cash and cash equivalents	17	**995.2**	831.7
Total assets		**15,843.2**	17,451.3
Equity and liabilities			
Equity attributable to equity holders	18	**1,178.1**	1,239.9
Total equity		**1,178.1**	1,239.9
Liabilities			
Insurance contracts	19	**11,452.5**	12,241.5
Unallocated divisible surplus	19	**114.6**	131.5
Investment contracts	20	**2,437.8**	2,577.9
Borrowings	21	**8.9**	8.9
Derivatives	14	**131.0**	407.8
Provisions	26	**7.0**	0.1
Other financial liabilities	22	**335.9**	359.9
Deferred tax	23	**25.3**	38.2
Other liabilities	24	**152.1**	445.6
Total liabilities		**14,665.1**	16,211.4
Total equity and liabilities		**15,843.2**	17,451.3

The notes on pages 25 to 100 form part of these financial statements. The financial statements of Guardian Assurance Limited (registration number 038921) were approved by the Board of Directors and are signed on its behalf by:

Michael Woodcock, Chief Financial Officer
30 March 2016

GUARDIAN ASSURANCE LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 £m	2014 £m
Profit before tax		**148.8**	293.2
Less: dividends from subsidiaries		**(50.7)**	-
		98.1	293.2
Fair value gains and losses	6	**217.2**	(1,217.7)
Amortisation	7	**6.0**	6.8
Adjustment of non-cash items		**223.2**	(1,210.9)
Insurance and investment contract liabilities		**(845.0)**	2,318.0
Accrued income and prepayments		**(11.8)**	31.3
Accrued expenses and other liabilities		**(278.9)**	307.1
Changes in accruals and technical provisions		**(1,135.7)**	2,656.4
Net disposal/(purchase) of investments (other than money market investments)		**451.3**	(676.1)
Net disposal/(purchase) of derivatives		**406.1**	13.7
Net change in cash collateral		**300.9**	(304.9)
Cash flow movements on operating items not reflected in income		**1,158.3**	(967.3)
Tax paid		**(61.1)**	(91.2)
Net cash flows from operating activities		**282.8**	680.2
Dividends paid		**(170.0)**	(80.0)
New loan raised		**-**	8.9
Net cash flows from financing activities		**(170.0)**	(71.1)
Dividends received		**50.7**	-
Acquisition of subsidiaries, net of cash acquired		**-**	(279.2)
Net cash flows from investing activities		**50.7**	(279.2)
Net increase/(decrease) in cash and cash equivalents		**163.5**	329.9
Net cash and cash equivalents at 1 January	17	**831.7**	501.8
Net cash and cash equivalents at 31 December	17	**995.2**	831.7

The cash flow statement is prepared according to the indirect method. Included in net increases in cash and cash equivalents are interest received of £479.2 million (2014: £459.4 million), dividends received of £96.4 million (2014: £77.3 million) and interest paid of £0.5 million (2014: £0.1 million).

GUARDIAN ASSURANCE LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015

	Share Capital £m	**Capital Reserves £m**	**Retained Earnings £m**	**Shareholder's Equity £m**
At 1 January 2015	430.6	148.4	660.9	**1,239.9**
Profit for the period	-	-	108.2	**108.2**
Dividends settled	-	-	(170.0)	**(170.0)**
At 31 December 2015	**430.6**	**148.4**	**599.1**	**1,178.1**

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014

	Share Capital £m	Capital Reserves £m	Retained Earnings £m	Shareholder's Equity £m
At 1 January 2014	430.6	148.4	506.7	1,085.7
Profit for the period	-	-	234.2	234.2
Dividends settled	-	-	(80.0)	(80.0)
At 31 December 2014	430.6	148.4	660.9	1,239.9

1 Summary of significant accounting policies

1.1 Basis of preparation

1.1.1 Introduction

The Company is a private company incorporated and domiciled in the United Kingdom. The address of the Company's registered office is Ballam Road, Lytham St Annes, FY8 4JZ.

These financial statements are presented in Pound Sterling, which is the Company's functional currency.

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union as they apply to the financial statements of the Company for the period ended 31 December 2015 and applied in accordance with the Companies Act 2006. In accordance with Section 401 of the Companies Act 2006, the Company has elected not to prepare consolidated financial statements on the basis that Guardian Holdings Europe Limited (company number 108672) produces consolidated financial statements which are publically available and comply with International Financial Reporting Standards. These financial statements are available upon request from 22 Grenville Street, St Helier, JE4 8PX, Jersey. Guardian Holdings Europe Limited is the parent undertaking of the smallest and largest group of undertakings which produces consolidated financial statements for the year ended 31 December 2015.

These financial statements have been prepared on an historical cost basis except for investment properties and those financial assets and financial liabilities that have been measured at fair value.

These financial statements were authorised for issue in accordance with a resolution of the Directors on 30 March 2016.

1 Summary of significant accounting policies (continued)

1.1.2 Adoption of new standards and interpretations

The International Accounting Standards Board has issued the following standards, interpretations and amendments, which, subject to adoption for use by the EU, apply from the dates shown. The Company has decided not to early adopt any of these standards, interpretations or amendments where this is permitted. The impact in adopting them is subject to evaluation but is currently not expected to have a material effect on the results of the Company.

The following amendments to standards and interpretations are effective for the current year but do not have a material impact on the financial statements:

- Amendments to IAS 19 *Employee Benefits* Defined Benefit Plans Employee Contributions
- Annual Improvements 2011-2013 Cycle (IFRS 13, IFRS1, IFRS 3, IAS 40)
- Annual Improvements 2010-2012 Cycle (IFRS 2, IFRS 8, IAS 16, IAS 24)
- IFRIC 21 Levies

Listed below are standards and interpretations that have been issued, but are not yet effective for the period under review.

<u>IFRS 9</u>

IFRS 9 *Financial Instruments* addresses classification and measurement of financial assets and is effective for insurers for accounting periods beginning on or after 1 January 2018 with early adoption available in line with specified requirements. IFRS 9 replaces the multiple classification and measurement models in IAS 39 with a single model with only two classification categories; amortised cost and fair value. It also replaces the existing elements of IAS 39 addressing impairment of financial instruments and some elements of hedge accounting. The standard represents the first stage in the IASB's planned replacement of IAS 39. IFRS 9 may have a significant impact on the Company's financial statements because it will potentially result in a reclassification and re-measurement of the Company's financial assets. The full impact of IFRS 9 will be assessed by the company in due course.

<u>IFRS 15</u>

IFRS 15 *Revenue from contracts with customers* replaces existing revenue requirements, excluding certain areas including contracts with customers within the scope of IFRS 9 and IFRS 4 Insurance Contracts. It outlines the principles an entity must apply to measure and recognise revenue. The standard is effective for annual periods beginning on or after 1 January 2018 and the full impact of IFRS 15 will be assessed by the company in due course.

1 Summary of significant accounting policies (continued)

1.1.2 Adoption of new standards and interpretations (continued)

Other standards and interpretations

In addition, as at the date of authorisation of these financial statements, the following standards and interpretations and amendments to standards and interpretations which have not been applied to these financial statements were in issue but not yet effective (and in some cases had not been adopted by the EU):

- Amendments to IAS 16 *Property Plant and Equipment* and IAS 38 *Intangible Assets* - Clarification of Acceptable Methods of Depreciation and Amortisation
- IFRS 14 *Regulatory Deferral Accounts*
- Amendments to IAS 16 *Property Plant and Equipment* and IAS 41 *Agriculture*- Bearer Plants
- Amendments to IFRS 11 *Joint Arrangements* - Accounting for Acquisitions of Interests in Joint Operations
- Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IAS 27 *Separate Financial Statements* – Equity Method in Separate Financial Statements
- Amendments to IAS 1 *Presentation of Financial Statements*- Disclosure Initiative
- Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 – *Investments in Associates and Joint* Ventures - Investment Entities: Applying the Consolidation Exception
- Annual Improvements 2012-2014 Cycle (IFRS 5, IFRS 7, IFRS 19, IFRS 34)
- Amendments to IAS 12 *Income Taxes* - Recognition of Deferred Tax Assets or Unrealised Losses
- Amendments to IAS 7 *Statement of Cashflows* - Disclosure Initiative

The Directors do not expect the adoption of the standards and interpretations listed above will have a material impact on the financial statements of the Company in future periods. Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

1.1.3 Change in presentation

Comparative investment and insurance contract liabilities and their corresponding income statement movements have been restated to more accurately reflect the allocation of increases in the long term business provisions of with-profits insurance contracts and investment contracts with discretionary participating features ('DPFs') due to distributions from the unallocated divisible surplus, and between the provisions of unit-linked insurance contracts and investment contracts without DPFs to more accurately reflect the substance of the underlying liability in respect of unit-linked pension contracts. The restatements have been made to ensure the accounting presentation is in line with the substance of the contracts and has been performed purely for disclosure purposes. The table below shows the reported and comparative restated values for both the balance sheet and income statement.

1 Summary of significant accounting policies (continued)

1.1.3 Change in presentation (continued)

31 December 2014	As reported £'m	Reclassification £'m	Restated £'m
Balance sheet			
Insurance contracts	13,112.1	(870.6)	12,241.5
Unallocated divisible surplus	131.5	-	131.5
Investment contracts	1,280.4	38.3	1,318.7
Investment contracts with DPFs	426.9	832.3	1,259.2
Total	14,950.9	-	14,950.9

31 December 2013	As reported £'m	Reclassification £'m	Restated £'m
Balance sheet			
Insurance contracts	10,661.6	(919.1)	9,742.5
Unallocated divisible surplus	144.8	-	144.8
Investment contracts	1,310.9	37.0	1,347.9
Investment contracts with DPFs	437.9	882.1	1,320.0
Total	12,555.2	-	12,555.2

Year ended 31 December 2014	As reported £'m	Reclassification £'m	Restated £'m
Income statement			
Insurance contracts movement	(2,440.3)	(48.5)	(2,488.8)
Investment contracts movement	(32.5)	48.5	16.0
Total	(2,472.8)	-	(2,472.8)

These reclassifications impact the comparative figures within the notes 19 and 20.

1 Summary of significant accounting policies (continued)

1.2 Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are converted to the functional currency at the rate of exchange prevailing at the balance sheet date. Exchange differences on monetary items are recognised in the income statement when they arise.

1.3 Offsetting of assets and liabilities

Financial assets and liabilities are offset in the balance sheet when the Company has a legally enforceable right to offset and has the intention to settle the asset and liability on a net basis or simultaneously.

1.4 Gross premiums written

Gross premiums, including recurring and single premiums, from insurance contracts and from investment contracts with discretionary participation features are recognised as revenue when they become receivable.

1.5 Reinsurance

Reinsurance assets primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities, with movements in ceded insurance liabilities reported in income from reinsurance ceded within the income statement. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract.

The Company accepts and cedes reinsurance in the normal course of the business, with retention limits varying by line of business. Premiums and claims on reinsurance accepted and ceded are recognised as revenue in the same manner they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. The cost of reinsurance related to long duration contracts is accounted for over the life of the underlying reinsured policies, using assumptions consistent with those used to account for these policies.

1 Summary of significant accounting policies (continued)

1.6 Fee and commission income

Fees and commissions from investment management services are recognised as revenue over the period in which the services are performed.

1.7 Investment income

For interest-bearing assets, interest is recognised as it accrues and is calculated using the effective interest rate method. The effective interest rate is defined as the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument (or, when appropriate, a shorter period) to the net carrying amount of the financial asset or financial liability. Fees and commissions that are an integral part of the effective yield of the financial assets or liabilities are recognised as an adjustment to the effective interest rate of the instrument. Investment income includes the interest income and dividends on financial assets carried at fair value through profit or loss. Investment income also includes dividends accrued and rental income due. Dividend income is accounted for upon entitlement being established, which would normally be on the 'ex div' date.

1.8 Fair value gains and losses

Fair values gains and losses comprise unrealised gains and losses and realised gains and losses. Realised gains and losses recorded in the income statement include gains and losses on financial assets and liabilities designated at fair value through the profit and loss and investment properties. Unrealised gains and losses recorded in the income statement are the difference between valuations at the balance sheet date and their valuation at the previous balance sheet date or purchase price, if acquired during the year.

1.9 Gross benefits and claims paid

Gross benefits and claims paid include internal and external claims handling costs that are directly related to the processing and settlement of claims. Claims payable on maturity are accounted for when due for payment, and claims payable on death are accounted for on notification. Surrenders are accounted for at the earlier of the payment date or when the policy ceases to be included within the relevant liability.

1 Summary of significant accounting policies (continued)

1.10 Exceptional items

Exceptional items are those items that, in the Directors' view, are required to be separately disclosed by virtue of their nature, size or incidence to enable a full understanding of the Company's financial performance.

1.11 Operating profit

The long-term nature of the Company's operations means that, for management's decision-making and internal performance management, the Company focuses on an operating profit measure. Operating profit includes results from core operations and related activities. Operating profit excludes:

1. Amortisation and impairment of goodwill and intangibles;
2. The profit or loss on disposal or re-organisation of subsidiaries, joint ventures and associates;
3. Integration and restructuring costs;
4. Accounting mismatches arising from economic hedges not achieving hedge accounting and the ineffective portion of any hedge relationship where hedge accounting has been formally designated;
5. External finance costs and directly-related intercompany finance income and costs;
6. Exceptional items (as defined in 1.10 above); and
7. Taxation on the items listed above.

Details of these are provided in the relevant notes.

1.12 Investments in subsidiary undertakings

Investments in subsidiary undertakings on the Company balance sheet are stated at cost less impairment.

See Note 1.25 for details of the policy on the impairment of assets.

1 Summary of significant accounting policies (continued)

1.13 Intangible assets

Acquired present value of in-force business

Acquired in-force insurance and investment contracts are measured at fair value at the time of acquisition.

When a portfolio of insurance contracts is acquired directly from another insurance company, the difference between the fair value of the insurance business acquired, including contract-based intangibles, measured in accordance with the Company's accounting policies, and its net assets is recorded as acquired present value of in-force business. The intangible asset resulting is referred to as present value of in-force business ("PVIF").

