ReAssure

ANNUAL REPORT & ACCOUNTS

YEAR ENDED 31 DECEMBER 2019

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STRATEGIC REPORT

The Directors present their Annual Report and the audited consolidated and Company financial statements for ReAssure Group plc, registered number 11597179 (“ReAssure” or the “Group”). The financial statements are presented for the year ended 31 December 2019. Comparative information has been presented for the year ended 31 December 2018.

ReAssure recorded a strong performance in 2019 delivered against a backdrop of significant change, whilst maintaining great customer outcomes. Strategic growth was achieved through the acquisition of Quilter plc’s UK Heritage Life & Pensions business and work continued to integrate the Legal & General Group Plc mature savings business. Significant effort went into our unsuccessful IPO and in December agreement was reached to sell the Group to our competitor, Phoenix Group Holdings plc.

None of this would have been possible without our committed employees who have worked tirelessly to achieve so much in such a short period of time, whilst keeping our customers at the heart of the business. We thank all the ReAssure team for their continued energy and support.

BUSINESS REVIEW

Surplus generation increased by £476 million to £290 million (2018: negative £186 million). 2019 benefited from the expected release of cash from the in-force book and delivery of management actions. The expected benefits from completing the Legal & General migration have been deferred to 2020 and ReAssure chose to self-fund the acquisition of Quilter plc’s UK Heritage Life & Pensions business. Adjusting for these two items, surplus generation would have exceeded our £450-550 million Listing Particulars guidance range.

The Solvency II Surplus on a shareholder basis increased by £0.4 billion to £1.6 billion at end 2019 (2018: £1.2 billion) and the Solvency II Ratio on a shareholder basis was 155% at end 2019 compared to 145% at end 2018 driven by the strong surplus generation.

Clear progress was made in 2019 in delivering our management actions to de-risk the Solvency II balance sheet and enhance value. We reduced our shareholder exposure to BBB bonds by 6 percentage points to 26% (2018: 32%) and increased private debt assets by £0.4 billion to £1.6 billion (2018: £1.2 billion). Private debt assets now account for 9% of the shareholder asset portfolio at end 2019 compared to 7% at end 2018. We also increased our exposure to non-GBP denominated assets and expanded our equity and interest rate hedging programmes. This has resulted in a balance sheet which is relatively insensitive to market volatility and the market dislocation at the beginning of 2020 had minimal impact on our capital position.

In line with the UK insurance industry, ReAssure uses an internal metric, operating profit, to evaluate the performance of the Group on a segmental basis. Operating profit is a non-GAAP measure of performance, intended to provide stakeholders with an appropriate assessment of core long-term performance, unaffected by short-term economic volatility and one-off impacts that act to distort the underlying performance of the Group. Operating profit for the year ended 31 December 2019 increased significantly by £148 million to £406 million (2018: £258 million) due to a decrease in annuity liabilities as a result of updated longevity assumptions coupled with management actions taken to improve the strategic asset allocation resulting in an increase in yields.

IFRS profit before tax is a GAAP measure of performance. For the year ended 31 December 2019, the Group increased IFRS profit before tax by £217 million to £331 million (2018: £114 million). This was primarily due to the increase in operating profit coupled with favourable economic experience during 2019.

In March 2019, the Continuous Mortality Investigation ("CMI") Bureau released an updated model for future longevity improvements ("CMI 2018"). This new model implied a reduction in life expectancies relative to the previous version ("CMI 2017") which was used by ReAssure for 2018 year-end reporting. In assessing the appropriateness of adopting CMI 2018, we also considered more recent developments in England and Wales population experience. This indicated that mortality improved significantly in the latter part of 2018 through into 2019. Consequently, the reduction in life expectancy indicated by CMI 2018 may be, at least partially, reversed in the next model update. Accordingly, we have retained CMI 2017 for 2019 year-end reporting.

Customers are integral to the success of ReAssure. Continued investment in training and system enhancements to improve customer journeys resulted in our customer satisfaction score improving by 5 percentage points to 91% in 2019 (2018: 86%) underlining our strong client focus and against a backdrop of significant corporate change and strategic growth.

Customer satisfaction is central to the retention of ReAssure's 3.2 million policies (2018: 3.3 million) and £52 billion of Assets under Administration (2018: £40 billion). Following the planned completion of the Legal & General mature savings integration expected in 2020, we look forward to serving a total of 4.1 million customers and administering their £81 billion of assets.

ACQUISITION OF LEGAL & GENERAL GROUP PLC MATURE SAVINGS BUSINESS

On 6 December 2017, ReAssure agreed to acquire the mature savings business of Legal & General Group Plc. This comprised 1.1 million policies and £33 billion of Assets under Administration for a consideration of £650 million. The acquisition was structured initially as a Risk Transfer Agreement ("RTA") whereby all the risks and rewards associated with the business transfers to ReAssure. This RTA was fully operational throughout 2018 and 2019 and the business is expected to fully transfer to ReAssure by way of a Part VII in 2020. This is expected to crystallise a capital synergy benefit of c. 8 percentage points on the solvency II ratio. All policies will simultaneously migrate to our proprietary operating platform (ALPHA).

The delay in the Part VII transfer ensures a smooth customer transition and takes a more cautious approach to the approval process.

ACQUISITION OF QUILTER PLC'S UK HERITAGE LIFE & PENSIONS BUSINESS

On 5 August 2019, ReAssure agreed with Quilter plc to acquire their UK Heritage Life & Pensions closed book of unit linked pensions, investment and savings and protection policies for a total cash consideration of £425 million. The underlying entities acquired were Old Mutual Wealth Life Assurance Limited and its subsidiary Old Mutual Wealth Pensions Trustees Limited (collectively referred to as "Old Mutual Wealth") and is consolidated using the acquisition method as detailed in note 1.5 of the notes to the financial statements. The transaction completed on 31 December 2019. We expect to achieve synergies of £200 million from the transaction largely as a result of cost and capital efficiencies and expect to generate surplus generation of more than £500 million (including the synergies). The transaction was funded from existing ReAssure cash resources and generates attractive returns with an expected IRR of over 11%, and an expected payback period of 4 years.

The transaction will result in c. 200,000 UK policies transferring onto our proprietary platform, ALPHA, and add £10 billion to our Assets under Administration. Approximately 300 employees of Old Mutual Wealth Life Assurance Limited and Old Mutual Wealth Pensions Trustees Limited have transferred to ReAssure. Included in the transaction are c.10,000 policies in Sweden, Norway and Germany which will be administered through our Irish operations, paving the way for future integration of European businesses.

OTHER CORPORATE ACTIVITY

On 9 May 2019, Fitch assigned ReAssure Limited a ‘A+’ (Strong) Insurer Financial Strength rating with a stable outlook. This rating was affirmed on 8 August 2019 following the announcement to acquire the UK Heritage Life & Pensions business from Quilter plc and the outlook was strengthened to ‘Positive’ on 9 December 2019 following the agreement between Swiss Re and Phoenix Group Holdings Plc to sell the business.

On 13 June 2019, ReAssure Group plc issued £500m Tier 2 ten-year subordinated notes, £250m Fixed Rate Reset Callable Tier 2 ten-year subordinated notes (first optional call date in year five) and £250m Tier 3 seven-year subordinated notes.

On 19 June 2019, ReAssure completed a reorganisation of the business such that the Group now operates its day to day business separately from the Swiss Re Group as a standalone business with its own board of directors and management.

In July 2019, Swiss Re, the Group’s ultimate holding company, announced the suspension of a proposed Initial Public Offering (IPO) of ReAssure due to the heightened caution and weaker underlying demand in the UK primary market from large institutional investors.

On 6 December 2019, Swiss Re announced that it had reached agreement with Phoenix Group Holdings Plc (“Phoenix”) to sell ReAssure Group plc for £3.25 billion. The transaction was approved by the shareholders of Phoenix on 13 February 2020. The transaction is subject to regulatory and anti-trust authority approval and is expected to complete in mid-2020.

The acquisition by Phoenix is a validation of our strategy, provides clarity on our future and highlights that ReAssure is a major player in the UK closed book life insurance market. It is proposed that Phoenix will retain the ALPHA platform and ReAssure brand as they set out the strategy for the future of the combined businesses. The new group will serve 14.1 million policies and have £329 billion of Assets under Administration. Combining ReAssure and Phoenix, and the expertise of both companies, will create a business that is committed to great customer service, adds value to shareholders and is well positioned for future growth.

STRATEGY AND OUTLOOK

ReAssure operates in the UK Life Insurance market which the Association of British Insurers has identified as the largest such market in Europe. ReAssure acquires individual closed books 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 Group under Part VII of the Financial Services and Markets Act 2000. We administer the policies until they reach maturity, are surrendered, or an insured event occurs. The principal products administered are long term life and pensions, permanent health and critical illness insurance and retirement annuities. ReAssure is part of the Swiss Re Group, a worldwide reinsurance and financial services provider.

As part of the service to our existing customers, we continue to write limited amounts of new business, principally responding to requests for simple drawdown products or pension annuities on retirement of existing policyholders or top-ups to existing contracts.

ReAssure aims to optimise the allocation of capital across our business whilst maintaining control over costs. We retain business and manage policyholder expectations by building flexible systems architecture to deliver excellent policy administration, using experienced investment managers to deliver consistently competitive returns, and using a comprehensive risk mitigation framework to managing risks.

Our areas of strategic focus for 2020 are to:

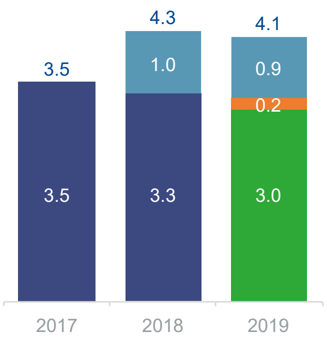
- Enhance our customer service offering;
- Migrate the c.1 million policies from Legal & General Group Plc's mature savings business onto our proprietary ALPHA platform and integrate employees;
- Integrate Quilter plc's UK Heritage Life & Pensions policies and employees;
- Progress with our planned management actions to increase surplus generation; and
- Continue to focus on improving operating efficiencies and cost management across the business.

We are focusing on delivering our business plan and strategic priorities, to best position a combined ReAssure and Phoenix business to add value to shareholders and customers alike. The sale to Phoenix is expected to complete in mid-2020 and parts of the strategy may change following completion.

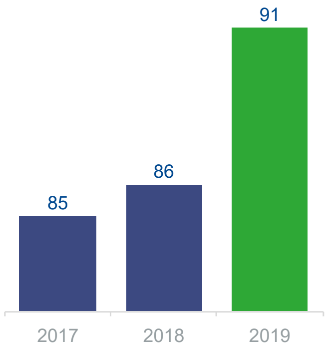
KEY PERFORMANCE INDICATORS

The Board and management have adopted key performance indicators to provide a high-level indication of the Group's aggregate performance. These key performance indicators include the impact of the acquisition of Quilter plc's UK Heritage Life & Pensions book. Policy count and Assets under Administration includes the impact of the acquisition of Legal & General Group Plc's mature savings book on a proforma basis.

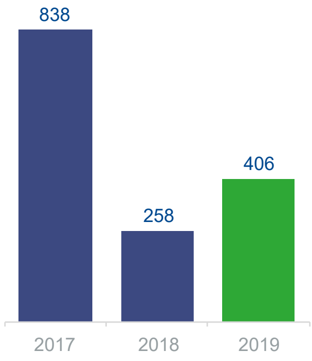
Policy Count (million)



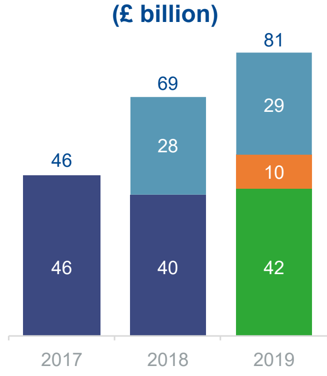
Customer Satisfaction (%)



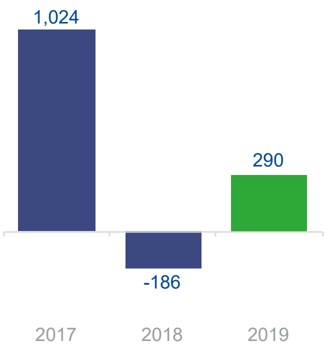
Operating Profit (£ million)



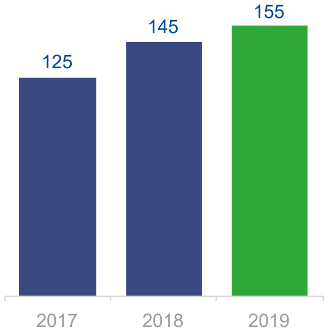
Assets Under Administration (£ billion)



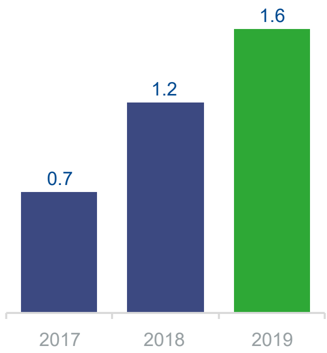
Surplus Generation (£ million)



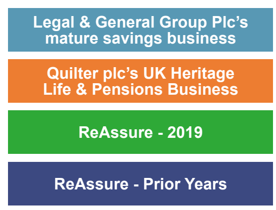
Solvency II Ratio[1,2] (%)



Solvency II Surplus[1] (£ billion)



Key



[1] On a shareholder capital basis

[2] 2018 includes the impact of the recapitalisation

POLICY COUNT

ReAssure acts as an insurer and a third-party administrator of insurance contracts. A key performance indicator that we monitor is policy count which is the number of policies held and administered.

On a proforma basis, including the Legal & General Group Plc's mature savings book, policy count decreased by 0.2 million to 4.1 million policies (2018: 4.3 million). Excluding Legal & General's mature savings business, the number of policies held and administered decreased by 0.1 million to 3.2 million policies (2018: 3.3 million).

The existing business in-force at the beginning of 2019 decreased by 0.3 million (7%) reflecting the closed book, run-off nature of the business and attrition primarily from deaths, maturities and surrenders. This decrease was partially offset by the acquisition of Quilter plc's UK Heritage Life & Pensions book which resulted in 0.2 million policies being added in 2019.

CUSTOMER SATISFACTION

The customer satisfaction ("CSAT") score is generated by an external partner sending surveys to customers who have recently interacted with us. The score is calculated on a policy count weighted basis across ReAssure, as the percentage of those customers that rate their experience satisfaction level as 'Very Satisfied' or 'Satisfied'. CSAT ratings are used to guide the business and help achieve our ongoing aspiration to Treat our Customers Fairly and to deliver in line with their expectations.

Customer satisfaction is integral to the success of our business and ReAssure has continued to invest in staff training to enhance conversation and call handling skills for the benefit of our existing customers.

Customer journeys have continued to improve via continued investment in systems and simplification of processes including the roll out of our *ReAssure Now* customer portal. The result is that our customer satisfaction score improved by 5 percentage points to 91% in 2019 (2018: 86%) underlying our strong client focus and reflecting our strategy of keeping the customer at the heart of everything we do.

ReAssure also 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 similar complaints do not arise again.

OPERATING PROFIT

ReAssure uses an internal metric, operating profit, to evaluate the performance of the Group. Operating profit is a non-GAAP measure of performance, intended to provide an appropriate assessment of core long-term performance, unaffected by short-term economic volatility and one-off impacts that can distort the underlying performance of the Group.

Operating profit increased by 57% to £406 million in the year ended 31 December 2019 from £258 million in 2018. The increase was mainly driven by the performance of our core in-force book, changes to longevity assumptions reducing annuity liabilities and management actions taken in the year to optimise asset allocations to derive better investment returns. This was partially offset by management actions to increase the credit quality of the bond portfolio by reducing our exposure to BBB bonds by 6 ppts to 26% (2018:32%).

A full reconciliation from IFRS profit before tax to operating profit can be found in note 4 of the financial statements on page 80.

Operating profit is a key component of IFRS profit before tax. IFRS profit before tax increased by £217 million to £331 million (2018: £114 million) due to the increase in operating profit coupled with favourable economic experience in 2019.

ASSETS UNDER ADMINISTRATION (AuA)

ReAssure's AuA represents assets administered by or on behalf of the Group, covering both policyholder fund and shareholder assets, as presented in the Group IFRS Consolidated Statement of Financial Position. This measure provides a helpful indicator of the scale of the business.

As at 31 December 2019, ReAssure had total AuA of £81 billion on a proforma basis including £29 billion of Legal &

General assets (2018: £69 billion including £28 billion of Legal & General assets). This increase of £12 billion includes £10 billion of assets transferred as part of Quilter plc's UK Heritage Life & Pensions acquisition and favourable market movements partially offset by deaths, maturities and surrenders.

Proforma AuA (including the Legal & General Group Plc's mature savings business) at 31 December 2019 was split into £17 billion of shareholder assets and £64 billion of policyholder assets of which £50 billion are unit-linked assets and £14 billion are assets backing the with-profits business.

SURPLUS GENERATION

Surplus generation represents the movement in the Group's operating companies' surplus in excess of the required capital and buffer held. This metric is a measure of the value generated by ReAssure's underlying in-force book, which can fund dividend distributions, repay debt or fund capital investments.

Surplus generation increased by £476 million to £290 million (2018: negative £186 million). 2019 benefited from the expected release of cash from the in-force book and delivery of management actions. The expected benefits from completing the Legal & General migration have been deferred to 2020 and ReAssure chose to self-fund the acquisition of Quilter plc's UK Heritage Life & Pensions business. Adjusting for these two items, surplus generation would have exceeded our £450-550 million Listing Particulars guidance range.

Surplus generation of £1,024 million in 2017 included a one-off benefit from the Risk Transfer Agreement entered into for the Legal & General mature savings acquisition and favourable changes in longevity assumptions.

SOLVENCY II

The Solvency II coverage ratio (on a shareholder capital basis) is calculated as Own Funds divided by its Solvency Capital Requirement ("SCR") excluding the contribution to the Solvency II Own Funds and capital requirements of the fully ring fenced With-Profit Funds. It presents a market consistent metric for capital solvency, demonstrating the Group's ability to maintain a capital position in excess of that required under the Solvency II regime.

The Group's Solvency II Surplus, on a shareholder capital basis, is calculated as Own Funds minus its SCR. This metric provides ReAssure with sufficient buffer to absorb any financial shocks over and above the solvency required buffer. It is a measure of the surplus held by the Group, which can fund dividend distributions, capital investments or repay debt.

The Solvency II ratio as at 31 December 2019 increased to 155% from 145% as at 31 December 2018. The 2019 ratio is calculated after taking account of the impact of self-funding the Quilter acquisition of 2 ppt. The impact of the Legal & General transaction is anticipated to have a c.8 ppt positive impact on the Solvency II ratio when it completes in 2020.

The Solvency II ratio of 155% at 31 December 2019 is comfortably within the Group's current Board threshold range of 140%-180%.

Own Funds, on a shareholder basis, as at 31 December 2019 increased to £4.65 billion from £3.94 billion at 31 December 2018, while the SCR grew to £3.00 billion from £2.72 billion at 31 December 2019 and 31 December 2018 respectively.

