ReAssure Limited
Annual report and financial statements 2017

Company Registration Number 00754167

Contents

Directors and officers

Board of Directors

Matthew Cuhls		
Brian Dunne		
Michael Eves		
James Gallagher		
Richard Hudson		(resigned 31 December 2017)
Denise Larnder		(appointed on 01 January 2018)
Maxwell Ledlie		
Michael Woodcock		
Michael Yardley	Chairman	(appointed on 01 October 2017)

Company Secretary
Paul Shakespeare

Reporting Actuary
Simon Thomlinson

Registered office
Windsor House
Telford Centre
Telford
Shropshire
TF3 4NB

Company registration number
00754167

Strategic report for the year ended 31 December 2017

The directors present their strategic report for the year ended 31 December 2017.

Principal activities

The Company acquires individual closed blocks of in-force long-term life, pensions and health business, either through reinsurance or by the purchase of an entire life insurance company and the subsequent transfer of its business to the company under Part VII of the Financial Services and Markets Act 2000 ("Part VII transfer"). The Company administers the policies until they reach maturity, are surrendered, or an insured event occurs. The principal products administered are long-term life and pension products, permanent health insurance and critical illness products and retirement annuities. The Company is part of the Swiss Re group, a worldwide reinsurance and financial services provider.

As part of the service to existing customers, the Company continues to write limited amounts of new business on a passive basis, responding to requests for pension annuities on retirement of existing policyholders, top-ups to existing contracts, single premium reinvestment options at maturity. Gross annualised new business premium income for 2017 was £11.1m (2016: £15.0m).

Business review

As disclosed in the prior year financial statements, on 31 December 2016 the Guardian Assurance Limited business was transferred to the Company by way of a Part VII transfer. In August 2017, the Guardian policies were successfully migrated onto the Company's policy administration system.

During the first half of 2017, the Company submitted its first annual Solvency II returns as part of the new EU-wide insurance regulatory regime. The Company is continuing with its application process with the PRA for Partial Internal Model approval.

As part of the wider business strategy to secure capital to fund new acquisitions, in October 2017 it was announced that MS&AD, a conglomerate insurer based in Japan, had agreed to acquire an initial 5% stake in ReAssure Jersey One Limited ("RJOL"), an intermediate holding company above ReAssure Limited in the group. This agreement to purchase 5% was accompanied by a commitment to invest up to £800m in RJOL. Regulatory approval for the deal was received in January 2018, and on 23 January 2018 MS&AD completed the acquisition of the initial 5% for £175m and on the same date a further 8.2% of RJOL for £330m, due to the availability of a new deal. On 28 February 2018, MS&AD acquired a further 1.8% for £82m, bringing their total stake to 15% and their total investment to £587m.

This injection of capital has enabled the Company to pursue its principal acquisition activities, and in December 2017 the Company agreed to purchase approximately 1.1 million policies from Legal & General for £650m. The policies contain a mix of with-profits, unit-linked and savings products and comprise approximately £33 billion of funds under management. The transaction has further enhanced the ReAssure Group's position as a leading closed life book consolidator in the UK, with over 3 million owned policies in force. The reinsurance deal effecting the transaction was completed in January 2018, with a Part VII transfer expected during 2019, subject to regulatory approval.

Business environment

The Company continues to operate in a highly competitive market, which is adapting to new regulatory and accounting changes. As opportunities for further acquisitions arise, these are assessed on the value that they can bring to the group, ensuring that the required returns are achieved. Once business has been transferred into the Company it must work to retain that business by providing excellent customer service. The Company owns a market leading administration system which allows it to deliver on its customer service objectives.

Regulatory change poses demands on the Company as a whole. New offerings have been developed to enable customers to take advantage of increased flexibility in the pensions market. The Company continues to partner with LV= to offer customers the option to take an annuity from a panel of the UK's best known providers. Other key changes have included improved communication leading up to retirement age, the introduction of a retirement planning toolkit and the continued offering of a flexible drawdown product. Customer services processes have been re-engineered to support these changes.

Strategic report for the year ended 31 December 2017 (continued)

Business environment (continued)

Insurance and investment contract liabilities are backed by UK, European, US and Asia based assets. These holdings range from Sovereign and Corporate debt, equities, unit trusts and residential and commercial mortgage backed securities. The Company uses Swiss Re Asset Management and other external asset managers to manage, value and monitor the holdings and report the performance of the company's investment portfolio to the Investment Committee at the Board's request.

In spite of political uncertainties, investment markets experienced a strong year in 2017. Equity markets reached record highs across the globe. The US Federal Reserve raised interest rates three times, closing the year at 1.5%, whilst in the UK interest rates were raised for the first time since the global financial crisis, from 0.25% to 0.5%.

There are a number of risks to the outlook for 2018. Global equities have experienced a volatile start to the year, with the prospect of 'trade wars' impacting markets. The outlook for bonds carries some uncertainty too with a chance that any anticipated UK rate rises may be pushed back further into 2018 or later. The nature of the UK's future relationship with the European Union remains unclear and adds to the general uncertainty in the markets.

The Company will continue to closely monitor the risks during the year ahead and react accordingly to best protect the interest of policyholders. A strong capital base will be retained as protection against adverse or unforeseen events.

The company reports under the Solvency II regime using the standard formula. The Solvency II capital resources of the company are set out in note [29] to the financial statements. The company has maintained capital comfortably in excess of its solvency requirements at all times during 2017.

Results

The profit for the year was £1,047.7m (2016: £1,474.7m). Net assets as at 31 December 2017 were £3,200.7m (2016: £2,546.6m).

Business strategy

The goal is to be the preferred life and pensions consolidator in the UK market. The Company acquires closed books of business to enable suitable economies of scale so that a stable profit stream is generated.

As a group, Swiss Re aims to optimise its allocation of capital and enable other insurers to release capital from non-core operations. This is achieved by sourcing and securing closed blocks of in-force life and health business and assuming responsibility for administering the underlying policies. The operational efficiency of other insurers is therefore increased by removing the need for life insurers to maintain legacy IT systems and processing infrastructures. This enables these insurers and their shareholders to exit a line of business and redeploy the resulting capital and available resources to core operations or new ventures.

The Company retains business and manages policyholder expectations with the following strategies:

- building on the systems architecture to deliver excellent policyholder administration and constantly updating for changing regulatory requirements;
- investments managed by experienced investment managers delivering consistently competitive returns; and
- risks controlled by comprehensive risk mitigation processes, systems and procedures.

Business strategy (continued)

The directors believe that this enables it to operate in line with its core values:

- to willingly serve customers, meaning policyholders, business partners and each other;
- to recognise customer interests and treat them fairly;
- to respond to customer needs in a timely, consistent and transparent manner; and
- commitment to high standards of quality.

Key performance indicators

Financial key performance indicators ("KPIs") are disclosed in the Results section above. The following non-financial KPIs are some of the other measures used to monitor performance of the business:

	2017	**2016**
Solvency ratio (non-profit fund)	162%	161%
Solvency ratio (with-profit fund)	175%	150%
Solvency ratio (GAWPF)	162%	161%
Policy count - own policies	2,241,949	2,370,093
Policy count - third-party administered	1,044,460	1,155,555
Administration complaints per 1,000 policies (own policies)	0.13	0.14

Solvency ratio (non-profit fund)

The solvency ratio is a key measure of the financial strength of the Company and represents the amount of capital held above the regulatory minimum capital requirement. In the opinion of the directors in holding the minimum capital requirement plus an amount of respectability capital based on an assessment of risks the Company faces, the Company has sufficient capital to cover the risks inherent in the business and to cover a very wide range of adverse scenarios. The directors continually monitor the solvency of the business to ensure that the Company is adequately capitalised.

Solvency ratio (with-profit fund)

Surplus in the with-profit fund is retained for future allocation between policyholders and shareholders. As the with-profit fund is exposed to equity risk the surplus acts to mitigate the risk that in adverse market conditions the fund may not have the assets to cover its contractual liabilities or may not be able to meet the reasonable expectations of policyholders.

Policy count

The policy count has decreased during 2017 in line with the run-off of the business.

Administration complaints per 1,000 policies

The Company monitors complaint numbers to ensure that policyholders are receiving a high standard of policy administration and so that issues arising can be investigated, and if appropriate, processes and procedures changed to ensure that complaints do not occur again. For own policies, the number of administration complaints received per 1,000 of policies was 0.13 for 2017 (2016: 0.14).

Principal risks and uncertainties

The following have been defined as the principal risks and uncertainties affecting the Company:

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market price. Market risk typically comprises interest rate risk, other price risk, credit spread risk and foreign currency risk. Interest rate risk is discussed separately below. Other price risk is the risk that arises from changes in market prices and these may be caused by factors specific to the individual financial instrument or its issuer or factors affecting all similar financial instruments traded in the market. The risk is carefully monitored in the monthly investment committee meetings. If required, investment managers will be asked to re-balance the portfolio to avoid over exposure to one class of asset, location or business sector. Prices are sourced from a variety of external providers. The company's exposure to credit spread risk is monitored by the investment committee. In particular no holdings on the credit watch list are rated Red. The Company is not exposed to foreign exchange risk on unit-linked products as this risk resides with policyholders. Outside the unit-linked funds foreign currency denominated investments make up an insignificant proportion of the portfolio and, as such, the company is not exposed to significant risk in this area.

Interest rate risk is the risk that the fair value of financial assets or liabilities and cash flows associated with these will fluctuate because of changes in market interest rates, and in particular that those fluctuations may not be well matched. The Company monitors the expected asset and liability cash flows to ensure that they are broadly similar. This is monitored by calculating the mean duration of the investment portfolio (the mean duration is an indicator of the sensitivity of the assets and liabilities to changes in the current interest rates). The mean duration of the liabilities is determined by means of projecting expected cash flows from the contracts using the statutory valuation basis. Any divergence that occurs between the mean duration of the assets/liabilities is minimised by buying and selling fixed interest securities to achieve the desired portfolio duration.

Equity price risk is the risk that the fair value of equities held will fluctuate because of changes in the equity markets. The equity holdings of the company are primarily in the with-profits and unit-linked funds. To mitigate this risk, investments are monitored in order to ensure compliance with the regulatory limits for solvency purposes. Investments held are listed on recognised stock exchanges or are collective investment schemes approved by the EU under the undertakings for the collective investment in transferable securities ("UCITS") directive. Again, these risks are monitored as part of the Company's investment committee meetings.

For unit-linked policyholder funds, where the policyholder bears the underlying investment risk, the company invests the assets in accordance with the stated objectives for the particular fund which the policyholder has selected. In certain cases this is a single investment, as prescribed. For with-profits funds, the company invests the assets in a diverse portfolio covering a wide range of asset classes and geographical regions in order to manage market risk, but with regard to the capital position of the fund and the guaranteed element of certain benefits. For non profit and shareholder funds the Company invests in a diverse portfolio of assets appropriate to the nature of the underlying liabilities.

Insurance risk includes risk arising due to adverse movements in mortality, longevity, morbidity and persistency. The risk is managed using a variety of techniques including trend analysis, appropriate modelling, pooling of risk, reinsurance and prudent provisioning. An amount of risk capital over and above the minimum capital requirement is held by the Company to cover insurance risk and associated cash flows.

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Company is exposed to credit risk are:

- exposure to corporate bonds and asset backed securities;
- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid; and
- amounts due from insurance contract holders.

The Company places limits on its exposure to a single counterparty and to geographical and industry segments. For bonds that do not carry a public rating the investment manager follows a process to assign an internal credit rating.

Principal risks and uncertainties (continued)

Counterparty limits are defined in the investment guidelines and these are monitored daily. Any breach is reported to the board investment committee and corrected within the time frame stipulated in the investment guidelines.

Expense risk is the risk that expenses may not be well controlled and unplanned increases in expenses may threaten the solvency of the Company and the security of the policyholders. The company mitigates this risk by having in place a Management Services Agreement ("MSA") with ReAssure UK Services Limited ("RUKSL"), ReAssure Companies Services Limited and ReAssure FSH UK Limited, all of which are group undertakings, which charge the company a fixed fee per policy, while incurring the majority of expenses itself. The financial expense risk is therefore largely transferred to these group undertakings. Other costs outside of the MSA are controlled by a robust business planning and budget cycle and where appropriate these are provided for in the Company reserves.

Operational risk is the risk of loss that arises from people, processes and procedures within the organisation. Within the Company this is wide ranging and also includes risks arising from policy administration issues. These are generally processing or platform functionality errors, data quality (which predominantly arise from errors made in historical conversions), financial modelling, corporate tax, business continuity and outsourcing. The Company mitigates its operational risk by the use of a wide range of techniques including scenario planning, training, formal risk assessments and policy and procedure documentation. The Company monitors operational risk through routine management information and auditing.

The Company’s internal audit function advises management on the effectiveness of its internal control systems and the adequacy of these systems to manage business risk and to safeguard the company’s assets and resources. The effectiveness of the company’s internal audit function is reviewed by the ReAssure Group Limited audit and risk committee.

A component of the Company’s external audit for the year ended 31 December 2016 was subject to regulatory review. No significant findings were raised as a result of this review. The Audit Committee continues to monitor the effectiveness of the external audit.

Conduct risk is defined by the Financial Conduct Authority ("FCA") as the risk that a firm's behaviour will result in poor outcomes for customers. This should be at the forefront of how customers are dealt with. ReAssure's Conduct Strategy is delivered through four foundations: (i) Treating Customers Fairly ("TCF") is embedded into our policy and processes in a way that is designed to deliver fair outcomes; (ii) we incentivise internal behaviours that create a strong customer centric culture; (iii) our strategy and proposition take account of customers external behaviours to support the right outcomes; and (iv) we have appropriate controls and oversight in place which support fair customer outcomes.

Treating our customers fairly is central to our business model and culture, designed to meet the six consumer outcomes identified by the FCA as part of their expectations.

A strong fairness culture is championed with the provision of training and ongoing awareness and engagement activities designed to help staff understand what the fair treatment of customers means and their responsibilities to deliver fair customer outcomes. Appropriate policies have been implemented to account for the risks and impacts to customers, focusing on delivering consistently good customer service and products that meet customer needs.

We provide customers with clear and timely communications about policy features at regular intervals, and at key points in the product life cycle, to enable our customers to make informed decisions. Complaints are dealt with promptly and sympathetically, consistent with our fairness principles. Regular customer feedback is sought and used to inform and improve our working practices.

Management information is regularly produced to measure performance against appropriate customer fairness issues and we take appropriate actions on the results. Appropriate governance oversight has been put in place to facilitate timely resolution of issues. Performance is assessed through analysis and evaluation of external publications with a significant customer impact, alongside participation in relevant industry benchmarking and discussion groups to ensure the framework is consistent with industry standards.

Treating our customers fairly remains a key priority, through both business as usual activities and projects, with a strong commitment to delivering fair customer outcomes.

Principal risks and uncertainties (continued)

Capital management

The Company is subject to a number of regulatory capital tests. In reporting financial strength, capital is measured and solvency is assessed using rules prescribed by the Prudential Regulation Authority ("PRA"). These regulatory capital tests require prudent assumptions in respect of each type of business written by the Company. The Company covered its regulatory capital resources requirement at all times during the year.

2017	GAWPF £m	WLWPF £m	NMF £m	NPF £m	**Total £m**
Capital resources available	238.5	24.0	28.5	4,489.3	**4,780.3**
Capital resources required	147.0	13.8	28.5	2,777.3	**2,966.6**
Excess regulatory capital	91.5	10.2	-	1,712.0	**1,813.7**

2016	GAWPF £m	WLWPF £m	NMF £m	NPF £m	**Total £m**
Capital resources available	233.2	31.0	45.1	3,898.8	**4,208.1**
Capital resources required	144.9	20.8	45.1	2,423.2	**2,634.0**
Excess regulatory capital	88.3	10.2	-	1,475.6	**1,574.1**

Approval

This report was approved by the Board of Directors on 30 April 2018 and signed on its behalf by:

Paul Shakespeare
Company Secretary
30 April 2018

Directors' report for the year ended 31 December 2017

The directors present their annual report together with the audited financial statements of the Company for the year ended 31 December 2017.

Dividends

During 2017, an ordinary dividend of £1,044.0m was paid in respect of the year ended 31 December 2016 (2016: £336.0m in respect of 31 December 2015). At the date of signing the financial statements in respect of the year ended 31 December 2017, the directors have not yet proposed a final dividend.

Future outlook

The Company will continue to service its existing policyholders and to look for growth opportunities in line with its business strategy.

Financial risk management

Principal risks and uncertainties affecting the Company, including financial risks, are explained in the strategic report.

Directors

The directors of the Company who were in office during the year and up to the date of signing the financial statements are shown on page 2.

Qualifying third party indemnity provisions

The Company's directors are covered by the Swiss Re Limited indemnity provision policy, which was in force during the financial year and at the date of approval of the financial statements. 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.

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' report for the year ended 31 December 2017 (continued)

Directors' responsibilities statement (continued)

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

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

Independent Auditors

In the case of each director in office at the date the Directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and

- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

PricewaterhouseCoopers LLP have indicated their willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be deemed reappointed as auditors in the absence of an Annual General Meeting.

Website posting

These financial statements are published on the Company's website www.reassure.co.uk. A printed version of the financial statements is available from the company's registered office.

By order of the Board of Directors

PShaw

Paul Shakespeare
Company Secretary
30 April 2018

Independent auditors' report to the members of ReAssure Limited

Report on the audit of the financial statements

Opinion

In our opinion, ReAssure Limited's financial statements:

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

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the Balance sheet as at 31 December 2017; the Income statement, the Statement of comprehensive income, the Statement of changes in equity, the Statement of cash flows for the year then ended; and the Notes to the financial statements, which include a description of the significant accounting policies.

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

Basis for opinion

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

Independence

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

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

Other than those disclosed in note 8 to the financial statements, we have provided no non-audit services to the company in the period from 1 January 2017 to 31 December 2017.

Our audit approach

Overview

Overall materiality: £50.0 million, based on 2% of net assets.

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

Overall, we concluded that our audit scope gave us the evidence we needed for our opinion on the financial statements as a whole.

Our risk assessment identified the following key audit matters:

- Subjectivity in longevity assumptions underlying the calculation of the insurance contract liabilities.
- Valuation of investments, in particular complex to value assets.

