ReAssure Limited

Annual report and financial statements 2018

Company Registration Number 00754167

Contents

Directors and officers

Board of Directors
Matthew Cuhls
Brian Dunne
Michael Eves (resigned on 28 June 2018)
James Gallagher
Denise Larnder
Maxwell Ledlie
Michael Woodcock
Michael Yardley
Philip Long (appointed on 27 June 2018)

Company Secretary
Paul Shakespeare

Chief 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 2018

The directors present their strategic report for the year ended 31 December 2018.

Principal activities
ReAssure Limited ('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 2018 was £15.5m (2017: £12.3m).

Business review
The Company has continued its strategy of looking to acquire closed blocks of long term insurance business and administering the run off of the blocks in the interests of policyholders and shareholders. On 6 December 2017, the Company acquired the mature savings business of Legal and General consisting of 1.1million policies, which have £33 billion of funds under management. The acquisition was structured initially as a reinsurance agreement and the Company took on all the risks and rewards associated with that business from 1 January 2018. During 2018 the Risk Transfer Agreement (RTA) has been fully operational with both the Company and Legal & General fulfilling their responsibilities under the agreement. The business is expected to transfer fully to the Company by way of a Part VII agreement in 2019. There have been no further acquisitions since the Legal & General transaction.

During the year, the Company continued to run off its existing in force block of business releasing cash for reinvestment in the business or the payment of its dividends. The Company paid a dividend to ReAssure MidCo Limited ('the Parent Company') of £1,093 million in June 2018. The changes in the capital composition of the Company are shown in the capital management section below. The Company met its capital requirements at all times during the year always holding at least 120% of its non-profit fund SCR, in line with the target set out in its capital management policy.

In 2017 MS&AD, a Japanese Life Assurance Company, agreed to acquire a 15% stake in ReAssure Jersey One Limited (RJOL), a ReAssure MidCo Limited (RML) intermediate holding company. This acquisition closed in 2018 and MS&AD subsequently announced that agreement had been reached for them to acquire a further 10% holding. That acquisition completed in 2019.

The Company is currently a private company limited by shares. In August 2018, Swiss Re Limited, the ultimate holding company of ReAssure Limited, announced that it was exploring the possibility of listing the ReAssure Group on the stock exchange by way of an Initial Public Offering (IPO). Currently there is no certainty as to if or when an IPO might take place however an IPO would not be expected to lead to any material changes in either the operation or the strategic direction of the Company.

For the year ended 31 December 2018 the Company made an IFRS profit of £269.6 million. The following were the key drivers of the positive result:

- Profit emerging from the Company's unit linked business, upon which the Company earns fees for administering unit linked policies;
- The adoption of updated mortality tables which reflected the increase in mortality rates that have been observed over the last year (outlined in note 27); and
- Income from the Risk Transfer Agreement in place with Legal & General.

The one-off changes to the insurance contract liabilities (matching adjustment extension and changes to longevity) was a key driver of profit in 2017. The absence of these one-off changes in 2018 is the key factor for the decrease in profit seen in 2018.

The Company continues to look for suitable acquisitions in line with its stated strategy, whilst recognising the investment required both in terms of resources and operational capacity (and in particular human capital) that will be required to manage the Legal & General business transfer. The Company business planning and risk assessment cycles are designed to ensure that emerging risks in these or other areas are identified as early as possible and suitable mitigating actions are taken when required.

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 Company, 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= ("Liverpool Victoria") 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.

With continued uncertainty surrounding the trade agreement between the UK and the EU, this is an emerging risk which has crystallised and, until terms are finally agreed, continues to influence the financial markets. The Company's Risk Management function continues to model the economic volatility effecting the Statement of Financial Position ("SOFP") in order to assess the impact of uncertainty arising from the Brexit process. There is no operational impact upon the company.

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 currently 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. No decision has been made as to whether the Company will continue to utilise Swiss Re Asset Management in the future because, as stated above, there is currently no certainty as to if or when an IPO might take place.

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.

From 1 January 2016 new regulatory requirements under the European Union's Solvency II Directive have been implemented, replacing the previous regulatory requirements. From 31st December 2018, the Company has received approval to use a Partial Internal Model to determine its Solvency II capital requirements. 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 Swiss Re Group entities. The Capital Management Policy is reviewed following significant changes to the risk profile of the business. The three with-profits funds continue to be modelled on the Standard Formula.

Results
The profit after tax for the year was £269.6m (2017: £1,059.2m). Net assets as at 31 December 2018 were £2,347.2m (2017: £3,170.3m). Profit after tax has fallen significantly during the year as a result of large unrealised losses on investments held by the company.

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. As advised above, in August 2018, Swiss Re Limited, the ultimate holding company of ReAssure Limited, announced that it was exploring the possibility of listing the ReAssure Group on the stock exchange by way of an Initial Public Offering (IPO). Currently there is no certainty as to if or when an IPO might take place however an IPO would not be expected to lead to any material changes in the business strategy of the Company.

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.

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:

	2018	2017
Solvency ratio (non-profit fund)	145%	162%
Solvency ratio (WLWPF)	186%	175%
Solvency ratio (GAWPF)	173%	162%
Policy count - own policies	2,217,805	2,241,949
Administration complaints per 1,000 policies (own policies)	0.15	0.13

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 (WLWPF and GAWPF)
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 2018 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 0.15 for 2018 (2017: 0.13).

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.

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 ("RCSL") and ReAssure Financial Services Holdings Limited ("RFSH"), 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 RML audit and risk committee.

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 customer's 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.

Strategic report for the year ended 31 December 2018 (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.

2018	GAWPF £m	WLWPF £m	NMF £m	NPF £m	**Total £m**
Capital resources available	195.2	20.4	27.1	3,658.6	**3,901.3**
Capital resources required	112.5	11.0	27.1	2,527.7	**2,678.3**
Excess regulatory capital	82.7	9.4	-	1,130.9	**1,223.0**

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**

Approval

This report was approved by the Board of Directors on 29 May 2019 and signed on its behalf by:

P Shakespeare

Paul Shakespeare

Company Secretary

29 May 2019

Directors' report for the year ended 31 December 2018

The directors present their annual report together with the audited financial statements of the Company for the year ended 31 December 2018.

Dividends
During 2018, an ordinary dividend of £1,093.0m was paid in respect of the year ended 31 December 2017 (2017: £1,044.0m in respect of 31 December 2016). At the date of signing the financial statements in respect of the year ended 31 December 2018, 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. For more information, please refer to the Strategic Report.

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 4.

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.

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

Paul Shakespeare

Company Secretary

29 May 2019

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 2018 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2018; the Income Statement, the Statement of comprehensive income, the Statement of cash flows, the Statement of changes in equity for the year then ended; and the Notes to the financial statements, which include a description of the significant accounting policies.

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

Basis for opinion

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

Independence

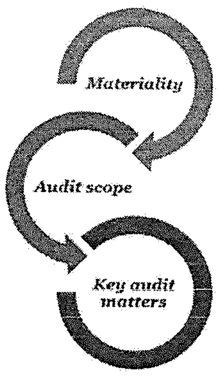
We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance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

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

Other than those disclosed in note 9 to the financial statements, we have provided no non-audit services to the company in the period from 1 January 2018 to 31 December 2018.

Our audit approach

a) *Overview*



- Overall materiality: £50 million (2017: £50 million), which represents 2.1% of net assets (2017 1.6%).
- 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 annuitant mortality assumptions underlying the calculation of the insurance contract liabilities.
  - Valuation of investments, in particular hard 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.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches to the Prudential Regulation Authority's and Financial Conduct Authority's regulations and unethical and prohibited business practices, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006, UK tax legislation and Solvency II regulations. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting of inappropriate journal entries and changes to areas of judgment or estimation (specifically the subjectivity in longevity assumptions), and any new or significant transactions where management is in the position to adopt policies to achieve desired results. Audit procedures performed by the engagement team included:

- 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;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the subjectivity in longevity assumptions; and
- Identifying and testing journal entries posted with unusual account combinations, unexpected users or backdated journals.

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. Also, 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.

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 annuitant mortality assumptions underlying the calculation of the insurance contract liabilities Refer to note 1 to the financial statements for the directors' disclosure of the basis of preparation and related accounting policies and note 2 for further information on critical accounting estimates and judgements related to insurance contract liabilities. As part of our consideration of the entire set of actuarial assumptions we focused particularly on those 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 annuitant mortality assumptions. These are assumptions about how long the policyholders receiving annuity payments are expected to live and therefore how long they will continue to receive these payments. 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 annuitant mortality assumptions. The assumption has two main components:	**Mortality base assumption** In the course of our audit work, we have: • Assessed the methodology for setting the annuitant mortality assumptions to ensure appropriateness against regulatory and reporting requirements; • Tested 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; • Challenged 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; • Assessed the appropriateness of key judgements applied in the assumption setting process, including the appropriateness of changes to the methodology used for management's internal analysis; • Reviewed the fit of the Company's internal experience against industry tables to assess the reasonableness of the choice of industry table;

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 determining the most appropriate granularity at which to carry out the analysis, the time window used for historic experience, or whether data should be excluded from the analysis. **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 internal experience data. 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 population data.	• Assessed the degree of rigour, challenge and oversight provided by the Regional Reserving Committee and the Board. **Rate of mortality improvements** In the course of our audit work, we have: • Assessed the methodology for setting the annuitant mortality assumptions to ensure appropriateness against regulatory and reporting requirements; • Assessed the appropriateness of key judgements in the Company's choice of standard industry Continuous Mortality Investigation (CMI) model for future improvements and choice of parameters used in the model; • Assessed the degree of rigour, challenge and oversight provided by the Regional Reserving Committee and the Board. While the annuitant mortality assumptions are 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 business.
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 related accounting policies and note 2 for further information on critical accounting estimates and judgements related to the investments. 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: Infrastructure debt; Corporate mortgage loans; 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 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 control deficiencies. The Independent Pricing Verification (IPV) committee are responsible for reviewing the pricing of these investments. 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 over selections 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. For example, we have compared investments to independent holdings reports for infrastructure debt and commercial mortgage loans and recalculated amortized cost where appropriate. We did not identify any material exceptions in our testing of these investments 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.

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

How we tailored the audit scope (continued)

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

We gained an understanding of the legal and regulatory framework applicable to the company and the 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. As noted above, we focused on laws and regulations that could give rise to a material misstatement in the company's financial statements. 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 the underlying calculation of insurance contract liabilities and valuation of investments, particularly the annuitant mortality assumptions and complex to value assets. These have been concluded to be key audit matters, which are further discussed above. 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.

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 million (2017: £50 million).
How we determined it	Based on net assets, represents approximately 2.1%.
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 (2017: £2.5 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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.

We have nothing to report in respect of the above matters.

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. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

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

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 2018 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 page 11, 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 40 years, covering the years ended 31 December 1979 to 31 December 2018.

Philip Watson

Philip Watson (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
24 May 2019

Income Statement

For the year ended 31 December 2018

	Note	2018 £m	2017 (Restated*) £m
Revenue			
Gross premiums written	4	391.7	298.5
Less: premiums ceded to reinsurers		(363.3)	(374.6)
Net premium revenue		**28.4**	**(76.1)**
Fee income	13	166.4	151.1
Net investment (expense)/income	5	(1,139.2)	3,336.6
Total revenue, net of reinsurance payable		**(944.4)**	**3,411.6**
Other income	35	2.2	0.1
Net (expense)/income		**(942.2)**	**3,411.7**
Expenses			
Policyholder claims	8	(1,806.9)	(1,905.9)
Less: claims recovered from reinsurers		428.4	444.1
Change in insurance contract liabilities		2,249.7	2,077.7
Change in investment contract liabilities		836.4	(2,062.3)
Change in reinsurers' share of insurance contract liabilities		(196.8)	(378.2)
Transfer to unallocated divisible surplus		26.1	(8.8)
Net policyholder claims and benefits incurred		**1,536.9**	**(1,833.4)**
Administration expenses	6	(257.6)	(161.4)
Impairment of subsidiary undertaking		(12.9)	(97.6)
Total income/(expenses)		**1,266.4**	**(2,092.4)**
Profit before finance costs and tax		**324.2**	**1,319.3**
Finance costs	7	(7.8)	(6.8)
Profit before tax		**316.4**	**1,312.5**
Tax on profit for the year	14	(46.8)	(253.3)
Profit for the year		**269.6**	**1,059.2**

All results derive from continuing operations.