Acquired present value of in-force business is carried gross of tax and is amortised against income on a time profile which, it is intended, will broadly match the profile of the underlying emergence of surplus as anticipated as at the time of acquisition. The acquired value of in-force insurance contracts is tested for recoverability/impairment as part of the liability adequacy test and the portion determined not to be recoverable is charged to the income statement.

The intangible asset is derecognised when the related contracts are settled or disposed of.

Contract-based intangibles

Contract-based intangibles, which consist of asset management rights and future servicing rights as detailed below, are collectively referred to as Annual Management Charges ("AMC") in the relevant notes.

Asset management rights

Asset management rights acquired are carried at cost less accumulated amortisation and impairment losses. The initial cost is determined as the fair value of the intangible assets at the date of acquisition. Where that fair value is not readily observable, it is determined using a valuation technique such as discounted cash flow analysis. The useful economic life of the assets is based on the expected run-off of the related policies. This useful economic life will be reassessed at least annually to ensure it best reflects the most up-to-date profile.

Future servicing rights

On acquisition of a portfolio of investment contracts without discretionary participating features, the present value of future servicing rights is recognised as an intangible asset. Future servicing rights can also be recognised on the sale of a loan portfolio or the acquisition of insurance agency activities. The present value of the future servicing rights is amortised over the servicing periods as the fees from services emerge and is subject to impairment testing. It is derecognised when the related contracts are settled or disposed of.

1 Summary of significant accounting policies (continued)

1.14 Investments

Investments comprise financial assets, excluding derivatives, as well as investments in real estate in the form of Unit-Linked property funds. Also included are the assets held by consolidated investment funds that are backing liabilities towards third parties.

Financial assets are recognised on the trade date when the Company becomes a party to the contractual provisions of the instrument and are classified for accounting purposes depending on the characteristics of the instruments and the purpose for which they were purchased.

It is the Company's investment strategy to manage financial asset investments on a fair value basis in order to closely match any related liabilities which are also measured on a fair value basis.

Classification

Financial assets with fixed or determinable payments that are not quoted in an active market and that the Company does not intend to sell in the near future or for which the holder may not recover all of its initial investment, other than because of credit deterioration, are accounted for as loans and receivables.

All remaining financial assets are designated at fair value through profit or loss with their performance evaluated on a fair value basis in order to more closely match the accounting for any related liabilities of the insurance contracts.

Measurement

Financial assets are initially recognised at fair value excluding interest accrued to date plus, in the case of a loan, any directly attributable incremental transaction costs.

Loans are subsequently carried at amortised cost using the effective interest rate method. Financial assets at fair value through profit or loss are measured at fair value with all changes in fair value recognised in the income statement as incurred.

Fair value

The fair value of an asset is the price that would be received to sell that asset in an orderly transaction between market participants at the measurement date. For quoted financial assets for which there is an active market, the fair value is the bid price at the balance sheet date. In the absence of an active market, fair value is estimated by using present value or other valuation techniques, as detailed further below. Where discounting techniques are applied, the discount rate is based on current market rates applicable to financial instruments with similar characteristics.

1 Summary of significant accounting policies (continued)

1.14 Investments (continued)

Interest accrued to date is not included in the fair value of the financial asset.

Derecognition

A financial asset is derecognised when the contractual rights to the asset's cash flows expire, when the Company has transferred the asset and substantially all the risks and rewards of ownership, or when the Company has transferred the asset without transfer of substantially all the risks and rewards of ownership, provided the other party can sell or pledge the asset. Financial assets, in respect of which the Company has neither transferred nor retained all the risks and rewards, are recognised to the extent of the Company's continuing involvement. If significantly all risks are retained, the assets are not derecognised. On de-recognition, the difference between the disposal proceeds and the carrying amount is recognised in the income statement as a realised gain or loss.

Collateral

With the exception of cash collateral, assets received as collateral are not separately recognised as an asset until the financial asset they secure is foreclosed. When cash collateral is recognised, a liability is recorded for the same amount. Cash pledged as collateral is derecognised from the statement of financial position until the liability covered is closed out. Non-cash collateral pledged is not de-recognised from the statement of financial position until the Company defaults on its obligations under the relevant agreement, and therefore continues to be recognised on the statement of financial position within the appropriate asset classification.

Real estate

Investments in real estate are property held to earn rentals or for capital appreciation, or both. Considering the Company's asset/liability management policies, property can be and is allocated to liabilities resulting from insurance and investment contracts.

All property is initially recognised at cost. Subsequently, investments in real estate are measured at fair value with the changes in fair value recognised in the income statement. On disposal of an asset, the difference between the net proceeds received and the carrying amount is recognised in the income statement. Valuations of investments in real estate are conducted with sufficient regularity to ensure the value reflects the fair value at the balance sheet date. Valuations are mostly based on active market prices, adjusted for any difference in the nature, location or condition of the specific property. If such information is not available, other valuation methods are applied, considering the current cost of reproducing or replacing the property, the value that the property's net earning power will support and the value indicated by recent sales of comparable properties.

1 Summary of significant accounting policies (continued)

1.14 Investments (continued)

Investments – Determining the fair value of financial investments when the markets are not active

The Company holds certain financial investments for which the markets are not active. These include financial investments which are not quoted on active markets. As such, there is generally no or limited observable market data to account for financial investments at fair value. The determination of whether an active market exists for a financial investment requires management's judgment.

If the market for a financial investment of the Company is not active, the fair value is determined by using valuation techniques. The Company establishes fair value for these financial investments by using quotations from independent third parties, such as brokers or pricing services, or by using internally developed pricing models. Priority is given to publicly available prices from independent sources when available, but overall the source of pricing and/or the valuation technique is chosen with the objective of arriving at a fair value measurement which reflects the price at which an orderly transaction would take place between market participants on the measurement date. The valuation techniques include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow and embedded value analysis and may include a number of assumptions relating to variables such as credit risk and interest rates. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of these financial investments. The financial investments measured at fair value are classified into the three level fair value hierarchy, as detailed within Note 12.

1.15 Derivatives

Derivatives are financial instruments, classified as held for trading financial assets, whose value changes in response to an underlying variable, which require little or no net initial investment and are settled at a future date.

Derivatives with positive values are reported as assets and derivatives with negative values are reported as liabilities.

All derivatives are recognised on the balance sheet at fair value. All changes in fair value are recognised in the income statement.

1 Summary of significant accounting policies (continued)

1.16 Hedge accounting

The Company has historically designated certain hedging instruments in fair value hedge relationships. At the inception of a hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of a hedge relationship and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values of the hedged item.

Note 14 sets out details of the fair values of the derivative instruments used for hedging purposes.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit and loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the income statement relating to the hedged item. In line with the accounting policy on operating profit (Note 1.11), the ineffective portion is excluded from operating profit within the Statement of Operating Profit.

Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised in profit or loss from that date.

1.17 Reinsurance assets

Reinsurance contracts are contracts entered into by the Company in order to receive compensation for losses on contracts written by the Company (outgoing reinsurance). For contracts transferring sufficient insurance risk, a reinsurance asset is recognised for the expected future benefits, less expected future reinsurance premiums. Reinsurance contracts with insufficient insurance risk transfer are accounted for as investment or service contracts, depending on the nature of the agreement.

Reinsurance assets are measured consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of each reinsurance contract. They are subject to impairment testing and are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

1 Summary of significant accounting policies (continued)

1.18 Other assets and receivables

Other assets include trade and other receivables, prepaid expenses and collateral held. Trade and other receivables are initially recognised at fair value and are subsequently measured at amortised cost.

1.19 Cash and cash equivalents

Cash comprises cash at banks and in-hand. Cash equivalents are short-term, highly liquid investments that are readily convertible to known cash amounts, are subject to insignificant risks of changes in value and are held for the purpose of meeting short-term cash requirements. Money market investments that have a fixed term of greater than 3 months are not included in cash and cash equivalents but are presented as investments.

1.20 Insurance contracts

Insurance contracts are contracts under which the Company accepts a significant risk – other than a financial risk – from a policyholder by agreeing to compensate the beneficiary on the occurrence of an uncertain future event by which he or she will be adversely affected. Contracts that do not meet this definition are accounted for as investment contracts. The Company reviews homogeneous books of contracts to assess whether the underlying contracts transfer significant insurance risk on an individual basis. This is considered the case when at least one scenario with commercial substance can be identified in which the Company has to pay significant additional benefits to the policyholder. Contracts that have been classified as insurance are not reclassified subsequently.

Insurance liabilities are recognised when the contract is entered into and the premiums are charged. The liability is derecognised when the contract expires, is discharged or is cancelled.

Insurance contracts in the Non-Profit Funds

Insurance contracts in the Non-Profit Funds with terms that are fixed and guaranteed and which are of a long duration (generally over three years) are measured using a gross premium method. The liability is determined as the sum of the discounted value of the expected benefits and future administrative expenses directly related to the contract, less the discounted value of expected future premiums. The liability is based on demographic assumptions which are determined each year and which include a margin for risk and adverse deviation and economic assumptions are required for future inflation of benefits and expenses and to derive the discount rates. The economic assumptions are consistent with market data at the balance sheet date.

1 Summary of significant accounting policies (continued)

1.20 Insurance contracts (continued)

Insurance contracts in the With-Profit and Unit-Linked Funds

For insurance contracts in respect of with-profit and unit-linked policies, the policyholder bears the risks associated with the underlying investments.

Contracts with unit-denominated payments are measured at current unit values, which reflect the fair values of the assets of the fund. For unit-linked contracts subject to actuarial funding, the Company recognises a liability at the funded amount of the units. The difference between the gross value of the units and the funded value is treated as an initial fee paid by the policyholder for future asset management services and is deferred. It is subsequently amortised over the period determined at the point of acquisition or a shorter period, if appropriate. An additional reserve is held where, on a prudent basis, it is estimated the future cash outflows cannot be covered by future cash inflows.

With-profit policies are measured on a realistic basis with an adjustment to ensure that the unallocated divisible surplus on a realistic basis is included in the participating liabilities for IFRS. Note 19 in the accounts provides further disclosure regarding the Company's unallocated divisible surplus in the With-Profits Fund. The Company has elected to classify the unallocated divisible surplus as an insurance contract liability in the balance sheet as it is not for the use of policyholders outside the With-Profits Fund or for other business purposes.

Liability adequacy testing

At each reporting date, the adequacy of insurance contract liabilities is assessed using a liability adequacy test. Insurance contract liabilities are tested to ensure that the resulting liabilities are not lower than would be required under a sufficiently prudent prospective calculation and where a shortfall is identified this is recognised as a loss in the income statement from the establishment of an insurance liability equal to the shortfall identified.

1 Summary of significant accounting policies (continued)

1.20 Insurance contracts (continued)

Insurance contracts for general insurance business

On 11 September 2014, the Company entered into a loss portfolio transfer reinsurance agreement to provide 100% quota share reinsurance for the general insurance liabilities. The reinsurer, which specialises in non-life insurance, provides all aspects of claims management for the general insurance business. Provisions are made for the full estimated costs of claims notified but not settled, including claims handling costs, using the best information available, taking account of inflation and trends in court awards. The provisions for claims incurred but not reported ("IBNR") have been based on factors including previous experience in claims and settlement patterns, inflation, the nature of business written and the latest available industry data. The provisions have been established on the basis of the investigations undertaken by the reinsurer. A reinsurance asset is recognised to reflect that 100% of the technical provisions are estimated to be recoverable under the reinsurance contract in respect of the outstanding claims reported, IBNR and claims handling costs. Neither the outstanding claims nor the provisions for IBNR have been discounted.

1.21 Investment contracts

Contracts issued by the Company that do not transfer significant insurance risk, are accounted for as investment contracts. Investment contracts are held within the With-Profit and Unit-Linked Funds, where the policyholder runs the risks associated with the investments allocated to the contract. Investment contract liabilities are recognised when the contract is entered into and are derecognised when the contract expires, is discharged or is cancelled.

Investment contracts with discretionary participation features

Some investment contracts in the With-Profit Fund have participation features whereby the policyholder has the right to receive potentially significant additional benefits which are based on the performance of a specified pool of investments held by the Company. If the Company has discretion over the amount or timing of the distribution of the returns to customers, the investment contract liability is measured based on the accounting principles that apply to insurance contracts with similar features.

Investment contracts without discretionary participation features

Investment contracts without discretionary participation features are designated as being held at fair value through profit or loss. Contracts with unit-denominated payments are measured at current unit values, which reflect the fair values of the assets of the fund.

1 Summary of significant accounting policies (continued)

1.22 Financial liabilities

Financial liabilities are recognised on the trade date when the Company becomes a party to the contractual provisions of the instrument.

Classification

All financial liabilities are designated at fair value through profit or loss.

Measurement

Financial liabilities are recognised at fair value.

Fair value

The fair value of a liability is the price that would be paid to transfer that liability in an orderly transaction between market participants at the measurement date. For quoted financial liabilities for which there is an active market, the fair value is the offer price at the balance sheet date. In the absence of an active market, fair value is estimated by using present value or other valuation techniques. Where discounting techniques are applied the discount rate is based on current market rates applicable to financial instruments with similar characteristics or using a discount rate that approximates the risk inherent in the instrument.

Derecognition

A financial liability is derecognised when the contractual obligation expires, when the Company has transferred the liability and substantially all the risks and rewards of ownership. On derecognition, the difference between the disposal proceeds and the carrying amount is recognised in the income statement as a realised gain or loss.

1.23 Tax assets and liabilities

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, or paid to or recovered from other companies in respect of group relief surrendered or received. The tax rates and laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Current income tax relating to items recognised directly in other comprehensive income is recognised in other comprehensive income and not in the income statement.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

1 Summary of significant accounting policies (continued)

1.23 Tax assets and liabilities (continued)

Deferred income tax and liabilities are recognised for all taxable temporary differences except when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

1.24 Contingent assets and liabilities

Contingent assets are disclosed in the notes if the inflow of economic benefits is probable, but not virtually certain. When the inflow of economic benefits becomes virtually certain, the asset is no longer contingent and its recognition is appropriate.

A provision is recognised for present legal or constructive obligations arising from past events, when it is probable that it will result in an outflow of economic benefits and the amount can be reliably estimated. If the outflow of economic benefits is not probable, a contingent liability is disclosed, unless the possibility of an outflow of economic benefits is remote.