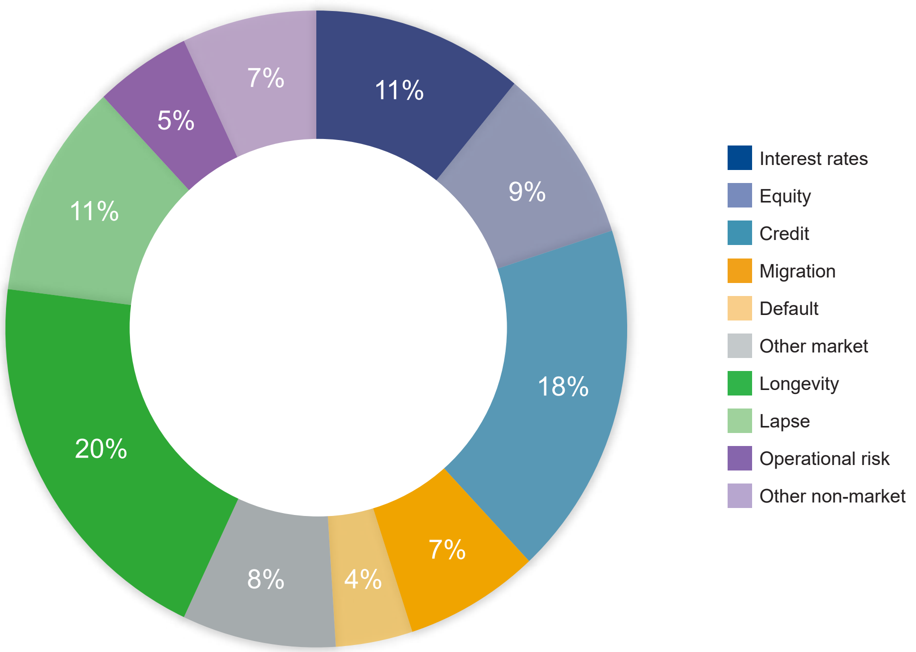
£ billion	2019	2018
Own funds	4.65	3.94
Solvency Capital Requirement	3.00	2.72
Surplus	1.65	1.22
Solvency II ratio	155%	145%

Own Funds increased by £0.71 million to £4.65 billion (2018: £3.94 billion) reflecting favourable economic experience coupled with the acquisition of Quilter plc's UK Heritage Life & Pensions business.

The SCR on a shareholder basis increased by £0.28 billion to £3.00 billion (2018: £2.72 billion) primarily due to lower interest rates, narrowing credit spreads and higher equity values coupled with the acquisition of Quilter plc's UK Heritage Life & Pensions business. This increase has been partially offset by the run-off of the business and the implementation of equity hedges.

Solvency II metrics are calculated using the Partial Internal Model, which was approved by the PRA in 2018. The SCR is appropriately diversified by risk category.

Solvency Capital Requirement



FINANCIAL HIGHLIGHTS

DEBT

On 9 May 2019, Fitch assigned ReAssure Limited a ‘A+’ (Strong) Insurer Financial Strength rating with a stable outlook. Fitch simultaneously assigned ReAssure Group plc, the parent, an ‘A’ Long-Term Issuer Default Rating (IDR) with a stable outlook. Both ratings were affirmed on 8 August 2019 following the announcement to acquire the UK Heritage Life & Pensions business from Quilter plc and the outlook was strengthened to ‘Positive’ on 9 December 2019 following the announcement that Swiss Re had reached an agreement to sell the Group to Phoenix Group Holdings Plc.

On 6 June 2019, the Group agreed terms on a multicurrency revolving credit facility (“RCF”) of £350 million for general corporate and working capital purposes. The RCF facility came into effect on 20 August 2019 but has not been utilised to date.

On 13 June 2019 ReAssure Group plc issued £500m Tier 2 ten-year subordinated notes, £250m Fixed Rate Reset Callable Tier 2 ten-year subordinated notes (first optional call date in year five) and £250m Tier 3 seven-year subordinated notes to ReAssure’s intermediate parent company Swiss Re Finance (Jersey) Limited (formerly Swiss Re ReAssure Ltd). During Q3 2019 the Group successfully completed the listing, private remarketing and external placement of all three tranches of subordinated debt.

A summary of the terms for the subordinated debt are detailed below:

	Value	Coupon	Maturity	Rating
Tier 2 (10NC5)	£250m	5.766%	2029	BBB
Tier 2 (Bullet)	£500m	5.867%	2029	BBB
Tier 3 (Bullet)	£250m	4.016%	2026	BBB

The total amortised cost of the debt at 31 December 2019 (as disclosed on the Group balance sheet) was £975 million, while the fair value of the debt at 31 December 2019 was £986 million. The fair value of the subordinated debt is estimated using a discounted cash flow model while estimated future cash flows are based on management’s best estimates and the discount rate used is a market-related rate for a similar instrument.

FINANCE COSTS

Finance costs during 2019 amounted to £42 million compared to £7 million in the comparative period. The increase of £35 million is driven by the £1 billion subordinated debt that was issued by ReAssure Group plc on 13 June 2019. We expect the finance cost per annum to be approximately £60 million.

LEVERAGE

The Group monitors its Financial Leverage using the Fitch Ratings definition of the Leverage Ratio, which is calculated as total debt divided by the sum of total debt and equity. Debt used in the calculation represents the IFRS carrying value of borrowings while equity is defined as shareholder equity and restricted Tier 1 debt.

Our Fitch leverage ratio at 31 December 2019 was 22%.

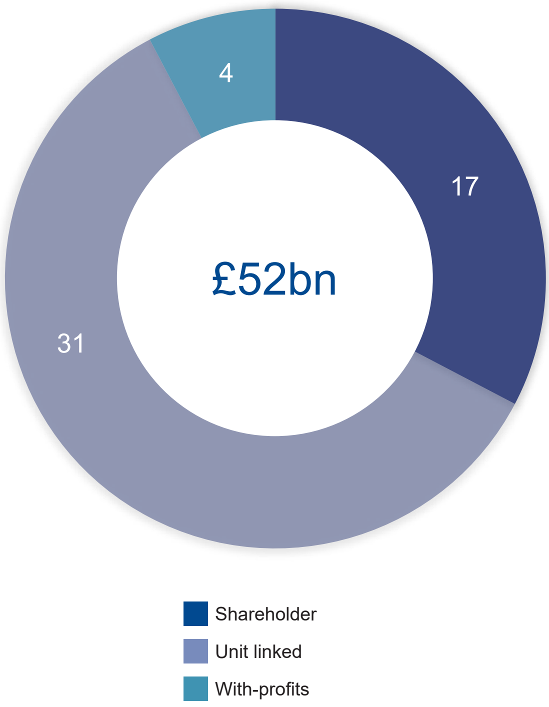
The Group's liquidity coverage ratio (calculated as sources of liquidity under stress over a defined forward looking time horizon divided by uses of liquidity under stress over a defined forward looking time horizon) remained in excess of the 100% risk appetite throughout 2019.

ASSET PORTFOLIO

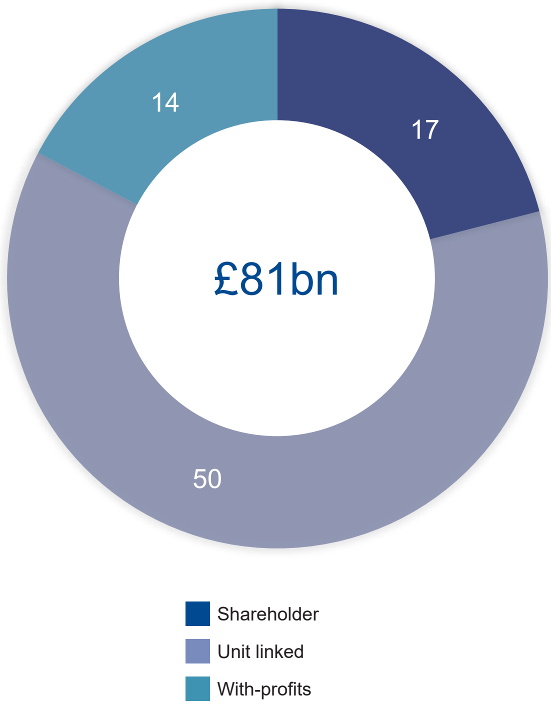
ReAssure's asset portfolio of £52 billion comprises £17 billion of shareholder assets and £35 billion of policyholder assets (£31 billion unit linked and £4 billion with-profits). On a proforma basis (including the Legal & General mature savings acquisition) total assets were £81 billion comprising £17 billion of shareholder assets and £64 billion of policyholder assets.

The breakdown of the asset portfolio is as follows:

Asset Portfolio
£ billion



Proforma basis Asset Portfolio
£ billion



SHAREHOLDER ASSET PORTFOLIO

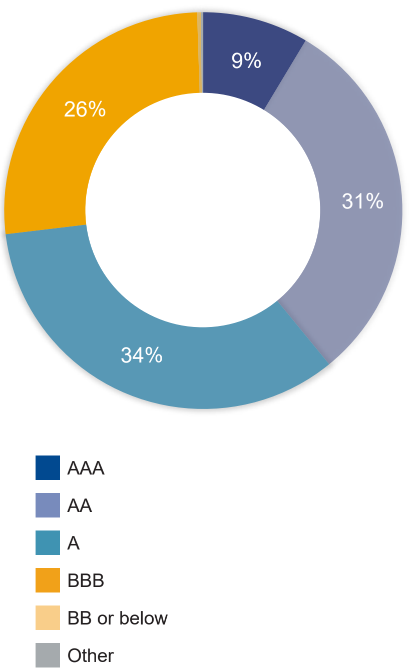
The credit quality of the shareholder asset portfolio remains high with 100% of rated bonds being investment grade. The portfolio is also well diversified by geography and sector. Exposure to bonds rated BBB has decreased to 26% of the portfolio (2018: 32%), due to a move into higher rated corporate bonds and private debt investments. Of the total portfolio only 4% is rated BBB- or below. At end 2019, 4% of the portfolio is non-GBP denominated compared to less than 1% in 2018 following management actions to diversify the portfolio.

During the year, private debt investments increased by £0.4 billion to £1.6 billion (2018: £1.2 billion) primarily through new loan origination. The portfolio comprises infrastructure loans of (53%), commercial mortgage loans (34%) and local authority loans (13%). Loan origination in 2019 has focused on core UK infrastructure (airports, trains, sea ports & utilities), social housing projects and commercial real estate. Environmental, social and governance (ESG) and long-term sustainable investing remain central themes in the continued ramp-up of the private debt portfolios.

ESG considerations are also incorporated into ReAssure's investment process and the Group utilises its asset scale in voting and engagement with companies on ESG matters via its external asset managers, see "Corporate and Social Responsibility" below for more information.

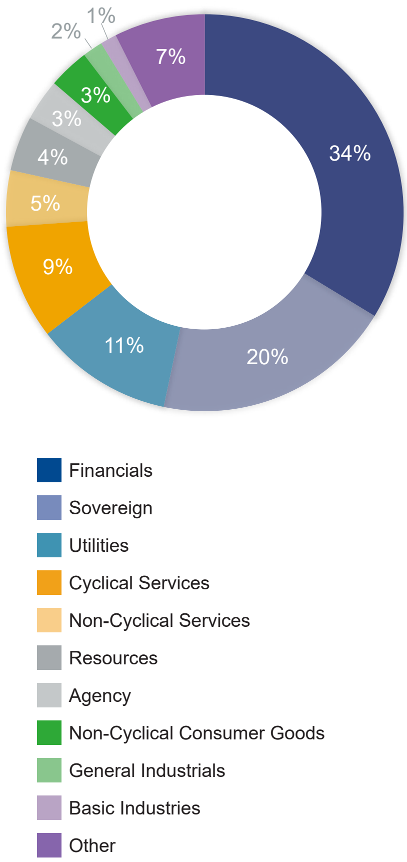
An analysis of the £17 billion shareholder exposure to the bond portfolio is below:

Credit Rating[1]

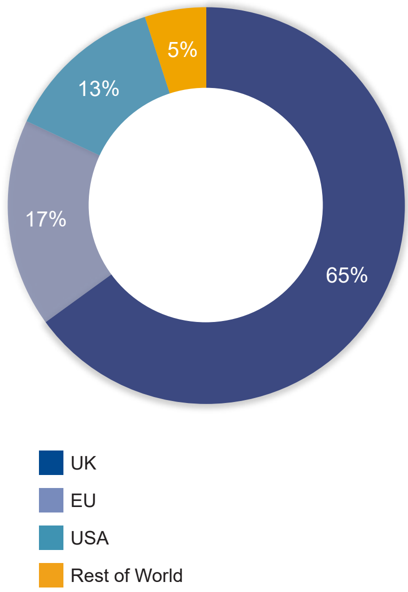


[1] Based on public and internal ratings

Sector



Geography - Country of risk



BALANCE SHEET

The Group's investments are tailored to match the nature and term of its liabilities and capital (where the average duration of our best estimate liabilities is approximately ten years). ReAssure conducts frequent asset liability matching exercises to manage the potential mismatches in cash flow timing, duration and other financial characteristics between assets and liabilities due to market movements and sensitivities. We also employ a range of hedging strategies to manage such market risk exposures. See the "Risk Management" section on page 16. The use of derivative instruments in furtherance of our hedging strategies is conducted by external parties upon instruction by ReAssure's asset management team. Our investment guidelines and strategic asset allocation are reviewed and confirmed at least annually by the Investment Committees.

NON-FINANCIAL INFORMATION

ReAssure considers non-financial information in addition to the financial information described above. Further information in respect of social and environmental matters can be found below, information in respect of customers on page 23 and in respect of employees on page 24. More information can be also be found in the section 172 statement on pages 21-26.

CORPORATE AND SOCIAL RESPONSIBILITY

ReAssure recognises that we have a responsibility to ensure that our business is conducted in a socially responsible manner, resulting in a high standard of social and environmental behaviour.

SOCIAL

We have a long-standing commitment to corporate responsibility and comply with the United Nations Guiding Principles on Business and Human Rights. ReAssure is committed to the creation of a diverse and inclusive workplace and has pledged support to the 'Women in Finance' charter policy to embrace diverse views and perspectives on a Board and board committee level. Although the Group is still working to redress the gender pay gap, the percentage of female senior management was 33% in 2019 (2018: 30%) compared to a goal of 36% by 2020 and 41% by 2025. In addition, ReAssure supports flexible working arrangements and our gender pay gap at 28% in 2019 is below the financial services sector average. We emphasise a culture of being involved in charity and giving back and a focus on health and wellbeing. We have partnered with Age UK since 2017 and our employees are given the opportunity to take up to 15 volunteer hours a year to volunteer at Age UK or another charity of their choice during working hours.

ReAssure is focused on strong corporate citizenship. We have an open and collaborative relationship with the tax authorities, are a responsible tax payer and our tax activities are regularly reviewed and updated by ReAssure's Group's Chief Financial Officer.

ENVIRONMENT

ReAssure is committed to achieving good environmental practice and we strive to reduce our environmental footprint. Key initiatives include reducing energy, print and paper consumption across the Group's offices and reducing our carbon footprint, including the use of technology, such as virtual meetings, to reduce travel. ReAssure's employees can also engage with environmental issues through volunteering activities.

RISK MANAGEMENT

The ReAssure Group Risk Management function is an integral, yet independent part of the Group's business management functions. Risk management is a fundamental part of the daily operations and ongoing performance management of the Group and is embedded in the principles conveyed to its employees through training and incentive structures. ReAssure's risk management principles benefit from its Swiss Re Group heritage and underpin the Group's risk culture.

The Group faces several key risks and has a robust Risk Management Framework ("RMF") that is able to identify, report and actively manage enterprise-wide risks exposed in the business. The RMF aims to align with the Solvency II EU directive and system of governance guidelines set out by the UK insurance supervisors and applies to both the Group and its standalone operating entities.

The major elements of the RMF are:

- Risk strategy, for existing businesses and strategic transactions;
- Risk culture;
- Risk governance;
- Risk appetite framework; and
- Risk measurement & reporting.

RISK STRATEGY

ReAssure has a defined risk strategy that it has adopted to ensure it meets the needs of stakeholders whilst ensuring risk taking is controlled, transparent and understood. Our risk strategy supports the wider business strategy and regulatory requirements at all times.

RISK CULTURE

Our risk culture is based on transparency and its ability to respond to change, which are integral to the risk and control processes, facilitating risk management knowledge sharing at all levels. The central goal of risk transparency is to create a culture of mutual trust, and to reduce the likelihood of surprises regarding the source and potential magnitude of losses. ReAssure's Control Related Behaviour process further provides guidance on expected behaviours throughout the organisation.

RISK GOVERNANCE

The ReAssure Group Risk Policy articulates our approach to managing the principal risks associated with pursuing its strategic objectives and is owned by the ReAssure Group Board.

The ReAssure Group and operating companies Boards ("the Boards") exercise management authority and control over the Group and its Legal Entities following the three lines of defence framework. This includes responsibilities specifically relating to risk management, internal control and capital management.

The ReAssure Board has overall responsibility for the risk and control environment in the Group, including setting the risk appetite, risk strategy, and risk management and internal control systems. The Boards are supported by the Group's Risk Committee as well as the risk management (and compliance) function headed by the ReAssure Group Chief Risk Officer ("CRO"). The CRO is supported by risk professional experts in Operational risk, Financial and Insurance risk, Information Security risk, Investment Oversight and risk assessment of Mergers & Acquisitions, who oversee all the Group's risk-taking.

RISK APPETITE FRAMEWORK

The Risk Appetite Framework ("RAF") establishes our preference and practices in terms of controlled risk taking. At its highest level this is expressed as a series of risk appetite statements, which in accordance with the Group's risk strategy, expresses the types of risk that ReAssure wishes to pursue, or avoid. ReAssure's risk limits outline the maximum extent to which the Boards have authorised senior management to assume risk, given its financial resources.

A three tiered approach is adopted for the RAF where risk appetite statements and metrics are set. At the highest level (Tier 1), the risk management statements express the overall Group and Operating entities' target level of resilience against key risks faced by ReAssure.

In 2019, the Tier 1 risk appetite statements for the Group are as follows:

Risk Outcome	Risk Appetite Statements
Solvency	ReAssure has no appetite for the Group Solvency II Solvency Coverage Ratio (excluding With Profits Funds) to fall below 100%.
Liquidity	ReAssure has no appetite for failure to maintain sufficient sources of liquidity to meet expected short and long term funding liquidity requirements as they fall due.
Credit Rating	ReAssure aims to maintain its ability to fund future acquisitions and so has a low appetite for a credit rating below an investment grade rating from Fitch or External Credit Assessment Institution.
Conduct	ReAssure has no appetite for actions that lead to negative customer outcomes. ReAssure has no appetite for any events that lead to non-compliance with regulatory legislation and relevant laws.
Operational (including Cyber)	ReAssure accepts operational risks inherent in its activities, provided they remain within the defined risk tolerance limit in the operational risk matrix.
Reputational	ReAssure has a low appetite for any events that lead to an adverse impact on its reputation with investors, retail customers, employees, regulators and other stakeholders.
Key Project Risks	ReAssure has a low appetite for key projects to fail to meet their objectives.

Risk appetite metrics and limits are reviewed and updated when new acquisitions are undertaken or there is a material change in the business risk profile. Aspects of these risk limits are monitored by the Risk Management function and are intended to help the Group control its risk exposure and manage its residual risks.

RISK MEASUREMENT & REPORTING

The Group uses a Partial Internal Model ("PIM"), which was approved by the PRA in December 2018, to calculate the SCR. The PIM is used in a wide range of analyses and business decision making such as in capital management, acquisitions, Own Risk and Solvency Assessment ("ORSA"), illiquid asset exposure and the determination of risk appetite limits. Strategic risk considerations are managed through mitigation actions and additional provision add-ons, these risks are not included in the scope of ReAssure's Group PIM.

The principal goal of risk reporting is to create internal risk transparency in order to make informed risk decisions and meet external disclosure requirements. The Group performs monthly risk and solvency reporting, quarterly ORSA reporting, assurance and deep dives for material risks and transactions as well as the annual ORSA and regulatory reporting assessment of the Group's capital and enterprise-wide risk exposures. These reports provide line of sight for the governing bodies.

CHANGES TO THE GROUP'S RISK PROFILE AND EMERGING RISKS

In 2019, ReAssure successfully completed the Quilter plc UK Heritage Life & Pensions business transaction and expects a full integration of it and Legal & General Group Plc's mature savings acquisition in 2021 and 2020 respectively. These deals significantly increase the number of customers and Assets under Administration, which in turn changes the risk profile and our risk diversification over the next few years.

ReAssure has also identified several emerging risks, defined as potential trends or sudden events that are characterised by a high degree of uncertainty in terms of occurrence probability that has possible effects to the business. The following were some of the key risk themes emerging over 2019:

- Brexit
  ReAssure's primary business activity is in the UK, with a comparatively small exposure to business sold in the EU27 via ownership of Ark Life and business lines from Quilter Plc's UK Heritage Life & Pensions book. ReAssure has a small number of ex-pat policyholders based outside the UK within the EU. As such, ReAssure has a low exposure to risks arising from Brexit. We maintain a well hedged balance sheet to mitigate against market volatility.