* Refer to note 3 for details of restatement

Statement of comprehensive income

For the year ended 31 December 2018

	Note	2018 £m	2017 (Restated*) £m
Profit for the year		**269.6**	**1,059.2**
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Owner-occupied land & buildings revaluation	17	0.3	0.4
Total comprehensive income for the year		**269.9**	**1,059.6**

* Refer to note 3 for details of restatement

Statement of Financial Position

As at 31 December 2018	Note	2018	2017 (Restated*)	As at 1 January 2017 (Restated*)
		£m	£m	£m
Assets				
Present value of in-force business	16	97.5	100.5	103.7
Deferred Acquisition Costs	40	566.2	-	-
Property, plant and equipment	17	3.7	3.4	3.0
Investments in group undertakings	19	469.6	482.2	663.8
Investment property	18	720.8	691.0	751.2
Financial investments:	20			
Loans		732.2	639.0	776.7
Equity securities		12,250.1	12,984.8	12,349.5
Debt securities		18,788.3	20,858.9	22,040.8
Collective investment schemes		4,431.9	6,525.6	6,760.0
Derivative assets	21	13.0	18.1	134.1
Reinsurers' share of insurance contract liabilities		1,234.9	1,431.7	1,809.9
Reinsurers' share of claims outstanding		-	-	1.7
Reinsurance receivables		85.1	18.0	20.7
Insurance contract receivables		20.5	24.7	20.3
Deferred tax asset	22	11.3	0.3	22.6
Prepayments and accrued income	23	307.2	335.3	350.5
Other receivables	24	177.4	251.5	187.8
Cash and cash equivalents	25	1,631.2	2,666.6	1,746.4
Total assets		**41,540.9**	**47,031.6**	**47,742.7**
Liabilities				
Insurance contract liabilities:				
Liabilities under insurance contracts	27	19,933.5	22,183.1	24,260.8
Unallocated divisible surplus		146.6	172.6	163.8
Investment contract liabilities	31	18,098.5	20,404.2	19,784.2
Provisions	34	11.8	1.6	1.9
Borrowings	33	244.3	242.9	242.9
Derivative liabilities	21	14.4	16.5	93.1
Deposits received from reinsurers		103.9	124.9	138.4
Reinsurance payables		44.4	25.4	29.0
Payables related to direct insurance contracts		27.2	25.7	22.7
Claims outstanding		237.3	219.7	202.2
Current tax liability		39.5	188.5	96.1
Other liabilities	36	292.3	256.2	202.9
Total liabilities		**39,193.7**	**43,861.3**	**45,238.0**
Equity				
Share capital	26	289.0	289.0	289.0
Share premium		134.0	134.0	134.0
Other reserves		682.7	682.7	32.7
Retained earnings		1,241.5	2,064.6	2,049.0
Total equity		**2,347.2**	**3,170.3**	**2,504.7**
Total liabilities and equity		**41,540.9**	**47,031.6**	**47,742.7**

* Refer to note 3 for details of restatement

The financial statements of ReAssure Limited (registered number 00754167) were approved by the Board of Directors and authorised for issue on 29 May 2019 and signed on its behalf by:

Michael Woodcock
Director
29 May 2019

Statement of changes in equity

For the year ended 31 December 2018

	Attributable to owners of the Company				
	Share capital	Share premium	Other reserves	Retained earnings	Total equity
	£m	£m	£m	£m	£m
1 January 2018	289.0	134.0	682.7	2,064.6	3,170.3
Profit for the financial year	-	-	-	269.6	269.6
Other comprehensive income for the year	-	-	-	0.3	0.3
Total comprehensive income for the year	-	-	-	269.9	269.9
Capital contribution	-	-	-	-	-
Dividends paid during the year	-	-	-	(1,093.0)	(1,093.0)
At 31 December 2018	**289.0**	**134.0**	**682.7**	**1,241.5**	**2,347.2**

For the year ended 31 December 2017
(Restated*)

	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	2,049.0	2,504.7
Profit for the financial year	-	-	-	1,059.2	1,059.2
Other comprehensive income for the year	-	-	-	0.4	0.4
Total comprehensive income for the year	-	-	-	1,059.6	1,059.6
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**	**2,064.6**	**3,170.3**

* Refer to note 3 for details of restatement

Statement of cash flows

For the year ended 31 December 2018

	Note	2018 £m	2017 £m
Cash flows from operating activities			
Cash used in operating activities	38	**(2,018.8)**	**(2,737.7)**
Income taxes paid		(195.8)	(130.7)
Net cash used in operating activities		**(2,214.6)**	**(2,868.4)**
Cash flows from financing activities			
Ordinary and preference share dividends paid	15	(1,093.0)	(1,044.0)
Capital contribution received from parent company	39	-	650.0
Net cash outflow from financing activities		**(1,093.0)**	**(394.0)**
Cash flows from investing activities			
Net (acquisition)/disposal of investment properties		(2.1)	113.0
Net disposal of financial assets		2,240.4	2,649.9
Net sale/(purchase) of derivatives		33.9	(9.4)
Dividends and interest received on financial assets		-	1,429.1
Net cash from investing activities		**2,272.2**	**4,182.6**
Net (decrease)/increase in cash and cash equivalents		**(1,035.4)**	**920.2**
Cash and cash equivalents at the beginning of the year		2,666.6	1,746.4
Cash and cash equivalents at the end of the year	25	**1,631.2**	**2,666.6**

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 Company successfully delivered its growth focused business plan over the past 12 months. The directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for at least the next 12 months. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

b) New standard, amendments and policies not yet adopted by the Company

The following new standards have not yet been adopted by the Company.

IFRS 16 - Leases

IFRS 16 'Leases' addresses the definition, 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 are now accounted for on the SOFP for lessees. The standard replaces IAS 17 'Leases', and related interpretations. The impact of IFRS 16 has been assessed and it will not have a material impact on the results and position of the Company.

IFRS 9 – Financial Instruments

The Company is in process of continuously assessing the impact of the new standard, not yet effective, on its operations as of 31 December 2018.

The Company applies the temporary exemption from IFRS 9 Financial instruments, as defined in the amendment "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – IFRS 4 amendments" issued by the IASB in September 2016. This amendment allows an entity to defer the implementation of IFRS 9 until 2021 if its activities are predominantly connected with insurance, to enable the introduction of IFRS 9 to be aligned to the introduction of IFRS 17, 'Insurance Contracts'. The IASB has recently announced that the introduction of IFRS 17 will be delayed by 12 months therefore, it is expected that IFRS 4 will be updated to enable entities to defer the implementation of IFRS 9 by a further 12 months until 2022, to re-align to IFRS 17. As a result, should this be approved, the Company expects that it will continue to apply IAS 39, Financial Instruments: Recognition and Measurement in its financial statements until the reporting period beginning on 1 January 2022.

The Company performed an assessment of the amendments and reached the conclusion that its activities are predominantly connected with insurance as at 31 December 2015.

1. Accounting policies (continued)

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

The Company concluded that it qualified for the temporary exemption from IFRS 9 because its activities are predominantly connected with insurance. The Company's percentage of its gross liabilities connected with insurance relative to its total liabilities at 31 December 2015 was 99%.

Liabilities connected with insurance comprise the liabilities arising from contracts within the scope of IFRS 4 for a total amount of £12,957.0m, liabilities from non-derivative investment contracts measured as at fair value through profit or loss (FVTPL) for a total amount of £14,627.8m and liabilities that arise as the insurer fulfils obligations arising from contracts within the scope of IFRS 4 and non-derivative investment contract liabilities measured at FVTPL (e.g. liabilities that are included in the insurer's regulatory capital and other payables directly associated with those obligations) for a total amount of £351.3m. Liabilities from non-derivative investment contracts measured as at fair value through profit or loss (FVTPL) comprise unit-linked investment contracts at £14,603.0m and non-profit investment contract liabilities at £24.8m.

During 2018, 2017 and 2016, there has been no significant change in activities of the Company that requires reassessment of the use of the temporary exemption from IFRS 9.

The table below presents an analysis of the fair value of the classes of financial assets as at the end of the reporting period, as well as the change in fair value during the reporting period. The financial asset classes are divided into two categories:

(i) SPPI: assets of which cash flows represent solely payments of principal and interest on an outstanding principal amount, but are not meeting the definition of held for trading in IFRS 9, or are not managed on a fair value basis; and

(ii) Other (at FVTPL): all financial assets other than those specified in SPPI and Fair Value Option, financial assets:

a. with contractual terms that do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding;

b. that meet the definition of held for trading in IFRS 9; or,

c. that are managed and whose performance are evaluated on a fair value basis.

Fair Values as of 31 December, 2018

	Financial instruments with contractual cash flows that have been assessed against SPPI criteria, excluding those held for trading				
Financial assets	Financial assets that passed SPPI	Financial assets measured on a fair value basis	Total	Financial instruments held for trading	Total fair value amount
	£m	£m	£m	£m	£m
Debt Securities	-	15,113.3	15,113.3	3,675.0	18,788.3
Equity Securities	-	-	-	12,250.1	12,250.1
Loans and receivables	4.5	727.7	732.2	-	732.2
Collective Investment Schemes	-	-	-	4,431.9	4,431.9
Derivatives	-	-	-	13.0	13.0
Other receivables	177.4	-	177.4	-	177.4
Cash and cash equivalents	1,631.2	-	1631.2	-	1,631.2
Total financial assets	**1,813.1**	**15,841.0**	**17,654.1**	**20,370.0**	**38,024.1**

Notes to the financial statements for the year ended 31 December 2018 (continued)

1. Accounting policies (continued)

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

Fair Values as of 31 December, 2017

Financial assets	Financial instruments with contractual cash flows that have been assessed against SPPI criteria, excluding those held for trading: Financial assets that passed SPPI	Financial assets measured on a fair value basis	Total	Financial instruments held for trading	Total fair value amount
	£m	£m	£m	£m	£m
Debt Securities	-	17,173.4	17,173.4	3685.5	20,858.9
Equity Securities	-	-	-	12,984.8	12,984.8
Loans and receivables	5.6	633.4	639.0	-	639.0
Collective Investment Schemes	-	-	-	6,525.6	6,525.6
Derivatives	-	-	-	18.1	18.1
Other receivables	251.5		251.5	-	251.5
Cash and cash equivalents	2,666.6	-	2,666.6	-	2,666.6
Total financial assets	**2,923.7**	**17,806.8**	**20,730.5**	**23,214.0**	**43,944.5**

Movement in fair values 2017 to 2018

Financial assets	Financial assets that passed SPPI	Financial assets measured on a fair value basis	Total	Financial instruments held for trading	Total fair value amount
	£m	£m	£m	£m	£m
Debt Securities	-	(2,060.1)	(2,060.1)	(10.5)	(2,070.6)
Equity Securities	-	-	-	(734.7)	(734.7)
Loans and receivables	(1.1)	94.3	93.2	-	93.2
Collective Investment Schemes	-	-	-	(2093.7)	(2,093.7)
Derivatives	-	-	-	(5.1)	(5.1)
Other receivables	(74.1)	-	(74.1)	-	(74.1)
Cash and cash equivalents	(1,035.4)	-	(1,035.4)	-	(1,035.4)
Total financial assets	(1,110.6)	(1,965.8)	(3,076.4)	(2,844.0)	(5,920.4)

For receivables, loans and cash and cash equivalents carried at amortised cost, the carrying value is considered to be approximately equal to fair value.

For financial assets whose cash flows represent SPPI, excluding any financial assets that meet the definition of held for trading in IFRS 9, or that are managed and whose performance is evaluated on a fair value basis, the table below provides information on credit risk exposure (rated by Ratings Inc.). The financial assets are categorised by asset class with a carrying amount measured in accordance with IAS39 measurement requirements (in the case of financial assets measured at amortised cost, before adjusting for any impairment allowances).

1. Accounting policies (continued)

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

As at 31 December 2018

	Loans and Receivables	Other Receivables	Cash and Cash Equivalents
	£m	£m	£m
AAA	-	-	459.9
AA	-	-	554.4
A	-	-	536.8
BBB	-	-	73.7
BB	-	-	-
B	-	-	-
CCC	-	-	-
Without external rating	4.5	177.4	6.4
Total	**4.5**	**177.4**	**1,631.2**

As at 31 December 2017

	Loans and Receivables	Other Receivables	Cash and Cash Equivalents
	£m	£m	£m
AAA	-	-	1,287.0
AA	-	-	566.3
A	-	-	814.0
BBB	-	-	-
BB	-	-	-
B	-	-	-
CCC	-	-	-
Without external rating	5.6	251.5	(0.7)
Total	**5.6**	**251.5**	**2,666.6**

For assets that do not have low credit risk as determined by the Company and of which cash flows represent SPPI, excluding any financial assets that meet the definition of held for trading in IFRS 9, or that are managed and whose performance is evaluated on a fair value basis, the table below provides the credit risk exposure from the financial assets held by the Company. The financial assets are categorized by asset class with a carrying amount and fair value measured in accordance with IAS 39 measurement requirements.