1 Summary of significant accounting policies (continued)

1.25 Impairment of assets

An asset is impaired if the carrying amount exceeds the amount that would be recovered through its use or sale. For tangible and intangible assets, financial assets and reinsurance assets, if not held at fair value through income statement, the recoverable amount of the asset is estimated when there are indications that the asset may be impaired. Impairment losses are recognised in the income statement.

Impairment of non-financial assets

Assets are tested individually for impairment when there are indications that the asset may be impaired. The impairment loss is calculated as the difference between the carrying and the recoverable amount of the asset, which is the higher of an asset's value in use and its net selling price. The value in use represents the discounted future net cash flows from the continuing use and ultimate disposal of the asset and reflects its known inherent risks and uncertainties.

Impairment of financial assets held at amortised cost

Individually significant loans and other receivables are first assessed separately. All non-impaired assets measured at amortised cost are then grouped by credit risk characteristics and collectively tested for impairment.

Impairment of reinsurance assets

Reinsurance assets are impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that not all amounts due under the terms of the contract will be received and the impact of the event on the amount to be received from the reinsurer can be reliably measured.

1 Summary of significant accounting policies (continued)

1.26 Leases

Leases where the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as operating leases and rentals payable are charged in the income statement on a straight line basis over the lease term.

Incentives received to enter into lease agreements are released to the income statement over the lease term or, if shorter, the period to the date on which the rent is first expected to be adjusted to the prevailing market rate.

1.27 Events after the balance sheet date

The financial statements are adjusted to reflect events that occurred between the balance sheet date and the date when the financial statements are authorised for issue, provided they give evidence of conditions that existed at the balance sheet date.

Events that are indicative of conditions that arose after the balance sheet date are disclosed where significant, but do not result in an adjustment of the financial statements themselves.

2 Critical accounting estimates and judgements in applying accounting policies

Application of the accounting policies in the preparation of the financial statements requires management to apply judgement involving assumptions and estimates concerning future results or other developments, including the likelihood, timing or amount of future transactions or events. There can be no assurance that actual results will not differ materially from those estimates. Accounting policies that are critical to the financial statement presentation and that require complex estimates or significant judgement are described in the following sections.

2.1 Valuation of assets and liabilities arising from insurance contracts and investment contracts with discretionary participating features

The Company uses a number of accepted actuarial methods to estimate and evaluate the amount of reserves recorded. The nature of the claim being reserved for influences the method used by the actuarial function.

The reserves for future policyholder benefits contain a number of assumptions regarding mortality or longevity, lapses, surrenders, expenses and investment returns. These assumptions are prudently assessed, being a best estimate assumption plus a margin for adverse deviation, and can vary by product. They are determined with reference to past company experience adjusted for future expectations and industry data. The most material assumptions are those for longevity and investment returns. The liabilities for future policyholder benefits may not represent the ultimate amounts paid out to customers as for example:

- For contracts that insure the risk of longevity, such as deferred and immediate annuity contracts, an appropriate allowance is made for people living longer. Continuing improvements in medical care and social conditions could result in further improvements in longevity in excess of those allowed for in the estimates used to determine the liability for contracts where the Group is exposed to longevity risk.
- The estimated number of deaths determines the value of the benefit payments for contracts that insure the risk of mortality. The main source of uncertainty arises because of the potential for pandemics or catastrophe and also lifestyle changes could result in earlier deaths for age groups in which the Group has exposure to mortality risk.
- The investment return assumptions arising from the assets backing long-term insurance contracts are estimated. The estimate is based on the expected earnings from assets backing the liabilities for fixed interest assets less a prudent allowance for expected and unexpected defaults and is based on market data less a prudent risk deduction for the equity tracker in the With-Profit Fund.

Further details of the actuarial assumptions are set out in Notes 19 and 20.

2 Critical accounting estimates and judgements in applying accounting policies (continued)

2.2 Valuation of investments

The fair value of an asset is the price that would be received in a sale of that asset in an orderly transaction between market participants at the measurement date. The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used which therefore involves the use of estimates. These estimates include assessments of time value, investment returns, credit risk and volatility factors and are determined using available market data and management's judgement, if necessary.

IFRS 13 *Fair value measurement* categorises valuation methodologies into a three level hierarchy. The most critical assumptions are the unobservable inputs within Level 3 valuations. Further information relating to sensitivity of the Level 3 investments to reasonable changes in assumptions is provided in Note 12.

2.3 Intangible assets

The Company applies accounting estimates and judgements in determining the fair value, amortisation and recoverability of intangible assets.

PVIF intangible asset

At initial recognition, the difference between the fair value of consideration and the net assets of the insurance business acquired is recognised PVIF intangible asset. The PVIF asset is amortised over the expected life of the in-force business, based upon expected profit streams from the date of recognition. At each reporting date, the intangible is reviewed for indicators of impairment and where such indicators are deemed to exist, a full impairment review is carried out. In situations where the recoverable amount is considered to be lower than the carrying amount an impairment charge is recognised in the income statement.

AMC intangible asset

At initial recognition, the AMC asset is valued using a discounted cash flow analysis assessing the expected run-off of the underlying policies. At the point of acquisition, the expected life was deemed to be 30 years.

2 Critical accounting estimates and judgements in applying accounting policies (continued)

2.3 Intangible assets (continued)

At each reporting date, the intangible is reviewed for indicators of impairment and where such indicators are deemed to exist, a full impairment review is carried out. In situations where the recoverable amount is considered to be lower than the carrying amount an impairment charge is recognised in the income statement. At least annually, the useful economic life of the intangibles is assessed for reasonableness.

2.4 Deferred tax

Deferred tax assets are recognised to the extent that they are regarded as recoverable, that is to the extent that, on the basis of all the available evidence, it can be regarded as more likely than not that there will be suitable future taxable profits against which the losses can be relieved. The UK tax regime applies separate rules to trading and capital profits and losses. The distinction between temporary differences that arises from items of either a capital or trading nature may affect the recognition of deferred tax assets. The recognition of deferred tax assets and liabilities therefore includes a judgement over the future performance of the Company and the resulting taxable profits. The accounting policy for income taxes, both current and deferred, is discussed in more detail in Note 1.23.

2.5 Impairment

Assets are subject to regular impairment reviews as detailed in Note 1.25. Impairment is measured as the difference between the carrying value of a particular asset and its recoverable amount. Impairments are recognised in the income statement in the period in which they occur. The impairment review includes the use of management judgement principally in relation to the fair value of the assets, in particular where there is not an open market for a particular asset.

3 Business combinations

On 7 May 2014, the Company acquired 100% of the share capital of Ark Life for a total consideration of £279.2 million paid in cash, resulting in the Company controlling 100% ownership and voting rights in Ark Life.

Ark Life is a closed book life assurance company based in Dublin. The acquisition represents the implementation of the Company's objective of entering markets external to the UK and creating a platform for further M&A growth in the Irish domestic market with inwards reinsurance from the UK and continental Europe.

The income statement for the year ended 31 December 2014 includes £5.8 million of acquisition and migration costs which have been incurred as a result of the acquisition of Ark Life. These costs are shown within administrative expenses within the Income Statement

4 Reassurance of general insurance business

During 2014, the Company signed an outwards reinsurance agreement with RQIM to reinsure the entire legacy general insurance book of the Company.

The transaction resulted in a pre-tax loss of £6.4 million for the year ended 31 December 2014 being the net of the recognition of premiums ceded to reinsurers of £10.5 million and the reinsurance asset of £4.1 million that was created at the point of the transaction. The reinsurance asset at 31 December 2015 is £6.6 million (2014: £7.1 million).

5 Investment income

	2015 £m	**2015 £m**	**2015 £m**	**2015 £m**	**2015 £m**
	With-Profits	**Unit-Linked**	**Non-Profit**	**Shareholder**	**Total**
Interest income	59.0	2.8	408.2	2.2	**472.2**
Dividend	37.8	7.9	50.7	-	**96.4**
	96.8	**10.7**	**458.9**	**2.2**	**568.6**

	2014 £m	2014 £m	2014 £m	2014 £m	2014 £m
	With-Profits	Unit-Linked	Non-Profit	Shareholder	Total
Interest income	62.5	9.9	395.5	1.5	469.4
Dividend	32.8	41.1	3.4	-	77.3
	95.3	51.0	398.9	1.5	546.7

5 Investment income (continued)

	2015 £m With-Profits	**2015 £m Unit-Linked**	**2015 £m Non-Profit**	**2015 £m Shareholder**	**2015 £m Total**
Investment income from:					
Shares	-	4.6	50.7	-	**55.3**
Trackers	37.8	3.3	-	-	**41.1**
Debt securities and money market instruments	58.7	0.5	364.7	1.5	**425.4**
Loans	-	-	-	0.5	**0.5**
Other	0.3	2.3	43.5	0.2	**46.3**
	96.8	**10.7**	**458.9**	**2.2**	**568.6**

	2014 £m With-Profits	2014 £m Unit-Linked	2014 £m Non-Profit	2014 £m Shareholder	2014 £m Total
Investment income from:					
Shares	-	40.7	3.4	-	44.1
Trackers	32.8	0.4	-	-	33.2
Debt securities and money market instruments	60.8	7.7	359.1	0.5	428.1
Loans	-	-	-	0.7	0.7
Other	1.7	2.2	36.4	0.3	40.6
	95.3	51.0	398.9	1.5	546.7

Investment income from loans, within the Shareholder Fund, relates to interest on loans to parent undertakings as detailed in Note 11.

5 Investment income (continued)

	2015 £m With-Profits	**2015 £m Unit-Linked**	**2015 £m Non-Profit**	**2015 £m Shareholder**	**2015 £m Total**
Investment income from financial assets:					
Fair value through the profit and loss	96.5	8.4	364.7	1.5	**471.1**
Loans	-	-	-	0.5	**0.5**
Other	0.3	2.3	94.2	0.2	**97.0**
	96.8	**10.7**	**458.9**	**2.2**	**568.6**

	2014 £m With-Profits	2014 £m Unit-Linked	2014 £m Non-Profit	2014 £m Shareholder	2014 £m Total
Investment income from financial assets:					
Fair value through the profit and loss	93.6	48.8	362.5	0.5	505.4
Loans	-	-	-	0.7	0.7
Other	1.7	2.2	36.4	0.3	40.6
	95.3	51.0	398.9	1.5	546.7

Investment income from loans, within the Shareholder Fund, relates to interest on loans to parent undertakings as detailed in Note 11.

6 Fair value gains and losses

	2015 £m With-Profits	**2015 £m Unit-Linked**	**2015 £m Non-Profit**	**2015 £m Shareholder**	**2015 £m Total**
Fair value gains/(losses) on financial assets at fair value through profit and loss, other than derivatives	(57.1)	32.6	(355.2)	0.1	**(379.6)**
Fair value gains/(losses) on financial liabilities at fair value through profit and loss, other than derivatives	-	-	24.0	-	**24.0**
Net fair value change on derivatives	3.1	6.3	129.1	-	**138.5**
Net fair value change on investments in real estate	-	(0.1)	-	-	**(0.1)**
	(54.0)	**38.8**	**(202.1)**	**0.1**	**(217.2)**

	2014 £m With-Profits	2014 £m Unit-Linked	2014 £m Non-Profit	2014 £m Shareholder	2014 £m Total
Fair value gains/(losses) on financial assets at fair value through profit and loss, other than derivatives	63.9	21.8	611.7	(0.1)	697.3
Fair value gains/(losses) on financial liabilities at fair value through profit and loss, other than derivatives	-	-	(23.7)	-	(23.7)
Net fair value change on derivatives	(13.9)	13.5	543.3	-	542.9
Net fair value change on investments in real estate	-	1.2	-	-	1.2
	50.0	36.5	1,131.3	(0.1)	1,217.7

Investments comprise of financial assets. Refer to Note 11 for further information.

The gain (2014: loss) on the financial liability relates to the movement in the fixed leg of the swap contract with RGA Global Reinsurance Company Limited and RGA International Reinsurance Company Limited (together “RGA”) entered into during 2012 and classified as a financial liability on the balance sheet. This is offset by a loss in contracts ceded to reinsurers of £28.0 million (2014: £15.0 million gain) from the floating leg of the contract, classified as a reassurance contract in the balance sheet.

7 Other operating and administration expenses

	2015	2014
	£m	£m
Commissions	**0.9**	1.5
Investment management expenses	**22.9**	21.6
Administration expenses	**15.6**	18.6
Amortisation of intangible assets	**6.0**	6.8
Total other operating and administration expenses	**45.4**	48.5

Auditor's remuneration:

	2015	2014
	£m	£m
Fees payable to the auditor for the audit of the Company and financial statements	**0.3**	0.3
Fees payable to the Company's auditor for other services:		
- audit-related assurance services	**0.1**	0.1
Total audit fees	**0.4**	0.4

7 Other operating and administration expenses (continued)

Guardian Companies Services Limited, a fellow subsidiary of Guardian Financial Services Holdings UK Limited, provides services to the companies within the Guardian Holdings Europe Limited Group and together with Guardian Financial Services Holdings UK Limited, employs personnel who provide services to the Company. Therefore, the Company has no employees under contracts of service.

Directors' remuneration

During the year ended 31 December 2015, the Directors of the Guardian Holdings Europe Limited Group are paid centrally via Guardian Financial Services Holdings UK Limited. In respect of qualifying services provided to the Group in the year to 31 December 2015, the Directors received remuneration comprised of salary, bonus and money value of benefits received. The Directors did not receive any pension benefits or pension contributions, nor did they receive remuneration under a long-term incentive plan, shares or share options. The highest paid Director received remuneration of £3,723,130 (2014: £445,704) in respect of qualifying services provided to the Company. The Directors' remuneration has been allocated across the Guardian Holdings Europe Limited Group to individual companies in line with management's assessment of the time invested by the Directors on that company. The total Directors' remuneration for qualifying services allocated to the Company for 2015 was £6,007,237 (2014: £1,051,933), which includes compensation for loss of office of £559,241 (2014: nil).