- Climate change and Environmental, Social and Governance (ESG)
  Climate change impact and sustainable driven investing are areas of increased regulatory and reputational focus. ReAssure currently operates under an Environmental, Social and Governance (ESG) investment policy and is further developing its broader ESG strategy. ReAssure has historically benefited from being part of the Swiss Re Group, which is an industry leader in responsible investing and pursuing a climate focused agenda. Because of this, ReAssure has a strong investment portfolio with respect to ESG and fared well in the Bank of England's Climate Change stress tests conducted over 2019.

- Cyber Risk and Operational resilience
  Operational resilience remains high on ReAssure's agenda in how we conduct our business during the year. An Operational Resilience Steering Group and Project have been initiated to develop and deploy the Operational Resilience Framework including the identification of important business services and their owners including tolerances limits in line with the regulatory / consultation guidelines. Cyber risk continues to be an ever increasing threat, and the Group's Cyber Risk strategy ensures continuing improvements in developing and testing our defences.

OVER 2020

We anticipate the key risk themes of 2019 described above will continue to be a focus in 2020, but in addition would highlight:

- Coronavirus (COVID-19)
  The financial and operational impacts of the Coronavirus outbreak are emerging at pace. ReAssure has strong business continuity plans to accommodate operational impacts. In line with other organisations, these are being invoked to meet the requirements of government guidance. We took action in 2019 to reduce our exposure to financial market movements, and have continued this programme during 2020. We are closely monitoring key exposures as markets continue to move, and have further actions available should this be required.

PRINCIPAL RISKS AND UNCERTAINTIES

An overview of the Group's principal risks, including an outline of how each were mitigated is provided in the table below.

Risk	Trend and outlook	Mitigation
Strategic risk	The integration of existing acquisitions namely Legal & General Group Plc's mature savings business and Quilter plc's UK Heritage Life & Pensions business are underway. There were some integration delays with the Legal & General Group Plc's mature savings acquisition during the year whilst Quilter plc's UK Heritage Life & Pensions completion process has gone as planned. We expect the Part VII and migration of these acquisitions will be as planned in 2020 – 2021.	As part of the acquisition transaction and execution, key subject matter experts identify the risks the business could be exposed to during the due diligence, transaction and integration phases of an acquisition transaction. Second line control functions providing risk oversight and assurance are in place to oversee acquisition risks (including pricing) and operational integration readiness for all acquisitions. This is to ensure any threats to business model sustainability, customer harm and reputation is mitigated and/or managed.
Market risk	2019 economic risks were dominated by the result of the UK's decision to leave the EU and further Brexit related disruption is possible as the 30 June 2020 deadline to request an extension of the transition period beyond 2020 and the 31 December 2020 deadline draws nearer. Further market disruption from potential spreading of coronavirus, evolving attitudes to climate change risk and political and monetary policy will remain a focus through 2020.	All financial risks are monitored as part of the Group's investment committee and risk committee meetings. ReAssure aims to hedge out market risks where the exposure is beyond appetite. Over 2019, we increased hedging of our equity risk exposure and matched the interest rate duration of our liabilities to minimise sensitivity to interest rate movements. The Group also extended its use of the Solvency II Matching Adjustment to mitigate excess credit spread movements on its balance sheet during the year.
Insurance risk	ReAssure is predominately exposed to longevity risk through its large portfolio of deferred and in-payment lifetime annuity policies. The Group has a stable book of business and the outlook for longevity risk is stable. The Legal & General Group Plc's mature savings and Quilter plc's UK Heritage Life & Pensions acquisitions are expected to increase ReAssure's exposure to lapse risk.	Longevity risk is managed using a variety of techniques including monitoring the Group's exposure against pre-defined appetite, trend analysis, appropriate modelling and reinsurance. Lapse risk is primarily controlled via a key business focus on positive customer outcomes and customer satisfaction.

Risk	Trend and outlook	Mitigation
Credit risk	Outlook of credit risk exposure for the Group is stable.	ReAssure aims to invest in highly rated and stable counterparties. Risk limits are put in place to mitigate credit default and concentration risk exposures. We aim to invest in high quality, investment grade credit and have strong ESG investment controls in place, in particular for our shareholders' assets. The groups Strategic Asset Allocation for 2020 looks to improve the overall diversification of the portfolio, therein further reducing risk concentration.
Liquidity risk	All liquidity pools (not including investment assets) remained within appetite over 2019. Anticipated additional usage of cleared derivative strategies will increase the contingent liquidity risk of the Group.	ReAssure has a comprehensive liquidity management framework that ensures sufficient liquidity is held to meet short term and long term projected net cashflows, both on best estimate and stressed conditions. Contingent liquidity solutions are being evaluated to support clear derivative strategies.
Operational risk	We expect to complete the Part VII legal transfer of the block of mature savings business from Legal & General Group Plc in 2020. We continue to invest in operational improvements and cyber security to protect ReAssure and its customers. We have robust business continuity plans in place to accommodate any operational impact should the Coronavirus cause disruption to our sites.	The Board as the ultimate risk owner defines the risk appetite for all risk categories. ReAssure expects management to implement risk mitigation actions to be implemented for all risks approaching or exceeding risk tolerance limits. The operational Risk and Control Self-Assessment (RCSA) framework is well embedded by the 1st line with line of sight and appropriate escalation through executive management committees to the Board to provide oversight and control.
Conduct risk	There continues to be regulatory focus on conduct to protect policyholders and industry stability. ReAssure is embracing the challenges of change from strategic and operational perspectives on an ongoing basis.	ReAssure's Conduct Strategy is central to our business model and culture and is delivered through four foundations: 1. Governance to deliver Treating Customers Fairly outcomes; 2. Compensation and Incentivisation to encourage behaviours that create a strong customer centric culture; 3. Strategy and proposition to support fair customer outcomes; and 4. Internal controls and control function oversight to support fair customer outcomes and business resilience.

STATEMENT IN RESPECT OF SECTION 172 COMPANIES ACT 2006

INTRODUCTION

The Directors of the Group, as those of all UK companies, must act in accordance with a set of general duties, which are set out in the UK Companies Act 2006 (the Act).

Section 172(1) of that Act is summarised as follows:

A director of a company must act in a way he/she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

(a) the likely consequences of any decision in the long term;
(b) the interests of the company's employees;
(c) the need to foster the company's business relationships with suppliers, customers and others;
(d) the impact of the company's operations on the community and the environment;
(e) the desirability of the company maintaining a reputation for high standards of business conduct; and
(f) the need to act fairly as between members of the company.

THE REASSURE GROUP

ReAssure focuses exclusively on the acquisition and management of UK life insurance closed books with a mission to secure and improve customer outcomes. We do not write new business, other than offering increments on current policies to existing customers on a passive basis. We have a proven record of growth and value creation, which has been delivered under an experienced senior management team and we continue to operate in attractive markets which provide substantial opportunities for growth. For many years, ReAssure has progressively built greater scale, reach and specialism in its operations, markets and brands. We constantly seek to achieve synergies from acquisitions of closed books primarily through cost efficiencies, capital synergies and asset reallocation and we are focused on achieving strong customer outcomes on our acquired policies, including via the use of our unique in-house operating platform, which houses the majority of our policies.

Every insurance company that is regulated under Solvency II must have an effective system of governance in place to provide for the sound and prudent management of the business. This must include an adequate transparent organisational structure with a clear allocation and appropriate segregation of responsibilities.

THE REASSURE BOARD

The Board's primary goal is to encourage and promote ReAssure's long-term success, the creation of value for shareholders and the wider benefits for other stakeholders, including colleagues and customers. More broadly, the Board also continued to scrutinise and monitor progress on other significant operational matters, from cyber security and risk appetite to culture, engagement and talent development across ReAssure. In the same way as the operating structure and management team have evolved with the Group through this period, the Board's composition has also been continually reviewed and updated to make sure it has the necessary expertise, capacity and experience to perform its duties and govern effectively. As ReAssure prepared for IPO in 2019 a new board of directors was formed comprising a mix of Non-executive Directors (both shareholder-nominated and independent) and Executive Directors compliant with the UK Corporate Governance Code 2018 (the Code).

OVERVIEW OF HOW THE BOARD DISCHARGED ITS DUTIES UNDER SECTION 172

In October 2019, the Board undertook an in-depth review of ReAssure's strategy, including the business plan for the following three years. Once approved by the Board, the plan and strategy formed the basis for financial budgets, resource plans and investment decisions, and also the future strategic direction of the Group. In making decisions concerning the business plan and future strategy, the Board has regard to a variety of matters including the interests of various stakeholders, the consequences of its decisions in the long term and its long-term reputation. The Chief Executive Officer ("CEO") is responsible for delivering the plans and strategy agreed by the Board, with authority delegated to executive directors but subject to all decisions being made based on ReAssure's articulated values and standards through its Code of Business Conduct and its underlying governance policies, underpinned by the culture set by the Board. In 2019, the Board's review of strategy included presentations from the CEO and Chief Financial Officer ("CFO") as well as members of ReAssure's Group Executive Committee. In 2019 the Board adopted a Board Operating Manual incorporating governance principles that are aligned with the requirements of the Code. Revised terms of reference were also adopted by the Board's principal committees in recognition of the changes to the Code.

The following examples provide further insight on how the Board has discharged its duties in this financial year. Through the papers and presentations received and discussed at Board and Committee meetings, in the practices it has employed through the year and in its interactions with employees across the Group and other external stakeholders, the Board believes that it has been able to effectively promote the success of ReAssure for the benefit of its members as a whole, discharging its duties set out in section 172(1) of the Act.

DECISION-MAKING OVER THE LONGER TERM

- The Board continuously keeps the strategy under review at each Board meeting and sets aside one full day meeting each year dedicated to a thorough strategic review. The Board also sets an annual budget and a rolling three-year business plan and provides oversight of sound financial and internal controls across ReAssure. The Board, supported by the work of its Audit, Remuneration and Risk Committees has developed and embedded a robust risk culture under which risks are identified, mitigated and monitored against a pre-determined risk appetite in respect of each principal risk category.

- The Board and members of the senior leadership team in ReAssure regularly interact. Members of ReAssure's Group Executive Committee attend Board meetings as well as other senior management and subject matter experts, to present and answer questions on specific business matters at Board, Committee and the annual Strategy meetings. Regular Board papers from the CEO, CFO, Chief Risk Officer ("CRO") and Chief Investment Officer ("CIO") also provide insight and reflections on day-to-day activities across the Group and include internal communications circulated to the wider business. The Chairman works particularly closely with the CEO, having weekly discussions and planning agendas collaboratively. Visits to other ReAssure offices provide further opportunities to meet different communities of employees. The Board's aim is to encourage, support and challenge ReAssure's management teams by adopting an open, collaborative and engaged approach. There is a clear governance structure for decision-making. The Chairman ensures sufficient time is allowed for a thorough discussion of key matters at formal Board meetings and during informal exchanges, and to ensure each Director can contribute effectively. Board decisions are made collectively, with input from each Director, and it is intended that the Board's culture reflects that of the ReAssure Group as a whole: engaged, dynamic and collaborative.

During 2019, the Board was established to comply with the responsibilities set out in the Code but following the IPO suspension and the appointment of Swiss Re nominated directors it was not able to fully comply with the independence criteria. Each Director is aware of their duties and discharges them with due care and attention.

- In promoting the long-term success of ReAssure and a commitment to maintaining the highest standards of integrity and corporate governance practices, the Board places emphasis on ensuring appropriate conduct policies are in place across the organisation and that these are applied. During 2019, the Board reviewed each of the key Group policies and processes, including the terms of reference of its standing Committees. As part of this exercise, the Board approved a suite of Group-wide conduct policies including the Code of Conduct, Modern Slavery, Whistleblowing and Corporate Social Responsibility, incorporating business ethics and transparency.

- All Directors receive a formal induction to ReAssure on first joining the Board. The programme is designed to provide new Directors with a good understanding of our business structure, operating companies and markets. They visit various ReAssure offices to meet colleagues and management team members. They are given demonstrations of the systems we use and given opportunities to listen to live customer calls. Together with meetings with the Executive Directors and members of ReAssure's Group Executive Committee, the programme equips new Directors to become effective Board members from the outset. Each completed a formal induction during 2019 when they attended meetings and received presentations from Group businesses. They also held private meetings with members of ReAssure's Group Executive Committee, including the General Counsel and the Group Company Secretary, to gain an insight into the Group's investor relations, legal and financial functions, and other operational aspects. In this growing and evolving business, the Chairman and Group Company Secretary regularly review the need for further training and take into consideration any areas of development identified during the annual Board evaluation.

- A performance evaluation of the Board, its Committees and its individual members is carried out annually to ensure that each remains effective. During 2019, an internal evaluation was led by the Chairman, Archie Kane. The Chairman met with each of the Board members individually to obtain their views on the Board and its effectiveness with discussions focusing on Board structure, meeting content and preparedness, informal meetings and Board Committees. No areas of major concern were raised during the evaluation and its findings were presented to the Nomination and Governance Committee and actions agreed against the key themes. The evaluation concluded that the Board continued to work well, with a good quality of challenge and debate. The Board agreed areas of focus for 2019, which included:
    - continual assessment of the structure of the Board. Its relatively large size should be kept under review to ensure that meetings continue to be run effectively;
    - further increasing the Directors' contact with divisional colleagues to enhance their understanding of the business and assess talent;
    - increasing the frequency of Non-Executive Director only meetings and discussions;
    - stakeholder engagement, and in particular, how to enhance the work already being done on colleague engagement; and
    - giving greater consideration to succession planning for the Board and Senior Management by the Nomination Committee.

RELATIONSHIPS WITH CUSTOMERS

- The Board places significant focus on ReAssure's customers. Our business plan defines a set of common objectives which places the customer at the heart of what we do and seeks to ensure delivery of fair, timely, compliant, meaningful and measurable customer outcomes which supports the corporate vision. The Board receives regular management information on how the organisation is performing against its objectives to make payments on time, to ensure claims are paid as quickly as possible and to ensure investments perform in line with targets over the long term and products are covered by a value for money framework. The governance framework ensures that there is strong oversight of customer outcomes through a set of dedicated customer-focused committees right up to Board level. In addition, all functional and corporate committees have an obligation to consider customers in all of the decisions they make. Customer outcomes are measured and monitored through a suite of management information and via our Treating Customers Fairly and Corporate scorecards.

RELATIONSHIPS WITH EMPLOYEES

- One of the strengths of ReAssure is our engaged and collaborative culture, with minimal hierarchy and an openness to ideas and input from all areas of the organisation. Reflecting this, the Board also seeks to engage with a wide range of employees throughout the year, both formally and informally. This helps to get beneath the surface of the Group and understand the business and employees' interests more deeply, whilst answering questions and contributing to the culture of the Group itself.

- We set great store by diversity and aim to attract and retain a talented workforce with a wide range of backgrounds, skills and experiences. This breadth is both an essential business need and, we believe, the only and right way to operate. The Board recognises the value that differences bring, including but not limited to difference of gender, age, race, nationality, social background, professional and personal experiences and preferences and undertakes an annual deep dive into People and Culture, led by the Group HR Director. The Board also receives regular management information on employee matters and supporting statistics as part of the CEO's Update at each Board meeting. ReAssure complies fully with all national equal opportunities legislation and make's recruitment and promotion decisions based solely on the ability to perform each role. Employees, and potential employees, receive the same treatment regardless of age, gender, sexual orientation, disability, ethnicity or religion.

- The Board is supporting the CEO in embedding a culture that will help deliver long-term success. To assist with this work, each year ReAssure undertakes an employee engagement survey. The results of this will be reviewed with the Directors, together with the subsequent actions the CEO will be taking to reinforce the our values and to ensure that the right culture exists across the organisation to meet the strategic needs of the business. In overseeing the effectiveness of our processes for dealing with employees whose behaviour falls short of required standards, the Audit Committee will monitor the nature of issues reported through the ReAssure's Speak Up Helpline and will review the processes in place for investigating complaints concerning inappropriate behaviour by employees. The integrity of these processes is an important part of ReAssure's governance arrangements and the Board will review these processes again in 2020 to ensure they remain effective.

- The Board considers its employees to be its most valuable asset and it believes that broad experience is the key to the successful operation of its business and integration of acquired closed books. We are guided by a core set of people principles pertaining to our culture to ensure the best work environment: customer centricity, integrity, passion to perform, agility and team spirit. ReAssure has strong teams throughout the business and emphasises improving employee engagement through continued investment in and diversification of its employee base with training and development and ongoing initiatives, such as various apprenticeships, support for those studying for the Chartered Insurance Institute and other professional exams and its diversity and inclusion network. The Board is also committed to upholding our social responsibility and, in promoting initiatives designed to contribute to the holistic development of employees such as volunteering, partnering with local schools as well as leadership training and wellbeing programmes, contributing to the community. ReAssure has experienced steady growth in employee engagement and is focused on continuous improvement and has several programmes in place to develop our colleagues. For example, the "Career Pathways" programme is designed to help retain and develop employees for the long term and its resourcing model seeks to rotate its employees across departments over the medium term and retain key talents. In addition, we also have a graduate programme, actuarial student scheme, apprenticeships and ALPHA Academy, which are designed to nurture and train university graduates, actuarial analysts and programme developers.

- The Board believes there is a good level of engagement across and within ReAssure, and the Board has good access and regular interaction at all levels of the organisation. As structured engagement with employees becomes a more significant matter under the Code, the Chairman had asked Brian Dunne to lead the Board's thinking on the formal and informal mechanisms by which the Board receives the views and feedback of the workforce. However, in light of the IPO suspension and Mr Dunne's subsequent retirement from the Board, this workforce engagement responsibility has been absorbed within the Board as a whole, who will continue to monitor the current approach and activities that already took place through 2019 and will assess whether additional mechanisms or tools would be beneficial to ReAssure.

- The Board recognises that it has a responsibility to ensure that its business is conducted in a socially responsible manner, resulting in a high standard of social and environmental behaviour. ReAssure has a long-standing commitment to corporate responsibility and complies with the United Nations Guiding Principles on Business and Human Rights. We are committed to the creation of a diverse and inclusive workplace and have pledged support to the Women in Finance charter policy to embrace diverse views and perspectives at a Board and Committee level.

- The Remuneration Committee is cognisant that the CEO to employees pay ratio and gender pay gap are key lenses when considering the appropriateness of executive pay outcomes. The Remuneration Committee also ensures that wider colleagues pay and policies and cultural context are intertwined with its remit and activities. ReAssure is supportive of flexible working arrangements and its gender pay gap at 28% in 2019 is below the financial services sector average. We continue to try and close the gender pay gap and the ratio of male to female senior managers by removing any gender bias in job descriptions before the recruitment process begins, by implementing 'blind CV's' removing names and dates of birth to prevent any unconscious bias and by conducting equal pay and gender audits throughout the year.

RELATIONSHIPS WITH SHAREHOLDERS, REGULATORS AND OTHER STAKEHOLDERS

- The Board places significant value on regular, two-way engagement with shareholders and investors, and through 2019, in a year of busy corporate activity, both the Group's Directors and its senior leadership team were very active in this respect. The Board appreciates the strong support given by ReAssure's shareholders in preparing for the IPO and remains committed to engaging with them on a regular basis. In preparing for the IPO, many prospective shareholders met with the Directors and members of the senior executive team during the connected analysts' presentation and subsequent roadshow meetings leading up to the IPO.

- Shareholders are one of ReAssure's most important stakeholders. The support of equity and debt holders provides the financial capital that enables us to fund ongoing operations, reinvest in people, products and platforms and add new businesses that extend the ReAssure's scale, reach and specialism. The Board aims to provide clear, timely and balanced corporate and financial information, in person and through digital channels, enabling shareholders to engage with senior leadership while meeting all necessary standards for public company disclosure. The shareholder-nominated directors are active participants at Board and Committee meetings and provide good insight to the remaining Directors on the views of the shareholders.

- The regulators (The Financial Conduct Authority and the Prudential Regulatory Authority) are also important stakeholders. The Chairman, Senior Independent Director ("SID") and Chairs of the Board Committees together with the CEO, CFO and CRO together with other members of the senior leadership team participate in a proactive engagement programme designed to maintain positive and constructive relations with the regulators.

- As part of its forward agenda of topics, the Board will meet in 2020 with management to better understand how they are developing deeper relationships with companies in ReAssure's supply chain and how strategic relationships are being built with key suppliers.