The scope of our audit

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

The scope of our audit (continued)

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

We found Subjectivity in longevity assumptions underlying the calculation of the insurance contract liabilities and Valuation of investments, in particular complex to value assets to be key audit matters, and these are discussed further below. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

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

Key audit matter	*How our audit addressed the key audit matter*
Subjectivity in longevity assumptions underlying the calculation of the insurance contract	
Refer to note 1 to the financial statements for the directors' disclosure of the basis of preparation and use of estimates and note 2 for related accounting policies and further information on judgements and estimates over contract liabilities. As part of our consideration of the entire set of assumptions we focused particularly on the assumptions which have a more significant effect on the Company's result or those that require a higher level of judgement as detailed below. We focused on longevity assumptions which considers how long the policyholders receiving annuity payments are expected to live and how that might change over time. The large volume of annuity business, combined with the subjectivity in setting an annuitant mortality basis has a material impact on the valuation of the liabilities. Annuity liabilities are sensitive to the choice of longevity assumptions. The longevity assumption has two main components:	We have assessed the assumption methodology to ensure appropriateness against regulatory and reporting requirements. We examined the experience analysis investigations for all material longevity assumptions, including: • Testing the design and operating effectiveness of controls within the experience analysis process. Specifically we assessed how the data had been extracted and the validity of management's analysis of the data. • Challenging the validity of the analysis performed by management and their conclusions based on our understanding of the approaches used in the wider market and on the experience data that management had observed in previous time periods; • Assessing the degree of rigour, challenge and oversight provided by the Regional Reserving committee; and

Key audit matters (continued)

Key audit matter	*How our audit addressed the key audit matter*
Mortality base assumption – This part of the assumption is mainly driven by internal experience analyses, but judgement is also required. For example, in setting the prudential margins for IFRS reporting, or in setting the assumption for new business over the year to reflect any changes in the mix of business due to external factors.	• We evaluated the company's choice of standard industry Continuous Mortality Investigation (CMI) tables and the company's base life expectancy data and compared this to the industry base tables to assess the reasonableness of the company's assumptions. We considered the appropriateness of the assumptions, assessed changes to the methodology, and evaluated the results of changes in comparison to our expectation; and
Rate of mortality improvements – This part of the assumption is more subjective given the lack of data and the uncertainty over how life expectancy will change in the future. The allowance for future mortality improvements is inherently subjective, as improvements develop over long timescales and cannot be captured by analysis of Reassures own experience. The Continuous Mortality Investigation Bureau (CMI) provides mortality projection models which are widely used throughout industry and contain a standard core set of assumptions including initial rates of improvement, calculated by the CMI based on the most recent available experience data.	• We compared the assumptions, including future improvements (choice of model and the assumed long term longevity improvement rate), with those adopted by other insurers using our own independent industry benchmarking survey. While the longevity assumptions is inherently subjective, we found, based on the results of our testing, that the assumptions were appropriate. We found the methodologies and models used are in line with industry standards, whilst reflecting the nature of the company's products.
Valuation of investments, in particular complex to value assets	
Refer to note 1 to the financial statements for the directors' disclosure of the basis of preparation and use of estimates and note 2 for related accounting policies and further information on judgements and estimates for the investment risks. The Company's financial investments enable it to support its insurance liabilities and meet regulatory capital requirements, as well as providing returns for shareholders. Most of the company's financial investments are valued on active markets and hence involve little or no subjectivity. However some are priced by reference to market data and/or valuation models These vary in complexity depending on the nature of the investments. Investments that are complex to value and require the use of significant judgement include:	For the valuation of complex investments, we assessed both the methodology and assumptions used by management in the calculation of the year end values as well as testing the governance controls that the company has in place to monitor these processes. We did not identify any defective controls. The Independent Pricing Verification (IPV) committee are responsible for reviewing the pricing of these instruments. We have tested the review process and performed testing to ensure that decisions made by the IPV were reconciled to what is included within the financial statements. In addition we have performed independent valuations to ensure that the models and methodologies used by management are appropriate. This includes specific testing over the inputs, judgements and assumptions that are used in the valuations to ensure that these are reasonable and appropriate.

Key audit matters (continued)

Key audit matter	*How our audit addressed the key audit matter*
• Infrastructure debt; • Commercial real estate; and • Illiquid debt securities. The key assumptions used in the valuation models reflect observable data such as forward interest rates, foreign exchange rates, forward inflation rates, risk free market yields and other unobservable inputs such as future cash flows.	For commercial real estate, we have also: • Inspected a sample of the external valuation reports obtained from management's experts, assessing the independence and competency of the experts; • Carried out procedures to assess the appropriateness of the methods and assumptions used in this sample of valuations; and • Tested the accuracy of the data provided to the external valuation experts. We did not identify any material exceptions in our testing of these investment or the comparison of different estimates of the prices.

How we tailored the audit scope

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

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Materiality

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

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

Overall materiality	£50.0 million.
How we determined it	2% of net assets.
Rationale for benchmark applied	When analysing the facts and circumstances specific to ReAssure Limited, we used our professional judgement, considering the reasonableness of the overall materiality in relation to the Key Performance Indicator metrics including total assets, net assets and profit over time. We believe that net assets is the primary measure used by both policyholders and shareholders in assessing the performance of the entity, and is a generally accepted auditing benchmarking.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £2.5 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Independent auditors' report to the members of ReAssure Limited (continued)

Conclusions relating to going concern

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

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

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

Reporting on other information

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

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

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

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

Strategic report and Directors' report

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' responsibilities statement set out on pages 9 and 10, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the directors on 4 May 1979 to audit the financial statements for the year ended 31 December 1979 and subsequent financial periods. The period of total uninterrupted engagement is 39 years, covering the years ended 31 December 1979 to 31 December 2017.

Philip Watson

Philip Watson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
30 April 2018

Income statement

For the year ended 31 December 2017

	Note	2017 £m	2016 £m
Revenue			
Gross premiums written	3	359.3	362.2
Less: premiums ceded to reinsurers		(374.6)	(383.2)
Net premium revenue		**(15.3)**	**(21.0)**
Fee income	12	151.1	138.2
Net investment income	4	3,342.6	4,233.7
Total revenue, net of reinsurance payable		**3,478.4**	**4,350.9**
Other income	34	0.1	14,659.7
Net income		**3,478.5**	**19,010.6**
Expenses			
Policyholder claims	7	(2,163.5)	(1,368.5)
Less: claims recovered from reinsurers	7	413.9	388.7
Change in insurance contract liabilities	26	2,077.7	(12,318.5)
Change in investment contract liabilities		(1,835.6)	(5,168.8)
Change in reinsurers' share of insurance contract liabilities	26	(398.2)	1,380.8
Change in reinsurers' share of investment contract liabilities		-	(5.3)
Transfer to unallocated divisible surplus	29	(8.8)	(151.9)
Net policyholder claims and benefits incurred		**(1,914.5)**	**(17,243.5)**
Administration expenses	5	(161.4)	(135.4)
Impairment of subsidiary undertaking	18	(97.6)	-
Total expenses		**(2,173.5)**	**(17,378.9)**
Profit before finance costs and tax		**1,305.0**	**1,631.7**
Finance costs	6	(6.8)	(8.6)
Profit before tax		**1,298.2**	**1,623.1**
Tax on profit for the year	13	(250.5)	(148.4)
Profit for the year		**1,047.7**	**1,474.7**

All results derive from continuing operations.

Statement of comprehensive income

For the year ended 31 December 2017

	Note	2017 £m	2016 £m
Profit for the year		**1,047.7**	**1,474.7**
Other comprehensive income:			
Amounts that may subsequently be restated to profit or loss:			
Owner-occupied land & buildings revaluation	16	**0.4**	-
Total comprehensive income for the year		**1,048.1**	**1,474.7**

Balance sheet

As at 31 December 2017

	Note	2017 £m	2016 £m
Assets			
Acquired in-force business	15	100.5	103.7
Investments in group undertakings	18	482.2	663.8
Property, plant and equipment	16	3.4	3.0
Investment property	17	691.0	751.2
Financial assets:			
Loans and receivables	19	639.0	776.7
Equities	19	12,984.8	12,349.5
Fixed and variable rate income securities	19	20,858.9	22,040.8
Collective investment schemes	19	6,525.6	6,760.0
Derivatives	20	18.1	134.1
Reinsurers' share of insurance contract liabilities	26	1,824.7	2,222.9
Reinsurers' share of claims outstanding		-	1.7
Reinsurance receivables		18.0	20.7
Insurance contract receivables		24.7	20.3
Deferred tax asset	21	13.0	12.8
Prepayments and accrued income	22	335.3	350.5
Other receivables	23	251.5	187.8
Cash and cash equivalents	24	2,666.6	1,746.4
Total assets		**47,437.3**	**48,145.9**
Liabilities			
Insurance contract liabilities:			
Liabilities under insurance contracts	26	22,183.1	24,260.8
Unallocated divisible surplus	29	172.6	163.8
Investment contract liabilities	30	20,404.2	19,784.2
Provisions	33	1.6	1.9
Borrowings	32	242.9	242.9
Derivatives	20	16.5	93.1
Deposits received from reinsurers		124.9	138.4
Reinsurance payables		25.4	29.0
Payables related to direct insurance contracts		25.7	22.7
Claims outstanding		219.7	202.2
Current tax liability		188.5	96.1
Deferred tax liability	21	20.0	-
Other financial liabilities	35	355.3	361.3
Other liabilities	36	256.2	202.9
Total liabilities		**44,236.6**	**45,599.3**
Equity			
Share capital	25	289.0	289.0
Share premium		134.0	134.0
Other reserves		682.7	32.7
Retained earnings		2,095.0	2,090.9
Total equity		**3,200.7**	**2,546.6**
Total liabilities and equity		**47,437.3**	**48,145.9**

The financial statements of ReAssure Limited (registered number 00754167) were approved by the Board of Directors and authorised for issue on 30 April 2018 and signed on its behalf by:

Michael Woodcock
Director
30 April 2018

Statement of changes in equity

For the year ended 31 December 2017

	Attributable to owners of the Company				
	Share capital	Share premium	Other reserves	Retained earnings	Total equity
	£m	£m	£m	£m	£m
1 January 2017	289.0	134.0	32.7	2,090.9	2,546.6
Profit for the financial year	-	-	-	1,047.7	1,047.7
Other comprehensive income for the year	-	-	-	0.4	0.4
Total comprehensive income for the year	-	-	-	1,048.1	1,048.1
Capital contribution	-	-	650.0	-	650.0
Dividends paid during the year	-	-	-	(1,044.0)	(1,044.0)
At 31 December 2017	**289.0**	**134.0**	**682.7**	**2,095.0**	**3,200.7**

For the year ended 31 December 2016

	Attributable to owners of the Company				
	Share capital	Share premium	Other reserves	Retained earnings	Total equity
	£m	£m	£m	£m	£m
1 January 2016	289.0	134.0	32.7	952.2	1,407.9
Profit for the year	-	-	-	1,474.7	1,474.7
Total comprehensive income for the year	-	-	-	1,474.7	1,474.7
Dividends paid during the year	-	-	-	(336.0)	(336.0)
At 31 December 2016	**289.0**	**134.0**	**32.7**	**2,090.9**	**2,546.6**

Statement of cash flows

For the year ended 31 December 2017

	Note	2017 £m	2016 £m
Cash flows from operating activities			
Cash used in operating activities	39	**(2,737.7)**	**(131.4)**
Taxation paid		(130.7)	(62.0)
Net cash used in from operating activities		**(2,868.4)**	**(193.4)**
Net cash used in financing activities			
Ordinary and preference share dividends paid	14	(1,044.0)	(336.0)
Capital contribution received from parent company	40	650.0	-
Net cash used in financing activities		**(394.0)**	**(336.0)**
Cash flows from investing activities			
Net disposal of investment properties	17	113.0	11.6
Net disposal of financial assets		2,649.9	273.8
Net purchase of derivatives		(9.4)	(1.8)
Dividends and interest received on financial assets		1,429.1	950.1
Net cash from investing activities		**4,182.6**	**1,233.7**
Net increase in cash and cash equivalents		**920.2**	**704.3**
Cash and cash equivalents at the beginning of the year		1,746.4	1,042.1
Cash and cash equivalents at the end of the year	24	**2,666.6**	**1,746.4**

Notes to the financial statements for the year ended 31 December 2017

1. Accounting policies

The principal accounting policies are summarised below. They have been applied consistently throughout the year and preceding year.

a) Basis of preparation
The financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and adopted by the European Union ("EU") and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared on a historical cost basis, except for investment property, owner-occupied property and those financial assets and liabilities that have been measured at fair value.

The Company is included in the consolidated financial statements of Swiss Re Limited which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 401 of the Companies Act 2006 and IFRS 10, Consolidated Financial Statements, paragraph 4(a).

In assessing whether the Company is a going concern the directors have taken into account the guidance issued by the Financial Reporting Council in April 2016.

The economic outlook for 2018 remains uncertain and whilst the UK market continues to show positive signs, as discussed in the Strategic Report 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.

b) New standards, amendments and policies not yet adopted by the Company
The following new standards have not yet been adopted by the Company:

IFRS 15 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted.

IFRS 16 ‘Leases’ addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces IAS 17 ‘Leases’, and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted, subject to EU endorsement and the entity adopting IFRS 15 ‘Revenue from contracts with customers’ at the same time. The full impact of IFRS 16 has not yet been assessed.

IFRS 9 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in July 2014 and replaces the guidance in international accounting standard ("IAS") 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit and loss and fair value through other comrehensive income. The standard is effective for accounting periods beginning on or after 1 January 2018 and early adoption is permitted. As the Company is an insurer which will be applying IFRS 17 and meets the criteria, the Company is eligible to defer adoption of IFRS 9 until IFRS 17 is implemented. The Company intends to take advantage of this deferral option.

IFRS 17, ‘Insurance Contracts’. In May 2017, the IASB issued IFRS 17 ‘Insurance Contracts’ to replace the existing IFRS 4 ‘Insurance Contracts’. The standard, which is subject to endorsement in the EU, applies to annual periods beginning on or after 1 January 2021.

1. Accounting policies (continued)

b) New standards, amendments and policies not yet adopted by the Company (continued)

IFRS 17 is expected to significantly change the way the Company measures and reports its insurance contracts. IFRS 17 brings in a single accounting approach which aims to:

- Provide up-to-date market consistent information of obligations including the value of options and guarantees;
- Reflect the time value of money;
- Reflect the characteristics of the insurance contract rather than the risk related to investment activity;
- Treat services provided by underwriting activity as revenue and expenses in a comparable manner to other non-insurance business;
- Provide separate information about the investment and underwriting performance.

These changes will impact profit emergence patterns and add complexity to valuation processes, data requirements and assumption setting. As a consequence, during 2017 the Company commenced a project to perform an assessment of the impact of the standard on the Company and to produce a detailed implementation plan. Implementation activities will continue in 2018 and through to 2021.

c) Contract classification

The Company issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. As a general guideline, the Company defines significant insurance risk when at least one scenario with commercial substance can be identified in which the Company has to pay significant additional benefits to the policyholder.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

Investment contracts that have a discretionary participating feature are accounted for using accounting policies relevant to insurance contracts (see accounting policies (d) and (e)).

Investment contracts without a discretionary participating feature are measured at fair value. The financial liability in respect of investment contracts without a discretionary participating feature, whose value is linked to a specific pool of financial assets, is matched to the net asset value of the underlying funds. The majority of the Company's investment contracts without a discretionary participating feature are unit-linked.

Unit-linked contracts, where the liability under the contract is dependent on the value of the underlying financial assets, and investment property, are classified as investment contracts unless the contracts also contain features that transfer significant insurance risk.

d) Premiums

Premiums, consideration for annuities and reinsurance premiums are accounted for when due for payment.

e) Claims

Maturity claims and annuities are accounted for when due for payment. Surrenders are accounted for when paid or, if earlier, on the date when the policy ceases to be included within the calculation of insurance and investment contract liabilities. Death claims and all other claims are accounted for when notified.

Claims incurred include related internal and external claims handling costs. Reinsurance recoveries are accounted for in the same year as the related claim.

f) Management charges

Fees on all unit-linked policies are recognised when units are created or when fees fall due for deduction from unit holders' accounts. This includes annual management charges, policy administration fees and bid/offer spreads. The pattern of fee recognition is consistent with the provision of administrative services to policyholders which are provided in return for the charges deducted.

1.Accounting policies (continued)

g) Investment income and expenses

Investment income includes dividends, interest, rental income, fair value gains and losses on financial assets and gains on the realisation of investments and related expenses. Dividends are recorded on the date on which the shares are quoted ex-dividend. Interest, rental income and expenses are accounted for on an accruals basis. Interest on investments carried at amortised cost is calculated using the effective interest method.

h) Investment gains and losses

Realised investment gains and losses are calculated as the difference between net sales proceeds and their original cost.

Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price or if they have been previously valued, their valuation at the last balance sheet date. The movement in unrealised gains and losses recognised in the year also includes the reversal of unrealised gains and losses recognised in prior years in respect of investment disposals in the current year.

i) Terminal and reversionary bonuses

Bonuses charged to the income statement in a given year comprise:

- new reversionary bonuses declared in respect of that year which are provided within the calculation of the with-profits investment contract liabilities; and
- terminal bonuses paid out to policyholders on termination of policy.

Terminal bonuses are included in the cost of claims.

j) Taxation

Current tax expense is charged or credited based upon amounts estimated to be payable or recoverable as a result of taxable amounts for the current year. Current tax is recognised in the income statement unless it relates to items which are recognised in other comprehensive income.

Deferred income taxes are accounted for using the balance sheet liability method, whereby tax expected to be payable or recoverable is calculated on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts calculated for taxation purposes in accordance with the relevant tax authority regulations. Deferred tax is also recognised in respect of unused tax losses to the extent it is probable that future taxable profits will arise against which the losses can be utilised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity.

Deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled, based on tax rates (and laws) that have been enacted or are substantively enacted at the end of the reporting period.

In addition to paying tax on shareholders’ profits, the Company’s life business is subject to corporate income tax on policyholders’ investment returns on certain products (together 'shareholder tax').

Additionally, the Company's business is subject to tax specifically borne by its policyholders such as foreign withholding tax ('policyholder tax').

The total tax charge in the income statement is allocated between shareholder tax and policyholder tax. The shareholder tax is calculated by applying the corporate tax rate to the shareholder profit and including the income tax arising on policyholders' investment returns. The difference between the total tax charge and shareholder tax is allocated to policyholder tax. This calculation methodology is consistent with the legislation relating to the calculation of tax on shareholder profits. The Company has decided to show separately the amounts of policyholder tax to provide a meaningful measure of the tax the company pays on its profit.

k) Dividends

Interim dividends are recognised when paid. Final dividends payable are recognised as a liability on the day declared by the Board of Directors and approved by the Company’s shareholder.