As at 31 December 2018

GBPm

	Carrying Amount	Fair Value
- Loans and receivables	4.5	4.5
- Other receivables	177.4	177.4
- Cash and cash equivalents	6.8	6.4
	188.7	**188.3**

Notes to the financial statements for the year ended 31 December 2018 (continued)

1. **Accounting policies (continued)**

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

As at 31 December 2017

GBPm

	Carrying Amount	Fair Value
- Loans and receivables	5.6	5.6
- Other receivables	251.5	251.5
- Cash and cash equivalents	-	-
	257.1	**257.1**

IFRS 17 – Insurance Contracts

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 2022. 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; and

• 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 through to the adoption date.

c) **New and amended standards and interpretations**

Nature of the change

IFRS 15 Revenue from Contracts with Customers supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. IFRS 15 requires entities to take all relevant facts and circumstances into consideration when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

Impact

The majority of the Company's revenue is outside the scope of IFRS 15. The financial statement line items impacted were Fee Income, Other Income, Other Receivables and Deferred Revenue.

Date of adoption by the Company

IFRS 15 has been adopted by the Company for reporting period beginning after 1st January 2018. The Company has applied the standard retrospectively with the cumulative effect of initially applying this standard being reflected as an adjustment to the opening balance of retained earnings. The adoption of IFRS 15 did not result in a change on the current or prior year reported results and position of the Company, as no changes were required to be made to the Company's existing accounting policies.

1. Accounting policies (continued)

d) 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 (r) and (v)).

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.

e) Premiums

Premiums, consideration for annuities and reinsurance premiums are accounted for when due for payment, single premiums are recognised from the date from which the policy is effective. Amounts are recognised gross and before deductions for commission.

f) 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.

g) Fee income

Investment contract policyholders are charged fees for policy administration, investment management, surrenders or other contract services. Fees on all investment contract policies are recognised on a straight line basis which is consistent with the provision of administrative services to policyholders. Fees are deducted from the customers' account balances.

h) 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.

1. Accounting policies (continued)

i) 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 SOFP date and their purchase price or if they have been previously valued, their valuation at the last SOFP 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.

j) 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.

k) Taxation

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

Deferred tax is also recognised in respect of unused capital losses and losses that arise under the UK's regime for taxation of life insurance companies to the extent it is probable that future taxable profits will arise against which the losses can be utilised.

Deferred tax is also recognised in relation to losses arising from the change of taxation rules in 2013 for UK life insurance companies and policyholder unrealised equity gains. A full breakdown of the deferred income taxes is shown in the deferred tax note 22 below.

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

Deferred 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.

Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity.

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').

1. Accounting policies (continued)

k) Taxation (continued)

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.

l) 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.

m) Property, plant and equipment

Owner-occupied land and buildings are carried at fair value on SOFP. 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.

n) Intangible assets

Present value of in-force business

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

The asset is amortised and the discount unwound on a systematic basis in the Statement of Comprehensive Income over the anticipated unwind 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 cashflow assumptions consistent with the cash flow assumptions used for associated insurance liabilities 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. For PVIF where an impairment has previously been recognised, if, in future years, the recoverability of the PVIF asset had it not been impaired is now recoverable then the earlier impairment recognised would not be reversed.

In the event that the arrangement provides a negative PVIF the respective fair value of assets acquired will be reassessed. If it is determined on completion of the reassessment that these items were measured correctly, then the excess is recognised immediately in the Income Statement.

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

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 SOFP.

1. Accounting policies (continued)

n) Intangible assets (continued)

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.

Impairment of intangible assets

Non-financial assets 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 (its net selling price) 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.

o) 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.

The fair values of financial instruments traded in active markets are based on quoted bid prices on the SOFP 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.

The valuation techniques include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow and embedded value analysis and may include a number of assumptions relating to variables such as credit risk and interest rates. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of these financial investments. Where discounting techniques are applied, the discount rate is based on current market rates applicable to financial instruments with similar characteristics. Interest accrued to date is not included in the fair value of the financial asset.

In pricing bonds acquired in private placements, ReAssure utilises the services of external fund managers. ReAssure's fund managers are more adept to analysing assets at a granular level, in conjunction with industry experience of micro and macro market data, ultimately contributing to a value considered accurate and appropriate.

The fund managers' models uses suitable gilts and bonds as a reference to derive an appropriate spread to apply. An additional spread is added to take account of any illiquidity and arrive at a suitable price. The illiquidity premium of the private placement corporate debt includes two components: market spread based on public corporate spreads having similar tenors; and an illiquidity spread determined by a reputable, market leading, vendor (based on the quality rating, average life and Treasury yields).

1. Accounting policies (continued)

o) Investments (continued)

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 SOFP at fair value. All changes in fair value are recognised in the income statement.

Investment Property
Investment property, which is property held to earn rentals and / or capital appreciation is stated at its fair value at the SOFP 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 ("ERIP LP") 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.

p) Impairment

Financial assets
At each SOFP 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

1. Accounting policies (continued)

p) Impairment (continued)

- 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
Non-financial assets 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 (its net selling price) 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.

q) Recognition and de-recognition 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.

r) 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. The liability is derecognised when the contract expires, is discharged or is cancelled.

1. Accounting policies (continued)

r) Insurance contracts (continued)

Insurance contracts in the non-profit funds
Insurance contracts in the non-profit fund 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 liabilities are based on demographic assumptions that are updated each year generally using recent experience and industry data. For annuities, the assumptions are best estimate assumptions and the liabilities include an explicit margin for risk based on 6% cost of capital calculated under Solvency II Standard Formula. For other liabilities, each individual assumption includes a margin for risk and adverse deviation.

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 SOFP date. For annuities held within a Matching Adjustment Portfolio the allowance is based directly on the Fundamental Spread information published by EIOPA (European Insurance and Occupational Pensions Authority). For annuities within the Matching Adjustment portfolios, the discount rates are equal to the EIOPA risk-free rates plus relevant Matching Adjustment, whilst annuities outside the Matching Adjustment fund use the EIOPA risk-free rates. For other liabilities, in the derivation of the discount rates an allowance is made for default risk.

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 with cashflows using best estimate demographic assumptions 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 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.

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 30 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 SOFP 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.

1. Accounting policies (continued)

s) Reinsurance contracts

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 SOFP 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.

Reinsurers' share of liabilities represent future balances due from reinsurance providers that are dependent on the expected claims and benefits arising under the related reinsured contracts. They are measured consistently with those amounts associated with the related insurance contracts and in accordance with recognised actuarial best practice having due regard to collectability including market data on the financial strength of each of the reinsurance companies. Reinsurance payables 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. Any impairment loss is recorded in the income statement. 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 the Swiss Re Group. IGRs are accounted for the same way as external reinsurance.

t) 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 SOFP 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 National Mutual With Profit Fund (NMWPF) is a 100:0 fund. As such, all the surplus arising in the NMWPF is retained for future allocations to policyholders.

u) 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.

1. Accounting policies (continued)

v) 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. Investment contracts without discretionary participation features are accounted for under IAS 39 with premiums collected and claims paid being deposit accounted as a change in the investment contract liabilities in the income statement.

w) 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.

x) 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.

y) 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.

z) Borrowings

Borrowings are classified as either policyholder or shareholder borrowings. The Company's borrowings are shareholder borrowings measured at FVTPL and are within Level 2 of the fair value hierarchy. The loans have been designated as valued at fair value through profit and loss in order to avoid an accounting mismatch with the related assets (investment in ERIP).

All borrowings are able to be terminated by the Lender via issue of a written notice to the Borrower demanding all or part repayment of the loan.

The unsecured loan with ERIP LP 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 ERIP LP during the year.

1. Accounting policies (continued)

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 Value In Force (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 SOFP date

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

Events that are indicative of conditions that arose after the SOFP 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

In the application of the Company's accounting policies, the directors are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources and to make judgements that may have an impact on the amounts recognised. These estimates and judgements affect the reported amounts of assets and liabilities, income and expenses and therefore, may have a material impact on the financial statements. Estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period, or in the period of the revision and future periods if the revision affects both current and future periods. The Company discloses those judgements and estimates which are considered to potentially have the most material impact on the financial statements.

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

The key accounting judgements required to be made by the Company relate to the assessment of the significance of insurance risk transferred to the Company in determining whether a contract should be accounted for as insurance or investment contract, determining whether there is any indication that customer relationship intangible assets might be impaired, and the non-consolidation of certain collective investment schemes for which the Company has majority voting rights.

The main sources of estimation uncertainty relate to the measurement of insurance contracts in the non-profit funds, the measurement of PVIF and customer relationship intangible assets, the fair value of financial instruments, and the measurement of defined benefit pension scheme obligations.

a) Classification of insurance and investment contracts and the measurement of liabilities arising from insurance contracts and investment contracts with discretionary participating feature

Contracts are classified in accordance with the accounting policy in note d). Contracts that transfer significant insurance risk to the Company are classified as insurance contracts. Contracts that do not transfer significant insurance risk to the Company are classified as investment contracts. Investment contracts that contain a discretionary participation feature are recognised, measured and presented as insurance contracts. Insurance contracts and investment contracts with a discretionary participation feature are with-profits contracts and are measured in accordance with the accounting policy in note r). Unit-linked investment contracts are measured in accordance with the accounting policy in note v).

The Company's long-term insurance business is divided into five sub-funds: the National Mutual with-profits fund ("NMWPF"), the Windsor Life with-profits fund ("WLWPF"), the Guardian Assurance with-profits fund ("GAWPF"); and the ReAssure Limited non-profit fund ("NPF").

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 is also predominantly with-profits business and a small amount of non-profit 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. The GAWPF is closed to new business and is being run so that over time the distribution of the estate held within the fund is achieved by using bonus surplus to enhance asset share returns. Once the admissible value of the assets in the GAWPF falls below a stated level, then management actions can be considered to merge the fund with another with-profits fund and also consider potential conversion to non-profit status, subject to the appropriate approvals. The NPF contains a mix of unit-linked and non-profit business.

Assumptions are applied in the measurement of insurance contracts and investment contracts with discretionary participation features, therefore their value is sensitive to changes in both economic assumptions, such as discount rates, and non-economic assumptions, such as those relating to expenses and longevity.

The other life assurance liabilities in the NPF fund are primarily annuity contracts in payment. The measurement of these liabilities is particularly sensitive to changes in the discount rates and mortality assumptions and so are subject to significant estimation uncertainty. The measurement of both unit-linked insurance and investment contracts in the non-profit funds mainly comprises value of the underlying units and so is not subject to significant estimation uncertainty.

The Company is required to estimate the value of liabilities for asset shares and future guarantees and options for the with-profits contracts. The estimates of the value of future guarantees and options, in particular, are subject to estimation uncertainty and may not represent the ultimate amounts paid out to satisfy claims by policyholders (even before allowing for future enhancements to distribute the surplus assets). In all reasonably foreseeable circumstances any change in the estimates of the value of options and guarantees will result in an offsetting movement in asset shares, or the unallocated distributable surplus. Since the unallocated distributable surplus is presented as a liability, the total liabilities recognised for contracts within the with-profits funds is not subject to significant estimation uncertainty. Further details of the assumptions used to measure insurance contract liabilities is set out in note 27. Further details of the future guarantees and options in with-profits contracts is provided in note 28. Sensitivities are disclosed in note 29.

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

b) Fair value of assets and liabilities

The Company holds financial assets and liabilities which are measured in the statement of financial position at fair value. The inputs into these fair value measurements are categorised into one of three levels of a fair value hierarchy. The valuation of financial instruments classified as Level 3 in the fair value hierarchy reflect the Company's own assumptions about market pricing, using the best internal and external information available and so are particularly subject to estimation uncertainty. Note 20 provides a detailed analysis of the carrying value of financial instruments by their level in the fair value hierarchy and information about the sensitivity of the measurement of financial instruments classified as Level 3 in the fair value hierarchy. Sensitivity analysis is provided at note 20 for financial assets and note 29 for financial liabilities.

c) PVIF intangible asset

PVIF intangible assets are reviewed for impairment annually by comparison against the recoverable amount. The recoverable amount of PVIF intangible assets is the current present value of discounted future cashflows associated with the book of business (value in use). The measurement of the recoverable amount of intangible assets is subject to significant estimation uncertainty.

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 of intangible assets are disclosed in note 16.

d) Non-consolidation of funds in which the Company holds more than the majority of voting rights

Under IFRS 10 Consolidated Financial Statements, the Company assesses whether it has control over certain collective investment schemes and applies judgement at each reporting period to determine whether the Company controls these funds. Having majority voting rights is not the deciding factor in the assessment of control of collective investment schemes.

Therefore, the Company undertakes a full assessment of control by reference to factors such as whether the Company is able to influence the activities of the schemes and unilaterally appoint and remove key management personnel. As at 31 December 2018, the Company holds investments in nine collective investment schemes in which it has the majority of the voting rights.

These are not consolidated into the financial statements of the Company as the definition of control under IFRS 10 is not judged to have been satisfied in relation to these funds. The carrying value of these schemes reported in the financial statements of the Company as at 31 December 2018 is £2.8bn. If these collective investment schemes were consolidated both assets and liabilities would increase by £0.6bn.