COMMUNITY AND ENVIRONMENT

- The Board promotes a culture of being involved in charity and giving back as well as a focus on health and wellbeing. ReAssure has partnered with Age UK since 2017 and our employees are given the opportunity to take up to 15 volunteer hours a year to volunteer at Age UK or another charity of their choice during working hours.

- The Board wishes to maintain an open and collaborative relationship with the tax authorities and as such stipulates that the Group must be a responsible tax payer and that its tax activities are regularly reviewed and updated by the CFO and reported to the Board.

- The Board is committed to achieving good environmental practice and that the organisation should strive to reduce its environmental footprint. Key initiatives include reducing print and paper consumption across the Group's offices and reducing its carbon footprint, including the use of technology, such as virtual meetings, to reduce travel. The Board is also encouraging of employee's engagement with environmental issues through volunteering activities.

APPROVAL

This report was approved by the Board of Directors on 25 March 2020 and signed by order of the Board:

Mark Peters
Company Secretary
25 March 2020

REPORT OF THE DIRECTORS

The directors present their annual report together with the audited group consolidated and company financial statements of ReAssure Group plc, company registration number 11597179, for the period ended 31 December 2019.

REGISTERED OFFICE

ReAssure Group plc is incorporated in England and Wales. The registered office is Windsor House, Telford Centre, Telford, Shropshire TF3 4NB.

DIRECTORS

In preparing for the IPO, a new Board of Directors was appointed during 2019 to meet the requirements of the UK Corporate Governance Code. On the suspension of the IPO in July 2019, the composition of the Board was changed in discussion with the Group's shareholders resulting in the retirement of two independent Non-executive Directors in favour of three additional shareholder-nominated Non-executive Directors.

The directors of the Group are:

CURRENT DIRECTORS	POSITION	APPOINTED	RESIGNED
Archie Kane	Chairman	21 January 2019	
Mark Hodges	Chief Executive Officer	19 March 2019	
Ian Patrick	Chief Financial Officer	12 October 2018	
Andrea Blance	Senior Independent Director	25 April 2019	
Guido Fürer	Non-Executive Director	24 October 2019	
Hiroyuki Iioka	Non-Executive Director	25 April 2019	
Lesley Jones	Independent Non-Executive Director	11 April 2019	
Thierry Leger	Non-Executive Director	21 January 2019	
Patrick Raaflaub	Non-Executive Director	24 October 2019	
Michael Yardley	Independent Non-Executive Director	12 October 2018	
Larry Zimpleman	Non-Executive Director	24 October 2019	
FORMER DIRECTORS			
Rejean Besner		12 October 2018	21 January 2019
Matthew Cuhls		12 October 2018	19 March 2019
Brian Dunne		12 October 2018	24 October 2019
James Gallagher		12 October 2018	21 January 2019
Denise Lardner		12 October 2018	11 April 2019
Adrian Levy		1 October 2018	12 October 2018
David Pudge		1 October 2018	12 October 2018
Cathryn Riley		11 April 2019	24 October 2019

COMPANY SECRETARY

The company secretary of the Group is:

	APPOINTED	RESIGNED
Mark Peters	25 April 2019	
Paul Shakespeare	1 October 2018	25 April 2019

DIVIDENDS

The Group paid a dividend of £519 million following the £1 billion subordinated debt issue and the Group reorganisation in 2019 (2018: £921 million) and the directors are not proposing a final dividend.

SHARE CAPITAL

The Group is a public company and is limited by shares. On 9 May 2019, the Group's share capital of 1 ordinary share of £1.00 was subdivided into 10 ordinary shares of £0.10 each.

On 9 May 2019, the Group issued 999,999,990 ordinary shares of £0.10 to Swiss Re Finance Midco (Jersey) Limited (formerly Swiss Re ReAssure Midco Limited), the Group's immediate parent company, in consideration for the acquisition of ReAssure Midco Limited at a premium of £4.26 each.

FUTURE OUTLOOK

The Group will continue to service its existing policyholders. For more information, please refer to the Strategic Report.

FINANCIAL RISK MANAGEMENT

Principal risks and uncertainties affecting the Group, including financial risks, are explained in the strategic report and in note 43 to the financial statements.

DISABILITY

The Group gives full and fair consideration to applications for employment made by disabled people and our policies support the employment, promotion and career development of disabled persons, as well as supporting employees who become disabled during the course of their employment.

EMPLOYEE AND OTHER STAKEHOLDER ENGAGEMENT

ReAssure considers the impact on employees and all other stakeholders in making long-term decisions. Further information can be found in “Relationships with employees” on page 24 and “Relationships with shareholders, regulators and other stakeholders” on page 25.

DIRECTORS’ CONFLICTS OF INTEREST

The Group has established procedures for handling conflicts of interest in accordance with the Companies Act 2006 and the Group’s Articles of Association.

QUALIFYING THIRD PARTY INDEMNITY PROVISIONS

The Group’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 Group 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 Group. Swiss Re Limited unconditionally guarantees payment of such sums by the Group.

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 group and company financial statements in accordance with International Financial Reporting Standards (IFRS’s) 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 group and company and of the profit or loss of the group and 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 IFRS’s 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 group and company will continue in business.

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

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

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

DIRECTORS' CONFIRMATIONS

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 group and 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 group and company's auditors are aware of that information.

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 Group'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 Group'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 Group's website www.reassuregroupplc.co.uk. A printed version of the financial statements is available from the Group's registered office.

By order of the Board of Directors

Mark Peters
Company Secretary
25 March 2020

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF REASSURE GROUP PLC

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

In our opinion, ReAssure Group plc's Group financial statements and Parent company financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the Parent company's affairs as at 31 December 2019 and of the Group's profit, the Parent company's loss and the Group's and the Parent company's 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 Accounts (the "Annual Report"), which comprise: the Consolidated and Parent company statements of financial position as at 31 December 2019; the Consolidated and Parent company income statements; the Consolidated statement of comprehensive income; the Consolidated and Parent company statements of changes in equity; the Consolidated and Parent company cash flow statements for the year/period 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 group 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 listed 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 group or the parent company.

Other than those disclosed in note 13 to the financial statements, we have provided no non-audit services to the Group in the period from 1 January 2019 to 31 December 2019 or to the Parent company in the period from 1 October 2018 to 31 December 2019.

OUR AUDIT APPROACH

OVERVIEW

- Overall group materiality: £45,400,000 (2018: £50,500,000), based on 2% of net assets.
- Overall parent company materiality: £39,800,000 (2018: N/A), based on 2% of net assets.

- We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates. Overall, we concluded that our audit scope gave us the evidence we needed for our opinion on the financial statements as a whole. Based on our scoping calculation, we concluded the following subsidiaries to be full scope:
  - ReAssure Group plc;
  - ReAssure Midco Limited;
  - ReAssure Limited; and
  - ARK Life Assurance Co.

- Our risk assessment identified the following key audit matters:
  - Subjectivity in annuitant mortality assumptions underlying the insurance contract liabilities (Group);
  - Expense Assumptions (Group); and
  - Valuation of investments, in particular hard to value assets (Group).

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 group 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 and UK tax legislation, Solvency II Regulatory rules and the rules of the Financial Conduct Authority and Prudential Regulation Authority. 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 and expenses assumptions), and any new or significant transactions where management is in the position to adopt policies to achieve desired results. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

- Audit 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 and non-compliance with laws and regulations;
- 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, in particular any 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
Impact of COVID-19 subsequent event As disclosed in note 47, subsequent to the balance sheet date and up to the point of reporting there has been a global pandemic of a new strain of Coronavirus (COVID-19) which has caused significant economic disruption. This outbreak and subsequent spread of the virus does not provide additional evidence about the situation that existed at 31 December 2019, and it is therefore a non-adjusting event. Management have ensured that the measurement of assets and liabilities reflects only the conditions that existed at the reporting date. However, events after the reporting date can provide additional information about the uncertainties that existed at the reporting date. Subsequent to the year end management have performed procedures to assess the financial and operational impacts of COVID-19 which include: • Operation of a risk management framework to ensure a sufficient capital surplus is maintained to meet liabilities, even under stress scenarios and having robust plans for certain management actions if the Group falls outside its approved risk appetite; • Frequent monitoring of the Group's solvency coverage ratio through regular crisis management meetings; and • Actively managing the Group's capital and liquidity position including monitoring of asset credit quality, and employing an active hedging strategy in relation to market and interest rate risks.	We assessed management's approach to the impact of COVID-19 on the Group and the financial statements by performing the following procedures: • Evaluated management's stress and scenario testing and challenged management's key assumptions. We reviewed the controls and governance over the production of solvency monitoring information and considered its consistency with other available information and our understanding of the business; • Evaluated management's assessment of the risks facing the Group including liquidity risk, asset credit risk and operational matters; • Assessed the mitigating actions management have put in place and further plans they have if required due to further deterioration of the wider UK and Global economy; • Attended the governance committee meeting which considered COVID-19 in advance of reporting; and • Assessed the disclosures made by management in the financial statements and checked consistency of the disclosures with our knowledge of the Group based on our audit. Based on the work performed and the evidence obtained, we consider the disclosure of the potential impact of COVID-19 in the financial statements to be appropriate.

Key audit matter	How our audit addressed the key audit matter
Management have placed a particular focus on the level of capital surplus that has been maintained post year end and the risks associated with liquidity and the credit quality of assets and through this have concluded that the Group is in a stable solvency position, expects to continue to meet its capital requirements through this pandemic and continues to be a going concern. This assessment requires management judgement and the consideration of a range of factors that may impact the Group.	
Subjectivity in annuitant mortality assumptions underlying the calculation of the insurance contract liabilities (Group) Refer to note 1 to the financial statements for the directors' disclosure of the basis of preparation, related accounting policies and further information on judgements and estimates related to insurance contract liabilities; note 2 for use of estimates; and note 26 for the relevant disclosure over the financial statement line item. As part of our consideration of the entire set of assumptions we focused particularly on the assumptions which have a more significant effect on the Group'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 annuitant mortality assumption has two main components: **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; and in selecting an appropriate industry mortality table to which management overlays the results of the experience 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	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 aggregated; and the validity of management's analysis of the data; • Reviewed the fit of the Group's internal experience against industry tables to assess the reasonableness of the choice of industry table; • Assessed the appropriateness of key judgements applied in setting base mortality assumptions, including the appropriateness of adjustments made to allow for data issues identified over the period; • Assessed the appropriateness of key judgements in the Group's choice of standard industry Continuous Mortality Investigation (CMI) model for future improvements and choice of parameters used in the model; • 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 validity of the disclosures in the financial statements; and • Assessed the degree of rigour, challenge and oversight provided by the Regional Reserving Committee and the Board. Based on the work performed and the evidence obtained, we consider the assumptions used for annuitant mortality to be appropriate.

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>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 (CMIB) 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 CMIB based on the most recent available population data.</td><td></td></tr>
<tr><td>Expense Assumptions (Group)
Refer to note 1 to the financial statements for the directors' disclosure of the basis of preparation, related accounting policies and further information on judgements and estimates related to contract liabilities; note 2 for use of estimates; and note 26 for the relevant disclosure over the financial statement line item.

IFRS requires that the valuation of insurance contract liabilities to include an allowance for the costs —expected to be incurred in managing current book of in force contracts.

There is a significant level of judgement required in determining appropriate assumptions for future expenses, in particular:
• Determining the expected total level of expenses in future years, relative to the current level of expenditure, including estimating the impact of known future increases, or savings (where allowable). This is significant at year-end 2019, due to the uncertain impact of future changes associated with the ongoing costs associated with the Group plc, as well as those associated with the management of the Old Mutual Wealth Life Assurance (OMWLA) business, acquired in December 2019.
• Determining the proportion of the expense base which is in relation to existing 'in force' contracts and that which relates to future acquisition activity.
• Allocating the 'in-force' expenses between product types, reflecting variations in the relative costs incurred in managing different products.

The level of judgement is increased further given the nature of the Group's business – the Group acquires new policies through irregular acquisitions of closed books of business, rather than through continually writing new policies directly to customers. This introduces additional uncertainty over the timing of future new business and the extent to which fixed costs are allowed for between future acquisitions.</td><td>In the course of our work, we have:
• Assessed the appropriateness of management's methodology, including the appropriateness of any key judgements and assumptions, and consistency with the former INSPRU regulations on which the accounting policy is based;
• Challenged management on the key material judgements taken on application of the methodology, including the treatment of fixed costs, the allowance for new acquisitions (OMWLA) and the overall level of prudence within the provision;
• Tested the completeness and accuracy of the cost base used within the calculation of the provision, by reconciling to the audited trial balance;
• Assessed the appropriateness of any further adjustments applied to allow for known future changes, including the allowance for the costs associated with the PLC and the business acquired from OMWLA
• Tested the accuracy of management's cost centres, ensuring that expenses are being allocated to the correct cost centre;
• Tested the allocations between in force and growth for each cost centre, including undertaking a number of walkthroughs with management to understand the judgements applied and assess the reasonableness of the allocations;
• Assessed management's analysis of the movements in the IFRS expense provision over the year, and any validation carried out;
• Performed independent testing to assess the appropriateness of the magnitude of the expense provision based on the methodology and assumptions we have reviewed; and
• Assessed the validity of the disclosures in the financial statements.

Based on the work performed and the evidence obtained, we consider the methodology and assumptions used to value the expense reserves to be appropriate.</td></tr>
</table>

Key audit matter	How our audit addressed the key audit matter
Valuation of investments, in particular hard to value assets (Group) Refer to note 1 to the financial statements for the directors' disclosure of the basis of preparation and use of estimates, note 2 for related accounting policies and further information on judgements and estimates related to the investments; and note 20 for the relevant disclosure over the financial statement line item. The Group's financial investments enable it to support its insurance liabilities and meet regulatory capital requirements, as well as providing returns for shareholders. In the instances where financial investments are hard to value, some are priced by reference to market data and/or valuation models and vary in complexity depending on the nature of the investments. Investments that are hard 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.	In the course of our work, we have: • Assessed both the methodology and assumptions used by management in the calculation of our selections for the year end values as well as testing the governance controls that the Group 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 a sample 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 amortised 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 group and the parent company, the accounting processes and controls, and the industry in which they operate.

We concluded that the following components required a full scope audit as a part of our scoping assessment:
- ReAssure Group plc;
- ReAssure Midco Limited;
- ReAssure Limited;
- ARK Life Assurance Co; and
- Consolidation Adjustments

In addition, specific financial statement line items for other subsidiaries were concluded to be material and required audit procedures.

As the Group audit team, we determined the level of involvement required at those components to be able to conclude whether sufficient and appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole. In our role as Group auditors, we exercised oversight of the work performed by auditors of the components including performing the following procedures:

- Maintained an active dialogue with reporting component audit teams throughout the year; and
- Visited all in-scope components and undertook a detailed review of audit working papers.

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:

	Group financial statements	Parent company financial statements
Overall materiality	£45,400,000 (2018: £50,500,000).	£39,800,000 (2018: N/A).
How we determined it	2% of net assets. (2018: 1.8% of net assets).	2% of net assets.
Rationale for benchmark applied	When analysing the facts and circumstances specific to ReAssure Group plc, 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.	When analysing the facts and circumstances specific to ReAssure Group plc (parent company only), 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.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £28,600,000 - £43,130,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality. We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £2,270,000 (Group audit) (2018: £2,525,000) and £1,900,000 (Parent company audit) (2018: N/A) as well as misstatements below those amounts 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 group's and parent 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.

REPORTING ON OTHER INFORMATION

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

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

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

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

STRATEGIC REPORT AND REPORT OF THE DIRECTORS

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Report of the Directors for the year ended 31 December 2019 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 group and parent company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Report of the Directors.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

As explained more fully in the Directors' Responsibilities Statement set out on page 29, 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 group's and the parent 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 group or the parent 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 parent 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 parent 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 parent company 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 27 August 2019 to audit the financial statements for the year ended 31 December 2019 and subsequent financial periods. The period of total uninterrupted engagement is 1 year, covering the year ended 31 December 2019.

Philip Watson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
25 March 2020

CONSOLIDATED FINANCIAL STATEMENTS

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PARENT COMPANY FINANCIAL STATEMENTS

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CONSOLIDATED INCOME STATEMENT

For the year ended 31 December

	Note	2019 £m	2018 (restated*) £m
Revenue			
Gross premiums written	6	447.4	480.3
Less: premiums ceded to reinsurers	6	(394.5)	(403.1)
Net premium revenue		**52.9**	**77.2**
Revenue from other activities	7	210.4	211.4
Investment income/(expense)	8	5,214.5	(1,199.4)
Other Income	9	5.3	7.0
Net income/(expense)		**5,483.1**	**(903.8)**
Expenses			
Policyholder claims	10	(1,950.3)	(2,101.3)
Less: claims recovered from reinsurers	10	437.7	462.1
Change in insurance contract liabilities		(219.8)	2,089.7
Change in investment contract liabilities without DPF		(2,763.7)	825.8
Change in investment contract liabilities with DPF		(139.1)	254.8
Change in reinsurers' share of insurance contract liabilities		84.4	(131.3)
Transfer to unallocated divisible surplus		(14.0)	26.0
Net policyholder claims and benefits incurred		**(4,564.8)**	**1,425.8**
Administration Expenses	11	(489.9)	(410.0)
Total (expense)/income		**(5,054.7)**	**1,015.8**
Profit before finance costs and tax		**428.4**	**112.0**
Finance costs	12	(42.1)	(7.0)
Profit before Tax		**386.3**	**105.0**
Tax credit attributable to policyholders' returns	15	(55.5)	9.1
Profit before tax attributable to the shareholders		**330.8**	**114.1**
Tax charge on profit for the year	15	(117.3)	(13.0)
Less: tax attributable to policyholders' returns	15	55.5	(9.1)
Tax attributable to the shareholders		(61.8)	(22.1)
Profit for the year		**269.0**	**92.0**
Attributable to:			
Equity holders		269.0	92.0

All results derive from continuing operations

*refer to note 3 for details of restatement

	Note	2019	2018
Earnings per share	40		
From continuing operations:			
Basic and diluted (pence per share)		26.90	9.20

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December

	Note	2019 £m	2018 (restated*) £m
Profit for the year		**269.0**	**92.0**
Other comprehensive (expense)/income:			
Items that are or may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		(11.3)	2.4
Items that will not be reclassified to profit or loss:			
Actuarial (loss)/gain on defined benefit pension schemes	30	(16.0)	23.4
Owner-occupied land & buildings revaluation	18	0.2	0.3
Movement in related deferred tax		4.4	(11.7)
Total other comprehensive (expense)/income		**(22.7)**	**14.4**
Total comprehensive income for the year		**246.3**	**106.4**
Attributable to:			
Equity holders		**246.3**	**106.4**

All results derive from continuing operations

*refer to note 3 for details of restatement

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December

	Note	2019 £m	2018 (restated*) £m
Assets			
Acquired value of in force business	16	556.6	435.7
Goodwill	16	4.8	-
Deferred acquisition costs	17	516.5	590.9
Property, plant and equipment	18	17.4	17.8
Investment property	19	715.4	858.7
Financial investments:	20		
Debt securities		19,617.7	19,989.2
Equity securities		14,578.3	13,195.8
Loans		1,122.3	732.2
Collective investment schemes		13,764.4	4,623.3
Derivative assets	21	53.1	13.7
Reinsurers' share of insurance contract liabilities	26	2,395.6	1,764.3
Reinsurers' share of investment contract liabilities	26	729.4	-
Reinsurance receivables		103.6	86.8
Insurance contract receivables		52.5	20.5
Deferred tax asset	22	84.6	63.3
Other financial assets	23	504.0	405.3
Net pension surplus	30	0.7	15.1
Other assets	24	95.3	104.7
Current income tax receivable		-	14.8
Cash and cash equivalents	25	1,976.9	1,347.9
Total assets		**56,889.1**	**44,280.0**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