1. Accounting policies (continued)

l) Property, plant and equipment
Owner-occupied land and buildings are carried at fair value on balance sheet. Fair value is determined annually, using the revaluation model as permitted in IAS 16 'Property, plant and equipment', by independent professional valuers, who are members of the Royal Institution of Chartered Surveyors, and is based on market evidence. An increase in fair value is recognised in other comprehensive income, except to the extent that it is the reversal of a previous revaluation decrease which was recognised in profit or loss. A decrease in fair value is recognised immediately in the income statement, except to the extent that it reverses a previous revaluation surplus recognised in other comprehensive income. Land is not depreciated. No depreciation is provided on owner-occupied buildings as such depreciation would be immaterial.

m) Intangible assets

Acquired PVIF

The present value of acquired in-force business ("PVIF") potentially arises on the acquisition of a portfolio of long-term insurance and investment contracts. It represents the net present value of the shareholders' interest in the expected after-tax cash-flows of the in-force business and could be capitalised in the balance sheet as an asset. This asset is amortised and the discount unwound on a systematic basis in the statement of comprehensive income over the anticipated lives of the related contracts to reflect the emergence of economic benefits from the acquired contracts.

The carrying value of the asset is assessed annually using current assumptions in order to determine whether any impairment has arisen compared to the amortised acquired value based on assumptions made at the time of acquisition and any impairment is recognised in full in the statement of comprehensive income in the year it is identified.

Deferred acquisition costs
The incremental costs of acquiring new investment and insurance contracts which are incurred during a financial year but which relate to subsequent financial years, are deferred to the extent that they are recoverable out of future revenue margins. Such costs are disclosed as an asset in the balance sheet and are determined explicitly.

The rate of amortisation of the deferred acquisition cost asset is consistent with a prudent assessment of the expected pattern of receipt of the future revenue margins over the period the relevant contracts are expected to remain in force.

n) Investments
The Company classifies on initial recognition, other financial investments into two classes specified as financial assets at fair value through profit or loss and loans and receivables.

Financial investments
All financial investments are classified as fair value through profit or loss unless they fall into the category of loans and receivables. The classification reflects the purpose for which investments were acquired or originated. Where the fair value category is used, this reflects the Company’s strategy to manage its financial investments acquired to cover its long-term insurance contract liabilities. These financial investments are managed and their performance is evaluated by the Company on a fair value basis.

All regular way purchases and sales of financial investments are recognised on the trade date i.e. the date the Company commits to purchase or sell the investments. Regular way purchases or sales of financial investments are those under a contract whose terms require the delivery of assets within the time frame established generally by regulation or convention in the market place concerned.

Financial assets at fair value through profit or loss are initially recognised at fair value, being the consideration paid for the acquisition of the investments, excluding all transaction costs. Subsequent to initial recognition, these investments are measured at fair value. Fair value adjustments are recorded in the income statement. Financial assets at fair value through profit or loss include derivative financial instruments.

1. Accounting policies (continued)

n) Investments (continued)

The fair values of financial instruments traded in active markets are based on quoted bid prices on the balance sheet date. The fair values of financial instruments that are not traded in an active market (for example, unlisted equities and certain corporate bonds) are established by the directors using valuation techniques which seek to arrive at the price at which an orderly transaction would take between market participants.

Certain infrequently traded bond investments are valued using risk free market yields plus a suitable margin to reflect the manager's assessment of the credit quality of the issuer and the liquidity of the asset. Other assets such as private equity investments are carried at the manager's net asset valuation which is based on valuations from private equity managers.

Derivative financial instruments
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.

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.

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.

Investment property
Investment property, which is property held to earn rentals and / or capital appreciation is stated at its fair value at the balance sheet date.

The Company applies the fair valuation model as prescribed in IAS 40 'Investment property'. Land and buildings are valued annually at open market value as determined by independent professional advisers less a deduction for selling costs. Gains or losses arising from changes in the fair value of investment property are recognised in the income statement in the period in which they arise.

In accordance with IAS 40, no depreciation is provided in respect of freehold investment properties or amortisation in respect of leasehold properties.

Investments in group undertakings
The investment in the ERIP Limited Partnership is recognised as an interest in an unconsolidated entity and classified as a financial investment held at fair value through profit and loss.

Investments in subsidiary undertakings are valued at the cost of investment and the directors review the valuation annually to ensure this is not less than the net assets held.

Loans and receivables
Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investments. All transaction costs directly attributable to the acquisition are also included in the cost of the investments. Subsequent to initial recognition, these investments are carried at amortised cost, using the effective interest rate method. Gains and losses are recognised in the income statement when the investments are sold or impaired, as well as through the amortisation process.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

1. Accounting policies (continued)

o) Impairment

Financial assets
At each balance sheet date the Company assesses whether there is objective evidence that a financial asset or group of financial assets which are held at amortised cost are impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following events:

- significant financial difficulty of the issuer or debtor;
- breach of contract, such as a default or delinquency in payments;
- it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
    - adverse changes in the payment status of issuers or debtors in the group; or
    - national or local economic conditions that correlate with defaults on the assets in the group.

The company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred on loans and receivables carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement for the year. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under contract. As a practical expedient, the company may measure impairment on the basis of an instrument's fair value using an observable market price.

If in a subsequent year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed through the income statement for the year.

Non-financial assets
Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

p) De-recognition and offset of financial instruments
A financial instrument is recognised if the Company becomes a party to the contractual provisions of the instrument. A financial asset is de-recognised when the contractual rights to receive the cash flows from the asset have expired or where they have been transferred and the Company has also transferred substantially all of the risks and rewards of ownership. A financial liability is de-recognised when the obligation specified in the contract is discharged or cancelled or expires.

1. Accounting policies (continued)

q) 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 fund 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, future administrative expenses directly related to the contract and investment expenses, less the discounted value of expected future premiums. The liability is based on demographic assumptions which are determined on a best estimate basis each year.

Annuity liabilities (both in payment and deferred) include a margin based on a 6% cost of capital. Consistent with the change made in the prior year, annuity insurance contracts in the non-profit fund are valued on a Solvency II basis.

For other liabilities a margin for risk and adverse deviation is added to the best estimate basis.

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. In the derivation of the discount rates an allowance is made for default risk. For liabilities held within a Matching Adjustment Portfolio the allowance is based directly on the Fundamental Spread information published by EIOPA.

Insurance contracts in the with-profit and unit-linked funds
For with-profits contracts in the Guardian Assurance, National Mutual and Windsor Life With-Profit Funds, the insurance liabilities have been determined on a realistic basis making full provision for all future bonuses expected to be paid.

The Guardian Assurance With-Profits Fund uses a close matching approach so all the liabilities including policy options and guarantees are calculated on a deterministic basis.

For the National Mutual and Windsor Life With-Profit Funds an allowance has been included for the cost of policy options and guarantees using a stochastic model calibrated to market conditions applying as at the valuation date. Assumptions for mortality, persistency and the take-up rate of guarantees are realistic best estimates, based on experience and expert judgement.

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.

1. Accounting policies (continued)

q) Insurance contracts (contined)

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 29 to the financial statements 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

The Company's accounting policies for insurance contracts and investment contracts with discretionary participation features comply with the IFRS 4 requirements for liability adequacy testing, as they allow for current estimates of all contractual cash flows and of related cash flows such as claims handling costs. A liability adequacy test is conducted on long-term insurance liabilities to ensure that the carrying amount of the liabilities is adequate to meet current estimates of future cash flows. All contractual cash flows are discounted and compared against the carrying value of the liability. Any deficit recognised is immediately expensed to the statement of comprehensive income.

Estimation techniques and assumptions are reviewed regularly, with any changes in estimates reflected in the statement of comprehensive income as they occur.

r) Reinsurance

The Company cedes insurance risk to reinsurers under contracts to transfer part or all of one or more of the following risks: mortality, morbidity, investment, persistency and expenses. Some contracts which provide for the transfer of significant risk are also structured to provide financing. Where, under such contracts, financing components are to be repaid in future years, the amount outstanding under the contract at the balance sheet date is classified as a liability to the reinsurer. Reinsurance contracts that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets.

Reinsurance assets represent balances due from reinsurance providers and longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Reinsurers' share of insurance contract liabilities is dependent on expected claims and benefits arising under the related reinsured policies. The amounts that will be recoverable from reinsurers are estimated based upon the gross provisions, having due regard to collectability including market data on the financial strength of each of the reinsurance companies. Reinsurance assets are measured consistently with those amounts associated with the related insurance contracts and in accordance with recognised actuarial best practice. Reinsurance liabilities are primarily premiums payable for reinsurance contracts. 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 reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting period. Impairment occurs when there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that will be received from the reinsurer. Any impairment loss is recorded in net income in the statement of comprehensive income. 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.

Gains or losses on purchasing reinsurance are recognised in the income statement at the date of purchase and are not amortised. They are the difference between the premiums ceded to reinsurers and the related change in the reinsurers' share of insurance contract liabilities.

Intra-group retrocession arrangements ("IGRs")

The Company has a number of retrocession arrangements with Swiss Re Europe SA, UK Branch and Swiss Reinsurance Company Limited. These pass longevity risk from the company to Swiss Re. IGRs are accounted for the same way as external reinsurance.

1. Accounting policies (continued)

s) Allocation of with-profits surpluses and unallocated divisible surplus
The nature of benefits for the participating contracts within the three with-profits funds is such that the allocation of surpluses between ordinary equity holders and participating policyholders is uncertain. The amount of surplus not allocated at the balance sheet date is classified within liabilities as the unallocated divisible surplus. The amount of appropriated surplus released is determined by the directors in accordance with the Articles of Association and the Principles and Practices of Financial Management ("PPFM"). Currently, for the Windsor Life with-profits and Guardian with-profits funds, 1/9th of the bonus declared and paid in the year is allocated to the non-profit fund ("NPF"). It is then available for subsequent transfer to shareholders.

The NMF is a 100:0 fund. As such, all the surplus arising in the NMF is retained for future allocations to policyholders.

t) Embedded derivatives
Embedded derivatives, including options to surrender insurance contracts for a fixed amount (or a fixed amount and an interest rate), that meet the definition of insurance contracts or are closely related to the host insurance contract, are not separately measured. All other embedded derivatives are separated from the host contract and carried at fair value through profit or loss if they meet the definition of a derivative.

u) 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 Funds 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.

v) Other financial liabilities
On initial recognition, financial liabilities are recognised when due and measured at the fair value of the consideration received less directly attributable transaction costs (with the exception of liabilities at fair value through profit or loss for which all transaction costs are expensed).

Subsequent to initial recognition, financial liabilities (except for liabilities under investment contracts and other liabilities designated at fair value through profit or loss) are measured at amortised cost using the effective interest method.

w) Cash and cash equivalents
Cash and cash equivalents comprise cash balances, and other short-term highly liquid investments, which are held for cash management purposes. The carrying amount of these assets approximates to their fair values.

Cash flows associated with the purchase and disposal of financial assets are categorised under operating activities as purchases are funded from cash flows originating from insurance and investment contracts, net of the cash flows for related benefit and claim payments.

1. Accounting policies (continued)

x) Deposits received from reinsurers
Collateral is obtained to cover certain reinsurance transactions, usually in the form of cash or marketable securities. Deposits received from reinsurers are recognised initially at fair value plus incremental direct transaction costs, and are subsequently measured at fair value through profit and loss.

y) Finance leases
Assets financed by leasing arrangements under which substantially all the risks and rewards of ownership are assumed by the lessee are classified as finance leases.

At lease inception date an asset is recognised at an amount equal to the lower of its fair value and the present value of the minimum lease payments. An equal liability is established to account for the financing element of the lease contract. As lease payments are made, these are split between an interest element, calculated on an effective interest basis, which is charged to the statement of comprehensive income and a capital element, which reduces the finance lease liability. Such assets if acquired as investments are revalued as for other comparable investments and the corresponding gains and losses are reported in the income statement.

z) Operating leases

Rentals payable under operating leases are charged to the income statement as incurred over the lease term. For empty or sub-let properties any anticipated shortfall, between projected rent expense and income, is provided for in full at appropriate discounted rates and the provision is released as this expense is incurred.

aa) Provisions and contingent liabilities
A provision is recognised when the Company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of economic benefits will materialise and the amount of the obligation can be reliably measured. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. If the event resulting in a future obligation is less than probable but greater than remote, or the amount cannot be reliably estimated, a contingency is disclosed in the notes to the financial statements.

A provision is recognised for onerous contracts in which the unavoidable costs of meeting the obligations under the contract exceed the future economic benefits expected to be received under it. The unavoidable costs reflect the net cost of exiting the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

ab) Foreign currencies
Functional and presentation currency
Items included in the financial statements of each of the Company are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Great British Pound, which is the Company's presentation and functional currency .
Transactions and balances
At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined. Exchange differences on monetary items are recognised in the income statement when they arise.

ac) Part VII business transfer
The insurance contracts are measured in accordance with transferee's existing accounting policy for insurance contracts and the VIF is calculated as the difference between the fair value of those insurance contracts acquired and the transferee's measurement under the entity's existing accounting policies for insurance contracts. An amount of consideration, if any, has been attributed to the acquired intangible assets on investment contracts and is amortised on a constant yield basis over the expected revenue recognition period of the business acquired.

ad) 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.

1. Accounting policies (continued)

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 below:

a) Valuation of liabilities arising from insurance contracts and investment contracts with discretionary participating features

There are contracts with discretionary participating features in the with-profits funds (National Mutual with-profits fund, Windsor Life with-profits fund and Guardian with-profits fund). The Company values liabilities arising on these contracts using a market consistent best estimate basis, and applying accepted actuarial methods to determine cash flows and their appropriate valuation. The principal liabilities in respect of these contracts are asset shares which are accumulated under the contract in order to be paid out in claims, so making full allowance for future bonuses (which are set in order to target paying out 100% of asset share on average). Asset shares are derived by a retrospective calculation accumulating premiums, charges and other deductions and enhancements set by the company and applied to the contracts. The rates of accumulation are determined by the Company from the investment returns earned to date by the relevant assets.

Other liabilities arise on these contracts from guarantees and options that may give rise to future costs on claims that exceed the asset share at the time of the claim. These are almost entirely valued using a stochastic model that projects the asset shares and benefits under a large number of economic scenarios then discounts the cost using a market consistent (ie risk neutral weighting) calibration. Allowance is also made using the same model for any future expected expenses in excess of future expected charges to be deducted from asset shares. For a small part of the liability, approximate methods are used to determine a sufficient reserve judged to be consistent with the other liabilities. A further liability arises in each fund through the intention to distribute all surplus assets over time to participating policyholders through further enhancement of asset shares. This liability is set as a balancing item, such that the total liabilities of the relevant fund are equal to the total assets (after making a suitable deduction for the value of future transfers to shareholders from the Windsor Life with-profits fund).

The reserves for future guarantees and options arising on policyholder benefits depend on a number of assumptions regarding mortality or longevity, lapses, take-up of annuity guarantees, surrenders, expenses and investment returns. These assumptions are assessed on a best estimate basis and vary by product. Non-economic assumptions are determined with reference to past Company experience adjusted for future expectations and industry data. The most material assumptions are those for longevity and annuity guarantee take-up. Economic assumptions are incorporated in the stochastic asset model which is calibrated to appropriate market prices at the valuation date, using gilt yields plus 10bp as the risk-free curve and allowing for implied volatilities derived from option prices.

The liabilities for asset shares and future guarantees and options may not represent the ultimate amounts paid out to meet claims payable to policyholders (even before allowing for future enhancements to distribute the surplus assets) as for example:

Annuities in payment and contracts with annuity guarantees are subject to the risk from longevity. In the valuation assumptions 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.

Take-up of annuity guarantees may exceed the levels assumed. Experience shows a persistent pattern of many but not all policyholders exercising these guarantees and generally taking a lump sum rather than annuitising the whole of their vesting fund at a guaranteed rate. The valuation allows for take-up increasing as the guarantee becomes more valuable (for example, when interest rates are low). However, there is a risk that policyholders in the future could behave differently resulting in a higher than expected proportion of policies being annuitised.

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

a) Valuation of liabilities arising from insurance contracts and investment contracts with discretionary participating features (continued)

Future investment returns (and consequently future bonus rates) may take a more adverse path than that implied by the weighted average of the stochastic economic scenarios giving rise to greater costs from guarantees to pay a minimum level of benefits either at maturity or in annuity payments, or guarantees to annuitise claim amounts. (Future asset shares will also differ, but this will be broadly matched by the assets backing those asset shares).

Because bonus rates are subject to smoothing rules, future asset share shocks which affect asset shares will not immediately be reflected in payouts, so in those circumstances claims will differ from the asset shares set aside to meet those claims.

In all the above circumstances, any movement in the liabilities in respect of asset shares or options and guarantees will result in an offsetting movement in the balancing liability described above in respect of future enhancement of asset shares to distribute the surplus assets. This significantly reduces the risk that the assets of the relevant with-profits funds would be insufficient to meet future policyholder payments, so the reserves are sufficient for all reasonably foreseeable circumstances.

Further detail and carrying values are set out in note 26. Sensitivities are included in note 28.

b) Valuation of investment contracts
The Company issues a significant number of investment contracts that are designated at fair value through profit or loss. These financial instruments are not quoted in active markets, and their fair values are determined by using valuation techniques. Such techniques (for example, valuation models) are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are validated before they are used and calibrated to ensure that outputs reflect actual experience and comparable market prices. A variety of factors is considered in the Company's valuation techniques, including time value, credit risk (both own and counterparty), embedded derivatives (such as unit-linking features), volatility factors (including contract holder behaviour), servicing costs and activity in similar instruments. Changes in assumptions about these factors could affect the reported fair value of financial instruments. The extent that actual surrenders are different from the Company's estimates is the most critical factor in the fair valuation process, as additional fair value gains or losses would have been recognised in the fair value of liabilities associated with investment contracts. The change in fair value arising from the expected surrender patterns does not operate symmetrically. Increased surrender volumes may not be fully recognised in the valuation of investment contract liabilities owing to the requirement to maintain the fair value of financial liabilities above the amount payable on demand. Carrying values are included in note 30 and sensitivities are included in note 28.

c) 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. Carrying values are included in note 19 and sensitivities are included in note 28.

d) 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. There was no impairment identified in the current year. Carrying values are included in note 15.