7 Other operating and administration expenses (continued)

Operating lease arrangements

Operating leases relate to non-cancellable operating leases, including the lease over the London office. The London office lease term is 10 years and is renewable at the end of the term on market rates. Although the Company is a party to the lease over the London office, the Company's holding company, Guardian Financial Services Holding UK Limited, will be liable for all the financial implications of this lease as the lease was taken out to house the operations of Guardian Financial Services Holdings UK Limited. The financial implications of the lease are reflected in Guardian Financial Services Holdings UK Limited's Annual Financial Statements. Accordingly the Company's income statements do not reflect any charges relating to this lease.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2015	2014
	£m	£m
Less than one year	**0.5**	0.4
After one year but not more than five years	**2.2**	1.7
After five years	**1.1**	1.3
	3.8	3.4

Where the lease includes a rent-free period, the table above includes payments on a contractual basis rather than when they will be accounted for in the income statement.

Subsequent to the year end, the operating lease on 80 Cheapside has been terminated at a cost of £0.1m as a result of the relocation of the London based employees to the offices of Swiss Re Life Capital Limited.

8 Income tax

	2015	2014
	£m	£m
Current tax		
Current year	**26.4**	63.0
Overseas tax	**0.5**	0.7
Tax provision in relation to prior years	**26.6**	1.0
	53.5	64.7
Deferred tax		
Origination of temporary differences	**(10.1)**	(5.7)
Change in tax rate	**(2.8)**	-
Adjustment in respect of prior year	**-**	-
Income tax for the period	**40.6**	59.0

The tax provision in respect of prior years includes a provision for £27.1m relating to a potential tax exposure arising from the Company's shareholding in an unquoted overseas insurance company, recognised in the period for current tax of prior periods.

The Finance Act 2015, which was enacted in November 2015, included provisions to reduce the rate of corporation tax to 19% with effect from 1 April 2017 and further to 18% with effect from 1 April 2020. Accordingly deferred tax balances have been calculated using the lower rate of 18%. The impact of these reductions in the corporation tax rate is to reduce the tax charge for the period by £7m. The Government subsequently announced on 16th March 2016 that it was planning in the 2016 Finance Act further to reduce the rate of corporation tax to 17% with effect from 1 April 2020. No account has been taken of this further reduction in these financial statements as the 2016 Finance Bill had not been substantively enacted by the balance sheet date of 31 December 2015. However if deferred tax balances had been calculated using a 17% rate, rather than an 18% rate, then it would have reduced the tax charge for the period by an additional £1.4m.

8 Income tax (continued)

Reconciliation between standard and effective income tax	**2015 £m**	2014 £m
Profit before tax	**148.8**	293.2
Income tax at main rate of UK corporation tax of 20.25% (2014: 21.5%)	**30.1**	63.0
Difference due to effects of:		
Non-taxable income	**(12.8)**	(9.4)
Non-deductible expenses	**-**	2.0
Change in deferred tax rate	**(2.8)**	-
Overseas tax	**0.5**	0.7
Tax payable at the policyholder rate	**(1.0)**	1.5
Other tax rate changes	**-**	0.3
Adjustment to prior years	**26.6**	0.9
Income tax for the period	**40.6**	59.0

9 Intangible assets

	PVIF £m	AMC £m	Total £m
Cost			
At 1 January 2014	111.5	54.7	**166.2**
Additions	-	-	**-**
At 1 January 2015	111.5	54.7	**166.2**
Additions	-	-	**-**
At 31 December 2015	**111.5**	**54.7**	**166.2**
Accumulated amortisation			
At 1 January 2014	(79.2)	(44.9)	**(124.1)**
Charge for the year	(5.6)	(1.2)	**(6.8)**
At 1 January 2015	(84.8)	(46.1)	**(130.9)**
Charge for the year	(4.9)	(1.1)	**(6.0)**
At 31 December 2015	**(89.7)**	**(47.2)**	**(136.9)**
Carrying value			
At 1 January 2014	32.3	9.8	**42.1**
At 1 January 2015	26.7	8.6	**35.3**
At 31 December 2015	**21.8**	**7.5**	**29.3**

Amortisation through the income statement is included in 'Other operating and administrative expenses', but is excluded from operating profit within the Statement of Operating Profit.

The AMC intangibles are amortised over a period of 30 years, and have a remaining amortisation period of 14 years (2014: 15 years). PVIF is amortised over a period of 33 years and has a remaining amortisation period of 17 years (2014: 18 years).

10 Investment in subsidiary undertakings

During the prior year, the Non-Profit Fund of the Company acquired 100% of the issued share capital of Ark Life. The principal activity of Ark Life is the transaction of life assurance and pension business in the Republic of Ireland. Ark Life is closed to new business.

Details of the Company's subsidiaries as at 31 December 2015 are as follows:

	Place of incorporation (or registration) and operation	**Proportion of ownership interest %**	**Proportion of voting power held %**
Ark Life Assurance Company Limited	Republic of Ireland	100	100
Guardian Linked Life Assurance Limited	United Kingdom	100	100
Guardian Pensions Management Limited	United Kingdom	100	100

	2015	2014
	£m	£m
Cost		
At 1 January	**370.7**	91.5
Additions	**-**	279.2
At 31 December	**370.7**	370.7
Carrying amount		
At 1 January	**288.2**	9.0
Additions	**-**	279.2
At 31 December	**288.2**	288.2

The investment in the subsidiaries is stated at cost less impairment.

11 Investments

Investments comprise financial assets, excluding derivatives. Refer to Note 14 for details on derivatives.

	2015 £m With-Profits	2015 £m Unit-Linked	2015 £m Non-Profit	2015 £m Shareholder	2015 £m Total
Fair value through profit or loss:					
Shares	-	110.7	-	-	**110.7**
Debt securities and money market investments	1,104.7	3.7	7,523.1	298.3	**8,929.8**
Trackers	929.2	1,522.2	-	-	**2,451.4**
Loan notes	-	-	531.5	-	**531.5**
Investments in real estate	-	-	-	-	**-**
Other	0.1	-	479.3	-	**479.4**
Loans and receivables:					
Loan to immediate parent undertaking	-	-	-	65.5	**65.5**
	2,034.0	**1,636.6**	**8,533.9**	**363.8**	**12,568.3**

11 Investments (continued)

	2014 £m With-Profits	2014 £m Unit-Linked	2014 £m Non-Profit	2014 £m Shareholder	2014 £m Total
Fair value through profit or loss:					
Shares	-	509.4	147.7	-	657.1
Debt securities and money market investments	1,220.1	18.9	8,125.1	253.2	9,617.3
Trackers	1,070.4	979.4	-	-	2,049.8
Loan notes	-	-	517.5	-	517.5
Investments in real estate	-	13.2	-	-	13.2
Other	0.2	-	479.1	-	479.3
Loans and receivables:					
Loan to immediate parent undertaking	-	-	-	65.1	65.1
	2,290.7	1,520.9	9,269.4	318.3	13,399.3

Other investments above comprise infrastructure debt of £283.0 million (2014: £278.0 million), commercial real estate loans of £196.3 million (2014: £201.1 million) and policyholder loans of £0.1 million (2014: £0.2 million).

Of the debt securities and money market investments in the Non-Profit and Shareholder Funds, £428.6 million is receivable within less than one year (2014: £416.0 million).

Loans to related parties are repayable in 2017. Interest on these loans is charged at LIBOR. As permitted under the loan agreements, interest is currently being rolled up into the loan balance. The Directors consider the carrying value of these loans to represent their fair value as this is the amount at which the loan could be transferred by Guardian Financial Services Holdings UK Limited. The measurement of the fair value of the loan is categorised within Level 3 of the fair value hierarchy.

12 Fair value of financial instruments

12a) Fair value categorisation

In the tables that follow, assets and liabilities recorded at fair value have been categorised as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date;
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices of identical or similar assets and liabilities) using valuation techniques for which all significant inputs are based on observable market data; and
- Level 3: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) using valuation techniques for which any significant input is not based on observable market data.

Management's assessment of the categorisation of individual assets and liabilities may change depending on the inputs and methodologies used to value those assets and liabilities. This may result in categorisations transfers between the different levels within the fair value hierarchy.

Transfers occur between the different levels within the fair value hierarchy when management determines that the valuation methodology meets the definition above.

12 Fair value of financial instruments (continued)

12b) Fair value hierarchy

The table below shows an analysis of assets and liabilities recorded at fair value by level of the fair value hierarchy:

	Level 1 £m	Level 2 £m	Level 3 £m	2015 Total £m
Assets carried at fair value:				
Shares	110.6	-	0.1	**110.7**
Debt securities	890.0	7,664.6	375.2	**8,929.8**
Trackers	2,173.4	278.0	-	**2,451.4**
Derivative assets	3.2	363.4	0.3	**366.9**
Loan Notes	-	531.5	-	**531.5**
Other financial assets	-	-	479.4	**479.4**
Investments in real estate	-	-	-	**-**
Total assets	**3,177.2**	**8,837.5**	**855.0**	**12,869.7**
Derivative liabilities	(27.8)	(103.2)	-	**(131.0)**
Investment contracts	-	(1,244.7)	-	**(1,244.7)**
Other financial liabilities	-	-	(335.9)	**(335.9)**
Total liabilities	**(27.8)**	**(1,347.9)**	**(335.9)**	**(1,711.6)**

	Level 1 £m	Level 2 £m	Level 3 £m	2015 Total £m
Excluding unit-linked and with-profit				
Assets carried at fair value:				
Shares	-	-	-	**-**
Debt securities	760.3	6,687.9	373.2	**7,821.4**
Trackers	-	-	-	**-**
Derivative assets	0.2	327.5	0.2	**327.9**
Loan Notes	-	531.5	-	**531.5**
Other financial assets	-	-	479.3	**479.3**
Investments in real estate	-	-	-	**-**
Total assets	**760.5**	**7,546.9**	**852.7**	**9,160.1**
Derivative liabilities	(26.2)	(72.0)	-	**(98.2)**
Investment contracts	-	(2.8)	-	**(2.8)**
Other financial liabilities	-	-	(335.9)	**(335.9)**
Total liabilities	**(26.2)**	**(74.8)**	**(335.9)**	**(436.9)**

12 Fair value of financial instruments (continued)

12b) Fair value hierarchy (continued)

The table below shows an analysis of assets and liabilities recorded at fair value by level of the fair value hierarchy:

	Level 1 £m	Level 2 £m	Level 3 £m	2014 Total £m
Assets carried at fair value:				
Shares	509.4	0.3	147.4	657.1
Debt securities	778.9	8,320.5	517.9	9,617.3
Trackers	1,847.4	202.4	-	2,049.8
Derivative assets	22.3	887.5	1.5	911.3
Loan Notes	-	517.5	-	517.5
Other financial assets	-	-	479.3	479.3
Investments in real estate	-	-	13.2	13.2
Total assets	3,158.0	9,928.2	1,159.3	14,245.5
Derivative liabilities	(21.8)	(386.0)	-	(407.8)
Investment contracts	-	(1,280.4)	-	(1,280.4)
Other financial liabilities	-	-	(359.9)	(359.9)
Total liabilities	(21.8)	(1,666.4)	(359.9)	(2,048.1)

	Level 1 £m	Level 2 £m	Level 3 £m	2014 Total £m
Excluding unit-linked and with-profit				
Assets carried at fair value:				
Shares	-	0.3	147.4	147.7
Debt securities	748.1	7,119.4	510.8	8,378.3
Trackers	-	-	-	-
Derivative assets	10.1	845.8	0.8	856.7
Loan Notes	-	517.5	-	517.5
Other financial assets	-	-	479.1	479.1
Investments in real estate	-	-	-	-
Total assets	758.2	8,483.0	1,138.1	10,379.3
Derivative liabilities	(2.7)	(362.7)	-	(365.4)
Investment contracts	-	(1.9)	-	(1.9)
Other financial liabilities	-	-	(359.9)	(359.9)
Total liabilities	(2.7)	(364.6)	(359.9)	(727.2)

12 Financial instruments and fair value hierarchy (continued)

12c) Fair value measurement

At 31 December 2015, approximately 24.7% (2014: 22.2%) of the Company's assets, measured at fair value are classified as Level 1 and are measured at fair value on a recurring basis. The fair value measurements included in the assets classified as Level 1 include the exchange traded prices of equities, fixed income securities and derivative contracts.

At 31 December 2015, approximately 68.7% (2014: 69.7%) of the Company's assets, measured at fair value are classified within Level 2, and are measured at fair value on a recurring basis. Level 2 financial assets include government and agency securities, certain corporate debt securities and money market investments. As market prices or quotes are not, in general, readily available for these securities their fair value measures are typically determined using observable information such as market transactions involving comparable securities.

Liabilities classified within Level 2 are primarily investment contracts that are designated at fair value through profit and loss. These investment contracts are not quoted in active markets and the fair value of the contracts is determined using valuation techniques, which are performed and reviewed by suitably qualified personnel. The valuation techniques include significant assumptions such as time value, credit risk and volatility factors. Further information about the investment contracts, valuation methodologies, key assumptions and sensitivities are included within Note 20.

At 31 December 2015, approximately 6.6% (2014: 8.1%) of the Company's assets measured at fair value are classified as Level 3, and are measured at fair value on a recurring basis. Level 3 financial assets primarily include private fixed income corporate debt securities. Prior year level 3 holdings included an overseas insurance company which has been disposed of during the year 31 December 2015. The pricing of these instruments includes significant unobservable inputs such as non-binding broker prices that cannot be corroborated to observable market data. The Company applies a process of reviewing the valuation of Level 3 instruments for reasonableness based on its understanding of the instrument and the markets.

The valuation of the overseas non-quoted insurance company for the year ended 31 December 2014 was calculated using a methodology which utilised the values of the net assets and the value of in force intangible asset. The methodology used an unobservable input in relation to the intangible valuations which accounted for £40.9 million of the total value. The sensitivity of the unobservable input for the year ended 31 December 2014 is disclosed in Note 12f.

12 Fair value of financial instruments (continued)

12c) Fair value measurement (continued)

Valuations of investments in real estate are conducted with sufficient regularity to ensure the value reflects the fair value at the balance sheet date. Valuations are mostly based on active market prices, adjusted for any difference in the nature, location or condition of the specific property. If such information is not available, other valuation methods are applied, considering the current cost of reproducing or replacing the property, the value that the property's net earning power will support and the value indicated by recent sales of comparable properties.