3. Restatement of prior year reserve balances

a) The Company has aligned the consistency of its accounting treatment in relation to the recognition of reinsurance arrangements. All reinsurance arrangements are now accounted for in accordance with the policy documented at note 1(s) above. The impact of this change to the financial statements is shown below:

Income Statement		As previously reported 2017 £m	Restated 2017 £m
Net investment income/(expense)	5	3,342.6	3,336.6
Change in reinsurers' share of insurance contract liabilities	27	(398.2)	(378.2)
Profit before tax		**1,298.2**	**1,312.5**
Tax on profit for the year	14	(250.5)	(253.3)
Profit for the year		**1,047.7**	**1,059.2**

3. Restatement of prior year reserve balances (continued)

Statement of Other Comprehensive Income	As previously reported 2017 £m	Restated 2017 £m
Profit for the year	**1,047.7**	**1,059.2**
Total comprehensive income for the year	**1,048.1**	**1,059.6**

Statement of Financial Position		As previously reported 2017 £m	Restated 2017 £m	As previously reported 2016 £m	Restated 2016 £m
Reinsurers' share of insurance contract liabilities	27	1,824.7	1,431.7	2,222.9	1,809.9
Deferred tax asset		13	0.3	12.8	22.6
Total assets		**47,437.3**	**47,031.6**	**48,145.9**	**47,742.7**
Deferred tax liability		20.0	-	-	-
Other financial liabilities		355.3	-	361.3	-
Total liabilities		**44,236.6**	**43,861.3**	**45,599.3**	**45,238.0**
Net assets		**3,200.7**	**3,170.3**	**2,546.6**	**2,504.7**
Retained earnings		**2095.0**	**2064.6**	**2090.9**	**2049.0**

Statement of changes in equity	As previously reported		Restated	
	2017 £m	2017 £m	2017 £m	2017 £m
	Retained earnings	Total Equity	Retained earnings	Total Equity
1 January 2017	2,090.9	2,546.6	2,049.0	2,504.7
Profit for the financial year	1,047.7	1,047.7	1,059.2	1,059.2
Total comprehensive income for the year	1,048.1	1,048.1	1,059.6	1,059.6
Total equity	**2,095.0**	**3,200.7**	**2,064.6**	**3,170.3**

3. Restatement of prior year reserve balances (continued)

Statement of Cash flows	As previously reported 2017 £m	Restated 2017 £m
Profit for the year before tax	1,298.2	1,312.5
Decrease in reinsurance assets	402.6	381.2
Decrease in insurance contracts & investment contract liabilities	(1,441.9)	(1,440.8)
Cash flows from operating activities	**2,737.7**	**2,737.7**

b) The Company has amended the presentation of premiums and claims transactions relating to investment products which are subject to deposit accounting under IAS 39, to ensure that all movements in premiums and claims are accounted for as changes to investment contract liabilities. This change results from the completion of a review of the process by which premiums and claims are attributed to investment products, which found that the prior year IAS 39 presentational adjustment was based on an inaccurate product listing. The impact of this change is on the income statement only and does not have any impact on the profit previously reported:

Income Statement		As previously reported 2017 £m	Restated 2017 £m
Gross premiums written	4	359.3	298.5
Policyholder claims	8	(2,163.5)	(1,905.9)
Less: claims recovered from reinsurers		413.9	444.1
Change in investment contract liabilities		(1,835.6)	(2,062.3)
Profit before tax		**1,298.2**	**1,312.5**
Tax on profit for the year	14	(250.5)	(253.3)
Profit for the year		**1,047.7**	**1,059.2**

There was no impact on the following as a result of this restatement as it represents a change to the presentation in the income statement only, with no impact on the profitability of the Company:

- Profit for the Year;
- Total comprehensive income;
- Statement of Financial Position
- Statement of Cash Flows; and
- Shareholder equity.

Notes to the financial statements for the year ended 31 December 2018 (continued)

4. Premiums

Gross premium income is made up of:

	2018 £m	2017 (Restated*) £m
Gross premiums written		
Insurance contracts	386.7	294.5
Participating investment contracts	5.0	4.0
	391.7	298.5
Premiums ceded to reinsurers	(363.3)	(374.6)
Net premium revenue	28.4	(76.1)
Reinsurance Recoveries	428.4	441.1
Changes in reinsurers' share of insurance and investment contract liabilities	(196.8)	(378.2)
	231.6	62.9

* Refer to note 3 for details of restatement

5. Net investment expense/income

	2018 £m	2017 (Restated*) £m
Investment income		
Rental income from investment property	36.4	36.5
Dividend received from subsidiaries	22.3	109.8
Income from other investments		
- Bonds	747.2	810.2
- Equities/Unit trusts	539.0	548.5
Income from financial assets at fair value through profit or loss, held for trading:		
- Derivatives	-	0.1
Interest income on loans and deposits at amortised cost	0.1	0.1
Other	48.5	55.2
Total income from other investments	**1,334.8**	**1,414.1**
Net gains/(losses) on the realisation of investments:		
Financial assets at fair value through profit or loss upon initial recognition:		
- Bonds	(18.0)	92.5
- Equities/Unit trusts	1,433.2	1,429.0
- Investment properties	-	27.9
Financial assets at fair value through profit or loss, held for trading:		
- Derivatives	(25.7)	(7.9)
- Other	38.6	(15.5)
Total net gains/(losses) on the realisation of investments	**1,428.1**	**1,526.0**

5. Net investment expense/income (continued)

Net unrealised gains/(losses) on investments:		
Financial assets at fair value through profit or loss upon initial recognition:		
- Bonds	(881.4)	(6.6)
- Equities/Unit trusts	(3,099.2)	216.2
- Investment properties	27.6	24.9
Financial assets at fair value through profit or less, held for trading:		
- Derivatives	(5.3)	(1.3)
- Other	(2.5)	17.0
Total net unrealised gains/(losses) on investments	**(3,960.8)**	**250.2**
Total investment return	**(1,139.2)**	**3,336.6**

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. Included in income from other investments includes £0.1m (2017: £0.1m) of income recognised on loans and receivables held at amortised cost. Derivatives held at fair value through profit or loss, held for trading generated £nil income (2017: £nil).

* Refer to note 3 for details of restatement

6. Administration Expenses

	2018 £m	2017 £m
Amortisation of PVIF asset (see note 16)	3.0	3.2
Amortisation of DAC asset (see note 40)	83.8	-
Other administrative expenses	113.6	115.3
Investment management expenses	57.2	42.9
	257.6	**161.4**

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.

7. Finance costs

	2018 £m	2017 £m
Interest costs on deposits received from reinsurers	6.3	5.9
Interest costs on the ERIP LP loan	1.5	0.9
	7.8	**6.8**

Interest costs on the ERIP LP loan include £nil (2017: £nil) of penalty interest due to the accrued loan interest not being settled.

8. Policyholder claims

a) Claims and benefits paid

	2018 £m	2017 (Restated*) £m
Claims and benefits paid, before reinsurance		
Insurance contracts	1,653.8	1,822.3
Participating investment contracts	153.1	83.6
	1,806.9	**1,905.9**
Reinsurance recoveries		
Insurance contracts	**(428.4)**	**(444.1)**
Claims and benefits paid, after reinsurance		
Insurance contracts	1,225.4	1,378.2
Participating investment contracts	153.1	83.6
	1,378.5	**1,461.8**

* Refer to note 3 for details of restatement

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 SOFP and accounted for as deposits repaid.

9. Auditors' remuneration

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

	2018 £m	2017 £m
Audit services:		
Fees payable for the audit of the Company's annual financial statements	0.6	0.6
Total audit fees	**0.6**	**0.6**
Non-audit services:		
Audit related assurance services	1.3	1.3
Total fees	**1.9**	**1.9**

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

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

10. Employee numbers and costs

The Company does not directly employ any staff. Staff are employed by RUKSL, RCSL and RFSH 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.

11. 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. No apportionment between their time spent in the Company and other Group undertakings has been made in either 2018 or 2017.

The aggregate emoluments of 15 members of key management (2017: 14), 14 of which are remunerated by RUKSL and are shown in the table below. A further director is remunerated by Swiss Re and their services are considered to be part of their role at Swiss Re. It is not possible to split their remuneration between companies.

There are 4 key management personnel (2017: 4) who are accruing benefits under the defined contribution pension scheme.

	2018 £m	2017 £m
Salaries and other short-term employee benefits	3.0	2.9
	3.0	**2.9**

	2018 £m	2017 £m
Highest paid director		
Emoluments	0.5	0.5

12. Pension costs

The Company's parent undertaking, RML, 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 RML.

13. Fee income

	2018 £m	2017 £m
Annual management charges applied to linked funds	157.0	142.9
Policy administration fees	6.4	5.2
Bid/offer spread and other charges	3.0	3.0
	166.4	**151.1**

Annual management charges are charged at a fixed percentage of the value of assets under management. The percentage is set at contract inception with reference to the market rates and the type of assets under management. For some contracts the percentage applied to existing contracts may be reviewed periodically, but for the majority of the contracts issued by the Company the percentages are fixed for the duration of the contract.

The contracts do not have a minimum stated term. A customer can cancel an investment contract at any time after contract inception for a surrender charge. As the customer has discretion over when to terminate the contract the contract does not have a significant financing component.

None of the revenue from the investment management services recognised in 2017 and 2018 relates to performance obligations satisfied in previous year.

14. Tax on profit for the year

a) Tax charge to the income statement

	2018 £m	2017 (Restated*) £m
Current taxation		
UK corporation tax	42.7	219.6
Business transfer	(0.1)	-
Adjustments in respect of prior periods	(0.9)	0.8
	41.7	220.4
Deferred taxation		
Origination and reversal of timing differences	16.3	22.0
Adjustment in respect of prior periods	-	(1.6)
	16.3	20.4
Tax charge attributable to the shareholders	58.0	240.8
Tax charge attributable to the policyholders	(11.2)	12.5
Total tax charge for the year	**46.8**	**253.3**

* Refer to note 3 for details of restatement

b) Reconciliation of tax charge on profit attributable to shareholders

The tax assessed for the year is lower (2017: lower) than the standard rate of corporation tax in the UK of 19% (2017: 19.25%). The differences are explained below:

	2018 £m	2017 (Restated*) £m
Profit before tax	316.4	1,312.5
Tax on profit on ordinary activities at 19% (2017: 19.25%):	60.1	252.7
Tax attributable to the policyholders	(2.0)	(6.3)
Transfer pricing adjustments	(5.2)	(7.3)
Adjustments in respect of prior years	(0.8)	(0.8)
Dividends not chargeable to tax	(4.2)	(21.1)
Impairment of subsidiaries	2.4	18.8
Foreign tax relief	(2.6)	(1.8)
Different basis of taxation for UK life insurance companies	8.8	11.3
Movement in value of deferred tax asset	(3.0)	1.3
Movement in tax provision	5.1	(3.7)
Impact of rate change	(0.4)	(0.5)
Other	(0.2)	(1.8)
Tax charge for the year attributable to shareholders	**58.0**	**240.8**

* Refer to note 3 for details of restatement

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%.

15. Dividends

	2018 £m	2017 £m
Interim dividend paid		
Ordinary shares	1,093.0	1,044.0

During 2018, an ordinary dividend of £1,093.0m was paid in respect of the year ended 31 December 2017 (2017: £1.044.0m in respect of 31 December 2016). At the date of signing the financial statements in respect of the year ended 31 December 2018, the directors have not yet proposed a final dividend.

16. Present value of in-force business

	2018 £m	2017 £m
Cost		
At 1 January	113.6	113.6
At 31 December	**113.6**	**113.6**
Accumulated amortisation		
At 1 January	13.1	9.9
Charge for the year	3.0	3.2
At 31 December	**16.1**	**13.1**
Net book value	**97.5**	**100.5**

PVIF assets are amortised consistently with the measurement of the related liabilities. The average period over which PVIF assets are amortised is between 17 and 48 years. Annually, each PVIF asset is reviewed for impairment in accordance with the criteria outlined at note 1(n) above, there has been no impairment charge recorded (2017: £nil).

17. Property, plant and equipment

	2018 £m	2017 £m
Cost or valuation and net book value of owner-occupied land and buildings		
At 1 January	3.4	3.0
Revaluation	0.3	0.4
At 31 December	**3.7**	**3.4**

18. Investment property

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

	2018 £m	2017 £m
Fair value at 1 January	691.0	751.2
Additions	2.2	0.7
Disposals	-	(85.8)
Change in fair value (see note 5)	27.6	24.9
Fair value at 31 December	**720.8**	**691.0**

18. Investment property (continued)

Land and buildings were valued at 31 December 2018 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.