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

e) Impairment
Assets are subject to regular impairment reviews as detailed in note 1 o). 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.

f) 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 j). Assessment of recoverability of deferred tax depends on tax model which projects expected future taxable profits by nature over next 15 or 20 years depending on the nature of the asset. Carrying values are included in note 21.

3. Premiums

a) Gross premiums written

Gross premium income is made up of:

	2017 £m	2016 £m
Direct assurance	359.3	362.2

Gross direct premiums written

	Regular premiums 2017 £m	Regular premiums 2016 £m	Single premiums 2017 £m	Single premiums 2016 £m
Non-participating				
Life	97.7	60.0	-	-
Pension	167.0	169.4	4.0	6.4
Participating				
Life	0.1	0.1	-	-
Pension	1.4	4.7	-	0.3
Unit-linked				
Life	22.8	55.0	-	-
Pension	59.2	58.0	7.1	8.3
Total direct gross premiums	**348.2**	**347.2**	**11.1**	**15.0**
Comprising individual business	348.2	347.2	11.1	15.0

b) Gross annualised new business premiums

	2017 £m	2016 £m
Direct assurance	11.1	15.0

New business (direct)

	Single premiums 2017 £m	Single premiums 2016 £m
Non-participating		
Life	-	-
Pension	4.0	6.4
Participating		
Pension	-	0.3
Unit-linked		
Pension	7.1	8.3
Total gross new business	**11.1**	**15.0**
Comprising individual business	11.1	15.0

In classifying new business premiums the following basis of recognition is adopted:

- pensions vested into annuity contracts during the year are included in new pension single premium business at the annuity purchase price; and

- products substituted due to the exercise of standard contract terms are not included in the new business statistics.

3. Premiums (continued)

c) Reinsurance balance

The aggregate reinsurance balance (premiums ceded to reinsurers, reinsurance recoveries and changes in reinsurers' share of insurance and investment contract liabilities) amounted to a credit to the income statement at 31 December 2017 of £360.5m (2016: debit of £1,381.0m).

4. Net investment income

	2017	2016
	£m	£m
Investment income		
Income from investment property	36.5	49.7
Income from other investments	1,414.1	936.2
Dividend received from subsidiaries	109.8	-
Net gains / (losses) on the realisation of investments:		
- Bonds	92.5	171.5
- Equities/Unit trusts	1,429.0	543.2
- Investment properties	27.9	12.0
- Other	(23.4)	3.3
	3,086.4	**1,715.9**
Net unrealised gains/(losses) on investments:		
- Bonds	(6.6)	664.9
- Equities/Unit trusts	216.2	1,854.6
- Investment properties	24.9	(24.5)
- Investments in group entities	-	9.1
- Other	15.7	13.7
Net fair value gains or losses on financial liabilities	6.0	-
Total investment return	**3,342.6**	**4,233.7**

Income from investment property is rental income. All net gains and losses on financial assets at fair value through profit and loss arise on assets designated upon initial recognition.

5. Administration expenses

	2017	2016
	£m	£m
Change in PVIF asset	3.2	3.4
Other administrative expenses	115.3	94.8
Investment management expenses	42.9	37.2
	161.4	**135.4**

Administrative expenses are predominantly borne by ReAssure UK Services Limited ("RUKSL"), a group undertaking. Costs incurred by RUKSL are charged to the Company through a Management Services Agreement ("MSA") by way of a monthly service charge.

6. Finance costs

	2017	2016
	£m	£m
Interest costs on deposits received from reinsurers	5.9	6.9
Interest costs on the ERIP Limited Partnership loan	0.9	1.7
	6.8	**8.6**

Interest costs on the ERIP Limited Partnership loan include £nil (2016: £0.5m) of penalty interest due to the accrued loan interest not being settled.

7. Claims and benefits

a) Claims and benefits paid

	2017 £m	2016 £m
Claims and benefits paid, before reinsurance		
Insurance contracts	2,145.3	1,348.1
Participating investment contracts	18.2	20.4
	2,163.5	**1,368.5**
Reinsurance recoveries		
Insurance contracts	**(413.9)**	**(388.7)**
Claims and benefits paid, after reinsurance		
Insurance contracts	1,731.4	959.4
Participating investment contracts	18.2	20.4
	1,749.6	**979.8**

b) Claims on investment contracts

In relation to non-participating investment contracts the business does not account for claims paid as a claim expense in the income statement. Such transactions are recognised as a deduction in investment contract liabilities on the balance sheet and accounted for as deposits repaid.

The amounts repaid in the year amounted to £1,383.9m (2016 : £1,186.0m) in respect of investment contracts.

8. Auditors' remuneration

The total remuneration payable by the Company to its auditors is shown below:

	2017 £m	2016 £m
Audit services:		
Fees payable for the audit of the Company's annual financial statements	0.6	0.5
Total audit fees	**0.6**	**0.5**
Non-audit services:		
Audit related assurance services	1.3	1.0
Total fees	**1.9**	**1.5**

Audit related assurance services include the audit of regulatory returns, review of reporting to the group's parent company and audit of embedded value reporting.

All audit and non-audit fees are borne by RUKSL, a group undertaking.

9. Employee numbers and costs

The Company does not directly employ any staff. Staff are employed by RUKSL, ReAssure Companies Services Limited and ReAssure FSH UK Limited and their costs are incorporated within the service charges under the MSA. The Company is unable to separately identify the element of service charge relating to staff costs. Staff costs are included in the financial statements of RUKSL and no separate presentation is presented here.

10. Key management remuneration

Key management includes directors of the Company and indirect parent company. Some members of key management of the Company are also key management of other group undertakings. For 2016, due to the acquisition of the entire business of the Guardian Assurance Limited group, their emoluments were apportioned between their services as key management of the Company and their services as key management of other group undertakings. For 2017, no such apportionment has been made.

The aggregate emoluments of 14 members of key management (2016: 13) are shown in the table below. All members of key management were remunerated by RUKSL [or by other Swiss Re undertakings.]

There are 4 key management personnel (2016: 2) who are accruing benefits under the defined contribution pension

	2017 £m	2016 £m
Salaries and other short-term employee benefits	2.9	1.5
	2.9	**1.5**

	2017 £m	2016 £m
Highest paid director		
Emoluments	0.5	0.2

11. Pension costs

The Company's parent undertaking, ReAssure Group Limited, operates the ReAssure staff pension scheme, a funded defined benefit scheme, for staff employed by RUKSL, the assets of which are held in a separate trustee-administered fund. The defined benefit scheme is closed to new members and to all further service accruals.

All staff are entitled to join the RUKSL group personal pension scheme, a defined contribution scheme. Costs for all pension schemes are included in the MSA with RUKSL and the Company incurs no further direct costs in this regard. Details of pension scheme arrangements are provided in the financial statements of ReAssure Group Limited.

12. Fee income

	2017 £m	2016 £m
Annual management charges applied to linked funds	142.9	128.3
Policy administration fees	5.2	6.6
Bid/offer spread and other charges	3.0	3.3
	151.1	**138.2**

13. Tax on profit for the year

a) Tax charge to the income statement

	2017 £m	2016 £m
Current taxation		
UK corporation tax	219.6	8.9
Business transfer	-	78.8
Adjustments in respect of prior periods	0.8	(1.2)
	220.4	86.5
Deferred taxation		
Origination and reversal of timing differences	19.4	24.3
Business transfer	-	23.3
Impact of rate change	-	(3.5)
Adjustment in respect of prior periods	(1.6)	(0.8)
	17.8	43.3
Tax charge attributable to the shareholders	238.2	129.8
Tax charge attributable to the policyholders	12.3	18.6
Total tax charge for the year	**250.5**	**148.4**

b) Reconciliation of tax charge on profit attributable to shareholders

The tax assessed for the year is lower (2016: lower) than the standard rate of corporation tax in the UK of 19.25% (2016: 20%). The differences are explained below:

	2017 £m	2016 £m
Profit before tax	1,298.2	1,623.1
Tax on profit at 19.25% (2016: 20%)	249.9	324.6
Tax attributable to the policyholders	(6.3)	(3.2)
Business transfer	-	(174.9)
Asset written off	-	(4.1)
Transfer pricing adjustments	(7.3)	(1.9)
Adjustments in respect of prior years	(0.8)	(1.8)
Dividends not chargeable to tax	(21.1)	-
Impairment of subsidiaries	18.8	-
Impact of rate change	-	(3.5)
Other	5.0	(5.4)
Tax charge for the year attributable to shareholders	**238.2**	**129.8**

c) Factors affecting the current and future tax charges

A reduction to the corporation tax rate (reducing the rate to 17%) for the year commencing 1 April 2020, was enacted in 2016. Accordingly, the relevant deferred tax balances have been measured at 17%.

14. Dividends

	2017 £m	2016 £m
Interim dividend paid		
Ordinary shares	1,044.0	336.0

During 2017, an ordinary dividend of £1,044.0m was paid in respect of the year ended 31 December 2016 (2016: £336.0m in respect of 31 December 2015). At the date of signing the financial statements in respect of the year ended 31 December 2017, the directors have not yet proposed a final dividend.

15. Acquired in-force business

	2017	2016
	£m	£m
Cost		
At 1 January	113.6	113.6
At 31 December	**113.6**	**113.6**
Accumulated amortisation		
At 1 January	9.9	6.5
Charge for the year	3.2	3.4
At 31 December	**13.1**	**9.9**
Net book value	**100.5**	**103.7**

PVIF assets are amortised consistently with the measurement of the related liabilities. The average period over which the remaining PVIF assets will be amortised is between 17 and 48 years.

16. Property, plant and equipment

	2017	2016
	£m	£m
Cost or valuation and net book value of owner-occupied land and buildings		
At 1 January	3.0	3.0
Revaluation	0.4	-
At 31 December	**3.4**	**3.0**

17. Investment property

A reconciliation of the carrying amount of investment properties at the beginning and end of the year is set out below:

	2017	2016
	£m	£m
Fair value at 1 January	751.2	787.3
Additions	0.7	21.5
Disposals	(85.8)	(33.1)
Change in fair value (see note 4)	24.9	(24.5)
Fair value at 31 December	**691.0**	**751.2**

Land and buildings were valued at 31 December 2017 on an open market existing use basis by Knight Frank LLP, a firm of independent chartered surveyors. These are categorised as level 3 of the fair value hierarchy.

18. Investments in group undertakings

a) Subsidiary undertakings

	2017 £m	2016 £m
Cost		
At 1 January	261.0	4.9
Additions	-	256.1
At 31 December	**261.0**	**261.0**
Carrying amount		
At 1 January	261.0	4.9
Additions	-	256.1
Impairment	(54.0)	-
At 31 December	**207.0**	**261.0**

The additions in the prior year relate to Ark Life Assurance Company DAC (£247.1m), ReAssure LL Limited (£4.5m) and ReAssure PM Limited (£4.5m).

The interest held by the Company in the ordinary share capital of its subsidiary undertakings is as follows:-

Company	**Principal activity**	**Holding**
Direct subsidiaries		
Namulas Pension Trustees Limited	Corporate and pension trustees	100%
Gresham Life Assurance Society Limited	Dormant	100%
ReAssure Trustees Limited	Dormant	100%
Ark Life Assurance Company DAC	Life assurance and pension business	100%
ReAssure LL Limited	Dormant	100%
ReAssure PM Limited	Dormant	100%

The registered office of Ark Life Assurance Company DAC is 3rd Floor, College Park House, Nassau Street, Dublin 2, Ireland. The registered office of the remaining subsidiaries is Windsor House, Telford Centre, Telford, Shropshire, TF3 4NB.

b) Interest in unconsolidated structured entity

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when voting rights relate to the administrative tasks only and the relevant activities are directed by means of contractual arrangements.

The Company has invested £1,000 of permanent capital into a special purpose entity, ERIP Limited Partnership ("ERIP"), a property management partnership registered in the United Kingdom, which represents 50% of the permanent capital of the partnership. At inception the Company also transferred property assets of £349.8m into ERIP. Under the partnership agreement it is entitled to 99.5% of the partnership's profits and losses. The Company is not deemed to control ERIP.

	2017 £m	2016 £m
ERIP Limited Partnership	275.2	402.8

The movement in the carrying value of ERIP Limited Partnership is due to an impairment of £43.6m and a capital repayment of £84.0m.

18. Investments in group entities (continued)

b) Interest in unconsolidated structured entity (continued)

In arriving at the valuation of the investment in ERIP, the directors have made reference to the value of the assets and liabilities as reflected in ERIP's financial statements at the balance sheet date and the accounting policies used in arriving at those values. This includes land and buildings subject to an in-force policy being valued on a reversionary basis and land and buildings not related to an in-force policy valued at open market value. The reversionary basis represents the partnership's best estimate of the fair value having regard to the policyholders' lifetime lease; the reversionary value of the ERIP properties in the ELP are calculated by discounting with a rate of 5% per annum future proceeds from the sale of ERIP properties assuming base mortality in line with 108.9% PML08 for males and 103.5% PFL08 for females and future improvements from the CMI_2016 [1.75%] model. In the case of a liability to a third party the financial liability has been designated at fair value through profit or loss. These assets and liabilities are summarised as follows:

	2017 £m	2016 £m
Total assets of ERIP Limited Partnership	393.6	531.1
Total liabilities of ERIP Limited Partnership	(118.4)	(128.3)
Net assets of ERIP Limited Partnership	**275.2**	**402.8**

	2017 £m	2016 £m
Directors' valuation of investment in ERIP Limited Partnership	275.2	402.8
Amounts due to ERIP Limited Partnership	(234.0)	(263.0)
Net interest in ERIP Limited Partnership	**41.2**	**139.8**

The following table details the Company's remaining interests in unconsolidated structured entities and the maximum exposure to loss from holding these investments in 2017 (2016: £679.6m):

	Number of entities	Carrying amount £m	Maximum exposure to loss £m	Total assets of structured entity £m
Asset backed securities	22	230.6	230.6	4,749.6
Commercial MBS	18	227.8	227.8	6,398.1
	40	**458.4**	**458.4**	**11,147.7**

c) Total investments in group undertakings

A reconciliation of the carrying amount of total investments in group undertakings at the beginning and end of the year is set out below:

	2017 £m	2016 £m
Carrying value at 1 January	663.8	398.7
Additions	-	265.1
Impairment	(97.6)	-
Capital Repayment	(84.0)	-
Carrying value at 31 December	**482.2**	**663.8**

19. Other financial investments

a) Carrying value by measurement category

	Carrying value 2017 £m	Carrying value 2016 £m	Cost or amortised cost 2017 £m	Cost or amortised cost 2016 £m
Financial assets at fair value through profit and loss designated upon initial recognition	40,369.3	41,150.3	35,026.6	35,387.3
Loans and receivables, at amortised cost	639.0	776.7	633.6	776.7
Total financial assets	**41,008.3**	**41,927.0**	**35,660.2**	**36,164.0**
Included in balance sheet as follows:				
Listed investments:				
Shares and other variable yield securities	12,984.8	12,349.5	10,181.1	9,787.9
Debt securities and other fixed income securities	20,858.9	22,040.8	19,418.6	19,946.0
Total listed investments	**33,843.7**	**34,390.3**	**29,599.7**	**29,733.9**
Unlisted investments:				
Units in unit trusts	6,525.6	6,760.0	5,426.9	5,653.4
Loans secured by mortgages	0.5	0.5	0.5	0.5
Other loans	638.5	776.2	633.1	776.2
Total unlisted investments	**7,164.6**	**7,536.7**	**6,060.5**	**6,430.1**
Total financial investments	**41,008.3**	**41,927.0**	**35,660.2**	**36,164.0**

The carrying value in the above table is the fair value of the assets.

b) Determination of fair values and fair value hierarchy

Financial instruments held at fair value in the balance sheet are analysed against the fair value measurement hierarchy, as follows:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the Company has the ability to to access. Level 1 inputs are the most persuasive evidence of fair value and are to be used whenever possible.

- Level 2 inputs are market-based inputs that are directly or indirectly observable but not considered level 1 quoted prices. Level 2 inputs consist of (i) quoted prices for similar assets or liabilities in active markets; (ii) quoted prices for identical assets or liabilities in non-active markets (e.g. markets which have few transactions and prices that are not current or price quotations vary substantially); (iii) inputs other than quoted prices that are observable (e.g. interest rates, yield curves, volatilities, prepayment speeds, credit risk and default rates); and (iv) inputs that are derived from or corroborated by observable market data.

- Level 3 inputs are unobservable inputs. These inputs reflect the Company's own assumptions about market pricing using the best internal and external information available.

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

19. Other financial investments (continued)

The following tables present the Company's assets and liabilities measured at fair value at 31 December 2017 and 31 December 2016.

Assets as at 31 December 2017	Level 1 £m	Level 2 £m	Level 3 £m	**Total balance £m**
Financial assets at fair value through profit and loss:				
- shares and other variable-yield securities and units in unit trusts	19,510.3	-	0.1	**19,510.4**
- debt securities and other fixed income securities	-	20,142.2	716.7	**20,858.9**
Derivative assets	0.8	17.3	-	**18.1**
	19,511.1	**20,159.5**	**716.8**	**40,387.4**

Assets as at 31 December 2016	Level 1 £m	Level 2 £m	Level 3 £m	**Total balance £m**
Financial assets at fair value through profit and loss:				
- shares and other variable-yield securities and units in unit trusts	19,109.5	-	-	**19,109.5**
-debt securities and other fixed income securities	-	21,622.3	418.5	**22,040.8**
Derivative assets	9.4	124.4	0.3	**134.1**
	19,118.9	**21,746.7**	**418.8**	**41,284.4**

Liabilities as at 31 December 2017	Level 1 £m	Level 2 £m	Level 3 £m	**Total balance £m**
Financial liabilities under non profit investment contracts	-	-	24.4	**24.4**
Financial liabilities under unit-linked investment contracts	-	17,956.6	-	**17,956.6**
Financial liabilities under investment contracts with DPF	-	-	2,423.2	**2,423.2**
Derivative liabilities	0.7	15.8	-	**16.5**
Deposits received from reinsurers	-	-	124.9	**124.9**
Other financial liabilities	-	-	355.3	**355.3**
	0.7	**17,972.4**	**2,927.8**	**20,900.9**

19. Other financial investments (continued)

Liabilities as at 31 December 2016	Level 1 £m	Level 2 £m	Level 3 £m	**Total balance £m**
Financial liabilities under non profit investment contracts	-	-	28.7	**28.7**
Financial liabilities under unit-linked investment contracts	-	17,373.7	-	**17,373.7**
Financial liabilities under investment contracts with DPF	-	-	2,381.8	**2,381.8**
Derivative liabilities	9.9	83.2	-	**93.1**
Deposits received from reinsurers	-	-	138.4	**138.4**
Other financial liabilities	-	-	361.3	**361.3**
	9.9	**17,456.9**	**2,910.2**	**20,377.0**

The types of instruments valued based on quoted market prices in active markets include active listed equities. Such instruments are generally classified within level 1 of the fair value hierarchy.