As at 31 December

Liabilities			
Insurance contract liabilities:			
Liabilities under insurance contracts	26	22,272.4	21,141.0
Unallocated divisible surplus		160.6	146.6
Investment contract liabilities:	27		
Liabilities without DPF		27,630.9	17,384.3
Liabilities with DPF		2,307.5	2,168.4
Borrowings	28	974.6	-
Deposits received from reinsurers		99.9	103.9
Provisions	29	38.9	20.4
Derivative liabilities	21	122.0	113.0
Reinsurance payables		56.2	49.2
Payables related to direct insurance contracts		45.0	28.5
Claims outstanding		345.2	254.9
Deferred tax liability	22	96.7	5.9
Current tax liability		55.8	49.5
Other financial liabilities	31	407.8	302.3
Net pension deficit	30	2.0	1.8
Other liabilities	32	49.6	13.6
Total liabilities		**54,665.1**	**41,783.3**
Equity			
Share capital	33	100.0	73.1
Share premium	34	-	83.9
Merger reserve	35	57.0	-
Other reserves	36	1,363.3	1,364.7
Retained Earnings	37	703.7	975.0
Total equity		**2,224.0**	**2,496.7**
Total liabilities and equity		**56,889.1**	**44,280.0**

*refer to note 3 for details of restatement

The financial statements on pages 40 to 182 were approved by the Board of Directors and signed on its behalf by:

Ian Patrick
Director
25 March 2020

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Share capital	Share premium	Merger reserve	Owner-occupied property revaluation reserve	Foreign currency translation reserve	Capital reserves	Retained earnings	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m
As at 1 January 2019	73.1	83.9	-	0.7	3.2	1,360.8	975.0	2,496.7
Profit for the financial year	-	-	-	-	-	-	269.0	**269.0**
Other comprehensive income for the year	-	-	-	0.2	(1.6)	-	(21.3)	**(22.7)**
Total comprehensive income for the year	**-**	**-**	**-**	**0.2**	**(1.6)**	**-**	**247.7**	**246.3**
Capital reorganisation	26.9	(83.9)	57.0	-	-	-	-	**-**
Dividends paid during the year	-	-	-	-	-	-	(519.0)	**(519.0)**
As at 31 December 2019	**100.0**	**-**	**57.0**	**0.9**	**1.6**	**1,360.8**	**703.7**	**2,224.0**

For the year ended 31 December 2018 (restated*)

	Share capital	Share premium	Merger reserve	Owner-occupied property revaluation reserve	Foreign currency translation reserve	Capital reserves	Retained earnings	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m
As at 1 January 2018 as previously presented	73.1	83.9	-	0.3	3.0	1,360.8	1,785.5	**3,306.6**
Impact of prior year restatement*	-	-	-	0.1	-	-	4.6	**4.7**
As at 1 January 2018 (restated*)	**73.1**	**83.9**	**-**	**0.4**	**3.0**	**1,360.8**	**1,790.1**	**3,311.3**
Profit for the financial year	-	-	-	-	-	-	92.0	**92.0**
Other comprehensive income for the year	-	-	-	0.3	0.2	-	13.9	**14.4**
Total comprehensive income for the year	**-**	**-**	**-**	**0.3**	**0.2**	**-**	**105.9**	**106.4**
Dividends paid during the year	-	-	-	-	-	-	(921.0)	**(921.0)**
As at 31 December 2018 (restated*)	**73.1**	**83.9**	**-**	**0.7**	**3.2**	**1,360.8**	**975.0**	**2,496.7**

*refer to note 3 for details of restatement

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December

	Note	2019 £m	2018 (restated*) £m
Cash flows from operating activities			
Cash from operating activities	41	475.8	404.1
Interest paid		(0.4)	-
Taxation paid		(71.1)	(188.7)
Net cash from operating activities		**404.3**	**215.4**
Cash flows from investing activities			
Purchase of property, plant and equipment		(0.4)	(4.4)
Proceeds from sale of property, plant and equipment		0.1	2.7
Acquisition of subsidiary		(187.8)	-
Net cash used in investing activities		**(188.1)**	**(1.7)**
Net cash used in financing activities			
Dividends paid to company's shareholders		(519.0)	(921.0)
New borrowings drawn down		970.0	-
Interest paid on subordinated debt		(26.9)	-
Principle lease payments		(1.4)	-
Net cash from/(used in) financing activities		**422.7**	**(921.0)**
Net increase/(decrease) in cash and cash equivalents		638.9	(707.3)
Cash and cash equivalents at the beginning of the year		1,347.9	2,052.5
Effect of exchange rate fluctuations on cash and cash equivalents		(9.9)	2.7
Cash and cash equivalents at the end of the year		**1,976.9**	**1,347.9**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. Accounting Policies

1.1 Basis of preparation

Reassure Group plc ('the Company'), a public company limited by shares incorporated and domiciled in the United Kingdom, together with its subsidiaries (collectively 'the Group') is a major life and pensions consolidator in the UK market.

The Company is registered in England and Wales and its Company Registration Number is 11597179. The Company's registered address is Windsor House, Telford Centre, Telford, Shropshire, England, TF3 4NB.

The Company was incorporated on 1 October 2018 as Challengecove Limited, with an issued and fully paid-up share capital of 1 ordinary share of £1. On 17 October 2018, the Company changed its name to ReAssure Group Holdings Limited. On 21 February 2019, the Company changed its name to ReAssure Group Limited. On 4 June 2019, the Company re-registered as a public company called ReAssure Group Plc.

On 9 May 2019, the Company acquired the entire share capital of ReAssure Midco Limited ("RML") from Swiss Re ReAssure Midco Limited ("SRRML"), settled by newly issued share capital of the Company given in exchange for the share capital of RML.

This transaction has been accounted for as a capital reorganisation and in substance these Consolidated Financial Statements reflect the continuation of the pre-existing group headed by RML. The comparatives presented in these financial statements are the consolidated results of RML and the Consolidated Statement of Financial Position in the prior year reflects the share capital structure of that group. The current year Consolidated Statement of Financial Position reflects the share capital structure of ReAssure Group plc. Changes to the equity of the Group resulting from this capital reorganisation are presented in the Consolidated Statement of Changes in Equity.

The Consolidated Financial Statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU), and those parts of the Companies Act 2006 applicable to those reporting under IFRS. The Consolidated Financial Statements also comply with interpretations by the IFRS Interpretations Committee as issued by the IASB and as adopted by the European Union. The Consolidated Financial Statements have been prepared under the historic cost convention, as modified for certain properties, financial assets and financial liabilities that are measured at fair value; insurance and reinsurance contract assets and liabilities that are measured based on the present value of future cash flows; defined benefit assets and liabilities that are recognised as the fair value of plan assets, less the present value of the defined benefit obligations; and impaired non-financial assets that are measured at the higher of fair value less costs of disposal and value in use, as explained in the accounting policies below. Historical cost is generally based on the fair value of consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account those characteristics of the asset or liability that market participants would take into account when pricing the asset or liability at the measurement date.

1. Accounting Policies (continued)

1.2 Going concern

These financial statements have been prepared on a going concern basis. In assessing whether the Group is a going concern the directors have taken into account the guidance issued by the Financial Reporting Council in April 2016. The Group successfully delivered its growth focused business plan over the past 12 months. The directors have, at the time of approving the Consolidated Financial Statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future.

The principal accounting policies adopted are set out below. The accounting policies have been consistently applied to all years presented unless otherwise stated.

1.3 New standards, amendments and policies

1.3.1 Not yet adopted by the group

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective and in some cases have not yet been adopted by the EU: IFRS 9 ‘Financial Instruments’; and IFRS 17 ‘Insurance Contracts’.

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments’ addresses the classification, measurement and recognition of financial assets and financial liabilities. The Group applies the temporary exemption from IFRS 9, 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 if its activities are predominantly connected with insurance.

The Group qualifies for the temporary exemption from IFRS 9 because the carrying amount of its gross liabilities arising from contracts within the scope of IFRS 4 is significant compared to its total liabilities, and the Group’s percentage of its gross liabilities from contracts connected with insurance relative to its total liabilities at 31 December 2015, the date at which the assessment was required, was 98%, which is in excess of the 90% threshold required by IFRS 4. Liabilities connected with insurance comprised liabilities arising from contracts within the scope of IFRS 4 of £13,273.6 million; liabilities from non-derivative investment contracts measured as at Fair Value Through Profit or Loss (‘FVTPL’) of £14,627.8 million and other 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 for other payables directly associated with those obligations) of £352.4 million.

There has been no significant change in activities of the Group that requires reassessment of the use of the temporary exemption from IFRS 9 since 31 December 2015. During the period the company acquired Old Mutual Wealth Life Assurance Limited and indirectly its subsidiary, Old Mutual Wealth Pensions Trustees Limited (collectively referred to as “Old Mutual Wealth”), this did not result in a significant change in activity. Refer to note 20a for the disclosures required when deferring IFRS 9. It is anticipated that the Group will continue to apply IAS 39 ‘Financial Instruments: Recognition and Measurement’ in its financial statements until the reporting period beginning on 1 January 2023.

1. Accounting Policies (continued)

1.3 New standards, amendments and policies (continued)

IFRS 17 'Insurance Contracts'

In May 2017, the IASB issued IFRS 17 'Insurance Contracts' to replace IFRS 4 'Insurance Contracts'. The standard has not yet been endorsed for use in the EU. In 2020 the IASB decided to defer the effective date of IFRS 17 by one year to reporting periods beginning on or after 1 January 2023. At the same time, the IASB also agreed an amendment to IFRS 4 to allow insurers qualifying for deferral of IFRS 9 one additional year of deferral. This would mean that qualifying insurers could apply both standards for the first time to reporting periods beginning on or after 1 January 2023. IFRS 17 is expected to significantly change the way the Group measures and reports its insurance and reinsurance contracts, and investment contracts with discretionary participation features ("DPF").

The consequences of IFRS 17 are to bring in a single accounting approach 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 Group commenced a project to define new accounting policies and to deliver the process and system changes necessary to enable the successful implementation of IFRS 17. Implementation activities will continue through to the expected effective date of 1 January 2023.

1.3.2 Adopted by the group

IFRS 16 *'Leases'*

IFRS 16 'Leases' addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on the Consolidated Statement of Financial Position for lessees. The standard replaces IAS 17 'Leases' and related interpretations. The standard has been retrospectively adopted in full.

The impact of adopting IFRS 16, on the financial statements of the Group, is disclosed in notes 18 (Property, Plant and Equipment) and 46 (Leases). The standard was fully retrospectively adopted and as such there has been no IFRS 16 related adjustment made to opening retained earnings within the periods reported in these financial statements . Due to the limited impact of implementing the standard on the financial position of the group and company, no transition accounting has been deemed necessary. Full disclosure of right of use asset accounting has been included within note 46.

1. Accounting Policies (continued)

1.4 Basis of consolidation

The Consolidated Financial Statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year.

Subsidiaries are all entities (including structured entities) over which the group has control. The Group controls an entity where the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

When the Group has less than a majority of the voting rights of an investee, it considers that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- The size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Group, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Income Statement from the date the Group gains control until the date when the Group ceases to control the subsidiary. Profit or loss and each component of other comprehensive income are attributed to the owners of the Group and to the non-controlling interests. Total comprehensive income of the subsidiaries is attributed to the owners of the Company and to any non-controlling interests even if this results in any non-controlling interests having a deficit balance.

Where the Group is considered to control an investment vehicle, such as a unit trust or a limited partnership, and it is therefore consolidated, the interests of parties other than the Group are assessed to determine whether they should be classed as liabilities or as non-controlling interests. The liabilities are recognised within Other Liabilities within the Consolidated Statement of Financial Position and any movements are recognised in the Consolidated Income Statement. The liability is designated at fair value through profit or loss as it is directly linked to the market value of the underlying portfolio of assets. The interests of parties other than the Group is all other types of entities are recorded as non-controlling interests.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

1. Accounting Policies (continued)

1.5 Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets, liabilities and the equity interest issued in exchange for the control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except for deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements which are recognised in accordance with IAS 12 'Income Taxes' and IAS 19 'Employee Benefits' respectively.

Insurance and investment contracts, and any related intangible assets, are measured at fair value at the time of acquisition in accordance with the criteria at notes 1.24 and 1.25 below.

1.6 Contract classifications

The Group issues contracts that transfer insurance risk or financial risk or both. Contracts are classified as insurance contracts where the Group accepts significant insurance risk from the policyholder. As a general guideline, the Group defines significant insurance risk when at least one scenario with commercial substance can be identified in which the Group has to pay significant additional benefits to the policyholder.

Contracts held by the Group under which it transfers significant insurance risk, related to insurance contracts that it issues, are classified as outward reinsurance contracts. Note 1.26 details the Group's accounting policy in relation to reinsurance contracts.

Contracts that transfer financial risk only or under which the transfer of insurance risk to the Group from the policyholder is not significant are classified as investment contracts.

The majority of the investment contracts issued by the Group are unit linked investment contracts. Unit linked investment contracts are separated into two components, a financial liability (investment contract without DPF) and an investment management service contract. All fees charged to policyholders and costs incurred in originating and managing these contracts are attributed to the investment management services contract. Refer to note 1.25 for the Group's accounting policy in relation to investment contracts.

With-profits contracts issued by the Group are insurance contracts or investment contracts that contain a discretionary participation feature ("DPF"). This feature entitles the policyholder to additional discretionary benefits as a supplement to guaranteed benefits. Investment contracts with DPF are recognised and measured as insurance contracts in accordance with IFRS 4 'Insurance Contracts'. The Group has opted to present Investment Contracts with DPF together with other investment contracts on the SOFP. However, these contracts are accounted for in accordance with the insurance contract accounting policies of the Group as detailed at note 1.24 below.

The Group's long-term business is divided into six sub-funds: the National Mutual With Profit Fund ("NMWPF"), the Windsor Life With Profit Fund ("WLWPF"), the Guardian With Profit Fund ("GAWPF"), the ReAssure Limited ("RAL") non-profit fund ("NPF"),the Ark non-profit fund ("Ark NPF") and the Old Mutual Wealth non-profit fund ("OMW NPF"). The NMWPF, WLWPF and GAWPF contain with-profits business but also hold a small amount of non-profit business. The GAWPF also contains some unit-linked business. The RAL, Ark and OMW NPFs comprise unit-linked insurance and investment contracts as well as non-linked insurance (primarily annuities and income protection claims in payment) and investment contracts. All funds are closed to new business, with the exception of a small number of increases to existing policies.

1. Accounting Policies (continued)

1.7 Premiums

Regular premiums for insurance contracts and investment contracts with DPF are accounted for when due for payment. Single premiums, including consideration for pensions vested into annuity contracts, are recognised from the date from which the policy is effective. Amounts are presented before deductions for commission.

1.8 Revenue from other activities

The amount of revenue recognised depends on whether the Group acts as an agent or as a principal. The Group acts as principal when the Group controls the specified good or service prior to transfer, in all other circumstances the Group acts as an agent. Revenue where the Group acts as a principal is recognised gross, and net where the Group acts as an agent.

The Group does not tend to incur any costs that are relevant for capitalisation.

1.8.1 Other investment contract fee revenue

Investment contract policyholders are charged fees for policy administration, investment management, surrenders or other contract services. Fees for policy administration and investment management are calculated and recognised on a daily basis as the services are provided, based on a percentage of the fund value. Fees related to investment management services and for other fees are recognised as revenue over time, as performance obligations are satisfied.

Performance fees or any other variable considerations are not recognised as revenue until it is reasonably certain that no reversal of amounts would occur.

For unit linked investment contracts subject to actuarial funding, the difference between the gross value of the units notionally allocated to policyholders and the funded value (i.e. the amount included in the measurement of the investment contract) is treated as a non-refundable up-front fee giving material rights for future administration and investment management services and are recognised as revenue over the period that the policyholder is expected to receive those services. All fees are deducted from the policyholders' account balances.

Other investment contract fee revenue is recognised gross of investment management expenses as the Group controls the investment funds received from policyholders, determines investment strategies and are responsible to policyholders for the satisfactory provision of the service in line with contract terms.

1.8.2 Third party administration revenue

The Group earns third party income principally in relation to third party administration ("TPA") contracts. Third party administration services include, but are not limited to, sales administration, policy servicing and alterations, policyholder communications and document services, cash and banking services on behalf of the third party, IT services and claims handling. All services provided are highly interrelated and charged for under one management charge per policy. Revenue generated from TPA contracts is recognised over time as the services are performed and the contract obligations are fulfilled. Invoices are prepared monthly based on rate tables and the number of in-force policies as specified in the contracts. The consideration due for each period that is invoiced can vary based on the services provided and number of in-force policies. There are no assets or liabilities recognised from the costs to obtain, or fulfil the contract.

1. Accounting Policies (continued)

1.9 Investment income

Investment income comprises interest income on financial assets not measured at fair value through profit or loss, net gains or losses on financial assets designated at fair value through profit or loss, net gains or losses on derivatives, net impairment losses on loans and receivables, lease income and fair value gains and losses on investment properties, and net foreign exchange gains and losses.

1.9.1 Interest income on financial assets not measured at fair value through profit or loss

Interest on financial assets not measured at fair value through profit or loss is recognised as it accrues and is calculated using the effective interest rate method. The effective interest rate is defined as the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument (or, when appropriate, a shorter period) to the net carrying amount of the financial asset or financial liability. Fees and commissions that are an integral part of the effective yield of the financial assets or liabilities are recognised as an adjustment to the effective interest rate of the instrument.

1.9.2 Net gains and losses on financial assets designated at fair value through profit or loss and derivatives

Net gains and losses on financial assets designated at fair value through profit or loss and derivatives comprise realised and unrealised gains and losses, foreign exchange gains and losses, interest and dividends receivable.

1.9.3 Net impairment losses on loans and receivables

Net impairment losses on loans and receivables comprises impairment losses recognised and reversals of impairment losses recognised in accordance with the accounting policy in note 1.22.4.

1.9.4 Lease income and fair value gains and losses on investment properties

Fair value gains and losses on investment property are changes in the fair value of investment property. Refer to note 1.10.1 for the Group's lease income accounting policy.

1.9.5 Net foreign exchange gains and losses

Net foreign exchange gains and losses are the gains and losses arising on the translation of foreign currency monetary assets and liabilities into the respective functional currencies of group entities, other than those arising on financial instruments measured at fair value through profit or loss.

1.10 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 Consolidated Statement of Financial Position for lessees. The standard replaces IAS 17 'Leases', and related interpretations.

The Group, under its previous parent, RML, early adopted IFRS 16 and applied the standard for the 2017 and 2018 reporting periods. Hence, there is no transition note included within these financial statements.

1. Accounting Policies (continued)

At the inception of a contract the Group assesses whether a contract is a lease, or contains a lease. A contract is a lease, or contains a lease, if it involves the use of an identified asset and conveys the right to control the use of the asset for a period of time in exchange for consideration.

1.10.1 The Group as a lessor

The Group classifies all leases for which it is a lessor as operating leases, because none of the leases held were found to transfer substantially all the risks and rewards incidental to the ownership of the underlying asset.

Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight line basis over the lease term.

1.10.2 The Group as a lessee

At lease inception date a right-of-use asset and corresponding lease liability are recognised. The right-of-use asset is initially measured at cost, at an amount equal to the present value of the minimum lease payments. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the Group's incremental borrowing rate is used, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of a similar value in a similar economic environment, with similar terms and conditions. The Group's weighted average incremental borrowing rate applied to lease liabilities is shown within note 46 to the financial statements .

Subsequent to initial recognition, right-of-use assets are measured at cost less accumulated depreciation and accumulated impairment.

Subsequent to initial recognition the lease liability is measured at amortised cost using the effective interest method. Lease payments are allocated to the lease liability, split between repayments of principle and interest. A finance cost is charged to the profit and loss so as to produce a constant period rate of interest on the remaining balance of the lease liability. The principle lease payments are classified as part of financing activities within the statement of cash flows.

Modifications to leases are accounted for as a separate lease where the modification increases the scope of the lease by adding the right to use one or more underlying assets, and the consideration of the lease increases in line with the price of the additional underlying assets. For all other lease modifications, the carrying amount of the right-of-use asset and of the lease liability is remeasured to reflect the modifications.

For leases with a term of 12 months or less, or for low value assets, the lease expense is charged to the Consolidated Income Statement on a straight line basis. The Group does not have any significant leases which qualify for the short term leases or leases of low-value assets exemptions.

1.11 Foreign currencies

1.11.1 Functional and presentational currency

Items included in the financial statements of each of the Group entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Consolidated Financial Statements are presented in millions of £ sterling, which is the Group's presentation and functional currency.