Included within investment income for the year is £36.4m (2017: £36.6m) relating to rental income from investment properties. Included within administration expenses for the year is £3.0m of direct operating expenses relating to leased properties (2017: £1.4m) and £0.1m in relation to vacant properties (2017: £0.2m).

19. Investments in group undertakings

a) Subsidiary undertakings

	2018 £m	2017 £m
Cost		
At 1 January	261.0	261.0
At 31 December	**261.0**	**261.0**
Carrying amount		
At 1 January	207.0	261.0
Capital injection	0.2	-
Impairment	(8.0)	(54.0)
At 31 December	**199.2**	**207.0**

The £0.2m addition included in the table above relates to a capital injection provided to Namulas Pension Trustees Limited by the Company.

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) Limited partnership which the company controls

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 LP, 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 LP. Under the partnership agreement it is entitled to 99.5% of the partnership's profits and losses.

19. Investments in group undertakings (continued)

b) Limited partnership which the company controls (continued)

	2018 £m	2017 £m
ERIP LP	270.3	275.2

The movement in the carrying value of ERIP LP is due to an impairment of £4.9m.

In arriving at the valuation of the investment in ERIP LP, the directors have made reference to the value of the assets and liabilities as reflected in ERIP LP's financial statements at the SOFP 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 properties in the ERIP LP are calculated by discounting with a rate of 5% per annum future proceeds from the sale of ERIP LP properties assuming base mortality in line with PML08_HAWP 92.7% (2017: 108.9% PML08) for males and PML08_HAWP 92.7% (2017: 103.5% PFL08) for females and future improvements from the CMI_2017 [2%] model (2017: CMI_2016 [1.75%]).

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:

	2018 £m	2017 £m
Total assets of ERIP LP	370.3	393.6
Total liabilities of ERIP LP	(100.0)	(118.4)
Net assets of ERIP LP	**270.3**	**275.2**

	2018 £m	2017 £m
Directors' valuation of investment in ERIP LP	270.3	275.2
Amounts due to ERIP LP	(235.4)	(234.0)
Net interest in ERIP LP	**34.9**	**41.2**

The amounts due to ERIP LP per the table above relate to an unsecured loan arrangements, see note 33 for details.

The following table details the Company's remaining interests in unconsolidated structured entities and the maximum exposure to loss from holding these investments in 2018 (2017: £458.4m):

	Number of entities	Carrying amount £m	Maximum exposure to loss £m	Total assets of structured entity £m
Asset backed securities	21	206.9	206.9	4,532.6
Commercial MBS	18	206.1	206.1	6,157.6
	39	**413.0**	**413.0**	**10,690.2**

19. Investments in group undertakings (continued)

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:

	2018 £m	2017 £m
Carrying value at 1 January	482.2	663.8
Impairment	(12.8)	(97.6)
Capital Injection	0.2	-
Capital Repayment	-	(84.0)
Carrying value at 31 December	**469.6**	**482.2**

20. Financial instruments

a) Carrying value by measurement category

Financial Assets

	Carrying value 2018 £m	Carrying value 2017 £m	Fair value 2018 £m	Fair value 2017 £m
Financial assets at fair value through profit and loss designated upon initial recognition	36,191.1	41,060.3	36,191.1	41,060.3
Derivatives at fair value through profit and loss	13.0	18.1	13.0	18.1
Loans and receivables, at fair value through profit and loss	727.7	633.5	727.7	633.5
Loans and receivables, at amortised cost	4.5	5.5	4.5	5.5
Total financial assets	**36,936.3**	**41,717.4**	**36,936.3**	**41,717.4**
Included in SOFP as follows:				
Listed investments:				
Shares and other variable yield securities	12,250.1	12,984.8	12,250.1	12,984.8
Debt securities and other fixed income securities	18,788.3	20,858.9	18,788.3	20,858.9
Total listed investments	**31,038.4**	**33,843.7**	**31,038.4**	**33,843.7**
Unlisted investments:				
Units in unit trusts	4,431.9	6,525.6	4,431.9	6,525.6
Loans secured by mortgages	0.5	0.5	0.5	0.5
Other loans	731.7	638.5	731.7	638.5
Derivatives	13.0	18.1	13.0	18.1
Investment property	720.8	691.0	720.8	691.0
Total unlisted investments	**5,897.9**	**7,873.7**	**5,897.9**	**7,873.7**
Total financial investments	36,936.3	41,717.4	36,936.3	41,717.4

The carrying value in the above relates to the amounts recorded in the financial statements. The above assets are held at fair value therefore the carrying values stated are also the fair value, apart from loans and receivables at amortised costs for which the carrying value is an approximation of fair value.

20. Financial instruments (continued)

a) Carrying value by measurement category (continued)

Financial liabilities

	Carrying value 2018 £m	Carrying value 2017 £m	Fair value 2018 £m	Fair value 2017 £m
Investment contract liabilities	15,930.1	17,981.0	15,930.1	17,981.0
Derivatives	14.4	16.5	14.4	16.5
Deposits received from reinsurers	103.9	124.9	103.9	124.9
Total financial liabilities	**16,048.4**	**18,122.4**	**16,048.4**	**18,122.4**

b) Determination of fair values and fair value hierarchy

Financial instruments held at fair value in the SOFP 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 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.

The following tables present the Company's assets and liabilities measured at fair value at 31 December 2018 and 31 December 2017.

Assets as at 31 December 2018	Level 1	Level 2	Level 3	Total items held at FVTPL
	£m	£m	£m	£m
Financial investments at fair value through profit and loss:				
Debt securities	-	18,073.7	714.6	18,788.3
Equity securities	12,250.1	-	-	12,250.1
Loans	-	-	727.7	727.7
Collective investment schemes	4,431.9	-	-	4,431.9
Investment property	-	-	720.8	720.8
Derivative assets	0.7	12.3	-	13.0
	16,682.7	**18,086.0**	**2,163.1**	**36,931.8**

20. Financial instruments (continued)

b) Determination of fair values and fair value hierarchy (continued)

Assets as at 31 December 2017	Level 1	Level 2	Level 3	Total items held at FVTPL
	£m	£m	£m	£m
Financial investments at fair value through profit and loss:				
Debt securities	-	20,142.2	716.7	20,858.9
Equity securities	12,984.7	-	0.1	12,984.8
Loans	-	-	633.5	633.5
Collective investment schemes	6,525.6	-	-	6,525.6
Investment property	-	-	691.0	691.0
Derivative assets	0.8	17.3	-	18.1
	19,511.1	**20,159.5**	**2,041.3**	**41,711.9**

Liabilities as at 31 December 2018	Level 1	Level 2	Level 3	**Total balance**
	£m	£m	£m	**£m**
Financial liabilities under investment contracts	-	15,930.1	-	**15,930.1**
Derivative liabilities	0.7	13.7	-	**14.4**
Deposits received from reinsurers	-	-	103.9	**103.9**
	0.7	**15,943.8**	**103.9**	**16,048.4**

Liabilities as at 31 December 2017	**Level 1**	**Level 2**	**Level 3**	**Total balance**
	£m	£m	£m	**£m**
Financial liabilities under investment contracts	-	17,956.6	24.4	**17,981.0**
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**
	0.7	**17,972.4**	**2,572.5**	**20,545.6**

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.

20. Financial instruments (continued)

b) Determination of fair values and fair value hierarchy (continued)

Where we use broker quotes or valuations from independent third parties and no information as to the observability of inputs is provided, the investments are classified as follows:
• Where the valuation is validated by using internal models with market observable inputs and the values are similar, we classify the investment as Level 2.
• In circumstances where internal models are not used to validate valuations, or the observability of inputs used is unavailable, the investment is classified as Level 3.

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.

c) Transfers between levels of the fair value hierarchy

For financial instruments that are recognised at fair value on a recurring basis, the Company determines whether transfers have occurred between levels of the fair value hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of the reporting period. The following tables detail the transfers made during the reporting periods.

The following tables present the changes in Level 3 instruments for the years ended 31 December 2018 and 31 December 2017.

2018	Opening balance at 1 January	Purchases during the year	Disposed during the year	Gains/(losses) recognised in the income statement	Transfer into/(out of) Level 3	Closing balance at 31 December
	£m	£m	£m	£m	£m	£m
Financial assets at FVTPL at initial recognition:						
Debt securities	716.7	27.8	(9.7)	(20.2)	-	714.6
Equity securities	0.1	-	-	(0.1)	-	-
Loans and receivables	633.5	235.5	(136.7)	(4.6)	-	727.7
Investment property	691.0	2.2	-	27.6	-	720.8
	2,041.3	265.5	(146.4)	2.7	-	2,163.1
Financial liabilities						
Financial liabilities under investment contracts	24.4	-	-	(1.5)	(22.9)	-
Financial liabilities under investment contracts with DPF	2,423.2	-	-	-	(2,423.2)	-
Deposits received from reinsurers	124.9	-	-	(21.0)	-	103.9
	2,572.5	-	-	(22.5)	(2,446.1)	103.9

20. Financial instruments (continued)

c) Transfers between levels of the fair value hierarchy (continued)

2017	Opening balance at 1 January	Purchases during the year	Disposed during the year	Gains/(losses) recognised in the income statement	Transfer into Level 3	Closing balance at 31 December
	£m	£m	£m	£m	£m	£m
Financial assets at FVTPL at initial recognition:						
Debt securities	418.5	367.8	(42.2)	15.7	(43.1)	716.7
Equity securities	-	-	(0.1)	0.2	-	0.1
Loans and receivables	769.8	168.1	(301.8)	(2.6)	-	633.5
Investment property	751.2	0.7	(85.8)	24.9	-	691.0
	1,939.5	536.6	(429.9)	38.2	(43.1)	2,041.3
Financial liabilities						
Financial liabilities under investment contracts	28.7	-	-	(4.3)	-	24.4
Financial liabilities under investment contracts with DPF	2,381.8	-	-	41.4	-	2,423.2
Deposits received from reinsurers	138.4	-	-	(13.5)	-	124.9
	2,548.9	-	-	23.6	-	2,572.5

The above transfers were due to a change in pricing methodology. There were no transfers made between level 1 and level 2 during 2018 or 2017.

d) Level 3 financial instruments

The principle assets and liabilities classified as Level 3, and the valuation techniques applied to them, are described below.

i) Assets

Debt Securities
Certain private placement corporate debt or government debt which is issued in such small quantities do not have observable market prices and are therefore valued based on models.

Loans
Infrastructure and mortgage loans
The fair value of infrastructure and commercial mortgage loans is estimated using discounted cash flow models which are based on discount curves and spread inputs that require management's judgement.

20. Financial instruments (continued)

d) Level 3 financial instruments (continued)

Investment Property

Land and buildings at open market value: Policyholder investment property
Policyholder investment property is held to earn rentals and / or capital appreciation and are valued annually at open market value as determined by independent professional advisers less a deduction for selling costs. These valuations are prepared in accordance with the appropriate sections of the valuation standards contained within the RICS Valuation – Professional Standards 2012 and IFRS 13. The key assumptions used in the valuations are:

- The titles are good and marketable and free from rights of way or easements, restrictive covenants, disputes or onerous or unusual outgoings;
- The buildings have been constructed in full compliance with valid town planning and building regulations approvals and, if necessary, the benefit of current Fire Certificates;
- The information provided by the Fund and its advisors is correct; and
- The tenants are financial in a position to meet their obligations.

These assets are categorised as level 3 of the fair value hierarchy because the inputs are unobservable.

Land and buildings at reversionary value
Land and buildings at reversionary value represent the interest in the residential property of policyholders who have previously entered into an Equity Release Income Plan ("ERIP") policy. Under these plans, the policyholder was provided with a lifetime annuity in return for the legal title to their property. Valuations are based on unobservable inputs and management's best estimates. Refer to note 18 for further information as to their valuation.

ii) Liabilities

Deposits received from reinsurers
Certain reinsurance agreements require the reinsurer to deposit back to the Company, the value of the reserves and entitles the reinsure to receive interest based on that deposit.

iii) Sensitivities

The tables below shows the sensitivity of the fair value of Level 3 assets and liabilities at 31 December 2018 and 31 December 2017 to changes in unobservable inputs to a reasonable alternative:

	2018 fair value £m	**Most significant unobservable input**	**Reasonable alternative**	**Sensitivities Positive impact £m**	**Sensitivities Negative impact £m**
Financial assets					
Debt securities					
Corporate	712.4	Interest rate	+/- 100bps	49.2	(49.2)
Government	2.2	Interest rate	+/- 100bps	0.05	(0.05)
Loans					
Infrastructure	256.0	Interest rate	+/- 100bps	16.5	(16.5)
Mortgage	471.7	Interest rate	+/- 100bps	14.6	(14.6)
Financial liabilities					
Deposits received from reinsurers	103.9	Discount rate	+/- 1%	8.0	(9.1)
		Mortality assumption	-5%		(1.9)

20. Financial instruments (continued)

d) Level 3 financial instruments (continued)

iii) Sensitivities (continued)

	2017 fair value £m	Most significant unobservable input	Reasonable alternative	Sensitivities Positive impact £m	Sensitivities Negative impact £m
Financial assets					
Debt securities					
Corporate	714.3	Interest rate	+/- 100bps	50.8	-50.8
Government	2.4	Interest rate	+/- 100bps	0.07	-0.07
Loans					
Infrastructure	184.2	Interest rate	+/- 100bps	13.0	(13.0)
Mortgage	449.3	Interest rate	+/- 100bps	15.9	(15.9)
Financial liabilities					
Deposits received from reinsurers	124.9	Discount rate	+/- 1%	10.5	(12.1)
		Mortality assumption	-5%		(2.8)

Note, Investment properties are based on an open market value using net asset statements provided by independent third parties, and therefore no sensitivity analysis has been prepared.