The types of instruments that trade in markets that are not considered to be active, but are valued based on quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include most government agency securities, investment-grade corporate bonds, certain mortgage and asset-backed products and state, municipal and provincial obligations. Such instruments are generally classified within level 2 of the fair value hierarchy.

Certain financial instruments are classified within level 3 of the fair value hierarchy because they trade infrequently and therefore have little or no price transparency. Such instruments include private equity and less liquid corporate debt securities. When appropriate, valuations are adjusted for various factors such as liquidity, bid/offer spreads and credit considerations. Such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

The following tables present the changes in Level 3 instruments for the years ended 31 December 2017 and 31 December 2016.

	2017 £m	2016 £m
Assets		
Opening balance at 1 January	418.8	0.1
Purchases during the year	111.5	0.2
Disposed during the year	(42.1)	-
Gains recognised in the income statement	15.7	6.0
Transfer into Level 3	212.9	412.5
Closing balance at 31 December	**716.8**	**418.8**
Total gains for the year included in the income statement for assets held at 31 December	15.7	6.0

The transfer into Level 3 in the prior year of £412.5m detailed above, includes £375.6m relating to the Part VII of Guardian business.

The sensitivity of Level 3 instruments is set out in the table below. The significant unobservable inputs used in the fair value measurements is liability discount. The balances as at 31 December 2017 and 31 December 2016 relate to private equity investments which have been valued in accordance with the manager's calculated net asset valuation. The two scenarios considered are (i) liquidity discount of 20% (ii) liquidity discount of 30%.

Level 3 assets	Base £m	Scenario 1 £m	Scenario 2 £m
2017	716.8	573.4	501.8
2016	418.8	335.0	293.2

20. Derivative assets and liabilities

a) Held at year end

2017	Contract/ Notional Amount £m	Fair Values Assets £m	Liabilities £m
Non-profit/shareholder derivatives			
Interest rate contracts	987.9	9.5	(9.2)
Equity/Index derivatives	-	-	-
Forward foreign currency contracts	350.7	2.5	(1.4)
Other derivatives	1.0	-	-
	1,339.6	**12.0**	**(10.6)**
With-profit derivatives			
Interest rate contracts	649.1	3.1	(4.9)
Equity/Index derivatives	(215.4)	0.8	(0.7)
Forward foreign currency contracts	-	-	-
Other derivatives	-	-	-
	433.7	**3.9**	**(5.6)**
Unit-linked derivatives			
Interest rate contracts	(61.7)	-	-
Equity/Index derivatives	76.9	2.2	(0.3)
Forward foreign currency contracts	-	-	-
Other derivatives	-	-	-
	15.2	**2.2**	**(0.3)**
Total derivative assets and liabilities	**1,788.5**	**18.1**	**(16.5)**

2016	Contract/ Notional Amount £m	Fair Values Assets £m	Liabilities £m
Non-profit/shareholder derivatives			
Interest rate contracts	2,126.1	72.7	(28.8)
Equity/Index derivatives	(252.2)	0.9	(3.7)
Forward foreign currency contracts	379.6	-	(4.6)
Other derivatives	4.5	0.3	-
	2,258.0	**73.9**	**(37.1)**
With-profit derivatives			
Interest rate contracts	(452.3)	51.2	(54.4)
Equity/Index derivatives	0.5	0.5	-
Forward foreign currency contracts	-	-	-
Other derivatives	-	-	-
	(451.8)	**51.7**	**(54.4)**
Unit-linked derivatives			
Interest rate contracts	(28.3)	-	(0.2)
Equity/Index derivatives	49.7	5.8	(0.9)
Forward foreign currency contracts	2.2	2.7	(0.5)
Other derivatives	-	-	-
	23.6	**8.5**	**(1.6)**
Total derivative assets and liabilities	**1,829.8**	**134.1**	**(93.1)**

b) The Company does not have any derivatives that are designated as hedging instruments (2016: same).

c) Maturity analysis - gross undiscounted cashflows

2017	Within 1 year £m	1-5 years £m	Over 5 years £m	Total £m
Cash inflows				
Non-profit/shareholder derivatives				
Derivative assets	193.0	18.9	71.8	283.7
Derivative liabilities	164.2	8.8	36.8	209.8
With-profit derivatives				
Derivative assets	1.6	4.9	19.2	25.7
Derivative liabilities	1.8	7.2	9.9	18.9
Unit-linked derivatives				
Derivative assets	2.2	-	-	2.2
Derivative liabilities	-	-	-	-
	362.8	**39.8**	**137.7**	**540.3**
Cash outflows				
Non-profit/shareholder derivatives				
Derivative assets	192.7	11.2	58.9	262.8
Derivative liabilities	166.1	19.7	76.5	262.3
With-profit derivatives				
Derivative assets	1.6	4.3	7.3	13.2
Derivative liabilities	4.1	16.3	26.0	46.4
Unit-linked derivatives				
Derivative assets	-	-	-	-
Derivative liabilities	(0.3)	-	-	(0.3)
	364.2	**51.5**	**168.7**	**584.4**
Net non-profit/shareholder derivative cashflows	(1.6)	(3.2)	(26.8)	(31.6)
Net with-profit derivative cashflows	(2.3)	(8.5)	(4.2)	(15.0)
Net unit-linked derivative cashflows	2.5	-	-	2.5

2016	Within 1 year £m	1-5 years £m	Over 5 years £m	Total £m
Cash inflows				
Non-profit/shareholder derivatives				
Derivative assets	25.1	99.3	1,829.3	1,953.7
Derivative liabilities	7.7	156.4	453.2	617.3
With-profit derivatives				
Derivative assets	3.0	29.1	179.9	212.0
Derivative liabilities	53.4	260.1	293.0	606.5
Unit-linked derivatives				
Derivative assets	8.5	-	-	8.5
Derivative liabilities	-	-	-	-
	97.7	**544.9**	**2,755.4**	**3,398.0**

20. Derivative assets and liabilities (continued)

c) Maturity analysis - gross undiscounted cashflows (continued)

2016	Within 1 year £m	1-5 years £m	Over 5 years £m	Total £m
Cash outflows				
Non-profit/shareholder derivatives				
Derivative assets	8.9	61.9	1,819.7	1,890.5
Derivative liabilities	17.8	156.1	459.2	633.1
With-profit derivatives				
Derivative assets	0.6	19.6	138.5	158.7
Derivative liabilities	60.9	283.3	318.9	663.1
Unit-linked derivatives				
Derivative assets	-	-	-	-
Derivative liabilities	1.6	-	-	1.6
	89.8	**520.9**	**2,736.3**	**3,347.0**
Net non-profit/shareholder derivative cashflows	6.1	37.7	3.6	47.4
Net with-profit derivative cashflows	(5.1)	(13.7)	15.5	(3.3)
Net unit-linked derivative cashflows	6.9	-	-	6.9

21. Deferred tax

Deferred tax assets and liabilities have been recognised / (provided) for the temporary differences and unused tax losses. The recognition of a deferred tax asset in respect of tax losses is supported by management's best estimate of the future taxable profits to absorb the losses in future years. Deferred tax assets and liabilities have been offset to the extent it is permissible under IFRS. The net movement in deferred tax assets and liabilities during the year is as follows:

2017	Net tax asset/(liability) as at 1 January £m	Adjustments in respect of prior years £m	Transfer	Tax (charge)/credit to income statement £m	Net tax asset/(liability) as at 31 December £m
Capital losses	38.0	-	-	(1.3)	36.7
Present value of future profits	(2.0)	-	-	0.3	(1.7)
Transitional adjustment arising on movement to new tax regime	38.9	-	(16.8)	(3.6)	18.5
Excess expenses	21.3	0.4	-	(19.3)	2.4
Unrealised chargeable gains	(71.6)	1.1	(7.6)	3.8	(74.3)
Deferred acquisition expenses	0.8	-	0.4	(0.3)	0.9
Change of reserving basis	0.1	-	-	-	0.1
Deferred tax attributable to business transfer	(23.3)	0.4	22.9	-	-
Other deferred	10.6	(0.3)	1.1	(1.0)	10.4
Total Deferred tax liability	**12.8**	**1.6**	**0.0**	**(21.4)**	**(7.0)**

21. Deferred tax (continued)

2016	Net tax asset/(liability) as at 1 January £m	Adjustments in respect of prior years £m	Tax (charge)/credit to income statement £m	Net tax asset/(liability) as at 31 December £m
Capital losses	-	-	38.0	38.0
Present value of future profits	(2.3)	-	0.3	(2.0)
Transitional adjustment arising on movement to new tax regime	48.1	-	(9.2)	38.9
Excess expenses	59.4	0.9	(39.0)	21.3
Unrealised chargeable gains	(58.8)	-	(12.8)	(71.6)
Deferred acquisition expenses	1.1	-	(0.3)	0.8
Change of reserving basis	8.8	-	(8.7)	0.1
Deferred tax attributable to business transfer	-	-	(23.3)	(23.3)
Other deferred tax asset	(0.2)	-	10.8	10.6
Deferred tax attributable to shareholders	**56.1**	**0.9**	**(44.2)**	**12.8**

22. Prepayments and accrued income

	2017 £m	2016 £m
Accrued investment income	335.3	350.3
Accrued rent receivable	-	0.2
	335.3	**350.5**

23. Other receivables

	2017 £m	2016 £m
Other debtors	207.1	142.2
Amounts owed by group undertakings	44.4	45.6
	251.5	**187.8**

These balances are receivable within one year from the balance sheet date. The receivables from group undertakings are repayable on demand, unsecured in nature and bear no interest. No provisions are held against receivables from related parties (2016: nil).

24. Cash and cash equivalents

	2017 £m	2016 £m
Cash	173.8	168.9
Cash equivalents	2,492.8	1,577.5
	2,666.6	**1,746.4**

Cash comprises cash at bank and cash in hand. Cash equivalents comprise bank deposits and highly liquid short-term investments. There are no amounts included in the cash and cash equivalents balances that are not readily available.

25. Share capital

	2017 £m	2016 £m
Issued and fully paid		
289,000,000 ordinary shares of £1 each (2016: 289,000,000)	289.0	289.0

26. Insurance contract liabilities

For non-profit insurance contracts, in-force business liabilities are determined using a gross premium valuation method which entails projecting forward cashflows on a policy by policy basis. For annuity business in the Matching Adjustment funds, the technical provisions under IFRS are set equal to the Solvency II technical provisions (which consist of the best estimate liabilities plus the risk margin). Annuities outside the matching adjustment are set equal to the Solvency II technical provisions discounted using the EIOPA risk free rate curve. For other non-profit policies the rate used to discount the projected cash flows is based on the yield on the assets backing the reserves after allowing for default risk. The methodology for setting default allowance has been retained from last year. As the liabilities for insurance contracts are predominantly annuities in payment, the most material assumptions are the discount rate used to discount future annuity payments and annuitant mortality.

For with-profit policies in the National Mutual Fund and the With-Profits Fund the technical provisions have been calculated using a "realistic balance sheet" approach. This approach takes into account contractual obligations to pay future bonuses and uses market consistent techniques to value options and guarantees. Full provision has been made for all future bonuses expected to be paid. An allowance has also been included for the cost of policy options and guarantees using a stochastic economic model calibrated to market prices applying at the valuation date. Risk-free rates are set equal to gilt yields increased by 10 bp, volatilities are set by reference to appropriate derivative prices, and correlation are based on historic experience. The assumptions for mortality, persistency and the take-up rate of guarantees are realistic best estimate, based on own and industry experience. The liabilities in the National Mutual with-profits fund ("NMF") allow for the full distribution of the assets in the fund. The liabilities in the Windsor Life with-profits fund ("WPF") allow for the full distribution of the assets in the fund, other than those allocated to non-participating business in which the with-profits policyholders have no interest.

For the with-profits policies in the Guardian With-Profits Fund, the technical provisions have been calculated using a "realistic balance sheet" that takes into account contractual obligations to pay future bonuses.

A retrospective asset share basis has been used to value the liabilities unless the reserve on a prospective basis would be greater. In these cases the with-profits benefits reserve has been calculated as the discounted cash flow plus the equity component of the asset share. The equity component has also been included to allow for any individual cases where asset share is greater than discounted cash flow liability.

Unitised With-Profits contracts have also been valued on a retrospective basis.

A prospective basis has been used for all other contracts, namely deferred annuities. Future cash flows have been calculated in Prophet then discounted at a risk free rate of zero coupon swap rates plus 52bps less 6bps. These future cash flows include the shareholders' share of reversionary bonus on with-profits deferred annuities that have been reassured to the Non Profit Fund. The equity component of the asset share has also been calculated and added to the with-profits benefit reserve.

Main valuation assumptions

For annuity business in the Non-Profit Fund the discount rates used are determined by reference to basic risk-free interest rates prescribed by EIOPA. These have a term structure, so vary by time, for each currency. A Matching Adjustment is applied to certain blocks of annuity business. The business covered by the Matching Adjustment (MA) is discounted using the MA rate that is calculated using a risk-adjusted yield in excess of the risk-free rates taking a specified portfolio of assets and matching cashflows on the liabilities. The size of the Matching Adjustment depends on the actual spreads on the Matching Portfolios of assets, and the credit quality of those assets. The Matching Adjustment rate applied at 31 December 2017 is 0.79% in MA Fund 1 and 0.81% in MA Fund 2. Annuities not covered by the MA are discounted at the EIOPA risk free rate.

26. Insurance contract liabilities (continued)

For other non-annuity products in the Non Profit fund, the valuation interest rate used to calculate the technical provisions is determined reflecting economic conditions at the valuation date. Different valuation interest rates are calculated for different blocks of business to reflect the different mix of assets held. The valuation interest rate on a prudent basis will continue to include a statutory deduction of 2.5% of the risk adjusted yield (as under Solvency I Pillar 1), allowance for investment costs and additionally some margins for default.

For annuities in payment, the mortality assumption is generally based on the PMA08 table for males and the PFA08 table for females, adjusted to reflect the historic experience of the business concerned. The mortality rates are projected using future mortality improvements from the CMI-2016 model. The mortality improvements have been set using the extended version of the CMI model (with a smoothing parameter S(k)=7.75) and a long-term rate of improvement of 1.25% for both males and females. For annuities written on enhanced terms, the mortality rates are adjusted to allow for the pattern of additional mortality the lives concerned are expected to exhibit, according to the circumstances that gave rise to the enhancement.

The reserves for unit-linked liabilities have been taken as:

- for contracts unit-linked to external unit trusts, the bid value of the units allocated to policies as at the valuation date;
- for contracts unit-linked to internal funds, the value of the underlying assets as at the valuation date.

The Company has two Management Service Agreements ("MSA) in place for the administration of the in-force policies: an MSA with ARUKSL covering the administration of the ReAssure business and an MSA with HCL that performs the policy administration related to the ex-Barclays Life business. The ex-Guardian business MSA with RCSL was terminated and the business brought into the MSA with ARUKSL during 2017. The administration expense assumptions used for the calculation of the insurance liabilities have been set to the fees expected to be paid under the MSAs.

The principal assumptions used to calculate the insurance liabilities are summarised in the table below:

	2017	2016
Discount rates (p.a.)		
Non-profit business		
Annuities-in-payment (NPF) - ex-RAL MA	EIOPA RFR + MA rate of 0.79%	EIOPA RFR + MA rate of 1.00%
Annuities-in-payment (NPF) - ex-Guardian MA	EIOPA RFR + MA rate of 0.81%	EIOPA RFR + MA rate of 0.94%
Annuities-in-payment (NPF) - non-MA	EIOPA RFR	EIOPA RFR
Other NPF products - ex-RAL	1.72%	1.71%
Other NPF products - ex-Guardian (PHI)	1.72%	0.69%
With-profit business (NMF/WPF)		
Risk free rate	Gilt yields plus 10bp	Gilt yields plus 10bp
UK equity volatility	Market consistent	Market consistent
Property volatility	12.7%	12.7%

For the GAWPF the equity component of the asset share is calculated retrospectively and added to the with-profits benefit reserve. Stochastic modelling has not been used for GAWPF. This reflects the matched position of GAWPF where a close matching investment philosophy has been adopted to such an extent that the fixed interest portfolio is effectively a replicate portfolio for the guarantees and options within the fund.

Sensitivities to changes in interest rates are shown in note 28 c) (i) and (ii). Sensitivities to changes in equity prices and property prices are shown in note 28 c) (v) (vi) and (viii).