Liabilities classed as Level 3 are the fixed leg of the longevity swap reinsurance arrangement as detailed in Note 22. This instrument is not traded within a quoted market and therefore the fair valuation has been based on a discounted cash flow model using significant unobservable inputs that cannot be corroborated to observable market data. The significant assumption is the discount rate and is reviewed by the Company for reasonableness based on its understanding of the instrument and the related reinsurance contract. Transfers between levels are deemed to have occurred at the date of the event or change in circumstances that caused the transfer.

In particular, the following assets within the Non-Profit and Shareholder Funds, which are primarily classified within Level 2 or Level 3, have the following valuation basis:

(i) Money market and other short-term investments and deposits with financial institutions

The fair value of assets maturing within a year is assumed to be approximated by their carrying amount adjusted for credit risk, where appropriate, based on market observable credit spreads.

(ii) Financial derivatives and unlisted financial investments

Where quoted market prices are not available, other valuation techniques, such as option pricing or stochastic modelling, are applied. The valuation techniques incorporate all factors that market participants would consider and are based on observable market data when available. All models are validated before they are used and calibrated to ensure that outputs reflect actual experience and comparable market prices.

12 Fair value of financial instruments (continued)

12c) Fair value measurement (continued)

Fair values for exchange-traded derivatives, principally futures and certain options, are based on quoted market prices. Fair values for over-the-counter ("OTC") derivative financial instruments represent amounts estimated to be received from or paid to a third party in settlement of these instruments. These derivatives are valued using pricing models based on the net present value of estimated future cash flows, directly observed prices from exchange-traded derivatives, other OTC trades, or external pricing services. Most valuations are derived from swap and volatility matrices, which are constructed for applicable indices and currencies using current market data from many industry standard sources. Option pricing is based on industry standard valuation models and current market levels, where applicable. The pricing of complex or illiquid instruments is based on internal models. For long-dated illiquid contracts, extrapolation methods are applied to observed market data in order to estimate inputs and assumptions that are not directly observable. To value OTC derivatives, management uses observed market information, other trades in the market and dealer prices.

The Company normally mitigates credit risk in derivative contracts by entering into collateral agreements where practical and in International Securities and Derivatives Association (ISDA) master netting agreements for each of the Company's legal entities to facilitate the Company's right to offset credit risk exposure. Where appropriate collateral is not held by the Company or the counterparty, the fair value of derivatives is adjusted for credit risk based on market observable spreads. Changes in the fair value of derivatives attributable to changes in counterparty credit risk were not significant.

12d) Transfers between Level 1 and Level 2

In the current year, there were transfers of £7.3 million from Level 1 to Level 2 and transfers of £nil from Level 2 to Level 1. The change in Level was a result of changes in market observability of prices.

12e) Reconciliation in Level 3 assets and liabilities

	At 1 January 2015 £m	Total gains/losses in income statement * £m	Purchases £m	Sales £m	Transfers 2 to 3 £m	Transfers 3 to 2 £m	At 31 December 2015 £m	Total gains/losses for the future period included in profit and losses for assets held at December 2015 ** £m
Fair value through profit and loss								
Investments	1,157.8	(10.0)	40.2	(152.1)	3.9	(185.1)	854.7	23.4
Derivatives	1.5	(1.2)	-	-	-	-	0.3	0.2
Other financial liability	(359.9)	24.0	-	-	-	-	(335.9)	-

12 Fair value of financial instruments (continued)

12e) Reconciliation in Level 3 assets and liabilities (continued)

	At 1 January 2014 £m	Total gains/losses in income statement * £m	Purchases £m	Sales £m	Transfers 2 to 3 £m	Transfers 3 to 2 £m	At 31 December 2014 £m	Total gains/losses for the future period included in profit and losses for assets held at December 2014 ** £m
Fair value through profit and loss								
Investments	369.1	43.3	574.9	(51.1)	230.2	(8.6)	1,157.8	53.7
Derivatives	1.0	0.5	-	-	-	-	1.5	1.5
Other financial liability	(336.2)	(23.7)	-	-	-	-	(359.9)	-

*Movement in Level 3 financial instruments measured at fair value.

** These are the total gains / losses for the period during which the financial instrument was in Level 3.

During the year, certain financial instruments were transferred from Level 2 to Level 3 of the fair value hierarchy. The amount of assets transferred was £3.9 million (2014: £230.2 million). The change in Level was a result of changes in market observability of prices.

During the year, certain financial instruments were transferred from Level 3 to Level 2 of the fair value hierarchy. The amount of assets transferred was £185.1 million (2014: £8.6 million). The change in Level was a result of changes in market observability of prices.

The £854.7 million (2014: £1,157.8 million) classed as Level 3 holdings comprises commercial real estate loans, and infrastructure debt and other illiquid debt securities. The 2014 Level 3 holdings also included a holding in an overseas non-quoted insurance company, which was disposed of during the year ended 31 December 2015.

12 Fair value of financial instruments (continued)

12f) Sensitivity analysis Level 3

Of the total Level 3 assets, £854.6 million (2014: £1,003.5 million) relates to a mixture of fixed interest and variable rate debt securities where the valuation is determined from discounted cash flow methods. These methods utilise discount rates determined by the pricing source to present value the securities' expected cash flows based on:

i) the risk-free rate of interest;
ii) an appropriate credit spread determined either by reference to external credit ratings or through internal assessment; and
iii) an illiquidity component

The following table analyses the sensitivity of these fixed interest and variable rate debt securities to changes in the discount rate applied:

2015

	Assumption	**Change in discount rate applied**	**Decrease in FV £m**	**Increase in FV £m**
Total funds	Discount rate	+0.1%/ -0.1%	(6.5)	6.5

2014

	Assumption	Change in discount rate applied	Decrease in FV £m	Increase in FV £m
Total funds	Discount rate	+0.1%/ -0.1%	(9.3)	9.3

Prior year Level 3 holdings included an overseas insurance company which has been disposed of during the year 31 December 2015. The following table provides the analysis of the sensitivity of the 31 December 2014 holding in the overseas insurance company to the reasonable possible changes in the assumptions that were used to determine the fair value which existed at 31 December 2014.

2014

	Assumption	Change in assumption	Increase in FV £m	Decrease in FV £m
		+5%/ -5%	2.0	(2.0)
Non-Profit Fund	Valuation of PVIF	+10%/ -10%	4.1	(4.1)

With regard to the remaining Level 3 holdings, there are no reasonable alternative assumptions that would significantly impact net income, total equity, or total assets.

13 Unconsolidated structured entities

The following table details total income received from the Company's interests in structured entities:

	2015 £m	2014 £m
Asset backed securities	**14.7**	21.7
Residential mortgage backed securities	**0.2**	3.5
Commercial mortgage backed securities	**10.9**	14.0
Open-ended investment companies	**-**	0.4
Guardian Loan Opportunities Limited	**20.1**	12.0
	45.9	51.6

All of the Company's interests in structured entities are included in Investments in the Balance Sheet.

The Company has not provided any financial support to any of the structured entities.

14 Derivatives

	2015 £m With-Profits	**2015 £m Unit-Linked**	**2015 £m Non-Profit**	**2015 £m Total**
Rights under derivative contracts	35.7	3.3	327.9	**366.9**
Obligations under derivative contracts	(31.1)	(1.7)	(98.2)	**(131.0)**
	4.6	**1.6**	**229.7**	**235.9**

	2014 £m With-Profits	2014 £m Unit-Linked	2014 £m Non-Profit	2014 £m Total
Rights under derivative contracts	44.9	9.7	856.7	911.3
Obligations under derivative contracts	(34.6)	(7.8)	(365.4)	(407.8)
	10.3	1.9	491.3	503.5

14 Derivatives (continued)

Exchange traded derivative positions are all cleared through a central clearing house and margining is reviewed daily. For OTC derivatives, collateral is used to limit the counterparty exposures arising. Further disclosure relating to collateral held and pledged for derivatives is detailed within Notes 16, 24 and 27.

As at 31 December 2015, the derivatives classified as current have a net value providing obligations under derivative contracts of £23.1 million (2014: positive value of £2.3 million).

The fair value of the derivatives reflects the estimated amounts that the Company would receive or pay to terminate the contracts on the reporting date. Market quotes are available for many derivatives; for those products without readily available market quotes generally accepted valuation models, such as option pricing, are used to estimate fair value. The Company uses derivatives as part of the asset management process in the Unit-Linked, Non-Profit and With-Profits Funds. The use of derivatives is either for efficient portfolio management or for the reduction of equity, interest rate and currency risk.

Interest rate swaps are held to swap a series of fixed interest rates for a series of floating interest rates on nominal amounts in the future. Swap options are held to match the maturing profile of deferred annuities with guaranteed cash option rates. Equity put options are held in order to hedge against the guaranteed maturity values on Homebuilder Plus contracts.

	2015	2014
	£m	£m
Designated as a hedging instrument		
Equity futures	**-**	(10.9)
	-	(10.9)
Not designated as a hedging instrument		
Interest rate swaps	**255.8**	493.5
Foreign exchange forwards	**(20.4)**	4.3
Equity options	**4.8**	9.5
Equity futures	**(4.7)**	3.5
Bond futures	**0.4**	3.6
	235.9	514.4
Total derivatives	**235.9**	503.5

14 Derivatives (continued)

Fair value hedge relationships

Until de-designation of the relationship, equity futures were designated as fair value hedges in respect of equity price movements relating to the shareholder transfer of the shareholder's portion of the surplus arising in the With-Profits Fund. During the year, the hedge relationship became ineffective; falling outside of the 80-125% corridor in hedging the fair value exposure to equity price movements and therefore the hedge accounting has been discontinued from that date. As a result, amortisation of the cumulative fair value adjustment made to the carrying value of the designated hedged item, the shareholder transfer of the unallocated divisible surplus, has commenced in profit or loss from the point at which the hedging relationship was discontinued. The amount of amortisation included in profit or loss during the period since de-designation is £1.1 million (2014: £nil). During the period the relationship was effective in the year, the carrying value of the hedged item was adjusted by £3.7 million (2014: £0.9 million). This was included in profit or loss at the same time that the fair value movement of the equity futures of £1.0 million (2014: £0.9 million) was included in profit or loss. The notional value of derivatives designated as hedging instruments as at 31 December 2015 was £nil (2014: £235.4 million).

15 Reinsurance assets

Assets arising from reinsurance contracts are related to:

	2015 £m	**2015 £m**	**2015 £m**	**2015 £m**
	With-Profits	**Unit-Linked**	**Non-Profit**	**Total**
Life insurance contracts	2.8	0.3	1,329.7	**1,332.8**
Investment contracts without discretionary participation features	-	-	-	**-**
	2.8	**0.3**	**1,329.7**	**1,332.8**

	2014 £m	2014 £m	2014 £m	2014 £m
	With-Profits	Unit-Linked	Non-Profit	Total
Life insurance contracts	5.0	0.3	1,428.6	1,433.9
Investment contracts without discretionary participation features	-	-	-	-
	5.0	0.3	1,428.6	1,433.9

15 Reinsurance assets (continued)

£86.0 million of the reinsurance assets are current (2014: £88.7 million).

A collateral arrangement is in place for the majority of the reinsurance assets within the Non-Profit Fund to limit the counterparty exposure arising. The value of the reassured liability falling under the collateral arrangement at 31 December 2015 was £933.2 million (2014: £1,002.8 million). Further disclosure relating to collateral held for this annuity business is detailed within Note 27.

Movements during the year in reinsurance assets relating to life insurance contracts:

	2015 £m With-Profits	**2015 £m Unit-Linked**	**2015 £m Non-Profit**	**2015 £m Total**
At 1 January	5.0	0.3	1,428.6	**1,433.9**
Gross premium and deposits	0.3	0.5	7.0	**7.8**
Insurance liabilities (released)/ increased	(2.5)	(0.5)	(105.9)	**(108.9)**
At 31 December	**2.8**	**0.3**	**1,329.7**	**1,332.8**

	2014 £m With-Profits	2014 £m Unit-Linked	2014 £m Non-Profit	2014 £m Total
At 1 January	5.0	0.3	1,351.0	1,356.3
Gross premium and deposits	0.3	0.6	3.6	4.5
Insurance liabilities (released)/ increased	(0.3)	(0.6)	74.0	73.1
At 31 December	5.0	0.3	1,428.6	1,433.9

16 Other assets and receivables

		2015	2014
		£m	£m
Receivables	16a	**92.1**	374.2
Accrued income		**170.4**	177.4
Total assets and other receivables		**262.5**	551.6

16a Receivables

	2015	2014
	£m	£m
Receivables from policyholders	**0.7**	3.8
Receivables from reinsurers	**23.8**	24.5
Cash outstanding from assets sold	**21.0**	1.2
Cash collateral relating to derivatives	**39.3**	340.2
Investment debtor	**0.5**	0.9
Other debtors	**6.8**	3.6
	92.1	374.2

All accrued income and receivables are current (2014: same).

The Directors consider that the carrying amounts disclosed reasonably approximate the fair values as at the year-end (2014: same).

17 Cash and cash equivalents

	2015	2014
	£m	£m
Cash at bank and in hand	**51.0**	115.5
Short term deposits	**944.2**	716.2
Cash and cash equivalents	**995.2**	831.7

The weighted effective interest rate on short-term deposits was 0.46% (2014: 0.44%) and these deposits have an average maturity of 1 day (2014: 1 day). Cash and cash equivalents are not subject to any restrictions.

The Directors consider that the carrying amounts disclosed reasonably approximate the fair values as at the year-end (2014: same).

18 Shareholder's equity

	2015	2014
	£m	£m
Share capital (see Note 18a)	**430.6**	430.6
Retained earnings	**599.1**	660.9
Share premium	**16.2**	16.2
Capital reserve	**132.2**	132.2
	1,178.1	1,239.9

18 Shareholder's equity (continued)

18a) Share capital

Authorised, allotted, called up and fully paid	2015 £m	2014 £m
At 1 January		
Ordinary shares £0.25 each	**430.6**	430.6
Issued share capital	**-**	-
At 31 December		
Ordinary shares of £0.25 each	**430.6**	430.6

1,722,311,894 ordinary shares have been issued and fully paid, and carry one vote per share and carry a right to dividends. Guardian Financial Services Holdings UK Limited, the immediate parent undertaking of the Company, holds all the ordinary shares.