1. Accounting Policies (continued)

The assets and liabilities of Ark Life Assurance Company DAC ("Ark Life"), the Group's only foreign operation, are translated into the Group's presentational currency at the reporting date exchange rate. The income and expenses of Ark Life are translated at the average exchange rate for the year. Foreign currency differences are recognised in other comprehensive income and accumulated in the translation reserve.

When a foreign operation is disposed of in its entirety, or partially such that the Group loses control, the cumulative amount in the translation reserve is reclassified to profit or loss as part of the gain or loss on disposal.

1.11.2 Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the closing rate. Non-monetary assets and liabilities measured based on historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities measured at fair value are translated into the functional currency using the exchange rate when the fair value was determined.

1.12 Gross benefits and claims paid

Gross benefits and claims paid include internal and external claims handling costs that are directly related to the processing and settlement of claims.

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 contracts with DPF liabilities. Death claims and all other claims are accounted for when notified.

Reinsurance recoveries are accounted for in the same year as the related claim.

1.13 Terminal and reversionary bonuses

Bonuses charged to the Consolidated 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.

1.14 Retirement benefits

The Group operates one defined benefit pension scheme, the ReAssure Staff Pension Scheme, which is closed to future accruals. It also operates an unfunded, unapproved retirement benefit scheme or private retirement trust for one deferred member.

The Group follows the provisions on IAS 19 'Employee Benefits' in accounting for these schemes. The cost of providing benefits is determined using the projected unit credit valuation method.

1. Accounting Policies (continued)

The net defined benefit surplus or deficit comprises the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds) less the fair value of plan assets out of which the obligations are to be settled. Plan assets are held by a separately administered fund and are not available to the Group, nor can they be paid directly to the Group. Fair value is based on market price information and in the case of quoted securities or investment vehicles it is the published price.

A finance charge (or credit) is determined on the net defined benefit pension position. The operating and financing costs of such plans are recognised separately in the Consolidated Income Statement; service costs are spread systematically over the lives of employees; and certain liability management costs and financing costs are recognised in the periods in which they arise. Actuarial gains and losses are recognised immediately in the Consolidated Statement of Comprehensive Income.

The Group operates a defined contribution Group Personal Plan (GPP) which is open to all employees. All costs for the scheme are charged in full to the Consolidated Income Statement as they arise.

1.15 Current income tax

Current income tax comprises the expected tax payable or receivable on the taxable income or loss for the year, and any adjustments to the tax payable or receivable in respect of previous years. Current tax also includes taxes deducted from policyholders (in respect of the life insurance business) and paid to Her Majesty's Revenue and Customs (HMRC) in accordance with the UK tax regime for life insurance companies.

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

Current tax is recognised in the Consolidated Income Statement unless it relates to items which are recognised in other comprehensive income, or charged or credited directly in equity.

IFRIC 23 was introduced with effect from 1 January 2019 and provides guidance in circumstances where there is uncertainty over income tax treatment under IAS 12. The introduction of this guidance has not had a material impact on the financial statements of the Group. The Group has an ongoing tax dispute with HMRC in relation to the tax treatment of an asset formerly held by Guardian Assurance Limited (before the business was transferred to ReAssure Limited). The current tax liability includes an accrual for the total tax under dispute involved plus interest on the basis that there is sufficient risk that the Group's tax treatment will not be accepted. The accrual held in relation to this item has been reviewed in light of the introduction of IFRIC 23 however, no changes were required to be made.

1.16 Deferred income tax

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.

1. Accounting Policies (continued)

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 note 22.

The carrying amount of deferred income tax assets is reviewed at each period end 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 period end 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 Consolidated Income Statement, except when it relates to items which are recognised in other comprehensive income, or charged or credited directly to equity.

1.17 Shareholder and policyholder taxes

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

Additionally, the Group's business is subject to tax specifically borne by its policyholders such as foreign withholding tax ('policyholder tax'). The total tax charge in the Consolidated Income Statement is allocated between shareholder tax and policyholder tax. The total tax is calculated by applying the corporate tax rate to the Group's profit before tax and calculating the tax charge based on that amount, including the income tax arising on policyholders' investment returns and any other items not subject to tax and adjustments to prior periods. 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 Group has decided to show separately the amounts of policyholder tax to provide a meaningful measure of the tax the Group pays on its profit.

1.18 Property, plant and equipment

All property and equipment is initially recognised at cost.

Subsequent to initial recognition, owner-occupied land and buildings are measured at fair value on the Consolidated Statement of Financial Position. Fair value is determined annually 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 and accumulated in the revaluation reserve, except to the extent that it is the reversal of a previous revaluation decrease which was recognised in the Consolidated Income Statement. A decrease in fair value is recognised immediately in the Consolidated 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.

1. Accounting Policies (continued)

Subsequent to initial recognition, other property, plant and equipment, including right of use assets, is stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset on a straight line basis over its expected useful life as follows:

Land and buildings (right of use)	Over the life of the lease
Computer equipment	Between 3-5 years
Fixtures, fittings and office equipment	Between 3-5 years

1.18.1 Impairment of property, plant and equipment

The carrying amounts of property, plant and equipment, other than owner-occupied property measured at fair value, is reviewed at each reporting date to determine whether there is any evidence of impairment. If any indication of impairment exists, the asset's recoverable amount is estimated. For impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of cash inflows or outflows or other assets or cash-generating units (“CGU”).

The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less the costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

An impairment loss is recognised in the Consolidated Income Statement if the carrying amount of an asset or CGU exceeds its recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.19 Impairment of non-financial assets

The carrying amounts of customer-related intangible assets and property, plant and equipment, other than owner-occupied property measured at fair value, is reviewed at each reporting date to determine whether there is any evidence of impairment. If any indication of impairment exists, the asset's recoverable amount is estimated. For impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of cash inflows or outflows or other assets or cash-generating units (“CGU”).

The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less the costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

An impairment loss is recognised in the Consolidated Income Statement if the carrying amount of an asset or CGU exceeds its recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1. Accounting Policies (continued)

1.20 Investment property

Investment property, which is property held to earn rentals and/or capital appreciation is initially measured at cost and subsequently at fair value.

Land and buildings owned by the Group are valued annually at open market value as determined by independent professional advisers. Gains or losses arising from changes in the fair value of investment property are recognised in the Consolidated Income Statement and presented in investment income in the period in which they arise.

Included within investment property is land and buildings which are subject to an in-force policy, under an equity release income plan. These are valued on a reversionary basis. The reversionary basis represents the Group's best estimate of the fair value having regard to the policyholders' lifetime lease. Further details of the valuation methodology for these assets are included in note 19. The fair value of properties that are no longer subject to an in-force policy are measured on an open market basis.

1.21 Intangible assets

1.21.1 Acquired value of in-force business

Insurance and investment contracts acquired in a business combination 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 acquisition, including contract based intangibles, and the net assets measured in accordance with the Group's accounting policies, is recorded as acquired present value of in–force business. The resulting intangible asset is referred to as the acquired value of in-force business ("AVIF") and is carried gross of tax.

In the event that the arrangement provides a negative AVIF, 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 Consolidated Income Statement

The asset is amortised on a systematic basis in the Consolidated Statement of Comprehensive Income over the anticipated unwind of the related contracts to reflect the emergence of economic benefits from the acquired contracts.

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

1.21.2 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 Consolidated Statement of Financial Position.

The rate of amortisation of the deferred acquisition cost ("DAC") 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.

1. Accounting Policies (continued)

1.21.3 Goodwill

Business combinations are accounted for by applying the acquisition method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired. Goodwill is measured on initial recognition at cost. Following initial recognition, goodwill is stated at cost less any accumulated impairment losses and is not amortised.

In certain acquisitions, an excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities, contingent liabilities and non-controlling interests over cost may arise. Where this occurs, the surplus of the fair value of net assets acquired over the fair value of the consideration is recognised in the Consolidated Income Statement.

1.21.4 Impairment of intangible assets and goodwill

Intangible assets with a finite useful life 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 intangible assets with finite useful life are reviewed for possible reversal at each reporting date.

For AVIF, the carrying value of the asset is assessed annually using the Solvency II best estimate assumptions consistent with those 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. Any impairment is recognised in full in the Consolidated Statement of Comprehensive Income in the year it is identified. For AVIF where an impairment has previously been recognised, if, in future years, the recoverability of the AVIF asset had it not been impaired is now recoverable then the earlier impairment recognised would not be reversed.

Goodwill is tested for impairment annually or when there is evidence of possible impairment. For impairment testing, goodwill is allocated to relevant cash generating units. Goodwill is impaired when the recoverable amount or value in use is less than the carrying value.

1.22 Financial assets and financial liabilities

1.22.1 Classification

The classification of financial assets and financial liabilities determines the way in which they are measured and changes in those measurements are presented in the Consolidated Income Statement and Consolidated Statement of Comprehensive Income.

The Group's financial assets, as presented in the Consolidated Statement Of Financial Position, comprise financial investments, derivative assets, other financial assets and cash and cash equivalents. The Group's financial liabilities, as presented in the Consolidated Statement Of Financial Position, comprise investment contract liabilities, loans and borrowings, derivative financial liabilities, and other financial liabilities.

The Group classifies financial assets as fair value through profit or loss or, as loans and receivables. Financial liabilities are classified as fair value through profit or loss or, measured at amortised cost.

1. Accounting Policies (continued)

Financial assets and liabilities at fair value through profit or loss comprise derivative assets or liabilities classified as held for trading, and financial assets and liabilities designated as fair value through profit or loss on initial recognition.

The Group designates all financial investments, other than a small amount of loans, deferred acquisition costs, investment contracts without DPF and deposits received from insurers as fair value through profit or loss, because they are managed and their performance is evaluated by the Group on a fair value basis.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group designates at fair value through profit or loss. Subsequent to initial recognition, loans and receivables are measured at amortised cost, using the effective interest rate method.

1.22.2 Recognition and measurement on initial recognition

The Group recognises deposits with credit institutions and loans and borrowings on the date that they originate. All other financial instruments (including regular way purchases and sales of financial investments) are recognised on the trade date i.e. the date the Group 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 and financial liabilities are measured initially at fair value plus, for a financial asset or financial liability not at fair value through profit and loss, transaction costs that are directly attributable to its acquisition or issue.

1.22.3 Measurement subsequent to initial recognition

Subsequent to initial recognition, financial assets and financial liabilities at fair value through profit or loss are measured at fair value with changes in fair value recognised in the Consolidated Income Statement.

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

1.22.4 Impairment of financial assets

At each reporting date, the Group assesses whether there is objective evidence that a financial asset or group of financial assets measured 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.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

1. Accounting Policies (continued)

When an event occurring after an impairment loss was recognised causes the amount of the impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

1.22.5 Derivative financial instruments

The Group holds derivative financial instruments principally in connection with the management of its insurance contract and investment contract liabilities based on the principles of reduction of risk and efficient portfolio management. The Group does not typically hold derivatives for the purpose of selling or repurchasing in the near term or with the objective of generating a profit from short-term fluctuations in price or margin.

Derivatives are financial instruments 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.

1.22.6 Collateral

With the exception of cash collateral, assets received as collateral are not recognised in the Consolidated Statement of Financial Position unless the financial asset they secure is foreclosed. When cash collateral is recognised in the Consolidated Statement of Financial Position, a financial liability is established for the obligation to repay the cash. Cash pledged as collateral is derecognised from the Consolidated Statement of Financial Position and a financial asset is established for the right to receive repayment until the liability covered is closed out. In the event that the Group defaults on its obligations under the relevant agreement, non-cash collateral pledged is de-recognised from the Consolidated Statement of Financial Position.

1.22.7 Offsetting financial assets and liabilities

Financial assets and liabilities are offset in the Consolidated Statement of Financial Position when the Group has a legally enforceable right to offset and has the intention and ability to settle the asset and liability on a net basis or simultaneously.

1.22.8 Derecognition of financial assets and liabilities

The Group derecognises a financial asset when the contractual rights to the asset's cash flows expire, or it transfers the asset and substantially all the risks and rewards of ownership, or when the Group has transferred the asset without transfer of substantially all the risks and rewards of ownership, provided the other party can sell or pledge the asset.

A financial liability is de-recognised when the obligation specified in the contract is discharged or cancelled or expires. On de-recognition, the difference between the disposal proceeds and the carrying amount is recognised in the Consolidated Income Statement as a realised gain or loss.

1.23 Cash and cash equivalents

Cash and cash equivalents comprise cash balances, short-term deposits with an original maturity term of three months or less at the date of placement 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.

1. Accounting Policies (continued)

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

1.24 Insurance contracts

1.24.1 Income statement recognition

Insurance contract liabilities are recognised from the earlier of the date on which the contract becomes effective and the date on which the first premium becomes due. Insurance contract liabilities are derecognised when the contract expires, is discharged or is cancelled.

1.24.2 Non-profit insurance contracts

ReAssure Limited
For non-profit insurance contracts, in-force business liabilities are determined using a gross premium valuation method, which entails projecting forward cash flows on a policy by policy basis. The liability is determined as the sum of the discounted value of the expected benefits, plus 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 generally updated each year using recent experience and industry data (see note 26). 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, required for future inflation of benefits and expenses and to derive the discount rates, are based on market data at the period end date. For annuities within the Matching Adjustment Fund, the discount rates are equal to the European Insurance and Occupational Pensions Authority (“EIOPA”) risk-free rates plus relevant Matching Adjustment rate, whilst annuities outside the Matching Adjustment Fund use the EIOPA risk-free rates. The Matching Adjustment is determined from the yield on the assets in the Matching Adjustment Fund allowing for deductions for credit risk, based directly on the Fundamental Spread information published by EIOPA.

For income protection claims in payment, the liability is determined by projecting cash flows (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.

For all other non-profit insurance policies, the liabilities are determined by projecting cash flows (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.

Ark Life Assurance Company DAC
The Ark Life insurance business non-linked actuarial liabilities are valued using a gross premium valuation method. The discount rates used are based on quoted Euro swap rates.

Old Mutual Wealth
The Old Mutual Wealth insurance business non-linked actuarial liabilities are valued using a gross premium valuation method.

1. Accounting Policies (continued)

1.24.3 Unit-linked contracts

ReAssure Limited
Unit-linked insurance contracts are measured at current unit values, which reflect the fair values of the assets of the underlying unit-linked funds. Current unit values are taken to be:

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

An additional reserve is held where, on a prudent basis, it is estimated the future cash outflows cannot be covered by future cash inflows.

Ark Life Assurance Company DAC
The Ark Life insurance business provisions for unit-linked business are valued by adding a prospective non-unit reserve to the bid value of units. The discount rates used are based on quoted Euro swap rates.

Old Mutual Wealth
The Old Mutual Wealth insurance business provisions for unit-linked business are valued by adding a prospective non-unit reserve to the bid value of units.

1.24.4 With-profits contracts

With-profits contract liabilities are measured using an approach that entails projecting forward expected cash flows using best estimate demographic assumptions, making full provision for the bonuses that are expected to be paid to policyholders in the future.

The principal liabilities in respect of these contracts are asset shares, which are used to pay claims. Asset shares are compared to guaranteed benefits and hence used to set Terminal Bonus rates so that 100% of asset share is paid on average. Asset shares are derived by a retrospective calculation accumulating premiums, charges and other deductions and enhancements, as described in the Principles and Practices of Financial Management ("PPFM").

Certain investment and insurance contracts contain a discretionary participating feature that 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 Group.

1.24.4.1 Allocation of with-profit surpluses and unallocated divisible surplus

A further liability arises in each of the with-profit funds through the intention to distribute all surplus assets to participating policyholders over time. These surplus assets are distributed via further enhancement of asset shares. The nature of these benefits is such that the amount of surpluses allocated to ordinary equity holders and participating policyholders is uncertain.

The total liabilities of the relevant fund is set equal to its total assets, with the balancing liability being the available surplus at the reporting date. The part of the available surplus that represents the present value of shareholder transfers is called the Unallocated Divisible Surplus (“UDS”). The Group has elected to classify the UDS as an insurance contract liability in the Consolidated Statement of Financial Position. The remaining available surplus is allocated to ‘Liabilities under insurance contracts’ as planned surplus distributions for policyholders.

1. Accounting Policies (continued)

The amount of appropriated surplus released is determined by the Directors in accordance with the Articles of Association and the PPFM. The surplus released is used to provide bonuses for with profit policyholders and the corresponding shareholder transfers. For the WLWPF and GAWPF, which are 90:10 funds, $1/9^{th}$ of the bonus declared and paid in the year is allocated to the NPF. It is then available for subsequent transfer to shareholders. The NMWPF is a 100:0 fund. As such, all the surplus arising in the NMWPF is retained for future bonus allocations to policyholders.

1.24.4.2 NMWPF and WLWPF

For the with profit policies in the NMWPF and WLWPF, the technical provisions have been calculated using an approach that provides in full for contractual obligations to pay future bonuses. An allowance has also been included for the cost of policy options and guarantees, using a stochastic economic model calibrated to market prices applied as at the valuation date.

Risk-free rates are set equal to gilt yields increased by 10 basis points, volatilities are set by reference to appropriate derivative prices and correlation is based on historic experience. The assumptions for mortality, persistency and the take-up rate of guarantees are realistic best estimate, based on own and industry experience.

Both the 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 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.

1.24.4.3 GAWPF

Within the GAWPF, all liabilities (including policy options and guarantees) are calculated on a deterministic basis. Stochastic modelling has not been used for the with-profit policies as the fund applies a close matching investment policy, which has been adopted to such an extent that the fixed interest portfolio is effectively a replicating portfolio for the guarantees and options within the fund.

Discount rates are set equal to the LIBOR curve plus a spread adjustment, which is an allowance for liquidity less investment expenses.

The GAWPF is being run so that over time the full 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, management actions can be considered either to merge the fund with another with-profits fund or, to convert to non-profit status, subject to receipt of the appropriate approvals.

1. Accounting Policies (continued)

1.24.5 Expense reserving

The Group has three Management Service Agreements ("MSA") in place for the administration of the in-force policies:

- An MSA between RAL and ReAssure UK Services Limited ("RUKSL") covering the administration of the ReAssure business;
- An MSA between RAL and HCL Insurance BPO Services Limited ("HCL"), whereby HCL performs the policy administration related to the ex-Barclays Life business; and
- An MSA between Ark Life and RUKSL.

The administration expense assumptions used for the calculation of the insurance liabilities within RAL have been set to the fees expected to be paid under the MSAs.

An additional provision is included in the Consolidated Statement of Financial Position for the actual costs expected to arise in the Group's service companies (RUKSL and ReAssure Companies Services Limited ("RCSL")); where those costs relate to managing the existing insurance business of the Group and are in excess of the service agreement fees provided for in RAL's insurance liabilities. These additional costs are projected over the lifetime of the business and a reserve is calculated using the same basis as that used to determine RAL's insurance liabilities, plus a prudent margin based on all costs required to manage the existing insurance business. Within RAL, no prudent margin is applied to expenses due to the fixed nature of the service company agreement.

The additional provision excludes Ark Life, as this entity reserves for expenses based on total planned expenses, as opposed to expected fees under a service company agreement.

OMWLA expenses have been projected over the lifetime of the OMWLA business, based on the unit costs calculated from the three year expense plan, assuming OMWLA costs reduce following migration. This expense risk is then transferred to RAL as part of the IGR arrangement, excluding migration costs which remain in OMWLA. An additional expense provision is held at RGP level, to eliminate any credit being taken for future cost efficiencies in per policy expenses. This removes the impact of a post-migration cost base and the migration expenses expected to be incurred.

1.24.6 Liability adequacy testing

The Group's accounting policies for insurance contracts and investment contracts with DPF complies 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, and insurance contract AVIF intangible assets are assessed for impairment on an annual basis. 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 Consolidated Statement of Comprehensive Income.

Estimation techniques and assumptions are reviewed regularly, with any changes in estimates reflected in the Consolidated Statement of Comprehensive Income as they occur.

1.25 Investment contracts

Investment contracts without DPF 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 Consolidated Income Statement.

1. Accounting Policies (continued)

For unit-linked contracts issued by the Group, investment contracts without DPF represents the financial liability component of those contracts. This component is measured at current unit values, which reflect the fair values of the assets in the underlying unit-linked funds.