26. Insurance contract liabilities (continued)

	2017	2016
Mortality tables		
Non-profit business ex-RAL		
Annuities-in-payment (ZAL)	103% PMA08	104% PMA08
	101% PFA08	103% PFA08
Annuities-in-payment (ex-NML)	Modified PMA08	Modified PMA08
	Modified PFA08	Modified PFA08
Annuities-in-payment (ex-NMP)	102% PMA08	117% PMA08
	87% PFA08	85% PFA08
Annuities-in-payment (WLA)	123% PMA08	117% PMA08
	128% PFA08	85% PFA08
RCBPF Mortality swap	107% S2PMA	109% S2PMA
	90% S2PFA	95% S2PFA
Akzo Nobel swap	107% S2PMA	109% S2PMA
	104% S2PFA	106% S2PFA
LV= swap	99% S2PMA	101% S2PMA
	96% S2PFA	99% S2PFA

Non-profit business ex-Guardian

	Amount band (£)	2017	2016
Guardian Legacy	0-2000	108% PMA08 107% PFA08	112% PML08 108% PFL08
	2000-4000	108% PMA08 107% PFA08	106% PML08 102% PFL08
	4000-10000	108% PMA08 107% PFA08	97% PML08 96% PFL08
	10000+	108% PMA08 107% PFA08	90% PML08 88% PFL08
Phoenix (BA)	0-2000	130% PMA08 130% PFA08	122% PML08 120% PFL08
	2000-4000	130% PMA08 130% PFA08	115% PML08 114% PFL08
	4000-10000	130% PMA08 130% PFA08	108% PML08 103% PFL08
	10000+	130% PMA08 130% PFA08	96% PML08 100% PFL08
Phoenix (Century)	0-2000	107% PMA08 123% PFA08	110% PML08 106% PFL08
	2000-4000	107% PMA08 123% PFA08	103% PML08 99% PFL08
	4000-10000	107% PMA08 123% PFA08	96% PML08 94% PFL08
	10000+	107% PMA08 123% PFA08	90% PML08 87% PFL08
Phoenix (SMA)	0-2000	92% PMA08 98% PFA08	110% PML08 108% PFL08
	2000-4000	92% PMA08 98% PFA08	87% PML08 85% PFL08
	4000-10000	92% PMA08 98% PFA08	81% PML08 80% PFL08
	10000+	92% PMA08 98% PFA08	75% PML08 74% PFL08
Phoenix (SPL)	0-2000	107% PMA08 93% PFA08	110% PML08 108% PFL08
	2000-4000	107% PMA08 93% PFA08	103% PML08 102% PFL08
	4000-10000	107% PMA08 93% PFA08	82% PML08 80% PFL08
	10000+	107% PMA08 93% PFA08	75% PML08 75% PFL08
Phoenix (Pearl)	0-2000	130% PMA08 130% PFA08	116% PML08 115% PFL08
	2000-4000	130% PMA08 130% PFA08	109% PML08 109% PFL08
	4000-10000	130% PMA08 130% PFA08	101% PML08 100% PFL08
	10000+	130% PMA08 130% PFA08	91% PML08 92% PFL08

26. Insurance contract liabilities (continued)

Non-profit business ex-Guardian (continued)

	Amount band (£)	2017	2016
Phoenix (NPI)	0-2000	102% PMA08 98% PFA08	106% PML08 98% PFL08
	2000-4000	102% PMA08 98% PFA08	93% PML08 88% PFL08
	4000-10000	102% PMA08 98% PFA08	88% PML08 86% PFL08
	10000+	102% PMA08 98% PFA08	72% PML08 72% PFL08
Phoenix (PWP)	0-2000	100% PMA08 98% PFA08	103% PML08 102% PFL08
	2000-4000	100% PMA08 98% PFA08	94% PML08 93% PFL08
	4000-10000	100% PMA08 98% PFA08	88% PML08 87% PFL08
	10000+	100% PMA08 98% PFA08	82% PML08 80% PFL08
Phoenix (Alba)	0-2000	98% PMA08 95% PFA08	102% PML08 100% PFL08
	2000-4000	98% PMA08 95% PFA08	96% PML08 93% PFL08
	4000-10000	98% PMA08 95% PFA08	88% PML08 86% PFL08
	10000+	98% PMA08 95% PFA08	82% PML08 80% PFL08
Phoenix (SAL)	0-2000	101% PMA08 98% PFA08	103% PML08 101% PFL08
	2000-4000	101% PMA08 98% PFA08	96% PML08 93% PFL08
	4000-10000	101% PMA08 98% PFA08	88% PML08 88% PFL08
	10000+	101% PMA08 98% PFA08	81% PML08 80% PFL08

Mortality improvements are CMI_2016_M [1.25%; S=7.75] for males and CMI_2016_F [1.25%; S=7.75] for females (2016: CMI_2014_M (1.25%) for males and CMI_2014_F (1.25%) for females).

A sensitivity to changes in mortality rates is shown in note 28 c) (iv). Further details of the valuation basis can be found in the annual regulatory returns.

Options and guarantees

The with-profit policies in the NMF and WPF benefit from two types of guarantee. Most policies have a guaranteed minimum cash value at their maturity date (the WPF contains a number of with-profit annuities-in-payment which have guaranteed minimum payments each year). The level of the guarantee depends on the type of policy and is increased periodically through the addition of bonuses. For some policies, the guarantee extends across a range of dates, with the level being recalculated as appropriate.

The cost of the guarantees is calculated using a market-consistent stochastic valuation, with best-estimate assumptions for the other elements of the basis. For the NMF, annual bonus rates are assumed to be unchanged, while, for the WPF, they vary depending upon the investment conditions being modelled. The asset mix is reset each year to the weightings assumed at the start of the projection. Pay-outs are assumed to move in line with underlying asset shares, before taking into account the impact of smoothing and guarantees. For the NMF allowance is made for policyholder behaviour in determining the take-up rate of the guarantees. For GAWPF, with-profits deferred annuities have a guaranteed minimum cash value at their maturity date.

Analysis of the change in insurance contracts liabilities

A summary of the changes in insurance contracts liabilities is shown in the table below. The main drivers of the change during 2017 were: a decrease to the liabilities due to the run-off of the business (including experience variances) and a decrease due to assumption changes (mainly from reviewing longevity assumptions).

26. Insurance contract liabilities (continued)

Analysis of change in insurance contract liabilities

2017	Opening balance £m	Impact of new business £m	Impact of run-off / experience effects £m	Impact of assumption changes £m	Closing balance £m
With-profits insurance contracts	1,486.0	-	(38.1)	(9.6)	**1,438.3**
Non-profit insurance contracts	19,608.1	12.3	(1,387.9)	(510.6)	**17,721.9**
Unit-linked insurance contracts	3,166.7	-	(143.8)	-	**3,022.9**
	24,260.8	**12.3**	**(1,569.8)**	**(520.2)**	**22,183.1**
Reinsurers' share of provisions	(2,222.9)	-	203.1	195.1	**(1,824.7)**
	22,037.9	**12.3**	**(1,366.7)**	**(325.1)**	**20,358.4**

2016	Opening balance £m	Impact of new business £m	Impact of run-off / experience effects £m	Impact of assumption changes £m	Closing balance £m
With-profits insurance contracts	929.6	506.6	61.2	(11.4)	**1,486.0**
Non-profit insurance contracts	8,316.7	10,973.7	(561.1)	878.8	**19,608.1**
Unit-linked insurance contracts	2,696.0	405.1	66.6	(1.0)	**3,166.7**
	11,942.3	**11,885.4**	**(433.3)**	**866.4**	**24,260.8**
Reinsurers' share of provisions	(842.1)	(1,410.2)	101.3	(71.9)	**(2,222.9)**
	11,100.2	**10,475.2**	**(332.0)**	**794.5**	**22,037.9**

A summary of the impact of changes in assumptions on non-profit and unit-linked insurance contracts for 2017 is shown in the table below. The main impacts from changes in assumptions for 2017 arise from the release of annuity liabilities as a consequence of updating longevity assumptions and an increase as a consequence of a fall in credit spreads affecting the MA funds.

2017	Impact on liabilities before reinsurance £m	Impact of reinsurance £m	Impact on liabilities after reinsurance £m
MA2 extension	(154.9)	-	(154.9)
Demographic changes	(495.5)	135.5	(360.0)
Economic changes	143.3	59.6	202.9
Other	(3.5)	-	(3.5)
	(510.6)	**195.1**	**(315.5)**

2016	Impact on liabilities before reinsurance £m	Impact of reinsurance £m	Impact on liabilities after reinsurance £m
Model changes	1.1	-	1.1
Demographic changes	(96.1)	88.1	(8.0)
Economic changes	972.7	(159.9)	812.8
Other	-	-	-
	877.7	**(71.8)**	**805.9**

27. Management of insurance risk

Company structure

The Company's long-term insurance business is divided into four sub-funds: the National Mutual with-profits fund ("NMWPF"), the Windsor Life with-profits fund ("WLWPF"), the non-profit fund ("NPF") and the Guardian Assurance with-profits fund ("GAWPF"). The NMWPF contains some of the business from the National Mutual Life Assurance Society when the latter demutualised in April 2002. This is predominantly with-profits business and a small amount of non-profit business. It is closed to new business (apart from a small number of increases to existing policies). The WLWPF contains a mix of with-profit, non-profit and unit-linked business. This fund was closed to new business in July 2012. Both NMWPF and WLWPF are being run so that over time, as the policies in each fund mature or otherwise discontinue, all assets are distributed, with the exception of assets in the defined book (see below). The NPF contains a mix of unit-linked and non-profit business. The GAWPF is closed to new business.

There is an identifiable account defined book within the WLWPF, comprising most of the non-participating business in the WLWPF. The surplus arising in this account is allocated 84.25% to shareholders, with 15.75% remaining in the WLWPF. The account is operated in accordance with the terms of a scheme entered into when the business of NM Pensions Limited and NM Life Limited was transferred to the Company on 31 December 2007. With effect from 1 January 2012, the remainder of the surplus emerging on the defined book was reinsured to the NPF. An analysis of the split of the insurance and investment contract liabilities by fund is shown in the table below:

Analysis of insurance and investment contract liabilities (net of reinsurance)

2017	NMWPF	WLWPF	GAWPF	NPF	**Total**
	£m	£m	£m	£m	**£m**
With-profits	1,539.1	494.5	1,827.0	-	**3,860.6**
Unit-linked	-	-	103.4	20,876.0	**20,979.4**
Other life assurance	53.4	12.9	49.8	15,806.4	**15,922.5**
Total	**1,592.5**	**507.4**	**1,980.2**	**36,682.4**	**40,762.5**

2016	NMWPF	WLWPF	GAWPF	NPF	**Total**
	£m	£m	£m	£m	**£m**
With-profits	1,539.2	488.6	1,838.2	-	**3,866.0**
Unit-linked	-	-	124.4	20,416.1	**20,540.5**
Other life assurance	57.2	14.2	55.2	17,289.1	**17,415.7**
Total	**1,596.4**	**502.8**	**2,017.8**	**37,705.2**	**41,822.2**

Risk management policy

The Company has a documented Risk Management Standard which aligns to the Swiss Re Group Risk Policy. The Risk Management Standards covers the risk appetite statement for the Company, as approved by the board. It sets out the processes for identifying, monitoring, measuring and controlling risk and is supported by a series of risk category standards in line with the requirements of Solvency II. The maintenance of the Standards is the overall responsibility of the Risk Management function and is approved annually by the Board with assistance from various other committees .

27. Management of insurance risk (continued)

The overall aim of the Company's Risk Management Standards and Capital Management Policy are to; (i) to control the risks to which each fund is exposed to a level that can be supported by the capital available, given the agreed risk appetite statement; and (ii) within that constraint, to allocate capital so as to maximise the profitability of the business, given the agreed strategy.

From 1 January 2016 new regulatory requirements under the European Union's Solvency II Directive have been implemented, replacing the previous regulatory requirements. The Standard Formula regulatory capital requirements under the new framework build on the foundations laid by the ICA and is performed at least annually. Risk management Standards are aligned to the Solvency II framework.

The most material insurance risks for the Company identified under the ICA and the Solvency II framework relate to mortality under annuity contracts and persistency under unit-linked contracts. The risk on persistency largely arises from the loss of future annual management charges on unit-linked contracts. However future charges are not recognised in the balance sheet; so changes to future patterns in policy lapses do not have a significant impact on the balance sheet. Changes to the timing of in future mortality trends have a material impact on the balance sheet. A sensitivity to annuitant mortality risk is shown in note 28 c).

The Company is exposed to a range of financial risks through its financial assets, financial liabilities (investment contracts and borrowings), reinsurance assets and policyholder liabilities. The principal financial risk is that the proceeds from the financial assets are not sufficient to fund the obligations arising from the insurance policies and investment contracts as they fall due. The most important components of this risk are market risk (including interest rate and equity price risk), credit risk and insurance risk. The management of the market and credit risks is discussed in the management of financial risk note.

Financial guarantees

The with-profit policies in the NMWPF and WLWPF benefit from two types of guarantees: cash guarantees and annuity guarantees.

Cash guarantees apply to most policies and take the form of a guaranteed minimum payment each year for with-profit annuities-in-payment or a guaranteed minimum cash value at their maturity date for other policies. (With-profit annuities are only in the WLWPF). The level of the guarantee depends on the type of policy and is increased periodically through the addition of bonuses. For some policies, the guarantee extends across a range of dates, with the level being recalculated as appropriate.

A number of pension policies have an annuity guarantee in addition to a cash guarantee. In most cases, the guarantee takes the form of a guaranteed minimum annuity rate to convert the fund at retirement to pension (at a level substantially in excess of those currently available in the market). For a small number of policies, the guarantee is in the form of a guaranteed minimum annuity that increases periodically with additional bonuses.

The cost of the annuity guarantees in the NMWPF is £141.1m (2016: £127.5m). This is calculated using a market-consistent stochastic valuation, with best-estimate assumptions for the other elements of the basis. Annual bonus rates are assumed to be unchanged. The asset mix is maintained at its approved weightings at the start of the projection. Pay-outs are assumed to move in line with underlying asset shares, before taking into account the impact of guarantees.

27. Management of insurance risk (continued)

The cost of the annuity guarantee in the WLWPF is £30.7m (2016: £32.7m). This is calculated using a market-consistent stochastic valuation, with best-estimate assumptions for the other elements of the basis. Annual bonus rates vary according to the economic scenario being modelled in line with the approach set out in the PPFM. The asset mix is maintained at its approved weightings at the start of the projection, with an assumed run-off in the equity backing ratio to match the changing fund structure. Pay-outs are assumed to move in line with the underlying asset share.

The cost of the cash guarantees under the with-profit policies in both funds (NMWPF: £4.6m (2016: £9.2m), WLWPF: £17.3m (2016: £23.9m)) is also calculated using a market-consistent stochastic approach, similar to that described for calculating the cost of annuity guarantees.

With-profits deferred annuities in GAWPF have a guaranteed minimum cash value at their maturity date. A prospective basis has been used for deferred annuities. Future cash flows are discounted at a risk free rate of zero coupon swap rates plus **52bps** less **6**bps. These future cash flows include the shareholders' share of reversionary bonus on with-profits deferred annuities that have been reassured to the Non Profit Fund. The equity component of the asset share has also been calculated and added to the with-profits benefit reserve.

The Company's unit-linked policies in general have no guarantees of significance, although a small number of policies benefit from a guaranteed minimum annuity rate at retirement. The cost of this is calculated using a similar approach as for the with-profit policies. Non-profit policies have fixed guaranteed benefits, in the form either of a payment at or from a specified date in the future or a series of regular payments throughout life.

28. Management of financial risk

The Company is exposed to a number of financial risks through its issue of insurance and investment contracts. The most significant of these are credit, liquidity and market risk.

Credit risk

Credit risk is the risk that the Company will suffer loss from the failure of a third party to discharge its obligations to the Company. In addition, the solvency of the Company may be impacted by a widening in credit spreads or by credit downgrades under its portfolio of fixed-interest securities and money-market deposits. Credit risk is measured by considering the exposure of the Company to each counterparty. The board determines the risk appetite for the business. The risk is controlled by setting appropriate limits for counterparty exposures and communicating them to those who are responsible for complying with them. The principal financial instruments that give rise to an exposure to credit risk are fixed-interest securities and money market deposits.

a) Fixed interest securities

The Company manages the credit risk arising from fixed-interest securities by placing limits on the exposure to a single counterparty and to any particular industry or geographical segment. These limits are set out in the ReAssure Group Investment Guidelines. All assets must have a credit rating assigned to them. Where an asset is rated by one or more External Credit Assessment Institutions, the lowest rating is used. For bonds that do not carry an external rating the investment manager provides an internal rating.

A credit quality analysis is set out in the table below and relates to all assets the Company is directly exposed to credit risk on debt securities, cash and cash equivalents.

28. Management of financial risk (continued)

2017	AAA £m	AA £m	A £m	BBB £m	Sub investment grade & not rated £m	**Total £m**
Government and government related debt	373.2	5,997.3	13.5	0.7	1.2	**6,385.9**
Corporate and asset backed securities debt	613.2	1,348.8	5,211.2	6,823.5	476.3	**14,473.0**
Accrued interest	22.0	61.3	75.0	131.5	7.9	**297.7**
Derivative assets	-	-	-	-	18.1	**18.1**
Cash and cash equivalents	1,287.0	562.0	814.0	-	(0.7)	**2,662.3**
Total	**2,295.4**	**7,969.4**	**6,113.7**	**6,955.7**	**502.8**	**23,837.0**

2016	AAA £m	AA £m	A £m	BBB £m	Sub investment grade & not rated £m	**Total £m**
Government and government related debt	369.4	6,278.4	250.5	112.2	1.3	**7,011.8**
Corporate and asset backed securities debt	661.2	1,801.0	5,610.9	7,095.8	359.3	**15,528.2**
Accrued interest	22.7	67.9	88.5	142.5	5.5	**327.1**
Derivative assets	-	-	-	-	134.1	**134.1**
Cash and cash equivalents	418.2	499.9	642.6	101.2	-	**1,661.9**
Total	**1,471.5**	**8,647.2**	**6,592.5**	**7,451.7**	**500.2**	**24,663.1**

There were no losses incurred as a result of defaults during the year (2016: no losses).

b) Money market deposits and UCITS money market funds

The Company holds money-market deposits with approved counterparties and sets limits on counterparty exposure on an individual and aggregate counterparty basis. Credit risk is determined and monitored on a daily basis using short-term credit agency ratings.

28. Management of financial risk (continued)

c) Collateral

Investments pledged as collateral for derivative liabilities totalled £62.9m (2016: £170.1m). Cash pledged as collateral for derivative liabilities totalled £6.0m (2016: £41.3m).

Investments received as collateral for derivative assets totalled £nil (2016: £nil). 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 £9.2m (2016: £13.9m).

Investments received as collateral for reassured annuity business within the Non-Profit fund of the Company totalled £844.5m (2016: £981.0m). 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.

The Company is party to a longevity swap with RGA in order to transfer mortality risk on £1.5bn 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 2017, £47.3m of financial assets (principally corporate bonds) were posted as collateral (2016: £43.5m). These assets continue to be recognised on the Company balance sheet. 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.

		Related amounts not set off in the balance sheet		
2017	Gross amounts recognised £m	Enforceable master netting arrangements £m	Collateral £m	**Net exposure** **£m**
Derivative financial instruments	15.9	(1.9)	(9.2)	**4.8**
Reinsurance assets	855.1	-	(844.5)	**10.6**
Total	**871.0**	**(1.9)**	**(853.7)**	**15.4**
Derivative financial instruments	(16.2)	1.9	9.1	(5.2)
Total	**(16.2)**	**1.9**	**9.1**	**(5.2)**

2016	Gross amounts recognised £m	Enforceable master netting arrangements £m	Collateral £m	**Net exposure** **£m**
Derivative financial instruments	127.3	(80.8)	(13.9)	**32.6**
Reinsurance assets	934.0	-	(981.0)	**(47.0)**
Total	**1,061.3**	**(80.8)**	**(994.9)**	**(14.4)**
Derivative financial instruments	(89.9)	80.8	9.1	-
Total	**(89.9)**	**80.8**	**9.1**	**-**

Financial assets and financial liabilities that do not meet the offsetting criteria under IAS 32: Financial instruments are reported gross in the balance sheet.