19 Insurance contracts

	2015 £m With-Profits	2015 £m Unit-Linked	2015 £m Non-Profit	£m Total
Insurance contract liabilities	748.7	524.6	10,179.2	**11,452.5**
Unallocated divisible surplus	114.6	-	-	**114.6**
	863.3	**524.6**	**10,179.2**	**11,567.1**

Restated	2014 £m With-Profits	2014 £m Unit-Linked	2014 £m Non-Profit	£m Total
Insurance contract liabilities	880.6	656.2	10,704.7	12,241.5
Unallocated divisible surplus	131.5	-	-	131.5
	1,012.1	656.2	10,704.7	12,373.0

19 Insurance contracts (continued)

	2015 £m With-Profits	**2015 £m Unit-Linked**	**2015 £m Non-Profit**	**2015 £m Total**
At 1 January	1,012.1	656.2	10,704.7	**12,373.0**
Gross premiums and deposits	9.0	19.1	(16.2)	**11.9**
Insurance liabilities (released)/increased	(157.8)	(150.7)	(509.3)	**(817.8)**
At 31 December	**863.3**	**524.6**	**10,179.2**	**11,567.1**

Restated	2014 £m With-Profits	2014 £m Unit-Linked	2014 £m Non-Profit	2014 £m Total
At 1 January	1,017.3	738.1	8,131.9	9,887.3
Gross premiums and deposits	29.3	26.9	1,775.8	1,832.0
Insurance liabilities (released)/increased	(34.5)	(108.8)	797.0	653.7
At 31 December	1,012.1	656.2	10,704.7	12,373.0

The 2014 premium figures above include the initial premium from the reassurance transaction entered into during 2014 with Phoenix.

19 Insurance contracts (continued)

Actuarial assumptions – non-profit insurance contracts

The assumptions underlying the calculations are broadly as set out in the 2015 Valuation Report prepared under the requirements of Appendix 9.4 of the Interim Prudential Sourcebook for Insurers. In calculating the technical provisions, material judgements are required, particularly through the choice of assumptions underlying the valuation of liabilities.

The principal assumptions underlying the calculations of the technical provisions are as follows:

Class of business		Mortality	Interest Rate
Pensions		44%/46% AMC/AFC00 (50%/46% AM/AF92)	2.50% (2.31%)
Annuities - in payment and	}<£2,000	91%/98% IML00/RFV00 (91%/98%)	2.50% (2.31%)
post vesting	}<£4,000	81%/87% IML00/RFV00 (81%/87%)	2.50% (2.31%)
	}<£10,000	74%/79% IML00/RFV00 (74%/79%)	2.50% (2.31%)
	}>£10,000	68%/73% IML00/RFV00 (68%/73%)	2.50% (2.31%)

Annuities acquired from The Phoenix Group Part I:

Class of business	Mortality	Interest Rate
BA	106%/107% RMV00/RFV00 (106%/107%)	2.50% (2.65%)
Century	91%/107% PCMA00/PCFA00 (91%/107%)	2.50% (2.65%)
SMA	94%/92% PCMA00/PCFA00 (94%/92%)	2.50% (2.65%)
SPL	96%/111% PCMA00/PCFA00 (96%/111%)	2.50% (2.65%)
Pearl	111%/107% RMV00/RFV00 (111%/107%)	2.50% (2.65%)
NPL	100%/93% RMV00/RFV00 (100%/93%)	2.50% (2.65%)

Annuities acquired from The Phoenix Group Part II:

Class of business	Mortality	Interest Rate
PWP	75%/73% S1PMA/S1PFA (75%/73%)	2.50% (2.15%)
Alba	77%/75% S1PMA/S1PFA (77%/75%)	2.50% (2.15%)
SAL	76%/72% S1PMA/S1PFA (76%/72%)	2.50% (2.15%)

There were variations within the different classes of business; the above gives the assumptions for the principal contracts.

Annuity business is valued on the two-way (calendar and age dependent) mortality tables, assuming CMI 2014 mortality improvements with a long term rate of 2% for males and 1.5% for females.

19 Insurance contracts (continued)

Actuarial assumptions – non-profit insurance contracts (continued)

Other classes of business were valued using appropriate methods. There have been no significant changes in the bases or assumptions adopted for the long-term business provision during the year other than the changes in mortality rates and interest rates detailed above.

The annual bonus rates assumed for the Pension Plus/VIP/Buy-Out Plan business reassured from the With-Profits Fund to the Non-Profit Fund are set out below.

Actuarial assumptions – insurance contracts and investment contracts with discretionary participating features

The assumptions underlying the calculations are broadly as set out in the 2015 Valuation Report prepared under the requirements of Appendix 9.4 of the Interim Prudential Sourcebook for Insurers. In calculating the technical provisions, material judgements are required, particularly through the choice of assumptions underlying the valuation of liabilities. In particular, market consistent techniques have been used to value all options and guarantees that fall under the PRA's "realistic" balance sheet requirements. The business lines valued are summarised in Note 20 Investment contracts.

Options and guarantees on non-profit and with-profit business have been valued deterministically using demographic assumptions consistent with those used for the embedded value. They are discounted at a rate of 97.5% of a risk adjusted yield. The risk adjusted yield is determined as risk-free zero coupon yields plus 80% of the spread available on the bond portfolio after allowing for a historical credit default allowance of 1.5 times an amount to compensate for default based on bond rating and term, derived from historical data.

This approach can be taken because it has been demonstrated that all such options and guarantees are closely matched by suitable bonds such that the actual bond portfolio can be considered to be a replicating portfolio of the guaranteed liabilities. The matching has been tested by applying extreme scenarios to the assets and liabilities and demonstrating that the assets remain sufficient to meet the liabilities under these scenarios.

No specific management actions have been assumed in the deterministic valuation of the with-profits realistic liabilities, either in the base position or under the scenarios applied to determine the Risk Capital Margin. In particular, future annual bonuses are assumed to remain at their current levels and no changes to investment policy are assumed. No deductions are assumed for the cost of guarantees consistent with the current approach, although it should be noted that the Company reserves the right to introduce a charge for guarantees in accordance with its Principles and Practices of Financial Management. Payouts are assumed to be 100% of asset shares.

The With Profits Fund holds a series of equity put options to provide protection for terminal bonus payments on conventional with profit endowment maturities up to 2019. The market value of the equity put options is also held as a liability of the fund

19 Insurance contracts (continued)

Actuarial assumptions – insurance contracts and investment contracts with discretionary participating features (continued)

The annual bonus rates assumed are as follows:

Class	Future annual bonus rate (Terminal bonus rate zero)
Endowments	1.00%
Pension Plus/VIP/Buy-Out Plan	0.50%
Personal Pension	1.00%
Life Unitised With-Profits	1.25%
Pensions Unitised With-Profits	1.50%

Assumed levels of future mortality improvement have a significant impact on future costs, particularly those relating to deferred annuities. The assumptions used are consistent with current experience projected forward in line with CMI 2014 mortality improvements with a long term rate of 1.5% for males and 1% for females for best estimate purposes. The principal assumptions underlying the calculations of the technical provisions that do not fall within the PRA's "realistic" balance sheet requirements are as follows:

Class of business		Mortality		Interest Rate
Assurances				
- non-participating		86%/102% AMC/AFC00	(102%/102% AM/AF92)	2.40% (2.10%)
- temporary (non-smoker)		96%/92% TMC/TFC00	(88%/92% TM/TF92)	2.40% (2.10%)
- temporary (smoker)		96%/92% TMC/TFC00	(88%/92% TM/TF92)	2.40% (2.10%)
Pensions - non-participating		44%/46% AMC/AFC00	(50%/46% AM/AF92)	2.90% (2.60%)
Annuities - in payment and	}<£2,000	91%/98% IML00/RFV00	(91%/98%)	2.90% (2.60%)
post vesting	}<£4,000	81%/87% IML00/RFV00	(81%/87%)	2.90% (2.60%)
	}<£10,000	74%/79% IML00/RFV00	(74%/79%)	2.90% (2.60%)
	}>£10,000	68%/73% IML00/RFV00	(68%/73%)	2.90% (2.60%)

19 Insurance contracts (continued)

There were variations within the different classes of business; the above gives the assumptions for the principal contracts.

Annuity business is valued on two-way (calendar year and age dependent) mortality tables, assuming CMI 2014 mortality improvements with a long term rate of 2% for males and 1.5% for females. These rates of improvements include a margin for prudence over the best estimate rates.

For unitised with-profit business, the liabilities are valued initially by determining the lower of the current non-guaranteed surrender value and the bid value of units. This result is then compared with a prospective valuation and the higher result is taken.

Other classes of business were valued using appropriate methods. There have been no significant changes in the bases or assumptions adopted for the long-term business provision during the year other than the changes in mortality rates and interest rates detailed above.

Deferred tax

Future anticipated tax cash flows are included in the actuarial calculation and are discounted at the interest rate applicable to the appropriate class of business.

Amount charged for bonuses

The amount in respect of bonuses in the income statement amounts to £114.5 million (2014: £95.8 million), of which £109.1 million (2014: £88.9 million) relates to interim and terminal bonuses and £5.4 million (2014: £6.9 million) is in respect of reversionary bonuses declared at the end of the year and which was included in the long term business provision. Included within insurance contracts above is the unallocated divisible surplus in respect of the with-profits business of the Company. The unallocated divisible surplus represents an estimate of the amount that may be paid over time to the shareholder as profits emerge from the fund in the form of bonuses. The value attributed to the unallocated divisible surplus at 31 December 2015 is £114.6 million (2014: £131.5 million).

20 Investment contracts

	2015 £m With-Profits	**2015 £m Unit-Linked**	**2015 £m Non-Profit**	**2015 £m Total**
Without discretionary participation features	-	1,241.9	2.8	**1,244.7**
With discretionary participation features	1,192.3	-	0.8	**1,193.1**
	1,192.3	**1,241.9**	**3.6**	**2,437.8**

Restated	2014 £m With-Profits	2014 £m Unit-Linked	2014 £m Non-Profit	2014 £m Total
Without discretionary participation features	-	1,316.8	1.9	1,318.7
With discretionary participation features	1,258.8	-	0.4	1,259.2
	1,258.8	1,316.8	2.3	2,577.9

	2015 £m With-Profits	**2015 £m Unit-Linked**	**2015 £m Non-Profit**	**2015 £m Total**
With discretionary participation features				
At 1 January	1,258.8	-	0.4	**1,259.2**
Gross premiums and deposits	0.2	-	-	**0.2**
Investment liabilities (released)/increased	(66.7)	-	0.4	**(66.3)**
At 31 December	**1,192.3**	**-**	**0.8**	**1,193.1**

Restated	2014 £m With-Profits	2014 £m Unit-Linked	2014 £m Non-Profit	2014 £m Total
With discretionary participation features				
At 1 January	1,319.6	-	0.4	1,320.0
Gross premiums and deposits	2.1	-	-	2.1
Investment liabilities released	(62.9)	-	-	(62.9)
At 31 December	1,258.8	-	0.4	1,259.2

20 Investment contracts (continued)

Investment contracts with discretionary participation features are not measured at fair value and there is currently no agreed definition of fair value for discretionary participation features. In the absence of such a definition, it is not possible to provide a range of estimates within which a fair value is likely to fall. There is no active market for these instruments, which will be settled with customers in the normal course of business.

Changes in the fair value of investment contracts without discretionary participation features, which are designated as fair value through profit or loss were not attributable to changes in the Company's credit spread. There are no significant differences between the carrying amount of these financial liabilities and the contractual amount payable at maturity (net of surrender policies).

Actuarial assumptions – investment contracts

Traditional with-profit

In return for the payment of a single premium or an agreed series of premiums, the Company guarantees to pay a specified level of sum assured or annuity, including annual bonus additions to date, at a specified maturity date or, for life assurances, on earlier death. As at 31 December 2015, the great majority of such guarantees were out of the money (that is, current asset shares generally exceed corresponding guaranteed benefits) for life assurances but in the money for deferred annuities. The actuarial assumptions underlying the calculation of the technical provisions are as outlined in Note 19 above.

Unitised with-profit guarantees

Units purchased to date are guaranteed not to decrease in value if taken at maturity. Similar guarantees exist on earlier death. As at 31 December 2015, the majority of such guarantees are out of the money (2014: out of the money).

Actuarial assumptions – contracts with discretionary participating features

Unitised with-profit guarantees

Units purchased to date are guaranteed not to decrease in value if taken on early retirement up to five years before maturity (that is, no market value reduction will be applied on early retirement up to five years before maturity). Similar guarantees exist on earlier death.

As at 31 December 2015, the majority of such guarantees are out of the money (2014: out of the money).

21 Borrowings

	2015 £m	2014 £m
Loans from subsidiary undertakings	**8.9**	8.9

As permitted under the loan agreement, there is no interest charged on the loan. The Directors consider the carrying value of the loan to represent the fair value with the fair value being categorised within Level 2 of the fair value hierarchy.

22 Other financial liabilities

	2015 £m With-Profits	**2015 £m Unit-Linked**	**2015 £m Non-Profit**	**2015 £m Total**
Reinsurance swap liabilities	**-**	**-**	**335.9**	**335.9**

	2014 £m With-Profits	2014 £m Unit-Linked	2014 £m Non-Profit	2014 £m Total
Reinsurance swap liabilities	-	-	359.9	359.9

The other financial liability is the fixed leg of the longevity swap reinsurance arrangement. This is categorised as level 3 in the fair value hierarchy disclosed in Note 12.

The Directors consider that the carrying amounts disclosed reasonably approximate the fair values as at the year-end (2014: Same).