Investment contracts with DPF are recognised under and measured using the same approach as for insurance contracts with DPF, refer to note 1.24 above.

The Group 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 2019 or 2018 on derecognising these instruments.

1.26 Reinsurance

The Group 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 insurance risk are also structured to provide financing. Where, under such contracts, financing components are to be repaid in future years, the amount outstanding under the contract at the balance sheet date is classified as a liability to the reinsurer. Reinsurance contracts that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Reinsurance contracts with insufficient insurance risk transfer are accounted for as financial assets, or service contracts, depending on the nature of the agreement.

The reinsurers' share of insurance contract liabilities represents 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 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 Group may not receive all outstanding amounts due under the terms of the contract. Gains or losses on purchasing reinsurance are recognised in the Consolidated Income Statement at the date of purchase and are not amortised.

1.26.1 Intra-group retrocession arrangements ("IGRs")

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

1.27 Borrowings

The Group classifies its interest bearing borrowings as financial liabilities carried at amortised cost and these are recognised initially at fair value less any attributable transaction costs. Directly attributable transactions costs are amortised over the life of the borrowings. The difference between initial cost and the redemption value is amortised through the Consolidated Income Statement over the period of the borrowing using the effective interest method.

1. Accounting Policies (continued)

Borrowings are classified as either policyholder or shareholder borrowings. Policyholder borrowings are those borrowings where there is either no or limited shareholder exposure, for example, borrowings attributable to the Group's with-profit operations.

1.28 Provisions and contingent liabilities or assets

A provision is recognised when the Group 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 contingent liability is disclosed in the notes to the financial statements .

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

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

1.29 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 Group's shareholders.

1.30 Earnings per share

Basic earnings per share ("EPS") is calculated by dividing net income available to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, excluding the weighted average number of treasury shares.

For the diluted EPS, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares, such as convertible debt and share options granted to employees. Potential or contingent share issuances are treated as dilutive when their conversion to shares would decrease net EPS.

1.31 Exceptional items

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

1.32 Events after the balance sheet date

The consolidated financial statements are adjusted to reflect events that occurred provided they give evidence of conditions that existed at the reporting date.

1. Accounting Policies (continued)

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

1.33 Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board that makes strategic decisions.

2. Critical Accounting Estimates and Judgements

In the application of the Group'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 consolidated 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 Group discloses those judgements and estimates which are considered to potentially have the most material impact on the consolidated financial statements.

The key accounting judgements required to be made by the Group relate to the assessment of the significance of insurance risk transferred to the Group in determining whether a contract should be accounted for as an insurance or investment contract, determining whether there is any indication that AVIF or other customer relationship intangible assets might be impaired, the recognition of a defined benefit pension scheme asset in the Consolidated Statement of Financial Position, and the non-consolidation of certain collective investment schemes for which the Group 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 AVIF and other customer relationship intangible assets, the fair value of financial instruments and investment properties, and the measurement of defined benefit pension scheme obligations

2.1 Classification of insurance and investment contracts and the measurement of liabilities arising from insurance contracts and investment contracts with discretionary participating features

Contracts are classified in accordance with the accounting policy in note 1.6. Contracts that are considered to transfer significant insurance risk to the Group are classified as insurance contracts. Contracts that are not considered to transfer significant insurance risk to the Group are classified as investment contracts. The majority of investment contracts issued by the Group are unit linked investment 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 1.24. Unit linked investment contracts are measured in accordance with the accounting policy in note 1.25.

2. Critical Accounting Estimates and Judgements (continued)

Multiple assumptions are applied in the measurement of insurance contracts and investment contracts with DPF. Discount rate, longevity and expenses assumptions represent the greatest areas of estimation uncertainty.

The Group's liabilities for insurance contracts are predominantly annuities in payment, which are particularly sensitive to changes in the discount rate and longevity assumptions.

Additional reserves are held for insurance contracts at a group level, for expenses in excess of those reserved for at the solo level. For these reserves, assumptions are required to determine the part of the Group's expenses relating to the administration of the existing business of the solo entities and to allocate an appropriate proportion of these expenses to the various product types. Some judgement is applied in making these allocations. The reserve is particularly sensitive to the proportion of expenses allocated to annuities as these contracts run off more slowly than other product types.

The assumptions used to measure insurance contract liabilities are set out in note 26. Sensitivities are disclosed in note 43.

The Group is required to estimate the value of future guarantees and options for the with-profits contracts. These estimates are subject to 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). However, this risk of estimation uncertainty is offset, due to the fact that in all reasonably foreseeable circumstances, any change in the estimates of the value of options and guarantees will result in an offsetting movement in either 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 future guarantees and options in with-profits contracts is provided in note 26.

The measurement of investment contracts mainly consists of the value of the underlying units and is not subject to significant estimation uncertainty.

2.2 AVIF intangible assets

A recoverability assessment of the AVIF is required on an annual basis to confirm that its carrying value remains appropriate and that the asset is not subject to impairment. The assessment involves comparing the carrying value of the intangible assets with the present value of the best estimate cashflows arising from the policies originally acquired; the estimate of these cashflows involves consideration of a number of judgmental and sensitive assumptions including future investment performance, expected policy lapses and costs for policy administration. There was no impairment identified in the current year. Carrying values of intangible assets are disclosed in note 16.

2.3 Defined benefit pension scheme

A pension scheme surplus can only be recognised to the extent that the sponsoring employer can utilise the asset through a refund of surplus or a reduction in contributions. A refund is available to the Group where it has an unconditional right to a refund on a gradual settlement of liabilities over time until all members have left the scheme. A review of the Trust Deeds of the Group's pension scheme has been undertaken and it has been judged that the Group does have an unconditional right to the scheme surplus once the scheme is in wind up and all the liabilities have been settled therefore, providing the support the recognition of a surplus.

The valuation of defined benefit pension scheme obligations is calculated using actuarial valuations which incorporate a number of assumptions including discount rates, inflation rates, and expected future mortality. Due to the long term nature of the schemes, the measurement of the pension scheme obligation is sensitive to these assumptions.

Further details of the Group's pension schemes, including sensitivities are provided in note 30.

2. Critical Accounting Estimates and Judgements (continued)

2.4 Non-consolidation of entities in which the group holds more than the majority of voting rights

Under IFRS 10 'Consolidated Financial Statements', the Group assesses whether it has control over certain collective investment schemes and applies judgement at each reporting period to determine whether the Group controls these entities. The principle of control sets out the following three elements of control: power over the investee; exposure or rights to variable returns from involvement with the investee; and the ability to use power over the investee to affect the amount of the investor's returns. Whilst holding the majority of voting rights is a potential indicator of control, the Group undertakes a full assessment of control on a case by case basis by reference to numerous other factors in order to determine whether control exists.

As at 31 December 2019, the Group holds investments in fourteen collective investment schemes in which it has the majority of the voting rights. These are not consolidated into the financial statements of the Group as the definition of control under IFRS 10 is not judged to have been satisfied in relation to these entities when looking at other factors such as whether the Group is able to influence the activities of the schemes, or to unilaterally appoint and remove key management personnel. The carrying value of these schemes reported in the financial statements of the Group as at 31 December 2019 is £4,200m (2018: £3,000m). If these collective investment schemes were consolidated both assets and liabilities would increase by £800m (2018: £600m).

2.5 Fair value of assets and liabilities

The Group holds financial assets and liabilities which are measured in the Consolidated 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 fair value hierarchy gives the highest priority to quoted process in active markets (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). These inputs reflect the Group's own assumptions about market pricing using the best internal and external information available. Both Level 2 and Level 3 financial instruments require the use of estimates to determine fair value, with those financial instruments classified as Level 3 being most subject to estimation uncertainty. Note 20 provides information about the sensitivity of the measurement of financial instruments classified as Level 3 in the fair value hierarchy against certain criteria which have been identified as being the key areas of estimation uncertainty; namely discount rate, market value and mortality assumptions.

2.6 Fair value of investment properties

The Group holds investments in properties measured at fair value in the Consolidated Statement of Financial Position. Investment properties are classified as Level 3 in the fair value hierarchy and their measurement is subject to estimation uncertainty. The Group's interest in residential properties arising from equity release income plan (ERIP) contracts is measured on a reversionary basis. Reversionary value represents the Group's interest in the residential property of policyholders who have previously entered into an Equity Release Income Plan ("ERIP") policy. The reversionary basis represents the Group's best estimate of the fair value having regard to the policyholders' lifetime lease. This measurement basis requires the Group to apply judgement when determining appropriate reversionary values and mortality assumptions and is particularly subject to estimation uncertainty and a range of possible fair values. Note 20 provides information about the sensitivity of the measurement of investment properties against certain criteria which have been identified as being the key areas of estimation uncertainty; namely discount rate and mortality assumptions.

2. Critical Accounting Estimates and Judgements (continued)

2.7 Operating profit

Operating profit is the Group's non-GAAP measure of performance, intended to provide stakeholders with an appropriate assessment of the core long-term performance of the Group, unaffected by short-term economic volatility and one-off impacts that act to distort the underlying performance of the Group. The Group is required to apply judgment in determining which items to include in its operating profit in accordance with the accounting policy detailed in note 3. When considering the difference between actual and expected experience for economic items, and the impacts of changes in economic assumptions on the valuation of liabilities, assumptions made in relation to long term economic variables are a source of estimation uncertainty.

3. Restatement of Prior Year Reserve Balances

As detailed in the basis of preparation this is the first year of preparing Consolidated Financial Statements. However, the Group has previously prepared statutory accounts for the legal entities included within these financial statements. Provided below is an overview of restatements from 31 December 2018 amounts reported the underlying statutory accounts.

a) Deferred tax assets and liabilities without a right of offset were previously presented net in the Statement of Financial Position in error. This error has now been corrected such that deferred tax assets and liabilities are now presented gross in the Consolidated Statement of Financial Position. This has resulted in the presentation of an £87.9m deferred tax liability in 2017 and a £5.9m deferred tax liability in 2018 (both of which were previously presented within deferred tax assets). This gross presentation of policyholder and shareholder tax has also been reflected in the Consolidated Income Statement. The total amount of tax charged to the Consolidated Income Statement has not changed as a result of this restatement. Tax attributable to policyholders' returns is now shown as £9.1m and tax attributable to the shareholders as £(22.1)m.

b) During 2019, two issues were identified on annuity policies. The first issue relates to cases where there had been a notification of death on the original life and a separate spouse policy created, but the original policy had not been terminated from the Group's policy administration system and remained in-force for the Technical Provision calculations. The second issue relates to cases where not all coverage records were terminated when a policy was terminated from the Group's administration system, and therefore the policy remained in-force for the technical provisions calculations. Investigations into these issues have now been completed, and under IAS 8 this has been assessed by management as a material error requiring prior period adjustments for both 2017 and 2018. The 2017 impact to the Consolidated Income Statement is £5.7m with a £(1.1)m impact to tax. The 2018 impact to the Consolidated Income Statement is £44.3m with a £(8.4)m impact to tax. The adjustment also resulted in a £0.8m decrease in deferred tax asset.

c) The Group 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 without DPF. The impact of this change is on the presentation of the Consolidated Income Statement only and does not have any impact on the profit previously reported or on tax. Premiums have been adjusted by £32.9m, claims have been adjusted by (£235.7m) and these changes are fully offset by a corresponding movement in the change in investment contract liabilities without DPF. This error does not have a tax impact.

d) Investment properties valued on a reversionary basis were recorded at fair value less selling costs in error and their values have now been restated at fair value. This resulted in additional profit after tax in 2018 of £0.2m. Changes to the value of investment properties valued on a reversionary basis also results in changes to the value of the derivative liability referred to as the ERIP total return swap. The impact on 2017 was immaterial at the Group level and has not been restated. This error also has an on-material impact on tax.

3. Restatement of Prior Year Reserve Balances (continued)

e) Investment assets were incorrectly classified as Cash and Cash Equivalents, the 2018 impact is £789.7m and the 2017 impact was £1,099.0m. These assets are comprised of treasury bills and certificates of deposit which have a maturity date of greater than 3 months therefore, in accordance with the accounting policies of the Group and IAS 7 'Statement of Cash flows', they cannot be classed as Cash Equivalents. These assets have been restated as Debt Securities in the Consolidated Statement of Financial Position. This error does not have a tax impact.

		As previously reported	Restated
Income Statement			
		2018	2018
	Restatement reference	£m	£m
Gross premiums written	c	447.4	480.3
Investment Income	d	(1,199.6)	(1,199.4)
Policyholder claims	c	(1,865.6)	(2,101.3)
Change in insurance contract liabilities	b	2,044.7	2,089.7
Change in investment contract liabilities	c	(877.8)	825.8
Change in reinsurers' share of insurance contract liabilities	b	(130.6)	(131.3)
Profit before tax		**60.4**	**105.0**
Tax on profit for the year	b	(4.6)	(13.1)
Tax attributable to policyholders' returns	a	-	9.1
Profit before tax attributable to the shareholders	**a**	**-**	**109.1**
Tax attributable to the shareholders	a	-	(22.1)
Profit for the year attributable to equity holders		**55.8**	**92.0**
Earnings per share			
From continuing operations:			
Basic and diluted (pence per share)		7.64	9.20

The above restated earnings per share reflect the restated profit for the year and the revised number of shares as explained in note 40.

Statement of Other Comprehensive Income	As previously reported	Restated
	2018	2018
	£m	£m
Profit for the year	**55.8**	**92.0**
Total comprehensive income for the year	**70.2**	**106.4**

3. Restatement of Prior Year Reserve Balances (continued)

Statement of Financial Position	Restatement reference	As previously reported 2018 £m	Restated 2018 £m
Investment property	d	857.9	858.7
Debt securities	e	19,199.4	19,989.2
Reinsurers' share of insurance contract liabilities	b	1,765.7	1,764.3
Deferred tax asset	a	58.2	63.3
Cash and cash equivalents	e	2,137.6	1,347.9
Total assets		**44,275.3**	**44,280.0**
Liabilities under insurance contracts	b	21,192.5	21,141.0
Derivative liabilities	d	112.5	113.0
Deferred tax liability	a	-	5.9
Current tax liability	b	40.8	49.5
Total liabilities		**41,819.5**	**41,783.3**
Net assets		2,455.8	2,496.7
Retained earnings		934.4	975.0

Statement of Financial Position	Restatement reference	As previously reported 1 Jan 2018 £m	Restated 1 Jan 2018 £m
Debt securities	e	21,208.0	22,307.0
Reinsurers' share of insurance contract liabilities	b	1,890.2	1,889.4
Deferred tax asset	a	23.9	111.8
Cash and cash equivalents	e	3,151.5	2,052.5
Total assets		**49,813.8**	**49,900.9**
Liabilities under insurance contracts	b	23,230.3	23,223.8
Current tax liability	b	190.6	191.7
Deferred tax liability	a	-	87.9
Total liabilities		**46,507.2**	**46,589.6**
Net assets		3,306.6	3,311.3
Retained earnings		1,785.5	1,790.1

3. Restatement of Prior Year Reserve Balances (continued)

Statement of changes in equity	Restatement reference	As previously reported 2018 £m Retained earnings	2018 £m Total Equity	Restated 2018 £m Retained earnings	2018 £m Total Equity
1 January 2018		1,785.5	3,306.6	1,790.1	3,311.3
Profit for the financial year	b, d	55.8	55.8	92.0	92.0
Total comprehensive income for the year		69.9	70.2	105.9	106.4
At December 2018		**934.4**	**2,455.8**	**975.0**	**2,496.7**

Statement of Cash flows	**As previously reported** 2018 £m	**e) Investment cash reclass** 2018 £m	**Restated** 2018 £m
Cash flows from operating activities			
Cash used in operating activities	94.8	309.3	404.1
Net cash flows (used in)/from operating activities	**(93.9)**	**309.3**	**215.4**
Net increase/(decrease) in cash and cash equivalents	(1,016.6)	309.3	(707.3)
Cash and cash equivalents at the beginning of the year	3,151.5	(1,099.0)	2,052.5
Cash and cash equivalents at the end of the year	**2,137.6**	**(789.7)**	**1,347.9**

4. Operating Segments

The Group defines and presents operating segments based on the information which is provided to the Board therefore, segmental information in this note is presented on a different basis from profit or loss in the Consolidated Financial Statements.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with other components of the Group.

For management purposes, the Group is organised into business units based on their products and services. Business units are then aggregated where they share similar economic characteristics including the nature of products and services, types of customers and the nature of the regulatory environment. Following aggregation, ReAssure Life is considered to be the Group's only reportable segment, within which all of the Group's UK insurance activities are reported. The 'Unallocated Group' segment is comprised of all other activities that do not meet the threshold requirements for individual reporting. These include the Irish insurance activities (Ark Life) and other management service entities that exist within the Group, including actual costs incurred in excess of the MSA (see note 1.24.5), as well as all consolidation adjustments, with the exception of the elimination of the IGR between RAL and OMWLA as this relates entirely to insurance business.

There are some specific, differences between the presentation of the segmental performance and the Consolidated Financial Statements. Revenues or expenses that are not directly attributable to a particular segment are allocated between segments where there is a reasonable basis for doing so. Inter-segment transactions are set on an arm's length basis in a manner similar to transactions with third parties. Segmental results include those transfers between business segments which are then eliminated on consolidation.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in notes 1 and 2.

Operating profit: segmental performance

The Group uses an internal metric, operating profit, to evaluate the performance of the Group on a segmental basis. Operating profit is a non-GAAP measure of performance, intended to provide stakeholders with an appropriate assessment of the core long-term performance of the Group, unaffected by short-term economic volatility and one-off impacts that act to distort the underlying performance of the Group.

Operating profit is net of policyholder taxes and excludes the impact of the following items:

- The difference between the actual and expected experience for economic items and the impacts of changes in economic assumptions on the valuation of liabilities;
- Amortisation and impairments of intangible assets;
- External financing costs;
- Gains or losses in relation to the disposal or acquisition of subsidiaries, associates and joint ventures (net of related costs of disposal);
- Impairment of investments in subsidiaries (in ReAssure Life, adjusted for upon consolidation), associates or joint ventures;
- Dividends received from subsidiaries (in ReAssure Life, adjusted for upon consolidation), associates and joint ventures;
- Costs in relation to significant one-off regulatory change;
- Integration, restructuring and other significant one-off projects; and
- Any other items which, in the Directors' view, should be disclosed separately to enable a better understanding of the Group's financial performance.

4. Operating Segments (continued)

The acquisitive strategy of the Group results in significant one off costs being incurred for integration projects and the creation of AVIF intangible assets which are subject to on-going amortisation charges, incurred over the lifetime of the policies acquired. Other significant one off costs include restructuring costs associated with the initial public offering and investments in cost savings projects. The Group considers that whilst the inclusion of such items in the Consolidated Financial Statements provides stakeholders with useful information with which to assess the overall performance of the Group, the operating profit measure provides a more appropriate view of the underlying performance of the operating segments.

Operating profit is also considered to provide a more appropriate, long term view of the performance of the Group as it enables stakeholders to assess the performance of the operating segments inclusive of the impact of experience variances and changes to assumptions for non-economic items such as mortality and expenses, whilst removing short term economic volatility via the exclusion of experience variances and changes to assumptions for economic items. Operating profit is a pre-tax measure of performance.

Operating profit is more closely aligned with the acquisitive strategy of the approach taken by management to monitor performance.

The operating profit methodology was amended during 2019 to ensure consistent exclusion of economic variances; the impact of changes in economic assumptions relating to the group expense provision are now excluded from operating profit, as is unplanned investment income across all Group subsidiaries. The 2018 operating profit result has been restated for these changes. This has resulted in a reduction to operating profit of £19.7m. There was no change in profit before tax as a result of this change. This error does not have a tax impact.