28. Management of financial risk (continued)

Liquidity risk
Funding liquidity risk is the risk that ReAssure will not be able to meet both the expected and unexpected future cash flow and collateral needs without affecting either daily operations or the financial condition of the Company and its subsidiaries.

ReAssure operates its own Group Funding Liquidity Risk Management Framework, which applies to non-profit non-linked businesses only. This establishes the requirement to maintain a Liquidity Coverage Ratio (LCR) above 100%. The LCR is the cash required in a 1-in-200 stress divided by the amount of cash available. The framework gives details on how the stressed cash requirement is calculated, and which assets and sources of income can be used to provide cash in the stressed situation.

Additional liquidity requirements are present in the Matching Adjustment Funds. These are detailed in the applications to use Matching Adjustment submitted to the PRA for each of these funds.

The LCR in the non-profit funds is monitored on a monthly basis. In the event that the LCR falls below tolerance, management action would be taken. Actions to improve liquidity would include selling potentially less liquid assets for cash, seeking a capital injection from Swiss Re Group or seeking external funding.

With-profits contracts can be surrendered before maturity for a cash surrender value. The Company manages this risk by investing in liquid assets such as gilts and equities. Furthermore, assets such as corporate bonds provide additional liquidity. Subject to regulatory limits, a Market Value Adjustment can be applied to policy values on surrender to help manage liquidity however these would only be used in the most severe liquidity stresses.

Amounts under unit-linked contracts are generally repayable on demand and the Company is responsible for ensuring there is sufficient liquidity within the asset portfolio to enable liabilities to unit linked policyholders to be met as they fall due. However, the terms of funds investing in less liquid assets permit the deferral of redemptions for predefined periods in circumstances where there are not sufficient liquid assets within the fund to meet the level of requested redemptions. The least liquid investment held by the Company within the unit-linked funds is commercial property. To manage this risk the Company has the ability under the terms of the relevant policy documents for its linked business to defer for a period the encashment of units invested partly or entirely in property, should it be necessary to protect the interests of the remaining investors.

28. Management of financial risk (continued)

The table below shows the cash flows arising from the financial assets of the Company. As noted above the fixed income portfolio is held mainly to cover the liabilities arising from the annuity business and is matched by mean duration to the liabilities that arise from that business. All amounts disclosed represent undiscounted cash flows.

Financial assets

2017	No contractual maturity date £m	< 1Year £m	Between 1 year and 5 years £m	> 5 Years £m	**Total cash flows £m**	Carrying value £m
Shares and other variable yield securities and units in unit trusts	19,510.4	-	-	-	**19,510.4**	19,510.4
Debt securities and other fixed-income securities	-	1,423.4	6,057.8	20,312.0	**27,793.2**	20,858.9
Secured and unsecured loans	639.0	-	-	-	**639.0**	639.0
Cash at bank and in hand	173.8	2,492.8	-	-	**2,666.6**	2,666.6
Other financial assets	-	-	-	94.9	**94.9**	94.9
Total	**20,323.2**	**3,916.2**	**6,057.8**	**20,406.9**	**50,704.1**	**43,769.8**

2016	No contractual maturity date £m	< 1Year £m	Between 1 year and 5 years £m	> 5 Years £m	**Total cash flows £m**	Carrying value £m
Shares and other variable yield securities and units in unit trusts	19,109.5	-	-	-	**19,109.5**	19,109.5
Debt securities and other fixed-income securities	-	1,586.3	6,653.7	21,419.5	**29,659.5**	22,040.8
Secured and unsecured loans	776.7	-	-	-	**776.7**	776.7
Cash at bank and in hand	168.9	1,577.5	-	-	**1,746.4**	1,746.4
Other financial assets	-	-	-	63.1	**63.1**	63.1
Total	**20,055.1**	**3,163.8**	**6,653.7**	**21,482.6**	**51,355.2**	**43,736.5**

28. Management of financial risk (continued)

The following tables show the financial liabilities of the Company which relate to the Company's investment contracts. The Company's investment contracts are predominantly unit-linked contracts. The Company does not bear the investment risk on unit-linked contracts but is required to be able to return the unit value to the policyholder or other provider on demand. As a result the Company generally holds assets that are readily liquid in order that they are able to meet liabilities as they arise. This analysis of investment contracts is based on the projected settlement date. A maturity analysis based on the earliest contractual repayment date would present all such liabilities as due within one year because, as described above, the contractual terms provide for surrender by policyholders on demand.

Financial liabilities

2017	No contractual maturity date £m	< 1Year £m	Between 1 year and 5 years £m	> 5 Years £m	**Total £m**	Carrying value £m
Financial liabilities under unit-linked investment contracts	-	1,848.7	3,024.6	13,083.3	**17,956.6**	17,956.6
Financial liabilities under non profit investment contracts	-	24.4	-	-	**24.4**	24.4
Financial liabilities under investment with DPF contracts	-	159.6	563.5	1,700.1	**2,423.2**	2,423.2
Claims outstanding	219.7	-	-	-	219.7	219.7
Deposits received from reinsurers	-	9.3	34.2	96.8	140.3	124.9
Other financial liabilities	-	-	-	108.5	**108.5**	108.5
Total	**219.7**	**2,042.0**	**3,622.3**	**14,988.7**	**20,872.7**	**20,857.3**

28. Management of financial risk (continued)

2016	No contractual maturity date £m	< 1Year £m	Between 1 year and 5 years £m	> 5 Years £m	**Total £m**	Carrying value £m
Financial liabilities under unit-linked investment contracts	-	1,450.1	3,071.4	12,852.2	**17,373.7**	17,373.7
Financial liabilities under non profit investment contracts	-	24.8	1.6	2.3	**28.7**	28.7
Financial liabilities under investment with DPF contracts	-	144.4	536.7	1,700.7	**2,381.8**	2,381.8
Claims outstanding	202.2	-	-	-	**202.2**	202.2
Deposits received from reinsurers	-	9.7	35.9	117.9	**163.5**	138.4
Other financial liabilities	-	-	-	109.1	**109.1**	109.1
Total	**202.2**	**1,629.0**	**3,645.6**	**14,782.2**	**20,259.0**	**20,233.9**

The policyholder reserves relating to investment contracts have a similar profile of cash outflows to the financial instruments. The expected timing of the cash outflows is set out below, although many contracts may be surrendered at an earlier date:

	2017 £m	2016 £m
Due in 1 year or less	2,032.7	1,619.3
Due after 1 year but less than 5 years	3,588.1	3,609.7
Due after 5 years but less than 10 years	5,303.3	5,014.7
Due after 10 years	8,212.5	8,097.7
Due after 20 years	1,267.6	1,442.8
	20,404.2	**19,784.2**

The above total of £20,404.2m does not include claims outstanding of £219.7m, deposits received from reinsurers of £124.9m and other financial liabilities of £108.5m.

Market risk

The Company is exposed to the risk that the fair value of future cash flows of its financial instruments will fluctuate because of changes in market conditions. The main risks arise from movements in market interest rates, equity prices and foreign exchange rates whether due to factors specific to the individual instrument or its issuer or to factors affecting all similar financial instruments in the market.

28. Management of financial risk (continued)

Market risk - Equity securities

Exposure to global equity markets 2017	Non-profit/ shareholder £m	With-profit £m	Unit-linked £m	Total £m
United Kingdom	-	384.4	7,439.6	7,824.0
USA	-	51.5	2,921.8	2,973.3
Europe	-	41.0	1,497.2	1,538.2
Japan	-	-	588.9	588.9
Asia Pacific	-	-	59.9	59.9
Other	-	-	0.5	0.5
Listed Equities	**-**	**476.9**	**12,507.9**	**12,984.8**
Unlisted Equities	-	-	-	-
Collective investment schemes	-	1,149.9	5,375.7	6,525.6
Total	-	**1,626.8**	**17,883.6**	**19,510.4**

Exposure to global equity markets 2016	Non-profit/ shareholder £m	With-profit £m	Unit-linked £m	Total £m
United Kingdom	-	375.3	7,174.1	7,549.4
USA	-	51.7	2,111.9	2,163.6
Europe	-	37.2	2,160.8	2,198.0
Japan	-	-	359.6	359.6
Asia Pacific	-	-	78.1	78.1
Other	-	-	0.8	0.8
Listed Equities	**-**	**464.2**	**11,885.3**	**12,349.5**
Unlisted Equities	-	-	-	-
Collective investment schemes	87.8	1148.7	5,523.5	6,760.0
Total	**87.8**	**1,612.9**	**17,408.8**	**19,109.5**

Market risk - Debt securities

2017	Non-profit/ shareholder £m	With-profit £m	Unit-linked £m	Total £m
United Kingdom	11,267.8	1,612.1	1,279.8	14,159.7
USA	2,090.4	250.7	27.5	2,368.6
Netherlands	509.6	68.1	14.3	592.0
France	1,070.2	103.9	19.6	1,193.7
Germany	614.0	42.1	13.6	669.7
Greece	-	-	-	-
Ireland	67.4	11.4	2.9	81.7
Italy	225.9	3.3	2.7	231.9
Portugal	-	-	-	-
Spain	64.4	-	0.8	65.2
Russia	-	-	-	-
Rest of Europe	920.0	173.7	28.6	1,122.3
Rest of world	596.2	62.4	12.7	671.3
Total	**17,425.9**	**2,327.7**	**1,402.5**	**21,156.1**
Debt securities	17,173.5	2,294.4	1,391.0	20,858.9
Accrued interest	252.6	33.2	11.5	297.3
Total	**17,426.1**	**2,327.6**	**1,402.5**	**21,156.2**

28. Management of financial risk (continued)

Market risk - Debt securities (continued)

2016	Non-profit/ shareholder £m	With-profit £m	Unit-linked £m	Total £m
United Kingdom	11,179.6	1,598.9	1,543.1	14,321.6
USA	2,202.0	225.2	43.7	2,470.9
Netherlands	679.8	65.4	34.9	780.1
France	1,113.5	120.5	43.5	1,277.5
Germany	581.9	32.9	18.8	633.6
Greece	-	-	-	-
Ireland	77.9	11.8	11.3	101.0
Italy	222.8	3.3	4.9	231.0
Portugal	-	-	-	-
Spain	65.8	-	1.4	67.2
Russia	-	-	-	-
Rest of Europe	997.6	138.2	40.4	1,176.2
Rest of world	1,156.7	120.3	31.5	1,308.5
Total	**18,277.6**	**2,316.5**	**1,773.5**	**22,367.6**
Debt securities	18,003.4	2,281.8	1,755.6	22,040.8
Accrued interest	274.1	34.9	18.0	327.0
Total	**18,277.5**	**2,316.7**	**1,773.6**	**22,367.8**

28. Management of financial risk (continued)

a) Interest rate risk

Interest rate risk arises primarily from investments in fixed interest securities. In addition to the extent that claims costs are related to interest rates, liabilities to policyholders are exposed to interest rate risk. Non-profit insurance and investment contracts have benefit payments that are fixed at the inception of the contract. The Company's primary financial risk on these contracts is that the interest income and capital redemptions from the financial assets backing the liabilities are insufficient to fund the policy benefits payable. Therefore, changes in interest rates will impact the cash flows available to meet liabilities as they fall due. Movements in market interest rates affect the liabilities of the Company as well as the assets. Investment policy is designed to limit the amount of any mismatch between the two, when interest rates fluctuate. The Company monitors interest rate risk by calculating the mean duration of the investment portfolio and the associated liabilities. The mean duration is an indicator of the sensitivity of the assets and liabilities to changes in interest rates. The gap between the mean duration of the assets and that of the liabilities is subject to limits set by the investment committee.

b) Equity price risk

The Company is exposed to equity price risk through its holdings of equity investments. Exposure to equity price risk in its unit-linked funds is largely reduced due to the policyholder retaining the investment risk. As a result, the value of the Company's liabilities is closely matched to the value of its assets.

A residual risk remains in respect of annual management charge ("AMC") income as this is based on the value of assets under management in the fund and can increase or decrease according to investment market performance. ReAssure has partially hedged this risk using equity futures. Changes in the fair value are recognised immediately in the income statement.

The Company is exposed to equity price risk in the NMF and WPF through its holdings in equity investments to the extent that they are not matched by liabilities to policyholders. Exposures to individual companies and to equity shares in aggregate are monitored by the investment committee in order to ensure compliance with the relevant regulatory limits for solvency purposes. Equities listed and traded in the UK are benchmarked against the All Share Index. Those listed overseas are benchmarked against appropriate overseas indices.

c) Sensitivity analysis

The impact on the income statement and shareholder equity from changes to interest rates, credit risk under corporate bonds and annuitant mortality is set out in the table below. Four scenarios are considered: (i) a uniform rise of 1.00% (2016: 1.00%) in fixed-interest yields; (ii) a uniform fall of 1.00% (2016: 1.00%) in fixed-interest yields; (iii) a uniform rise of 1.00% (2016: 1.00%) in credit spreads ; and (iv) a reduction of 5% (2016: 5%) in the base mortality rate used to value annuities-in-payment.

28. Management of financial risk (continued)

2017	**Base position** £m	**Interest rate rise** (i) £m	**Interest rate fall** (ii) £m	**Change in default allowance** (iii) £m	**Reduction of 5% in mortality (annuities)** (iv) £m
Assets (base scenario)	47,437.3	47,437.3	47,437.3	47,437.3	47,437.3
Change to NMWPF assets	-	(73.5)	100.5	(47.5)	-
Change to WLWPF assets	-	(30.9)	38.3	(15.6)	-
Change to GAWPF assets	-	(83.8)	98.1	(74.1)	-
Change in reinsurance	-	(267.7)	323.4	(113.1)	180.2
Change in non-linked assets	-	(1,587.6)	1,907.1	(1,096.3)	-
Change in linked assets	-	(156.3)	156.3	(22.5)	-
Total assets	**47,437.3**	**45,237.5**	**50,061.0**	**46,068.2**	**47,617.5**
Liabilities (base)	44,236.6	44,236.6	44,236.6	44,236.6	44,236.6
Change to NMWPF provisions	-	(73.5)	100.5	(47.5)	-
Change to WLWPF provisions	-	(30.9)	38.3	(15.6)	-
Change to GAWPF provisions	-	(79.5)	93.3	(69.7)	-
Change to unallocated surplus	-	(3.8)	3.9	(5.8)	-
Change to non-linked provision	-	(1,908.5)	2,350.9	(1,064.6)	450.4
Change to linked provision	-	(158.1)	158.1	22.5	-
Change to tax liability	-	10.6	(22.7)	(33.1)	(48.6)
Total liabilities	**44,236.6**	**41,992.9**	**46,958.9**	**43,022.8**	**44,638.4**
Income statement	-	43.8	(98.6)	(155.3)	(221.6)
Equity	3,200.7	3,244.6	3,102.1	3,045.4	2,979.1

2016	**Base position** £m	**Interest rate rise** (i) £m	**Interest rate fall** (ii) £m	**Change in default allowance** (iii) £m	**Reduction of 5% in mortality (annuities)** (iv) £m
Assets (base)	48,145.9	48,145.9	48,145.9	48,145.9	48,145.9
Change in NMWPF assets	-	(71.9)	101.7	(44.2)	-
Change in WLWPF assets	-	(25.1)	35.9	(15.5)	-
Change to GAWPF assets	-	(84.3)	98.5	(75.5)	-
Change in reinsurance	-	(359.0)	447.7	(134.3)	230.4
Change in non-linked assets	-	(1,969.1)	2,389.7	(1,226.5)	-
Change in linked assets	-	(287.3)	341.7	(146.8)	-
Total assets	**48,145.9**	**45,349.2**	**51,561.1**	**46,503.1**	**48,376.3**
Liabilities (base)	45,599.3	45,599.3	45,599.3	45,599.3	45,599.3
Change to NMWPF provisions	-	(71.9)	101.7	(44.2)	-
Change to WLWPF provisions	-	(25.1)	35.9	(15.5)	-
Change to GAWPF provisions	-	(169.5)	205.0	(71.8)	17.6
Change to unallocated surplus	-	(3.3)	3.7	(3.6)	(4.5)
Change to non-linked provision	-	(2,140.4)	2,685.6	(996.1)	479.6
Change to linked provision	-	(286.2)	340.5	(146.3)	-
Change to tax liability	-	(18.1)	8.2	(64.0)	(45.9)
Total liabilities	**45,599.3**	**42,884.8**	**48,979.9**	**44,257.8**	**46,046.1**
Income statement	-	(82.2)	34.6	(301.4)	(216.6)
Equity	2,546.6	2,464.4	2,581.2	2,245.3	2,330.2

28. Management of financial risk (continued)

The impact on the income statement and shareholder equity from changes to equity prices, inflation, property prices and currency is set out in the table below. Five scenarios are considered: (i) a uniform rise of 20% (2016: 20%) in worldwide equity prices; (ii) a uniform fall of 20% (2016: 20%) in worldwide equity prices; (iii) a rise in inflation of 0.50% (2016: 0.50%); (iv) a reduction of 20% (2016: 20%) in property prices; and (v) a 20% fall in sterling relative to other foreign currencies (2016: 20% fall in non-GBP denominated assets).