21. Derivative assets and liabilities

a) Held at year end

2018	Contract/ Notional Amount £m	Fair Values Assets £m	Fair Values Liabilities £m
Non-profit/shareholder derivatives			
Interest rate contracts	1,498.5	4.8	(9.3)
Equity/Index derivatives	(191.1)	2.0	(0.1)
Forward foreign currency contracts	322.0	1.6	(0.8)
Other derivatives	1.0	-	-
	1,630.4	8.4	(10.2)
With-profit derivatives			
Interest rate contracts	637.0	3.6	(1.7)
Equity/Index derivatives	5.8	0.7	(0.6)
	642.8	4.3	(2.3)

21. Derivative assets and liabilities (continued)

Unit-linked derivatives			
Interest rate contracts	-	-	-
Equity/Index derivatives	134.4	0.3	(1.9)
	134.4	**0.3**	**(1.9)**
Total derivative assets and liabilities	**2,407.6**	**13.0**	**(14.4)**

2017	Contract/ Notional Amount £m	Fair Values Assets £m	Fair Values 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)
	433.7	**3.9**	**(5.6)**
Unit-linked derivatives			
Interest rate contracts	(61.7)	-	-
Equity/Index derivatives	76.9	2.2	(0.3)
	15.2	**2.2**	**(0.3)**
Total derivative assets and liabilities	**1,788.5**	**18.1**	**(16.5)**

b) The Company does not have any derivatives that are designated as hedging instruments (2017: same).

c) Maturity analysis - gross undiscounted cashflows

2018	Within 1 year £m	1-5 years £m	Over 5 years £m	Total £m
Cash inflows				
Non-profit/shareholder derivatives				
Derivative assets	276.2	49.3	105.1	430.6
Derivative liabilities	63.2	15.5	103.5	182.2
With-profit derivatives				
Derivative assets	4.6	13.8	22.7	41.1
Derivative liabilities	1.0	3.8	11.0	15.8
Unit-linked derivatives				
Derivative assets	0.2	-	-	0.2
Derivative liabilities	-	-	-	-
	345.2	**82.4**	**242.3**	**669.9**

21. Derivative assets and liabilities (continued)

c) Maturity analysis - gross undiscounted cashflows (continued)

Cash outflows				
Non-profit/shareholder derivatives				
Derivative assets	271.7	34.5	71.8	378.0
Derivative liabilities	67.0	30.8	160.3	258.1
With-profit derivatives				
Derivative assets	4.4	13.8	17.3	35.5
Derivative liabilities	1.5	5.9	17.2	24.6
Unit-linked derivatives				
Derivative assets	-	-	-	-
Derivative liabilities	(1.9)	-	-	(1.9)
	342.7	**85.0**	**266.6**	**694.3**
Net non-profit/shareholder derivative cashflows	0.7	(0.5)	(23.6)	(23.3)
Net with-profit derivative cashflows	(0.3)	(2.1)	(0.8)	(3.2)
Net unit-linked derivative cashflows	2.1	-	-	2.1

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	(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

Notes to the financial statements for the year ended 31 December 2018 (continued)

22. 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:

2018	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
Trading losses	-	-	-	-	-
Capital losses	36.7	-	-	(5.6)	31.1
Present value of future profits	(1.7)			0.2	(1.5)
Transitional adjustment arising on movement to new tax regime	18.5	-	-	(3.7)	14.8
Excess expenses	2.4	(0.7)	-	(1.7)	-
Unrealised chargeable gains	(74.2)	-	-	40.4	(33.8)
Deferred acquisition expenses	0.8	0.1	-	(0.2)	0.7
Change of reserving basis	7.1	-	-	(7.1)	-
Deferred tax attributable to business transfer	-	-	-	-	-
Other deferred tax asset	10.7	-	-	(10.7)	-
Total Deferred tax liability	**0.3**	**(0.6)**	-	**11.6**	**11.3**

2017 (Restated*)	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
Trading losses	-	-	-	-	-
Capital losses	38.0	-	-	(1.3)	36.7
Present value of future profits	(1.9)	-	-	0.2	(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	(71.7)	1.1	(7.6)	4.0	(74.2)
Deferred acquisition expenses	0.7	-	0.4	(0.3)	0.8
Change of reserving basis	9.8	-	-	(2.7)	7.1
Deferred tax attributable to business transfer	(23.3)	0.4	22.9	-	-
Other deferred tax asset	10.8	(0.3)	1.1	(0.9)	10.7
Deferred tax attributable to shareholders	**22.6**	**1.6**	-	**(23.9)**	**0.3**

* Refer to note 3 for details of restatement

23. Prepayments and accrued income

	2018 £m	2017 £m
Accrued investment income	307.2	335.3
	307.2	**335.3**

24. Other receivables

	2018 £m	2017 £m
Other debtors	77.3	112.2
Collateral debtor	78.7	94.9
Amounts owed by group undertakings	21.4	44.4
	177.4	**251.5**

These balances are receivable within one year from the SOFP 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 (2017: £nil).

Collateral debtors represent amounts receivable as collateral on certain reinsurance arrangements, with a corresponding liability recorded. The total liabilities recorded under these arrangements are disclosed in note 36.

25. Cash and cash equivalents

	2018 £m	2017 £m
Cash	143.4	173.8
Cash equivalents	1,487.8	2,492.8
	1,631.2	**2,666.6**

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.

26. Share capital

	2018 £m	2017 £m
Issued and fully paid		
289,000,000 ordinary shares of £1 each (2017: 289,000,000)	289.0	289.0

27. 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 best estimate liabilities discounted using the Matching Adjustment rate with an explicit margin for risk based on a 6% cost of capital calculated using the Solvency II Standard Formula. The matching adjustment is determined on the yield on the assets in the matching adjustment fund allowing for deductions for credit risk based on the EIOPA fundamental spread. Annuities outside the matching adjustment are set equal to the Solvency II best estimate cashflows discounted at the EIOPA risk free rate with an explicit margin for risk based on a 6% cost of capital calculated using the Solvency II Standard Formula. For income protection claims in payment, the liability is determined by projecting cashflows (with an allowance for prudence) and discounting them at a rate based on the yield available on the backing assets with a deduction for risk (the discount rate used at 31 December 2018 was 2.52% which included an overall deduction for risk of 0.63%.) For all other non-profit policies the liabilities for insurance contracts are determined projecting cashflows (with an allowance for prudence in the demographic assumptions) and discounting them using a rate based on the 15 year gilt yield. 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 NMWPF and the Windsor Life With-Profits Fund (WLWPF) the technical provisions have been calculated using an approach that takes into account of the 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 best estimate, based on own and industry experience. The liabilities in the NMWPF allow for the full distribution of the assets in the fund. The liabilities in the WLWPF 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 insurance contracts in respect of with-profit and unit-linked policies, the policyholder bears the majority of the risks associated with the underlying investments. Shareholders' future profits are affected by future investment returns. For with-profit business, reduced investment returns lead to lower with profit fund surpluses and thus to reduced future bonuses. For unit linked business, income from annual management charge ("AMC") is reduced if the unit linked fund suffers poor investment returns.

For the with-profits policies in the Guardian Assurance With-Profits Fund (GAWPF) stochastic modelling has not been used reflecting 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.

A prospective basis has been used for all other contracts, namely deferred annuities. Future cash flows have been calculated and then discounted at a risk free rate of zero coupon swap rates plus a spread adjustment. The spread adjustment is an allowance for liquidity (70 bps) less investment expenses (6 bps). The liquidity adjustment is the spread over the risk free rate of zero coupon swaps required to reproduce the market value of these contracts adjusted for liquidity. The amount of liquidity is calculated as the minimum of the total available liquidity or the liquidity as a percentage of total market value of assets backing these contracts. 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.

27. Insurance contract liabilities (continued)

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 spread on the Matching Portfolio of assets, and the credit quality of those assets. The Matching Adjustment rate applied at 31 December 2018 is 1.05%. Annuities not covered by the MA are discounted at the EIOPA risk free rate.

For other non-annuity products in the non-profit fund, the valuation interest rate used to calculate the technical provisions for income protection claims in payment is determined on the assets held with a prudent allowance for expected defaults and investment costs; for all other products the discount rate is based on the rate available for reinvestment.

For annuities in payment, the mortality assumption is generally based on the PMA08 table for males and the PFA08 table for females with CMI High Age Mortality Working Party (HAMWP) adjustments at high ages, adjusted to reflect the historic experience of the business concerned. The mortality rates are projected using future mortality improvements from the CMI_2017 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 1.50% for both males and females. For annuities written on enhanced terms, the base 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 with no further adjustment to mortality improvements.

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

- for contracts linked to external unit trusts, the bid value of the units allocated to policies as at the valuation date;
- for contracts 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 between ReAssure Limited and ReAssure UK Services Limited (RUKSL) covering the administration of the ReAssure business and an MSA between ReAssure and HCL Insurance BPO Services Ltd ("HCL"), whereby HCL performs the policy administration related to the ex-Barclays Life business. 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:

	2018	2017
Discount rates (p.a.)		
Non-profit business		
Annuities-in-payment (NPF) - ex-RAL MA	EIOPA RFR + MA rate of 1.05%	EIOPA RFR + MA rate of 0.79%
Annuities-in-payment (NPF) - ex-Guardian MA	EIOPA RFR + MA rate of 1.05%	EIOPA RFR + MA rate of 0.81%
Annuities-in-payment (NPF) - non-MA	EIOPA RFR	EIOPA RFR
Other NPF products - ex-RAL (IP claims in payment	2.52%	1.72%
Other NPF products - ex-Guardian (IP claims in payment)	2.52%	1.72%
With-profit business (NMWPF/WLWPF)		
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.

27. Insurance contract liabilities (continued)

Main valuation assumptions (continued)

Sensitivities to changes in interest rates, equity prices and property prices are shown in note 29.

	2018	2017
Mortality tables		
Non-profit business ex-RAL		
Annuities-in-payment (ZAL[1])	97% PMA08_HAMWP 100% PFA08_HAMWP	103% PMA08 101% PFA08
Annuities-in-payment (ex-NML[2])	Modified PMA08_HAMWP Modified PFA08_HAMWP	Modified PMA08 Modified PFA08
Annuities-in-payment (ex-NMP[3])	92% PMA08_HAMWP 90% PFA08_HAMWP	102% PMA08 87% PFA08
Annuities-in-payment (WLA[4])	123% PMA08_HAMWP up to age 65, then decreasing linearly to 100% PMA08_HAMWP by age 85 130% PFA08_HAMWP up to age 65, then decreasing linearly to 106% PFA08_HAMWP by age 90	123% PMA08 128% PFA08
RCBPF[5] Mortality swap	112% S2PMA 92% S2PFA	107% S2PMA 90% S2PFA
Akzo Nobel swap	107% S2PMA 101% S2PFA	107% S2PMA 104% S2PFA
LV= swap	102% S2PMA 98% S2PFA	99% S2PMA 96% S2PFA

Non-profit business ex-Guardian

	2018	2017
Guardian Legacy	90% PMA08_HAMWP 104% PFA08_HAMWP	108% PMA08 107% PFA08
Phoenix (BA[6])	123% PMA08_HAMWP up to age 65, then decreasing linearly to 100% PMA08_HAMWP by age 85 130% PFA08_HAMWP up to age 65, then decreasing linearly to 106% PFA08_HAMWP by age 90	130% PMA08 130% PFA08
Phoenix (Century[7])	100% PMA08_HAMWP 101% PFA08_HAMWP	107% PMA08 123% PFA08
Phoenix (SMA[8])	92% PMA08_HAMWP 90% PFA08_HAMWP	92% PMA08 98% PFA08
Phoenix (SPL[9])	92% PMA08_HAMWP 90% PFA08_HAMWP	107% PMA08 93% PFA08

27. Insurance contract liabilities (continued)

Mortality tables (continued)

Non-profit business ex-Guardian

	2018	2017
Phoenix (Pearl[10])	123% PMA08_HAMWP up to age 65, then decreasing linearly to 100% PMA08_HAMWP by age 85 130% PFA08_HAMWP up to age 65, then decreasing linearly to 106% PFA08_HAMWP by age 90	130% PMA08 130% PFA08
Phoenix (NPI[11])	92% PMA08_HAMWP 90% PFA08_HAMWP	102% PMA08 98% PFA08
Phoenix (PWP[12])	100% PMA08_HAMWP 101% PFA08_HAMWP	100% PMA08 98% PFA08
Phoenix (Alba[13])	100% PMA08_HAMWP 101% PFA08_HAMWP	98% PMA08 95% PFA08
Phoenix (SAL[14])	100% PMA08_HAMWP 101% PFA08_HAMWP	101% PMA08 98% PFA08

[1] Zurich Assurance Life (ex-Zurich Assurance Limited), [2] Ex-NM Life, [3] Ex-NM Pension, [4] Windsor Life Assurance (remainder of annuities including the ex-Windsor), [5] Royal County Berkshire Pension Fund, [6] Brittanic Assurance, [7] Century Life, [8] Scottish Mutual Assurance, [9] Scottish Provident Life, [10] Pearl Assurance, [11] National Provident Assurance, [12] Pheonix with Profits, [13] Alba Life Limited, [14] Scottish Assurance Life

Mortality improvements are CMI_2017_M [1.50%; S=7.75] for males and CMI_2017_F [1.50%; S=7.75] for females (2017: CMI_2016_M [1.25%; S=7.75] for males and CMI_2016_F [1.25%; S=7.75] for females.