23 Deferred tax

	Financial assets £m	**Insurance contracts £m**	**Intangible assets £m**	**Total £m**
At 1 January 2015	4.8	26.3	7.1	**38.2**
Change in tax rate	-	(2.2)	(0.6)	**(2.8)**
Charged to income statement	(5.6)	(3.3)	(1.2)	**(10.1)**
At 31 December 2015	**(0.8)**	**20.8**	**5.3**	**25.3**

	Financial assets £m	Insurance contracts £m	Intangible assets £m	Total £m
At 1 January 2014	5.8	29.6	8.5	43.9
Change in tax rate	-	-	-	-
Charged to income statement	(1.0)	(3.3)	(1.4)	(5.7)
At 31 December 2014	4.8	26.3	7.1	38.2

All deferred taxes are non-current by nature.

24 Other liabilities

	2015	2014
	£m	£m
Payables due to policyholders	**37.1**	32.5
Payables out of reinsurance	**1.6**	3.0
Social security and other taxes payable	**36.1**	43.7
Payable to fellow group undertakings	**0.7**	1.0
Cash collateral	**34.8**	336.2
Other creditors	**41.8**	29.2
	152.1	445.6

All other liabilities are current (2014: current).

The Directors consider that the carrying amount of other liabilities and payables are equal to their fair value as this is the amount which would be required to transfer the balance.

25 Capital and solvency

The Company's objectives when managing capital are:

- To comply with the PRA's regulatory capital requirements. In this respect the Company seeks to maintain at a minimum 125% of the regulatory minimum Pillar 1 capital requirement as it considers that this is sufficient capital to support the business that the Company writes;
- To provide an adequate return to shareholders; and
- To ensure the Company's ability to continue to operate as a going concern.

The defined capital includes equity and borrowings.

25a) Regulatory basis

Required capital for the Company is based on the PRA rules. The Company must hold minimum capital resources in excess of the higher of the relevant regulatory rules (Pillar 1) and the Company's own economic capital assessment (Pillar 2). The Pillar 2 economic assessment is subject to regulatory review by the PRA.

In addition to individual minimum capital requirements, the Company is required to comply with the requirements of the Insurance Groups Directive (IGD).

The Company has met with these requirements throughout the year.

25 Capital and solvency (continued)

25b) Capital position statement

The capital available as at 31 December 2015 to meet regulatory capital requirements can be derived from the table below. The table that follows has been prepared to show the capital requirements at an individual level based on PRA rules (Pillar 1), together with the adjustments that reconcile these requirements to the Company's IGD minimum capital requirements.

	2015 With-Profits £m	**2015 Non-participating £m**	**2015 Shareholder £m**	**2015 Total life business £m**
Total shareholder funds	-	765.9	412.2	**1,178.1**
Adjustments onto a regulatory basis:				
Unallocated divisible surplus	114.6	-	-	**114.6**
Core Tier 1 Capital in related undertakings	-	(33.1)	-	**(33.1)**
Adjustments to assets	(0.3)	(100.6)	-	**(100.9)**
Adjustments to liabilities	1,018.8	9.2	-	**1,028.0**
Total available capital resources	**1,133.1**	**641.4**	**412.2**	**2,186.7**
Capital Resource Requirement ("CRR")				**1,495.6**
Available capital after CRR				**691.1**

	2014 With-Profits £m	2014 Non-participating £m	2014 Shareholder £m	2014 Total life business £m
Total shareholder funds	-	676.0	563.9	1,239.9
Adjustments onto a regulatory basis:				
Unallocated divisible surplus	131.5	-	-	131.5
Core Tier 1 Capital in related undertakings	-	(45.7)	-	(45.7)
Adjustments to assets	(0.3)	(85.8)	-	(86.1)
Adjustments to liabilities	1,083.9	(59.0)	-	1024.9
Total available capital resources	1,215.1	485.5	563.9	2,264.5
CRR				1,595.7
Available capital after CRR				668.8

25 Capital and solvency (continued)

25b) Capital position statement (continued)

a) There were no changes in management policy and no changes were made with respect to PS06/14. The fund is closed to new business.

b) Only the With-Profits Fund is subject to a 'realistic' assessment of liabilities. In the table above, the With-Profits Fund results are consistent with PRA's Pillar 1 requirement.

c) The shareholder has a 10% interest in the With-Profits Fund and a 100% interest in the Non-Profit Funds.

d) As the regulatory capital standard is market consistent, the level of available capital will fluctuate with market conditions, in particular with the level of fixed interest yields, credit spreads and equity markets. In general terms the level of regulatory capital will reduce if equity markets fall, fixed interest yields fall, credit spreads widen, and vice versa.

25c) Capital position statement

e) The Company aims to manage the available capital in the With-Profits Fund, after deduction of the CRR, to a long-term position of zero, consistent with the need to distribute the estate as the fund reduces in size.

Risk mitigation strategies adopted (both now and in future) must be consistent with representations made to customers.

f) Liabilities within the With-Profits and PHI/CR and Non-Profit Funds are either perfectly matched (unit-linked business) or very closely matched (non-profit business and guaranteed liabilities on with-profits business).

g) The Company's risk profile is monitored by reference to its economic capital positions. The Company's economic solvency position should be maintained to a level such that it would not default economically on its obligations to customers should any "plausible" scenarios from the past recur.

h) The Company should not be vulnerable to "plausible" events and so should be well diversified in the risks it takes. Risk concentrations will be monitored quarterly using metrics that may change from time to time. These will be considered by the Company's Risk and Capital Committee which amongst other activities, issues:

- Policies to help reduce the possibility of undue risk concentration; and
- Guidance as to which types of risk it may be attractive to write more of on a worldwide, consolidated basis.

i) The Company has met its regulatory capital requirements during 2015 and 2014. With effect from 1 January 2016, Pillar 1 regulatory requirements will be replaced by the Solvency II regime.

26 Provisions, contingent liabilities and charges

Provisions as at 31 December 2015 are as follows:

i) A provision of £2.4 million (2014: £2.4 million classified as insurance contract liabilities) in respect of expected death claim liabilities for policyholder deaths which have occurred.

ii) A provision of £4.0 million (2014: £4.2 million classified as insurance contract liabilities) in respect of the liability for lapsed policies.

iii) Provisions of £0.6 million (2014: £0.4 million, of which £0.3 million classified as insurance contract liabilities and £0.1million were classified as provisions) relate to other potential liabilities to third parties.

There were no contingent liabilities as at 31 December 2015 (2014: Nil).

The Company has a Bond and Floating Charge granted to Countrywide Assured plc on 23 October 2006, in respect of reinsurance contracts (relating to unit-linked business, with-profits business and other classes of insurance business) between Guardian Assurance Limited and Countrywide Assured plc (reserves accepted as at 31 December 2015: £152.0 million (2014: £186.0 million).

27 Risk management

General

The Company is exposed to financial and insurance risks, as detailed within the Strategic Report. The main financial risks are credit risk, liquidity risk and market risk, with the principal elements of market risk being interest rate risk, currency risk and equity risk.

In the quantitative analyses of credit and liquidity risk that follow, assets held within the Company's Unit-Linked and With-Profit Funds have been excluded as the risks are principally borne by the policyholder rather than the shareholder.

Credit risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation and cause the Group to incur a financial loss. An indication of the Company's exposure to credit risk is the quality of the investments and the counterparties with which it transacts. The Company manages credit risk exposure by individual counterparty, sector and asset class, including cash positions. The Company is most exposed to credit risk on debt securities and money market investments, derivative financial instruments, cash and cash equivalents and reinsurance arrangements. Debt securities and money market investments mainly comprise government bonds and corporate bonds.

The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the Board annually.

27 Risk management (continued)

Credit risk (continued)

The following tables give an indication of the level of creditworthiness of those categories of assets which are most exposed to credit risk principally using ratings prescribed by major ratings agencies.

31 December 2015

	AAA	**AA**	**A**	**BBB**	**BB**	**B**	**D**	**Non-rated**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Debt securities and money market instruments	340.1	1,375.8	2,117.0	3,842.1	143.5	-	-	2.9	**7,821.4**
Cash and cash equivalents	235.7	-	537.7	24.1	-	-	-	-	**797.5**
Reinsurance assets	-	-	1,332.8	-	-	-	-	-	**1,332.8**
Other	-	-	-	479.3	-	531.5	-	-	**1,010.8**
	575.8	**1,375.8**	**3,987.5**	**4,345.5**	**143.5**	**531.5**	**-**	**2.9**	**10,962.5**

31 December 2014

	AAA	AA	A	BBB	BB	B	D	Non-rated	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Debt securities and money market instruments	381.1	1,300.5	2,674.7	3,804.5	191.6	23.7	0.9	1.3	8,378.3
Cash and cash equivalents	128.7	18.2	48.5	-	-	-	-	156.8	352.2
Reinsurance assets	-	431.2	1,002.8	-	-	-	-	-	1,434.0
Other	-	-	-	479.1	-	517.5	-	-	996.6
	509.8	1,749.9	3,726.0	4,283.6	191.6	541.2	0.9	158.1	11,161.1

The loans to immediate parent undertakings are not rated.

27 Risk management (continued)

Credit risk (continued)

Credit risk concentrations by sector for debt securities and money market investments are as follows:

	£m 2015	£m 2014
Asset backed securities		
- Household	**-**	-
- Other	**351.0**	495.8
Other collateralised mortgage backed securities	**1,011.9**	1,075.0
Financial	**2,086.4**	2,363.0
Industrial	**2,078.7**	2,184.9
Utility	**1,470.0**	1,465.0
Sovereign exposure	**823.4**	794.6
	7,821.4	8,378.3

The Company has total debt security holdings of £8,929.8 million (2014: £9,617.3 million) of which £1,108.4 million (2014: £1,239.0 million) is held within the Unit-Linked and With-Profit Funds where exposure risk predominantly is borne by the policyholder.

27 Risk management (continued)

Credit risk (continued)

Overseas exposures

The following tables show the Company's exposure by country of incorporation of the counterparty at 31 December 2015. Countries shown are those where the country had an external rating of A- and below.

2015	**Corporate financial institutions £m**	**Other corporate £m**	**Total £m**
Ireland	61.0	5.8	**66.8**
Italy	4.0	95.4	**99.4**
Spain	-	39.6	**39.6**
Mexico	-	62.2	**62.2**
Total	**65.0**	**203.0**	**268.0**

2014	Corporate financial institutions £m	Other corporate £m	Total £m
Ireland	173.4	-	173.4
Italy	11.3	63.9	75.2
Spain	1.1	37.4	38.5
Mexico	-	67.2	67.2
Total	185.8	168.5	354.3

27 Risk management (continued)

Credit risk (continued)

Unconsolidated structured entities

The following table details the Company's interests in structured entities and the maximum exposure to loss from holding these investments:

	2015 Number of entities	**2015 Carrying amount £m**	**2015 Maximum exposure to loss £m**	**2015 Total assets of structured entity £m**
Asset backed securities	32	386.4	386.4	**10,684.1**
Residential MBS	1	3.8	3.8	**91.4**
Commercial MBS	23	217.6	217.6	**7,891.0**
Open-ended investment companies	-	-	-	**-**
Guardian Loan Opportunities Ltd	1	531.5	531.5	**531.5**
	57	**1,139.3**	**1,139.3**	**19,198.0**

	2014 Number of entities	2014 Carrying amount £m	2014 Maximum exposure to loss £m	2014 Total assets of structured entity £m
Asset backed securities	53	555.7	555.7	16,358.4
Residential MBS	11	80.6	80.6	3,979.2
Commercial MBS	29	331.6	331.6	9,856.6
Open-ended investment companies	11	193.1	193.1	24,113.6
Guardian Loan Opportunities Ltd	1	517.5	517.5	517.5
	105	1,678.5	1,678.5	54,825.3

Past due or impaired assets

There were no past due or impaired assets in the Non-Profit or Shareholder Funds as at 31 December 2015 or 31 December 2014.

27 Risk management (continued)

Credit risk (continued)

Collateral

Investments pledged as collateral for derivative liabilities totalled £Nil (2014: £Nil). Cash pledged as collateral for derivative liabilities totalled £4.5 million (2014: £13.7 million). Investments received as collateral for derivative assets totalled £228.7 million (2014: £196.6 million). The Company did not have the right to sell or re-pledge these types of investments. These investments were in the form of government and supranational bonds. Cash received as collateral for derivative assets totalled £34.8 million (2014: £336.2 million).

Investments received as collateral for reassured annuity business within the Non-Profit Fund of the Company totalled £927.8 million (2014: £990.3 million). The Company did not have the right to sell or re-pledge these types of investments. These investments were in the form of Gilts, fixed income securities guaranteed by sovereign states or supra-nationals and corporate bonds with a credit rating of BBB or higher.

As a result of the prior year reassurance transaction with Phoenix, the Company has investments pledged as collateral within the Non-Profit Fund with a value of £1,781.9 million as at the balance sheet date (2014: £1,868.8 million). The Company did not have the right to sell or re-pledge these types of investments. These investments were principally in the form of Gilts and corporate bonds with a credit rating of BBB or higher.

The Company is party to a longevity swap with RGA in order to transfer mortality risk on £1.5 billion of annuities to RGA. As part of this agreement, the Company is required to post collateral, which is assessed quarterly, to support the difference between the fixed payments to RGA and the variable payments from RGA. At 31 December 2015, £38.8 million of financial assets (principally corporate bonds) were posted as collateral (2014: £36.0 million). These assets continue to be recognised on the Company balance sheet (and are included within Note 11). The title to these assets has been transferred to RGA although the Company can swap assets provided the total market value of the assets supports the overall collateral required to be posted.

The following table provides information on derivative financial instruments and reinsurance assets that are subject to master netting agreements and illustrates the potential effect of netting offset arrangements after taking into account these agreements.