2017	**Equity rise +20%** (v) £m	**Equity fall -20%** (vi) £m	**Inflation +0.5%** (vii) **£m**	**Property -20%** (viii) £m	**Currency -20%** (ix) **£m**
Assets (base)	47,437.3	47,437.3	47,437.3	47,437.3	47,437.3
Change in NMWPF assets	123.6	(123.6)	-	(44.4)	46.1
Change in WLWPF assets	22.8	(22.8)	0.5	(12.3)	9.4
Change in GAWPF assets	200.9	(200.9)	-	-	-
Change in reinsurance	-	-	(19.6)	-	-
Change in non-linked assets	-	-	75.6	-	-
Change in linked assets	3,486.7	(3,486.7)		(94.9)	2,191.8
Total assets	**51,271.3**	**43,603.3**	**47,493.8**	**47,285.7**	**49,684.6**
Liabilities (base)	44,236.6	44,236.6	44,236.6	44,236.6	44,236.6
Change to NMWPF provisions	123.6	(123.6)	-	(44.4)	46.1
Change to WLWPF provisions	22.8	(22.8)	0.5	(12.3)	9.4
Change to GAWPF provisions	177.6	(177.6)	-	-	-
Change to unallocated surplus	23.3	(23.3)	-	(0.1)	(0.1)
Change to non-linked provision	-	-	76.8	-	
Change to linked provision	3,492.5	(3,492.5)	-	(94.8)	2,189.0
Change to tax liability	(5.2)	5.2	(3.7)	-	0.5
Total liabilities	**48,071.2**	**40,402.0**	**44,310.2**	**44,085.0**	**46,481.5**
Income statement	(0.6)	0.6	(17.0)	-	2.3
Equity	3,200.1	3,201.3	3,183.6	3,200.7	3,203.1

28. Management of financial risk (continued)

2016	**Equity rise +20%** (v) £m	**Equity fall -20%** (vi) £m	**Inflation +0.5%** (vii) **£m**	**Property -20%** (viii) £m	**Currency -20%** (ix) **£m**
Assets (base)	48,145.9	48,145.9	48,145.9	48,145.9	48,145.9
Change in NMWPF assets	100.8	(100.8)	-	(41.2)	(30.6)
Change in WLWPF assets	19.1	(19.1)	-	(11.3)	(5.6)
Change in GAWPF assets	194.6	(194.6)	-	-	-
Change in reinsurance	-	-	4.8	-	-
Change in non-linked assets	-	-	94.4	-	-
Change in linked assets	3,548.9	(3,548.9)	-	(190.4)	(1,531.3)
Total assets	**52,009.3**	**44,282.5**	**48,245.1**	**47,903.0**	**46,578.4**
Liabilities (base)	45,599.3	45,599.3	45,599.3	45,599.3	45,599.3
Change to NMWPF provisions	100.8	(100.8)	-	(41.2)	(30.6)
Change to WLWPF provisions	19.1	(19.1)	-	(11.3)	(5.6)
Change to GAWPF provisions	169.1	(169.1)	1.9	-	-
Change to unallocated surplus	22.9	(22.9)	-	(0.3)	(0.3)
Change to non-linked provision	-	-	135.6	-	-
Change to linked provision	3,535.1	(3,535.1)	-	(189.6)	(1,525.4)
Change to tax liability	3.1	(3.1)	(6.9)	(0.1)	(1.1)
Total liabilities	**49,449.4**	**41,749.2**	**45,729.9**	**45,356.8**	**44,036.3**
Income statement	13.2	(13.2)	(31.5)	(0.3)	(4.5)
Equity	2,559.9	2,533.3	2,515.2	2,546.2	2,542.1

The capital position of the NMWPF is generally insensitive to each scenario because any surplus in the fund is added back to the policy liabilities. Fluctuations in this surplus are therefore met by offsetting fluctuations in the policy liabilities, leaving the net position unaltered. The capital position of the WLWPF weakens slightly on an equity fall or interest rate rise because the loss in asset values dominates over any reduction in regulatory liabilities, and weakens on lightening mortality due to the exposure to annuities-in-payment. The capital position of the NPF in contrast weakens on a rise in the allowance for credit risk or on a lightening in mortality. This reflects its relatively high exposure to annuities-in-payment that are backed by corporate bonds. It is less affected by movements in equity markets or in fixed-interest yields, as the assets and liabilities move largely in tandem.

The assumptions provide an indication of the impact of the scenarios that could reasonably occur. The estimates are calculated on a portfolio basis, stressing the assets and liabilities as at 31 December 2017. Actual experience may differ due to changes in the investment portfolio mix and to management actions. The market price sensitivities shown cover both investment and insurance contracts as the exposure is monitored on an aggregate basis.

d) Foreign exchange risk

The Company is exposed to the risk of loss from the movement of foreign exchange rates where it holds investments denominated in foreign currencies. The Company is not exposed to foreign exchange risk on unit-linked products as this risk resides with policyholders.

28. Management of financial risk (continued)

Outside the unit-linked funds the Company has foreign currency denominated investments as follows, and as a result it is not exposed to any significant risk in this area:

With-profits portfolio:

	2017 £m	2017 % of with-profits portfolio	2016 £m	2016 % of with-profits portfolio
US Dollars	88.9	2.1	87.5	2.1
Euros	20.0	0.5	17.0	0.4
Swiss Francs	10.6	0.2	9.9	0.2
Swedish Krona	3.6	0.1	4.8	0.1
Danish Krone	2.6	0.1	1.8	-
Norwegian Krone	0.7	-	0.7	-

Non profits portfolio:

	2017 £m	2017 % of non profits portfolio	2016 £m	2016 % of non profits portfolio
US Dollars	(49.6)	(0.3)	53.4	0.3
Euros	(13.9)	(0.1)	59.5	0.3
Hong Kong Dollar	(7.3)	-	-	-
Japanese Yen	(8.4)	-	-	-

e) Reinvestment risk

Due to the long-term nature of its liabilities there is a risk that the Company may not hold assets with a sufficiently long maturity profile to match the expected duration of its liabilities. If so, then it will have to reinvest the proceeds of maturing investments in the future. In such circumstances, it faces the risk that it will be unable to purchase appropriate investments at a reasonable cost when required. The risk is mitigated to some extent because maturities take place over an extended time span, reducing the likelihood of a large reinvestment requirement occurring at a particular point in time. At 31 December 2017 the Company matched closely the duration of the non-linked assets and liabilities (the duration of the non-profit fund assets was 9.2 years compared with mean duration of the liabilities of 9.9 years).

29. Capital management

The Company is subject to a number of regulatory capital tests. In reporting financial strength, capital is measured and solvency is assessed using rules prescribed by EIOPA and adopted by the Prudential Regulation Authority ("PRA"). These regulatory capital tests require that the Company maintains a prudent level of regulatory capital. The Company covered its regulatory capital resources requirement at all times during the year.

A reconciliation between shareholder equity and capital resources under the Solvency II regime is shown in the table below.

2017	GAWPF £m	WLWPF £m	NMF £m	NPF £m	**Total £m**
Total shareholders funds	-	-	-	3,200.7	**3,200.7**
Unallocated divisible surplus	160.9	11.7	-	-	**172.6**
Adjustments onto regulatory basis	77.6	12.3	28.5	1,288.6	**1,407.0**
Capital resources available	**238.5**	**24.0**	**28.5**	**4,489.3**	**4,780.3**

2016	GAWPF £m	WLWPF £m	NMF £m	NPF £m	**Total £m**
Total shareholders funds	-	-	-	2,546.6	**2,546.6**
Unallocated divisible surplus	151.6	12.2	-	-	**163.8**
Adjustments onto regulatory basis	81.6	18.8	45.1	1,352.2	**1,497.7**
Capital resources available	**233.2**	**31.0**	**45.1**	**3,898.8**	**4,208.1**

Adjustments on to a regulatory basis entails altering the recognition of certain items of income and outgoings. The regulatory results are calculated according to Solvency II. The adjustment required to walk from the reported basis to the regulatory basis includes the Transitional deductions on Technical Provisions that are allowed under Solvency II.

The regulatory capital has been calculated using the Solvency II (SII) Standard Formula approach prescribed in the EU directive. Under this, the SII Basic Own Funds in the Company must be sufficient to cover the SII Solvency Capital Requirement (SCR), which is defined as Value-at-Risk subject to a confidence level of 99.5% over a one-year period. The capital of the Company must also be sufficient to cover the capital management buffer. The Company maintains a capital management buffer of the greater of 20% of the SCR or 50% of the longevity risk ceded to other Group entities. The Capital Management Policy is reviewed following significant changes to the risk profile of the business.

30. Investment contract liabilities

	2017 £m	2016 £m
Investment contract liabilities - unit-linked	17,956.6	17,373.7
Investment contract liabilities - non-profit	24.4	28.7
Investment contracts with discretionary participating features	2,423.2	2,381.8
	20,404.2	**19,784.2**

Unit-linked investment contract liabilities are carried in the balance sheet at fair value through profit or loss.

Certain investment contracts contain a discretionary participating feature (DPF) which gives the holder an entitlement to receive additional benefits or bonuses, as a supplement to the guaranteed benefits. Applying these supplemental discretionary benefits is entirely at the discretion of the Company. The investment contract liabilities are calculated in accordance with the methodology and assumptions described in note 26, insurance contract liabilities.

30. Investment contract liabilities (continued)

The Company cannot measure reliably the fair value of the investment contracts that contain a discretionary participating feature because of the absence of a reliable basis to measure the supplemental discretionary returns and because there is no active market for such instruments. No significant gains or losses were recognised in 2017 or 2016 on derecognising these instruments.

Movements in investment contract liabilities (excluding contracts with DPF)	2017 £m	2016 £m
At 1 January	17,402.5	14,627.8
Linked cash flows arising (premiums, claims, fees)	(1,258.0)	(1,080.4)
Business transfer in	-	1,334.2
Linked investment return	1,840.8	2,516.0
Other linked	-	1.1
Change in non-profit non linked investment contract liabilities	(4.3)	(0.6)
Business transfer in non-profit non-linked	-	4.4
At 31 December	**17,981.0**	**17,402.5**

Movements in investment contract with DPF liabilities	2017 £m	2016 £m
At 1 January	2,381.7	1,014.7
Business transfer in with-profit	-	1,333.4
Impact of experience effects	38.3	22.3
Impact of assumption changes	3.2	11.3
At 31 December	**2,423.2**	**2,381.7**

31. Terminal and interim bonuses

Terminal and interim bonuses are reported as part of claims incurred and reversionary (and other) bonuses included as part of the changes in the reserves.

32. Borrowings

	2017 £m	2016 £m
Loan with ERIP Limited Partnership (i)	234.0	234.0
Loan from ReAssure LL Limited (ii)	4.5	4.5
Loan from ReAssure PM Ltd (ii)	4.4	4.4
	242.9	**242.9**

The following amounts are due for repayment as follows:

	2017 £m	2016 £m
Repayable on demand (i,ii)	242.9	242.9

(i) The unsecured loan attracts a commercial rate of interest. The Lender is at any time entitled, by written notice to the Borrower, to demand immediate repayment of all or part of the Loan outstanding. The Company has the right but not the obligation to repay the principal amount subject to a maximum annual limit determined by the value of the property sales made by the ERIP Limited Partnership during the year.

32. Borrowings (continued)

(ii) The interest free unsecured loan is denominated in UK sterling. The Lender is at any time entitled, by written notice to the Borrower, to demand immediate repayment of all or part of the Loan outstanding.

The fair values of current borrowings equal their carrying amount and are within level 2 of the fair value hierarchy.

33. Provisions

2017

	Part VII migration costs	Property provision	Other provisions £m	Total £m
At 1 January 2017	-	1.5	0.4	1.9
Additional provisions	-	-	-	-
Utilisation of provision	-	-	(0.3)	(0.3)
At 31 December 2017	**-**	**1.5**	**0.1**	**1.6**

2016

	Part VII migration costs	Property provision	Other provisions £m	Total £m
At 1 January 2016	9.0	-	-	9.0
Additional provisions	-	1.5	0.4	1.9
Utilisation of provision	(9.0)	-	-	(9.0)
At 31 December 2016	**-**	**1.5**	**0.4**	**1.9**

34. Other income

	2017 £m	2016 £m
Other income arising from Part VII transfers (see note 37)	-	14,659.5
Net income from general insurance business	0.1	0.2
	0.1	**14,659.7**

35. Other financial liabilities

2017	With-profits £m	Unit-linked £m	Non-profit £m	Total £m
Reinsurance swap liabilities	-	-	355.3	355.3

2016	With-profits £m	Unit-linked £m	Non-profit £m	Total £m
Reinsurance swap liabilities	-	-	361.3	361.3

The other financial liability is the fixed leg of the longevity swap reinsurance agreement. This is categorised as level 3, as disclosed in note 19.

The directors consider that the carrying amounts disclosed reasonable approximate the fair values as at the year end.

36. Other liabilities

	2017 £m	2016 £m
Social security and other taxes	1.7	0.9
Other creditors	243.6	164.9
Amounts owed to group undertakings	10.9	37.1
	256.2	**202.9**

These balances are payable within one year from the balance sheet date. The payables to related parties are repayable on demand and bear no interest.

37. Part VII transfer - Guardian

On 6 January 2016, Swiss Re Life Capital Holdings Limited, part of the Swiss Re group, completed the acquisition of the entire share capital of ReAssure Jersey One Limited (formerly Guardian Holdings Europe Limited), the holding company for operations trading under the name Guardian Financial Services (“Guardian”) from private equity company Cinven. The business transferred to the Company by Part VII transfer on 31 December 2016. On this date the Company received net assets of £1,275.9m on transfer of the business.

Guardian had previously entered into an agreement with Phoenix Group Holdings ("Phoenix") under which Phoenix reinsured a block of in payment pension annuities with effect from 1 January 2014 to Guardian. As at 31 December 2016 the reinsured annuities transferred into the Company under a Part VII business transfer. At this point the reinsurance arrangement ceased and the annuities became ReAssure Limited policies, serviced by two outsourced providers; Diligenta and Capita.

The assets and liabilities acquired as at 31 December 2016 are as follows:

	£m
Investments in group undertakings	256.1
Financial assets - loans and receivables	499.2
Financial assets - equities	0.2
Financial assets - fixed and variable rate income securities	10,980.4
Financial assets - collective investment schemes	2,566.7
Derivatives	127.4
Reinsurance receivables	16.8
Insurance contract receivables	5.7
Prepayments and accrued income	166.1
Other receivables	60.5
Cash and cash equivalents	549.6
Provisions	(1.9)
Borrowings	(8.9)
Derivatives	(89.9)
Claims outstanding	(37.3)
Other financial liabilities	(361.3)
Other liabilities	(69.9)
Net assets acquired	**14,659.5**
Net Liabilities under insurance contracts	(12,013.1)
Reinsurers' share of insurance contract liabilities	1,410.2
Investment contract liabilities	(2,672.0)
Tax	(108.7)
Net insurance, investment and tax liabilities created on acquisition	**(13,383.6)**
Net assets recognised on acquisition	**1,275.9**

37. Part VII transfer - Guardian (continued)

The impact on the 2016 income statement after tax of the Part VII transfer of the Guardian business into the Company is a credit of £1,275.9m, being the net of other income (£14,659.5m) and insurance, investment and tax liabilities created on acquisition shown above (£13,383.6m).

38. Contingent liabilities

Liabilities may arise in respect of claims that are contingent on factors such as the interpretation of contracts, regulatory action or Ombudsman rulings. It is not possible to predict the incidence, timing or financial impact of these events with any certainty, but the Company is not aware of any significant liabilities in this regard.

39. Cash flows used in operating activities

	2017 £m	2016 £m
Profit for the year before tax	1,298.2	1,623.1
Non-cash income statement changes in operating assets & liabilities:		
Fair value loss/(gains) on:		
Investment property	(52.8)	24.5
Financial assets	(1,731.1)	(2,542.3)
Investment in group entities	181.6	(265.2)
Derivatives	48.8	(1.7)
Amortisation of intangible assets	3.2	3.4
Change in unallocated divisible surplus	8.8	151.9
Interest expense on borrowing	6.8	8.6
Dividends and interest received on financial assets from investing activities	(1,414.1)	(936.2)
Increase in investment assets on Part VII	-	(13,547.3)
Decrease / (Increase) in reinsurance assets	402.6	(1,291.5)
(Decrease) / Increase in insurance contracts & investment contract liabilities	(1,441.9)	16,506.9
(Decrease) / Increase in other financial liabilities	(6.0)	332.8
Increase in deposits received from reinsurers	(23.0)	(6.3)
Net decrease in working capital	(11.3)	(191.2)
Increase in tax liability	(7.5)	(0.9)
Net cash used in operating activities	**(2,737.7)**	**(131.4)**

40. Related parties

a) Immediate and ultimate parent undertaking

The Company is incorporated and domiciled in England and Wales. The immediate parent company is ReAssure Group Limited, incorporated in England and Wales.

The parent company of the largest group in which the results of the Company are consolidated is that of Swiss Re Limited, the ultimate and controlling parent undertaking. The consolidated financial statements of Swiss Re Limited may be obtained on www.swissre.com or from its registered office at Mythenquai 50/60, PO Box 8022, Zurich, Switzerland.

b) Services received from related parties

	2017 £m	2016 £m
Other subsidiary undertakings of Swiss Re Limited	88.2	79.5

c) Year-end balances with related parties (excluding loans)

	2017 £m	2016 £m
Parent company	2.3	3.0
Subsidiaries	(0.1)	(0.1)
Other subsidiary undertakings of Swiss Re Limited	6.7	(20.5)
	8.9	**(17.6)**

d) Loans with related parties

	2017 £m	2016 £m
Loans from subsidiary undertakings		
Loan with ERIP LP		
At 1 January	266.5	264.8
Interest charged	0.9	1.7
Repayment	(33.4)	-
At 31 December	**234.0**	**266.5**
Loan with ReAssure LL Limited		
At 1 January	4.5	-
Part VII transfer	-	4.5
At 31 December	**4.5**	**4.5**
Loan with ReAssure PM Limited		
At 1 January	4.4	-
Part VII transfer	-	4.4
At 31 December	**4.4**	**4.4**
Loans to other subsidiary undertakings of Swiss Re Limited		
Loan to ReAssure FSH UK Limited		
At 1 January	25.9	-
Part VII transfer	-	25.9
Interest charged	0.1	-
Repayment	(1.5)	-
At 31 December	**24.5**	**25.9**

40. Related parties (continued)

e) Intra-group retrocession arrangements

	2017 £m	2016 £m
All with other subsidiary undertakings of Swiss Re Limited		
Premiums ceded to reinsurers	356.1	369.8
Claims recovered from reinsurers	(333.5)	(347.6)
Commissions	(0.7)	(0.7)
Change in reinsurers' share of investment contract liabilities	-	(90.0)
	21.9	**(68.5)**
At 31 December		
Reinsurers’ share of investment contract liabilities	-	-
Reinsurance payables	(12.6)	(12.3)
	(12.6)	**(12.3)**

f) Capital contributions

	2017 £m	2016 £m
Parent	650.0	-

g) Key management remuneration

Remunerations of key management personnel of the Company are included under Note 10.

41. Post Balance Sheet events

As disclosed in the Strategic Report, the £650m reinsurance premium in respect of the L&G transaction was paid in January 2018. There are no other significant events to disclose.