A sensitivity to changes in mortality rates is shown in note 29.

Options and guarantees

The with-profit policies in the NMWPF and WLWPF benefit from two types of guarantee. Most policies have a guaranteed minimum cash value at their maturity date (the WLWPF 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 NMWPF, annual bonus rates are assumed to be unchanged, while, for the WLWPF, 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 WLWPF and NMWPF, a fixed assumption is used to allow for the take-up rate of the guarantees. For GAWPF, with-profits deferred annuities have a guaranteed minimum cash value at their maturity date.

Notes to the financial statements for the year ended 31 December 2018 (continued)

27. Insurance contract liabilities (continued)

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 2018 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 changes in economic assumptions).

Analysis of change in insurance contract liabilities

2018	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	1,438.4	-	(127.5)	(12.9)	**1,298.0**
Non-profit insurance contracts	17,721.8	15.5	(1,214.3)	(389.7)	**16,133.3**
Unit-linked insurance contracts	3,022.9		(521.7)	1.0	**2,502.2**
	22,183.1	**15.5**	**(1,863.5)**	**(401.6)**	**19,933.5**
Reinsurers' share of with-profit provisions	(0.9)	-	(2.1)	-	**(3.0)**
Reinsurers' share of non-profit provisions	(1,430.8)	-	212.7	(13.8)	**(1,231.9)**
	20,751.4	**15.5**	**(1,652.9)**	**(415.4)**	**18,698.6**

2017 (Restated*)	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	1,486.1	-	(38.1)	(9.6)	**1,438.4**
Non-profit insurance contracts	19,608.0	12.3	(1,387.9)	(510.6)	**17,721.8**
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 with-profit provisions	(1.8)	-	0.9	-	**(0.9)**
Reinsurers' share of non-profit provisions	(1,808.1)	-	183.3	194.0	**(1,430.8)**
	22,450.9	**12.3**	**(1,385.6)**	**(326.2)**	**20,751.4**

* Refer to note 3 for details of restatement

A summary of the impact of changes in assumptions on non-profit and unit-linked insurance contracts for 2018 is shown in the table below. The main impacts from changes in assumptions for 2018 arise from an increase in annuity liabilities as a consequence of updating longevity assumptions and a decrease as a consequence of increased yields and credit spreads affecting the MA funds.

27. Insurance contract liabilities (continued)

Analysis of the change in insurance contracts liabilities (continued)

2018	Impact on liabilities before reinsurance £m	Impact of reinsurance £m	Impact on liabilities after reinsurance £m
Demographic changes	69.3	(41.3)	28.0
Economic changes	(458.0)	27.5	(430.5)
Other	-	-	-
	(388.7)	**(13.8)**	**(402.5)**

2017 (Restated*)	Impact on liabilities before reinsurance £m	Impact of reinsurance £m	Impact on liabilities after reinsurance £m
Model changes	(154.9)	-	(154.9)
Demographic changes	(495.5)	135.5	(360.0)
Economic changes	143.3	58.5	201.8
Other	(3.5)	-	(3.5)
	(510.6)	**194.0**	**(316.6)**

* Refer to note 3 for details of restatement

28. 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.

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

2018	NMWPF £m	WLWPF £m	GAWPF £m	NPF £m	**Total £m**
With-profits	1,384.8	469.6	1,608.9	-	**3,463.4**
Unit-linked	-	-	73.3	18,336.2	**18,409.5**
Other life assurance	51.0	11.8	39.6	14,821.8	**14,924.2**
Total	**1,435.8**	**481.4**	**1,721.8**	**33,158.0**	**36,797.0**

28. Management of insurance risk (continued)

2017 (Restated*)	NMWPF £m	WLWPF £m	GAWPF £m	NPF £m	**Total £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	16,199.4	**16,315.5**
Total	**1,592.5**	**507.4**	**1,980.2**	**37,075.4**	**41,155.5**

* Refer to note 3 for details of restatement

Risk management policy

The Company has a documented set of Risk Management Standards and Risk Appetite Framework. The Risk Management Standards and Risk Appetite Framework cover the risk appetite statement for the Company, as approved by the ReAssure board. The Standards set out the processes for identifying, monitoring, measuring and controlling risk and are split in to 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.

The overall aim of the Company's Risk Management Standards and Risk Appetite Framework 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. From 31st December 2018, the Company has received approval to use a Partial Internal Model to determine its Solvency II capital requirements however, the three with-profits funds continue to be modelled on the Standard Formula. Risk management Standards are aligned to the Solvency II framework.

The Company, where possible, avoids a heavy concentration in any one risk type and aim to have a diversified portfolio of underwriting risks. The most material insurance risks for the Company identified under 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 SOFP; so changes to future patterns in policy lapses do not have a significant impact on the SOFP. For the largest underwriting risk, longevity, there is a concentration of risk at older ages as longevity risk primarily arises on annuities bought by retirees. Changes to the timing of in future mortality trends have a material impact on the SOFP. A sensitivity to annuitant mortality risk is shown in note 29. The Company does not have any significant concentration of policyholders by geographic area.

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, equity risk and credit spread), credit default and migration risk and insurance risk. The management of the market and credit risks is discussed in note 29.

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.

28. Management of insurance risk (continued)

Financial guarantees (continued)

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 £117.3m (2017: £141.1m). 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.

The cost of the annuity guarantee in the WLWPF is £26.0m (2017: £30.7m). 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. 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: £4.5m (2017: £4.6m), WLWPF: £17.8m (2017: £17.3m) 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 70bps 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.

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.

29. Management of financial risk

The Company is exposed to a number of financial risks through its issue of insurance and investment contracts. These are categorised as 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, it takes account of the increase in risk represented by any deterioration in credit ratings of those counterparties. Credit risk arises directly from investment activities, as well as from counterparty risk related to external credit risk and to intra-group counterparties. The Company is therefore exposed to and models two classes of credit risk: credit default risk and credit migration risk. The Company is also exposed to widening of credit spreads, however, this is considered a market risk and so this element of credit risk is incorporated into the Financial Market risk category, and managed at an aggregate level. The Company outsources credit risk management activities to Swiss Re Group Credit Risk Management and the Actuarial function monitors and reports on credit ratings; however, the main responsibilities for ReAssure credit risk rests with Risk Management.

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, cash deposits or money market funds.

29. Management of financial risk (continued)

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.

2018	AAA £m	AA £m	A £m	BBB £m	Sub investment grade & not rated £m	**Total £m**
Government and government related debt	404.4	5,633.7	12.5	0.7	1.1	**6,052.4**
Corporate and asset backed securities debt	527.9	1,242.4	4,441.8	6,103.2	420.5	**12,735.8**
Accrued interest	20.2	59.3	63.1	121.5	9.5	**273.6**
Derivative assets	-	-	-	-	13.0	**13.0**
Cash and cash equivalents	459.9	554.4	536.8	73.7	6.4	**1,631.2**
Total	**1,412.4**	**7,489.8**	**5,054.2**	**6,299.1**	**450.5**	**20,706.0**

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	566.3	814.0	-	(0.7)	**2,666.6**
Total	**2,295.4**	**7,973.7**	**6,113.7**	**6,955.7**	**502.8**	**23,841.3**

There were no losses incurred as a result of defaults during the year (2017: no losses) and at 31 December 18 there were no assets in default (2017: no defaults).

29. Management of financial risk (continued)

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.

c) Collateral

Investments pledged as collateral for derivative liabilities totalled £98.8m (2017: £62.9m). Cash pledged as collateral for derivative liabilities totalled £0.8m (2017: £6.0m).

Investments received as collateral for derivative assets totalled £3.8m (2017: £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 £0.0m (2017: £9.2m).

Investments received as collateral for reassured annuity business within the Non-Profit fund of The Company totalled £778.4m (2017: £844.5m). 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 2018, £46.5m of financial assets (principally corporate bonds) were posted as collateral (2017: £47.3m). These assets continue to be recognised on the Company SOFP. 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 SOFP		
2018	Gross amounts recognised	Enforceable master netting arrangements	Collateral	**Net exposure**
	£m	£m	£m	**£m**
Derivative financial instruments	12.8	(10.2)	(2.5)	**0.1**
Reinsurance assets	757.2	-	(778.4)	**(21.2)**
Total	**770.0**	**(10.2)**	**(780.9)**	**(21.1)**
Derivative financial instruments	(12.5)	10.2	2.3	-
Total	**757.5**	-	**(778.6)**	**(21.1)**

2017	Gross amounts recognised	Enforceable master netting arrangements	Collateral	**Net exposure**
	£m	£m	£m	**£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	**854.8**	-	**(844.6)**	**10.2**

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

29. Management of financial risk (continued)

d) 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.

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

2018	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	16,682.0	-	-	-	**16,682.0**	16,682.0
Debt securities and other fixed-income securities	-	1,722.9	5,945.6	18,675.3	**26,343.8**	18,788.3
Secured and unsecured loans	4.5	54.6	498.8	359.0	**916.9**	732.2

29. Management of financial risk (continued)

d) Liquidity risk (continued)

Cash at bank and in hand	143.4	1,487.8	-	-	**1,631.2**	1,631.2
					-	-
Other financial assets		-	-	78.7	**78.7**	78.7
Total	**16,829.9**	**3,265.3**	**6,444.4**	**19,113.0**	**45,652.6**	**37,912.4**

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**

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.

Notes to the financial statements for the year ended 31 December 2018 (continued)

29. Management of financial risk (continued)

d) Liquidity risk (continued)

Financial liabilities

2018	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	-	1,862.0	2,788.0	11,257.2	**15,907.2**	15,907.2
Financial liabilities under non-profit investment contracts	-	22.9	-	-	**22.9**	22.9
Financial liabilities under investment with DPF contracts	-	147.5	540.9	1,480.0	**2,168.4**	2,168.4
Claims outstanding	237.3	-	-	-	**237.3**	237.3
Deposits received from reinsurers	-	9.1	32.7	78.7	**120.5**	103.9
Other financial liabilities	-	-		79.5	**79.5**	79.5
Total	**237.3**	**2,041.5**	**3,361.6**	**12,895.4**	**18,535.8**	**18,519.2**

29. Management of financial risk (continued)

d) Liquidity risk (continued)

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**

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:

	2018 £m	2017 £m
Due in 1 year or less	2,032.4	2,032.7
Due after 1 year but less than 5 years	3,328.9	3,588.1
Due after 5 years but less than 10 years	4,894.4	5,303.3
Due after 10 years	6,881.2	8,212.5
Due after 20 years	961.6	1,267.6
	18,098.5	**20,404.2**

29. Management of financial risk (continued)

d) Liquidity risk (continued)

The above total of £18,098.5m (2017: £20,404.2m) does not include claims outstanding of £237.3m (2017: £219.7m), deposits received from reinsurers of £ 103.9m (2017: £124.9m) and other financial liabilities of £79.5m (2017: £108.5m).

e) 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.