£m	Related amounts not set off in the statement of financial position(i)			
As at 31 December 2015	**Gross amounts recognised**	**Enforceable master netting arrangements**	**Collateral**	**Net exposure**
Derivative financial instruments (ii)	360.3	(69.7)	(263.5)	27.1
Reinsurance assets (iv)	933.2	-	(927.8)	5.4
Total	**1,293.5**	**(69.7)**	**(1,191.3)**	**32.5**
Derivative financial instruments (iii)	(124.5)	69.7	4.5	(50.3)
Reinsurance liabilities (v)	(1,619.4)	-	1,781.9	162.5
Total	**(1,743.9)**	**69.7**	**1,786.4**	**112.2**

27 Risk management (continued)

Credit risk (continued)

£m	Related amounts not set off in the statement of financial position(i)			
As at 31 December 2014	Gross amounts recognised	Enforceable master netting arrangements	Collateral	Net exposure
Derivative financial instruments (ii)	895.0	(377.5)	(517.5)	-
Reinsurance assets	1,002.8	-	(990.3)	12.5
Total	1,897.8	(377.5)	(1,507.8)	12.5
Derivative financial instruments (iii)	(387.7)	377.5	10.2	-
Reinsurance liabilities	(1,794.3)	-	1,868.8	74.5
Total	(2,182.0)	377.5	1,879.0	74.5

(i) Financial assets and financial liabilities that do not meet the offsetting criteria under IAS 32: *Financial instruments* and are reported gross in the statement of financial position.

(ii) Total derivative financial assets disclosed in Note 14 of £366.9 million (2014: £911.3 million) consist of the gross amounts of recognised financial assets of £360.3 million (2014: £895.0 million) plus other derivative financial assets that are not subject to master netting agreements of £6.6 million (2014: £16.3 million).

(iii) Total derivative financial liabilities of £131.0 million (2014: £407.8 million) disclosed in Note 14 consist of the gross amounts of recognised financial liabilities of £124.5 million (2014: £387.7 million) plus other derivative financial liabilities that are not subject to master netting agreements of £6.5 million (2014: £20.1 million).

(iv) Total reinsurance assets of disclosed in Note 15 consist of the gross amounts of recognised reinsurance assets of £933.2 million (2014 : £1,002.8 million) plus other reinsurance assets that are not subject to master netting agreements of £ 399.6 million (2014 : £431.1 million).

(v) Total insurance contract liabilities disclosed in Note 19 consist of the gross amounts of reinsurance liabilities of £1,619.4 million (2014 : £1,794.3 million) plus other insurance contract liabilities that are not subject to master netting agreements of £9,947.7 million (2014 : £10,617.0 million)

27 Risk management (continued)

Liquidity risk

The tables that follow sets out a maturity analysis for the Company's financial liabilities (non-derivatives and derivatives) based on remaining contractual maturities:

2015 - Maturity analysis - gross undiscounted cash flows

	On Demand £m	**< 1 yr £m**	**1 < 5 yrs £m**	**> 5 yrs £m**	**Totals £m**
Derivatives	-	40.0	24.7	75.1	**139.8**
Borrowings	8.9	-	-	-	**8.9**
Other financial liabilities	-	126.2	86.2	378.6	**591.0**
	8.9	**166.2**	**110.9**	**453.7**	**739.7**

2014 - Maturity analysis - gross undiscounted cash flows

	On Demand £m	< 1 yr £m	1 < 5 yrs £m	> 5 yrs £m	Totals £m
Derivatives	-	171.1	351.9	314.6	837.6
Borrowings	8.9	-	-	-	8.9
Other financial liabilities	-	426.6	76.6	380.5	883.7
	8.9	597.7	428.5	695.1	1,730.2

2015 - Financial liabilities relating to insurance and investment contracts

	< 1 yr £m	**1 < 5 yrs £m**	**5 < 10 yrs £m**	**> 10 yrs £m**	**Totals £m**
Insurance contracts	877.3	2,680.5	2,910.5	7,723.7	**14,192.0**
Investment contracts	145.5	527.3	605.8	806.4	**2,085.0**
	1,022.8	**3,207.8**	**3,516.3**	**8,530.1**	**16,277.0**

27 Risk management (continued)

Liquidity risk (continued)

2014 - Financial liabilities relating to insurance and investment contracts

	< 1 yr	1 < 5 yrs	5 < 10 yrs	> 10 yrs	Totals
	£m	£m	£m	£m	£m
Insurance contracts	873.9	2,984.2	3,032.1	8,352.6	15,242.8
Investment contracts	154.5	585.9	734.3	1,336.8	2,811.5
	1,028.4	3,570.1	3,766.4	9,689.4	18,054.3

The liability amount in the Company's financial statements reflects the discounting for interest as well as adjustments for the timing of other factors as described above. As a result, the sum of the cash benefit payments shown for all years in the table exceeds the corresponding liability amounts included in Notes 19 and 20.

Market risk

Results of the Company's sensitivity analyses are presented throughout this section to show the estimated sensitivity of net income and shareholder's equity to various scenarios. For interest rate risk, equity risk, and currency risk, the analysis shows how these measures would have been affected by changes in the relevant risk variable that were reasonably possible at the reporting date. In performing the analyses and determining the potential impact for the financial year, the assumption is made that the financial instrument exposures at the balance sheet date were in existence for a full year. For each sensitivity test, the impact of a reasonably possible change in a single factor is shown.

The sensitivities do not reflect what the results for the year would have been if risk variables had been different, because, for financial instruments, the analysis is based on the exposures in existence at the reporting date rather than on those that actually occurred during the year. Nor are the sensitivities intended to be an accurate prediction of the Company's future equity or earnings. The analysis does not consider all instruments available to management to respond to changes in the financial environment, such as changing investment portfolio allocations or adjusting premiums and crediting rates.

Furthermore, the results of the analyses cannot be extrapolated for wider variations since effects are not always linear. No risk management processes can clearly predict future results.

27 Risk management (continued)

Interest rate risk

The sensitivity analysis in the table below shows an estimate of the effect of a parallel shift in the yield curve on net income and shareholder's equity. Increases in interest rates have a positive effect on loan income, a negative effect on bond income because they result in unrealised losses on investments that are carried at fair value and a negative effect on annual management charges collected because the value of fixed interest securities would decrease. The offsetting economic gain on the insurance is not fully reflected, however, in the sensitivities, because many of these liabilities are not measured at fair value. The net effect of these movements is shown in the table below.

	2015		2014	
	Impact on net income £m	**Impact on equity £m**	Impact on net income £m	Impact on equity £m
Immediate change				
Shift up 100 basis points	**(88.6)**	**(94.7)**	(106.2)	(112.9)
Shift down 100 basis points	**90.0**	**97.2**	127.8	135.5

Equity risk

The sensitivity analysis of net income and shareholder's equity to changes in equity prices is presented in the table below. The sensitivity of net income and shareholder's equity primarily reflects the impact of equity price changes on fund related charges and future terminal bonus liabilities.

	2015		2014	
	Impact on net income £m	**Impact on equity £m**	Impact on net income £m	Impact on equity £m
Immediate change				
Equity increase 10%	**(15.9)**	**(15.9)**	(12.1)	(12.1)
Equity decrease 10%	**15.9**	**15.9**	12.1	12.1
Equity increase 20%	**(31.9)**	**(31.9)**	(24.2)	(24.2)
Equity decrease 20%	**31.9**	**31.9**	24.2	24.2

27 Risk management (continued)

Equity risk (continued)

Guardian's financial measures are exposed to equity risk from the shareholders' share of the equities held in the With-Profits Fund backing terminal bonus liabilities and the value of Unit Linked Fund annual management charges. Guardian has hedged the shareholder's exposure to this risk using equity futures. The impacts shown reflect that any profit/(loss) on the futures are recognised through the income statement whilst the change in the value of the underlying hedged item, the future value of annual management charges or terminal bonus liabilities, is not.

Currency risk

The Company is exposed to currency risk which is hedged using derivatives such as short-dated currency forwards to bring this risk within the Company's risk appetite. Currency risk net of this hedging is not considered material.

Insurance risk

The Company's earnings are impacted by the extent to which actual claims experience is not consistent with the assumptions used in setting prices for products and establishing technical liabilities and liabilities for claims. To the extent that actual claims experience is less favourable than the underlying assumptions used in establishing such liabilities, income would be reduced. Furthermore, if these higher claims were part of a permanent trend, the Company may be required to increase liabilities, which could also reduce income.

Sources of underwriting risk include policy claims such as mortality and morbidity. For mortality and morbidity risk, the Company holds certain types of policies that are at risk if mortality or morbidity increases, such as term life insurance, and certain types of policies that are at risk if mortality decreases (longevity risk) such as annuity products. The Company is not exposed to a significant expense risk due to an agreement in place with the shareholder. The Company monitors and manages its underwriting risk by underwriting risk type. Attribution analysis is performed on earnings in order to understand the source of any material variation in actual results from what was expected. The Company also performs experience studies for underwriting risk assumptions, comparing the Company's experience to industry experience as well as combining the Company's experience and industry experience based on the depth of the history of each source to the Company's underwriting assumptions. Where products have flexible policy charges the Company uses these analyses as the basis for modifying these charges, with a view to maintaining a balance between policyholder and shareholder interests.

27 Risk management (continued)

Insurance risk (continued)

Sensitivity analysis of net income and shareholder's equity to various underwriting risks as shown below has been assessed. The sensitivities considered represent an increase or decrease of mortality and morbidity rates or lapse rates during the relevant year.

5% increase in mortality rates
5% decrease in mortality rates
0.75% increase in long term future improvement in longevity assumption
20% increase in lapses
20% decrease in lapses
10% increase in morbidity rates
10% decrease in morbidity rates

The longevity stress is an increase in the long-term future improvement assumption of +0.75%. It represents the chance that future improvements happen quicker than expected leading to lower mortality assumptions. The Company is party to a longevity swap with RGA in order to transfer mortality risk on £1.5 billion of annuities to RGA.

The only sensitivities that had a significant impact on net income or shareholder's equity for 2015 and 2014 were in respect of mortality and longevity as shown below.

	2015		2014	
	Impact on net income £m	**Impact on equity £m**	Impact on net income £m	Impact on equity £m
Immediate change				
5% increase mortality rates	**102.6**	**102.6**	99.7	99.7
5% decrease mortality rates	**(107.8)**	**(107.8)**	(104.6)	(104.6)
Mortality improvement stress	**(270.1)**	**(270.1)**	(299.4)	(299.4)

Operational risk

In the normal course of business, reviews of processes and procedures are undertaken to ensure that customers are treated fairly, and to respond to matters raised by customers and their representatives. The Company does not believe that material liabilities will arise from such reviews, however there is a risk that the Company is not able to resolve such matters in the manner that it expects.

28 Related party transactions

(a) Immediate and ultimate parent undertaking

The entire issued share capital of the Company at the year-end was held by Guardian Financial Services Holdings UK Limited, which is domiciled and incorporated in England & Wales.

The Company's ultimate parent undertaking at the balance sheet date was Guardian Holdings Europe Limited, which is domiciled and incorporated in Jersey.

As a result of the completion of the acquisition of the Company by Admin Re Limited on 6 January 2016, the Company's new ultimate parent undertaking is Swiss Re Life Capital Limited, a company incorporated under the laws of Switzerland. Accordingly, the Directors consider the Company's ultimate controlling party to be Swiss Re Life Capital Limited as at the date of signing the accounts.

(b) Year end balances and transactions with related parties

Transactions and balances with related parties include all transactions and balances with Guardian Holdings Europe Limited and its subsidiary undertakings. Year end balances with related parties also include all balances with Swiss Re Life Capital Limited and its subsidiary undertakings.

During the year, the Company received dividend income from its subsidiary undertakings of £50.7m (2014: £nil) and paid dividends to its immediate parent undertaking, Guardian Financial Services Holdings UK Limited, of £170.0 million (2014: £80.0 million).

Other operating and administration expenses include £11.9 million (2014: £12.7 million) of operational expenses recharged to the Company by Guardian Companies Services Limited, a fellow subsidiary of Guardian Financial Services Holdings UK Limited.

Outstanding payables are unsecured, interest free and cash settlement is generally expected within 30 to 90 days of invoice. Outstanding receivables relate to unsecured, interest free intercompany accounts with no specified credit period. The Company has not provided or benefited from any guarantees for any related party receivables or payables. During the year ended 31 December 2015, the Company has not made any provision for doubtful debt relating to amounts owed by related parties (2014: £nil).

Year-end balances related to related party transactions are detailed in Notes 11 , 21 and 24. As at 31 December 2015, year-end balances with related parties include all balances with fellow subsidiary undertakings of Guardian Holdings Europe Limited. This includes a liability of £1.3 million (2014: £1.0 million) in respect of operational expenses recharge with Guardian Companies Services Limited.

28 Related party transactions (continued)

(b) Year end balances and transactions with related parties (continued)

Loans to related parties of £65.5 million (2014: £65.1 million) detailed in Note 11 is a loan to the immediate parent undertaking. Interest charged on the loan, included within investment income detailed in Note 5 amounted to £0.5 million (2014 £0.7 million). Borrowings of £8.9 million (2014: £8.9 million) detailed in Note 21 are interest free loans from the subsidiary undertakings of the Company.

As disclosed in Note 29 on 6 January 2016, the shareholders sold 100% of the issued share capital of Guardian Holdings Europe Limited and its immediate and indirect subsidiary undertakings, including the Company, to Swiss Re Life Capital Limited, the parent company of Admin Re UK Limited, Swiss Re's Life Capital Limited unit active in the closed life book business, for a total consideration of £1.6 billion. As at 31 December 2015, reinsurance assets include £14.0 million in relation to Swiss Re.

(c) Compensation of key management personnel

The key management of the Company consists of the Board of Directors. In respect of qualifying services provided to the Company in the year to 31 December 2015, the Directors received remuneration (as outlined below). The Directors did not receive any pension benefits or pension contributions, nor did they receive remuneration under a long-term incentive plan, shares or share options.

Key management personnel remuneration	**2015**	**2014**
	£m	**£m**
Short term employee benefits	**5.4**	1.1
Post-employment employee benefits	**-**	-
Termination benefits	**0.6**	-
Total remuneration	**6.0**	1.1

There were no transactions between the Company and any key management personnel during the year and there are no balances outstanding at the year end.

29 Post balance sheet events

On 6 January 2016, the shareholders sold 100% of the issued share capital of Guardian Holdings Europe Limited and its immediate and indirect subsidiary undertakings, including the Company, to Swiss Re Life Capital Limited, the parent company of Admin Re UK Limited, Swiss Re's Life Capital Limited unit active in the closed life book business, for a total consideration of £1.6 billion.