Market risk - Equity securities

Exposure to global equity markets 2018	Non-profit/ shareholder £m	With-profit £m	Unit-linked £m	Total £m
United Kingdom	-	322.0	6,347.1	6,669.1
USA	-	49.0	2,771.0	2,820.0
Europe	-	40.0	1,622.0	1,662.0
Japan	-	-	637.0	637.0
Asia Pacific	-	-	462.0	462.0
Other	-	-	-	-
Listed Equities	-	**411.0**	**11,839.1**	**12,250.1**
Collective investment schemes	-	999.9	3,432.0	4,431.9
Total	-	**1,410.9**	**15,271.1**	**16,682.0**

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**
Collective investment schemes	-	1,149.9	5,375.7	6,525.6
Total	-	**1,626.8**	**17,883.6**	**19,510.4**

Notes to the financial statements for the year ended 31 December 2018 (continued)

29. Management of financial risk (continued)

e) Market risk (continued)

Market risk - Debt securities

2018	Non-profit/ shareholder £m	With-profit £m	Unit-linked £m	Total £m
United Kingdom	10,028.9	1,461.4	1,454.7	12,945.0
USA	1,872.9	217.6	22.4	2,112.9
Netherlands	417.4	66.7	15.7	499.8
France	946.1	101.4	24.8	1,072.3
Germany	555.1	48.9	10.4	614.4
Ireland	64.6	7.6	3.5	75.7
Italy	158.7	1.7	2.8	163.2
Spain	49.6	-	2.1	51.7
Rest of Europe	735.0	165.2	33.3	933.5
Rest of world	512.4	68.2	11.5	592.1
Total	**15,340.7**	**2,138.7**	**1,581.2**	**19,060.6**
Debt securities	15,113.3	2,107.8	1,567.2	18,788.3
Accrued interest	227.4	30.9	14.0	272.3
Total	**15,340.7**	**2,138.7**	**1,581.2**	**19,060.6**

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
Ireland	67.4	11.4	2.9	81.7
Italy	225.9	3.3	2.7	231.9
Spain	64.4	-	0.8	65.2
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**

29. Management of financial risk (continued)

f) Interest rate risk

Interest rate risk is defined as the impact of movement in the risk free yield curve on ReAssure's assets, liabilities and capital requirements. 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.

g) 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. The with-profits funds expose the firm to changes in the value of equity investments.

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. The Company 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 NMWPF and WLWPF 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.

h) Credit spread risk

The Company defines credit spread risk as the risk of losses on assets and liabilities due to changes in the value of credit spreads. Changes in credit spreads also have an impact on the value of the matching adjustment and thus the level of technical provisions. The Company is exposed to the widening of credit spreads in their fixed interest security holdings.

Credit spread is the Company's largest single market risk. The Company's credit spread exposure almost all arises from the non-linked funds with the unit linked funds not being material contributors to the overall exposure. The Company's exposure is monitored by the Investment Committee. The Company's Risk Management department also monitor and report the company's exposure to the ReAssure Board and Risk Committee through monthly and quarterly risk and solvency reporting. The regular reporting ensures that the Company is operating in line with its Risk Appetite Framework - which is set to control the credit spread exposure of the Company.

The Company mitigates a lot of credit spread exposure by matching their long term liabilities with fixed interest assets. This mitigates some of the Company's credit spread exposure in the Matching Adjustment fund as the aim of the fund is to hold all assets to maturity - hence mitigating the effect varying credit spreads have on the value of ReAssure's assets and liabilities.

i) 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 materially exposed to foreign exchange risk on unit-linked products as this risk primarily resides with policyholders (though the Company retains some residual exposure via AMC income on unit-linked funds).

29. Management of financial risk (continued)

j) 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 2018 ReAssure matched closely the duration of the non-linked assets to the duration of the non-linked liabilities in the Non-Profit Fund. The duration of the assets and liabilities is 9.5 years.

k) 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% (2017: 1.00%) in fixed-interest yields; (ii) a uniform fall of 1.00% (2017: 1.00%) in fixed-interest yields; (iii) a uniform rise of 1.00% (2017: 1.00%) in credit spreads; and (iv) a reduction of 5% (2017: 5%) in the base mortality rate used to value annuities-in-payment.

2018	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
Change in shareholder equity	-	(2.1)	(20.8)	(115.0)	(208.8)

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
Change in shareholder equity	-	43.8	(98.6)	(155.3)	(221.6)

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: (v) a uniform rise of 20% (2017: 20%) in worldwide equity prices; (vi) a uniform fall of 20% (2017: 20%) in worldwide equity prices; (vii) a rise in inflation of 0.50% (2017: 0.50%); (viii) a reduction of 20% (2017: 20%) in property prices; and (ix) a 20% fall in sterling relative to other foreign currencies (2017: 20%).

2018	Equity rise +20% (v) £m	Equity fall -20% (vi) £m	Inflation +0.5% (vii) £m	Property -20% (viii) £m	GBP -20% (ix) £m
Change in shareholder equity	(18.3)	18.3	(13.2)	(0.8)	(11.3)

29. Management of financial risk (continued)

k) Sensitivity analysis (continued)

2017	Equity rise +20% (v) £m	Equity fall -20% (vi) £m	Inflation +0.5% (vii) £m	Property -20% (viii) £m	GBP -20% (ix) £m
Change in shareholder equity	(0.6)	0.6	(17.0)	-	2.3

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 2018. 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.

30. 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.

	2018 £m	2017 (Restated*) £m
Total shareholders funds under IFRS	2,347.1	3,170.3
Replace IFRS reserves with SII Technical Provisions	2,687.2	2,869.7
Unallocated divisible surplus	146.6	172.7
Intangible asset with nil value under SII	(663.6)	(100.2)
Changes in deferred tax under SII	(248.6)	(239.2)
Legal and General Risk Transfer Agreement ("RTA") liability payment	(0.9)	(650.0)
Other	0.1	-
Solvency II excess assets	4,267.9	5,223.0
Restriction to Own Funds	(366.6)	(443.0)
Foreseeable Dividends	-	-
Own Funds under Solvency II	**3,901.3**	**4,780.0**

* Refer to note 3 for details of restatement

30. Capital management (continued)

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 a Solvency II (SII) Partial Internal Model 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 Swiss Re Group entities. The Capital Management Policy is reviewed following significant changes to the risk profile of the business.

31. Investment contract liabilities

	2018 £m	2017 £m
Investment contract liabilities - unit-linked	15,907.2	17,956.6
Investment contract liabilities - non-profit	22.9	24.4
Investment contracts with discretionary participating features	2,168.4	2,423.2
	18,098.5	**20,404.2**

Investment contracts are held within the With-Profit and Unit-Linked Funds, and some contracts may contain discretionary participating features as described in Note 1v, Investment contracts.

Unit-linked investment contract liabilities are carried in the SOFP 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 27, insurance contract liabilities.

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 2018 or 2017 on derecognising these instruments.

Movements in investment contract liabilities (excluding contracts with DPF)	2018 £m	2017 £m
At 1 January	17,981.0	17,402.5
Linked cash flows arising (premiums, claims, fees)	(1,237.0)	(1,258.0)
Linked investment return	(812.4)	1,840.7
Change in non-profit non linked investment contract liabilities	(1.5)	(4.2)
At 31 December	**15,930.1**	**17,981.0**

Movements in investment contract with DPF liabilities	2018 £m	2017 £m
At 1 January	2,423.2	2,381.7
Impact of experience effects	(265.2)	38.3
Impact of assumption changes	10.4	3.2
At 31 December	**2,168.4**	**2,423.2**

32. 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.

33. Borrowings

	2018 £m	2017 £m
Loan with ERIP LP (i)	235.4	234.0
Loan from ReAssure LL Limited (ii)	4.5	4.5
Loan from ReAssure PM Limited (ii)	4.4	4.4
	244.3	**242.9**

The following amounts are due for repayment as follows:

	2018 £m	2017 £m
Repayable on demand (i,ii,iii)	244.3	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 LP during the year.

(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.

(iii) During the year, additional lending of £1.4m has been given to ERIP which has increased the balance on the repayable on demand facility.

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

34. Provisions

2018

	Property provision	Other provisions £m	Total £m
At 1 January 2018	1.5	0.1	1.6
Additional provisions	-	10.3	10.3
Utilisation of provision	-	(0.1)	(0.1)
At 31 December 2018	**1.5**	**10.3**	**11.8**

34. Provisions (continued)

2017

	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**

As a result of an internal thematic review, an additional provision of £10.3m has been recognised as at 31 December 2018 within other provisions (2017: £nil) in respect of charges for the attached benefits of paid-up policies. This is the Company's best estimate of its obligations arising from the review given past experience from similar remediation exercises.

35. Other income

	2018 £m	2017 £m
Other	0.1	-
Net income from general insurance business	2.1	0.1
	2.2	**0.1**

36. Other liabilities

	2018 £m	2017 £m
Social security and other taxes	2.4	1.7
Other creditors	203.5	135.1
Collateral payable	79.5	108.5
Amounts owed to group undertakings	6.9	10.9
	292.3	**256.2**

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

Collateral payables represent amounts due for items that have been pledged as collateral. Amounts includes cash received and amounts receivable as disclosed in other receivables note 24.

37. 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.

38. Cash flows used in operating activities

	2018 £m	2017 (Restated*) £m
Profit for the year before tax	316.4	1,312.5
Non-cash income statement changes in operating assets & liabilities:		
Fair value loss/(gains) on:		
Investment property	(27.6)	(52.8)
Financial assets	2,565.4	(1,731.1)
Investment in group entities	12.7	181.6
Derivatives	(30.9)	48.8
Amortisation of intangible assets	3.1	3.2
Amortisation of DAC	83.8	-
Purchase of DAC	(650.0)	-
Change in unallocated divisible surplus	(26.0)	8.8
Interest expense on borrowing	7.7	6.8
Dividends and interest received on financial assets from investing activities	-	(1,414.1)
Decrease in reinsurance assets	129.7	381.2
Decrease in insurance contracts & investment contract liabilities	(4,531.7)	(1,440.8)
Increase in deposits received from reinsurers	(8.4)	(23.0)
Net increase/(decrease) in working capital	148.1	(11.3)
Increase in tax liability	(11.1)	(7.5)
Net cash used in operating activities	**(2,018.8)**	**(2,737.7)**

* Refer to note 3 for details of restatement

39. Related parties

a) Immediate and ultimate parent undertaking

The Company is incorporated and domiciled in England and Wales. The immediate parent company is ReAssure MidCo 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

	2018 £m	2017 £m
Other subsidiary undertakings of Swiss Re Limited	117.3	88.2

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

	2018 £m	2017 £m
Parent company	2.5	2.3
Subsidiaries	(0.1)	(0.1)
Other subsidiary undertakings of Swiss Re Limited	12.2	6.7
	14.6	**8.9**

39. Related parties (continued)

d) Loans with related parties

	2018 £m	2017 £m
Loans from subsidiary undertakings		
Loan with ERIP LP		
At 1 January	234.0	266.5
Interest charged	1.4	0.9
Repayment	-	(33.4)
At 31 December	**235.4**	**234.0**
Loan with ReAssure LL Limited		
At 1 January	4.5	4.5
At 31 December	**4.5**	**4.5**
Loan with ReAssure PM Limited		
At 1 January	4.4	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	24.5	25.9
Interest charged	0.2	0.1
Repayment	(7.3)	(1.5)
At 31 December	**17.4**	**24.5**

e) Intra-group retrocession arrangements

	2018 £m	2017 £m
All with other subsidiary undertakings of Swiss Re Limited		
Premiums ceded to reinsurers	342.8	356.1
Claims recovered from reinsurers	(319.2)	(333.5)
Commissions	(0.7)	(0.7)
	22.9	**21.9**
At 31 December		
Reinsurers' share of investment contract liabilities	-	-
Reinsurance payables	(14.4)	(12.6)
	(14.4)	**(12.6)**

f) Capital contributions

	2018 £m	2017 £m
Parent	-	650.0

g) Key management remuneration

Remunerations of key management personnel of the Company are included under note 11.

40. Deferred Acquisition costs

	2018	2017
	£m	£m
At 1 January	-	-
Additions	650.0	-
Amortisation	(83.8)	-
At 31 December	**566.2**	-

On 1st January 2018 ReAssure completed a Risk Transfer Agreement (RTA) for a block of unit linked and with-profit business from L&G which resulted in the creation of a Deferred Acquisition Costs (DAC) intangible asset. DAC assets are amortised over the lifetime of the expected profits of the business however, it is anticipated that the policies currently under the RTA will be subject to a Part VII arrangement in 2019, which will result in the write off of this intangible and its replacement with a new intangible asset relating to PVIF. Annually, the DAC asset is reviewed for impairment, there has been no impairment charge in 2018 (2017: no balance).

41. Post Statement of Financial Position events

As stated in the Strategic Report, in August 2018, Swiss Re Limited, the ultimate holding company for ReAssure Limited, announced that it was exploring the possibility of listing the ReAssure Group on the stock exchange by way of an Initial Public Offering (IPO). Currently there is no certainty as to if or when an IPO might take place however an IPO would not be expected to lead to any material changes in either the operation or the strategic direction of the Company. The Directors are not aware of any other significant post SOFP events that require disclosure in the statements.