4. Operating Segments (continued)

Segmental income statement

	ReAssure Life		Unallocated Group		Total	
	2019	2018 (restated*)	2019	2018 (restated*)	2019	2018 (restated*)
	£m	£m	£m	£m	£m	£m
Revenue						
Gross premiums written	395.1	424.8	52.3	55.5	447.4	480.3
Less: premiums ceded to reinsurers	(357.2)	(363.5)	(37.3)	(39.6)	(394.5)	(403.1)
Net premium revenue	**37.9**	**61.3**	**15.0**	**15.9**	**52.9**	**77.2**
Revenue from other activities	168.9	166.4	41.5	45.0	210.4	211.4
Investment income/(expense)	1,366.9	1,393.6	40.6	15.7	1,407.5	1,409.3
Net fair value movements on financial assets/liabilities held	3,556.2	(2,532.8)	250.8	(75.9)	3,807.0	(2,608.7)
Other income	2.1	6.2	3.2	0.8	5.3	7.0
Net income/(expense)	**5,132.0**	**(905.3)**	**351.1**	**1.5**	**5,483.1**	**(903.8)**
Expenses						
Policyholder claims	(1,905.6)	(2,042.6)	(44.7)	(58.7)	(1,950.3)	(2,101.3)
Less: claims recovered from reinsurers	406.2	428.4	31.5	33.7	437.7	462.1
Change in insurance contract liabilities	(32.9)	2,127.5	(186.9)	(37.8)	(219.8)	2,089.7
Change in investment contract liabilities without DPF	(2,488.0)	784.4	(275.7)	41.4	(2,763.7)	825.8
Change in investment contract liabilities with DPF	(139.1)	254.8	-	-	(139.1)	254.8
Change in reinsurers' share of insurance contract liabilities	(106.3)	(197.4)	190.7	66.1	84.4	(131.3)
Transfer to unallocated divisible surplus	(14.0)	26.0	-	-	(14.0)	26.0
Net policyholder claims and benefits incurred	**(4,279.7)**	**1,381.1**	**(285.1)**	**44.7**	**(4,564.8)**	**1,425.8**
Administration expenses	(261.3)	(270.5)	(228.6)	(139.5)	(489.9)	(410.0)
Total (expense)/income	**(4,541.0)**	**1,110.6**	**(513.7)**	**(94.8)**	**(5,054.7)**	**1,015.8**
Profit/(loss) before finance costs and tax	**591.0**	**205.3**	**(162.6)**	**(93.3)**	**428.4**	**112.0**
Finance costs	(12.1)	(7.8)	(30.0)	0.8	(42.1)	(7.0)
Profit/(loss) before tax	**578.9**	**197.5**	**(192.6)**	**(92.5)**	**386.3**	**105.0**
Policyholder Tax	(51.9)	11.2	(3.6)	(2.1)	(55.5)	9.1
Profit/(loss) before tax (attributable to owners of the Group)	**527.0**	**208.7**	**(196.2)**	**(94.6)**	**330.8**	**114.1**

4. Operating Segments (continued)

Segmental income statement (continued)

	ReAssure Life		Unallocated Group		Total	
	2019	2018 (restated*)	2019	2018 (restated*)	2019	2018 (restated*)
	£m	£m	£m	£m	£m	£m
Less:						
Economic experience and assumptions changes on long term business	(129.8)	(15.1)	(6.9)	(8.3)	(136.7)	(23.4)
Amortisation and impairments of intangible assets	74.1	86.9	32.9	34.5	107.0	121.4
External financing costs	-	-	31.3	0.2	31.3	0.2
Gains or losses on disposal of subsidiaries, associates and joint ventures (net of related costs of disposal)	-	-	-	(3.0)	-	(3.0)
Impairment of investments in subsidiaries, associates or joint ventures	(3.7)	12.9	3.7	(12.9)	-	-
Dividends received from subsidiaries, associates and joint ventures	(8.1)	(22.3)	8.1	22.3	-	-
Mandatory regulatory change	-	-	2.7	-	2.7	-
Integration, restructuring and other significant one-off projects	84.3	45.6	53.9	3.1	138.2	48.7
Any other items which, in the Directors' view, should be disclosed separately	(68.3)	-	0.7	-	(67.6)	-
Total Adjustments	**(51.5)**	**108.0**	**126.4**	**35.9**	**74.9**	**143.9**
Operating Profit/(loss)	**475.5**	**316.7**	**(69.8)**	**(58.7)**	**405.7**	**258.0**

Other ReAssure Life items of £68.3m relates to the impact of extending the Matching Adjustment portfolio with the transfer of additional annuities into the fund. This has been considered as a one-off impact on the Consolidated Income Statement. ReAssure Life mandatory regulatory change costs relate to IFRS 17 project costs.

4. Operating Segments (continued)

	ReAssure Life		Unallocated Group		Total	
	2019	2018 (restated*)	2019	2018 (restated*)	2019	2018 (restated*)
	£m	£m	£m	£m	£m	£m
Assets						
Acquired value of in-force business	93.3	97.4	463.3	338.3	556.6	435.7
Goodwill	-	-	4.8	-	4.8	-
Deferred acquisition costs	543.3	566.2	(26.8)	24.7	516.5	590.9
Investments in group undertakings	473.3	469.6	(473.3)	(469.6)	-	-
Property, plant and equipment	4.9	3.7	12.5	14.1	17.4	17.8
Investment property	600.2	720.8	115.2	137.9	715.4	858.7
Financial assets	47,331.5	37,005.3	1,804.3	1,548.9	49,135.8	38,554.2
Assets relating to reinsurance activities	2,540.0	1,711.6	688.6	139.5	3,228.6	1,851.1
Insurance contract receivables	52.5	20.5	-	-	52.5	20.5
Cash and cash equivalents	1,538.6	838.1	438.3	509.8	1,976.9	1,347.9
Other assets	832.1	486.9	(147.5)	116.3	684.6	603.2
Reportable segment assets	**54,009.7**	**41,920.1**	**2,879.4**	**2,359.9**	**56,889.1**	**44,280.0**
Liabilities						
Insurance contract liabilities	(22,007.1)	(20,913.9)	(771.1)	(628.6)	(22,778.2)	(21,542.5)
Investment contract liabilities	(28,421.5)	(18,098.5)	(1,516.9)	(1,454.2)	(29,938.4)	(19,552.7)
Borrowings	(243.4)	(244.3)	(731.2)	244.3	(974.6)	-
Liabilities relating to reinsurance activities	(151.7)	(503.4)	(4.4)	350.3	(156.1)	(153.1)
Payables related to direct insurance contracts	(44.0)	(27.3)	(1.0)	(1.2)	(45.0)	(28.5)
Other Liabilities	(575.7)	(363.3)	(197.1)	(143.2)	(772.8)	(506.5)
Reportable segment liabilities	**(51,443.4)**	**(40,150.7)**	**(3,221.7)**	**(1,632.6)**	**(54,665.1)**	**(41,783.3)**
Reportable segment net assets	**2,566.3**	**1,769.4**	**(342.3)**	**727.3**	**2,224.0**	**2,496.7**

4. Operating Segments (continued)

Geographical Information

	Revenue/ (Expense)	Net Assets
	£m	**£m**
As at 31 December 2019		
United Kingdom	5,159.6	2,025.6
Europe	323.5	198.4
	5,483.1	**2,224.0**
As at 31 December 2018 (restated*)		
United Kingdom	(895.5)	2,301.8
Europe	(8.3)	194.9
	(903.8)	**2,496.7**

*refer to note 3 for details of restatement

5. Material Profit or Loss Items

The group has identified a number of items which are material due to the significance of their nature and/or amount. These are listed separately here to provide a better understanding of the financial performance of the group.

	2019	2018
	£m	**£m**
Staff costs (see note 13)	144.2	96.1
Amortisation of AVIF (see note 15)	33.9	34.2
	178.1	**130.3**

All of the items above are included within Administrative expenses within the Consolidated Income Statement.

6. Premiums

a) Gross premiums written

Gross premium income is made up of:

	2019 £m	2018 (restated*) £m
Insurance contracts	440.5	468.4
Participating investment contracts	6.9	11.9
	447.4	**480.3**
Premiums ceded to reinsurers	(394.5)	(403.1)
Net premium revenue	**52.9**	**77.2**

b) Reinsurance balance

The aggregate reinsurance balance (premiums ceded to reinsurers, reinsurance recoveries and changes in reinsurers' share of insurance and investment contract liabilities) amounted to income of £127.6m for the year ended 31 December 2019 (2018: expense of £72.3m).

	2019 £m	2018 £m
Premiums ceded to reinsurers	(394.5)	(403.1)
Reinsurance recoveries	437.7	462.1
Changes in reinsurers' share of insurance and investment contract liabilities	84.4	(131.3)
Income/(Expense)	**127.6**	**(72.3)**

*refer to note 3 for details of restatement

7. Revenue from Other Activities

	2019 £m	2018 £m
Annual management charges applied to linked funds	177.6	172.1
Revenue generated from third party administration contracts	24.6	27.6
Policy administration fees	4.4	6.2
Bid/offer spread and other income	3.8	5.5
	210.4	**211.4**

The weighted average rates of annual management charges in 2019, excluding charges made at policy level via unit deductions, were 0.97% (2018: 0.96%).

These contracts do not have a minimum stated term. A customer can cancel an investment contract at any time after contract inception, subject to payment of 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 2018 and 2019 relates to performance obligations satisfied in the previous year.

8. Investment Income/(Expense)

	2019 £m	2018 (restated*) £m
Rental income from investment property	**37.7**	**36.4**
Income from other investments:		
Debt securities	706.6	753.1
Equity securities	617.9	539.0
Interest income on loans and deposits at amortised cost	0.1	0.1
Other	45.2	80.7
Total income from other investments	**1,369.8**	**1,372.9**
Net gains/(losses) on the realisation of investments:		
Investment properties	45.0	5.6
Financial assets at fair value through profit or loss upon initial recognition:		
Debt securities	121.6	(20.4)
Equity securities	368.6	1,467.7
Financial assets at fair value through profit or loss, held for trading:		
Derivatives	(42.7)	(26.8)
Other	2.4	35.0
Total net gains on the realisation of investments	**494.9**	**1,461.1**
Net unrealised gains/(losses) on investments:		
Investment properties	(58.4)	22.7
Financial assets at fair value through profit or loss upon initial recognition:		
Debt securities	988.6	(883.9)
Equity securities	2,370.7	(3,201.3)
Financial assets at fair value through profit or loss, held for trading:		
Derivatives	(8.4)	(4.2)
Other	19.6	(3.1)
Total net unrealised gains/(losses) on investments	**3,312.1**	**(4,069.8)**
Total investment income/(expense)	**5,214.5**	**(1,199.4)**

Included within other net gains/losses on the realisation of investments above is the impact of foreign exchange on short-term payables and receivables.

*refer to note 3 for details of restatement

9. Other Income

	2019 £m	2018 £m
Profit on disposal of subsidiary (see note 38)	-	3.0
Other Income	5.3	4.0
	5.3	**7.0**

10. Claims and Benefits

	2019 £m	2018 (restated*) £m
Claims and benefits paid, before reinsurance		
Insurance contracts	1,669.8	1,788.4
Participating investment contracts	280.5	312.9
	1,950.3	**2,101.3**
Reinsurance recoveries		
Insurance contracts	**(437.7)**	**(462.1)**
Claims and benefits paid, after reinsurance		
Insurance contracts	1,229.9	1,324.5
Participating investment contracts	282.7	314.7
	1,512.6	**1,639.2**

*refer to note 3 for details of restatement

a) Claims on investment contracts

In relation to non-participating investment contracts the Group does not account for claims paid as a claim expense in the Consolidated Income Statement. Such transactions are recognised as a deduction in investment contract liabilities on the Consolidated Statement of Financial Position and accounted for as deposits repaid.

11. Administration Expenses

	2019 £m	2018 £m
Amortisation of AVIF asset	33.9	34.2
Amortisation of DAC asset	73.2	87.3
Investment management expenses	42.6	55.8
Staff costs	144.2	96.1
Contractors and consultancy	92.5	43.8
Outsourcing	32.4	29.3
FX differences arising on conversion of intercompany dividend payments	-	0.3
Other administration expenses	71.1	63.1
	489.9	**410.0**

Consultancy and contractor costs relate to major projects such as L&G migration and Swiss Re separation.

Other administrative expenses includes facilities overheads, software costs and other miscellaneous expenditure.

12. Finance Costs

	2019 £m	2018 £m
Interest costs on deposits received from reinsurers	5.2	6.3
Interest expense on lease liabilities	0.3	0.5
Interest costs on borrowings (see note 28)	31.5	-
Net interest expense on defined benefit obligation (see note 30)	0.1	0.2
HMRC interest payments	5.0	-
	42.1	**7.0**

The HMRC interest payments totalling £5.0m relate to a provision in relation to a dispute with HMRC over the tax treatment of an asset.

13. Auditors' Remuneration

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

	2019 £m	2018 £m
Audit services:		
Fees payable for the audit of the Group's annual financial statements	0.5	0.1
Fees payable for the audit of the Group's subsidiaries	1.7	0.9
Total Audit Fees	**2.2**	**1.0**
Non-audit services:		
Audit related assurance services	0.5	0.9
Other assurance services	1.4	8.2
Total non-audit fees	**1.9**	**9.1**
Total fees	**4.1**	**10.1**

Audit related services include the audit of regulatory returns, audit of reporting to the Group's parent company and the audit of embedded value reporting. Non-audit assurance services includeds fees for work completed in 2018 in relation to the Historic Financial Information (HFI) prepared for the purposes of supporting an Initial Public Offering (IPO).

14. Staff Costs

All staff are employed by RUKSL, RCSL, Ark Life Assurance Company DAC (Ireland), Old Mutual Wealth Life Assurance Limited (OMWLA) or ReAssure FSH UK Limited (RFSH).

	2019 £m	2018 £m
Wages and salaries	125.2	82.2
Social security costs	10.9	7.8
Other pension costs	8.1	6.1
	144.2	**96.1**

Other pension costs relate to the defined benefit and the defined contribution scheme. There were outstanding contributions of £nil (2018: £nil,) at the year end date.

The average number of persons employed by the Group is shown below:

	2019	2018
Customer Services	1,066.0	697.7
HR and Administration	1,124.3	1,167.6
Finance, Actuarial and Risk	301.6	257.8
	2,491.9	**2,123.1**

Employee numbers have been calculated using a monthly average that takes into account recruitment, leavers, transfers, acquisitions and disposals of businesses during the year.

15. Tax on Profit for the Year

a) Analysis of (charge)/credit in the year

	2019 £m	2018 (restated*) £m
Current taxation:		
UK corporation tax	(80.4)	(41.4)
Adjustments in respect of prior years	2.5	2.7
Total current tax charge for the year	**(77.9)**	**(38.7)**
Deferred taxation:		
Origination and reversal of timing differences	15.9	16.6
Business transfer	0.2	-
Tax charge attributable to the shareholders	(61.8)	(22.1)
Tax credit/(charge) attributable to the policyholders	(55.5)	9.1
Total tax charge for the year	**(117.3)**	**(13.0)**

*refer to note 3 for details of restatement

15. Tax on Profit for the Year (continued)

b) Reconciliation of tax charge on profit attributable to shareholders

The tax assessed for the year is lower (2018: higher) than the standard rate of corporation tax in the UK of 19% (2018: 19%). The differences are explained below:

	2019 £m	2018 (restated*) £m
Profit before tax	**386.3**	**105.0**
Tax on profit on ordinary activities at 19.00% (2018: 19.00%)	(73.4)	(19.9)
Effects of:		
Non-taxable dividend income	-	(0.1)
Income not subject to tax	0.5	-
Permanent disallowable items	(3.4)	(0.4)
Transfer pricing adjustments	3.3	3.4
Adjustments in respect of prior years	2.5	2.7
Different basis of taxation for UK life insurance companies	4.5	(8.7)
Movement in recognition of deferred tax asset	(1.8)	3.0
Presentational change for interest on uncertain tax provision	3.9	(5.1)
Foreign tax relief	1.6	2.7
Other	0.7	1.7
Impact of rate change	0.1	(3.2)
Tax charge attributable to the policyholders	(0.3)	1.8
Total tax charge for the year attributable to the shareholders	**(61.8)**	**(22.1)**
Effective tax rate	16.0%	21.0%

*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%.

Subsequent to year end, a reversal of these plans and maintenance of the current 19% rate was announced in the UK Budget, March 2020. The full impact of this revision is yet to be quanitified however, the Group does not expect this to have a material financial impact.

16. Intangible Assets

	Goodwill £m	Acquired Value of In-Force Business £m
Year ended 31 December 2019		
Cost or valuation		
At 1 January	-	846.1
Additions on acquisition of Old Mutual Wealth (see note 38)	4.8	148.4
Deferred tax adjustments	-	6.4
At 31 December	**4.8**	**1,000.9**
Accumulated amortisation		
At 1 January	-	410.4
Charge for the year	-	33.9
At 31 December	**-**	**444.3**
Net book value	**4.8**	**556.6**

	Goodwill £m	Acquired Value of In-Force Business £m
Year ended 31 December 2018		
Cost or valuation		
At 1 January	-	846.1
At 31 December	**-**	**846.1**
Accumulated amortisation		
At 1 January	-	376.2
Charge for the year	-	34.2
At 31 December	**-**	**410.4**
Net book value	**-**	**435.7**

a) Goodwill

Goodwill arose from the acquisition of Old Mutual Wealth on 31 December 2019 (see note 38). This represents the value of the workforce assumed and the potential for future value creation, which relates to the benefit to the Group from expense, capital and tax synergies.

The value of the goodwill has been calculated as at 31 December 2019 via an assessment of the fair value of the net assets acquired. In future reporting periods, this asset will be subject to impairment testing and the value in use will be determined as the present value of certain cash flows associated with the Old Mutual Wealth business. These cash flows will be consistent with those adopted by management in the Group’s operating plan. The underlying assumptions of these projections will include management’s best estimates with regards to mortality, morbidity, persistency, expense valuation and interest rates.

b) Acquired value of in-force business

AVIF assets are amortised consistently with the measurement of the related liabilities. The total average period over which the AVIF assets are amortised is between 6 and 48 years. Annually, each AVIF asset is reviewed for impairment in accordance with the criteria outlined within note 1.21. There has been no impairment charge recorded in 2019 (2018: £nil). Refer to note 26 for details on the assumptions used in the AVIF impairment assessment.

17. Deferred Acquisition Costs

	2019 £m	2018 £m
At 1 January	590.9	27.9
Additions	-	650.0
Amortisation	(73.2)	(87.4)
Impact of foreign exchange	(1.2)	0.4
At 31 December	**516.5**	**590.9**

During 2017, the Group received a capital contribution of £650.0m to fund the purchase of approximately 1.1 million policies from Legal and General. On 1 January 2018 the Group entered into a Risk Transfer Agreement ("RTA") for a block of unit linked and with-profit business from L&G, resulting in the creation of a Deferred Acquisition Costs ("DAC") intangible asset valued at the purchase price of £650.0m. It is anticipated that a Part VII arrangement will occur in relation to these policies during 2020.

The remainder of the balance relates to Ark Life, which had £32.9m of DAC in relation to long term business at the point of its acquisition by the Group in 2016.

DAC is amortised over the lifetime of the expected profits of the business. The average period over which the remaining DAC assets will be amortised is between 17 and 48 years. Annually, each DAC asset is reviewed for impairment, there has been no impairment charge in 2019 (2018: £nil).

18. Property, Plant and Equipment

a) Owner-occupied land and buildings

	2019 £m	2018 £m
Cost or valuation and net book value of owner-occupied land and buildings		
At 1 January	3.7	3.4
Revaluation	0.2	0.3
At 31 December	**3.9**	**3.7**

18. Property, Plant and Equipment (continued)

b) Property, plant and equipment

Included in the below are right-of-use assets under operating lease arrangements. See note 46.

	Land and Buildings £m	Computer equipment £m	Fixtures, fittings and office equipment £m	Total £m
Cost or valuation				
At 1 January 2019	9.0	25.1	4.5	38.6
Additions	-	0.3	-	0.3
Acquisition of Old Mutual Wealth	1.0	-	-	1.0
Reversal of impairment	1.5	-	-	1.5
Disposals	-	(0.1)	-	(0.1)
At 31 December 2019	**11.5**	**25.3**	**4.5**	**41.3**
Accumulated depreciation				
At 1 January 2019	2.8	18.5	3.2	24.5
Charge for the year	0.5	2.7	0.2	3.4
Disposals	-	(0.1)	-	(0.1)
At 31 December 2019	**3.3**	**21.1**	**3.4**	**27.8**
Carrying amounts				
At 31 December 2019	8.2	4.2	1.1	13.5
At 31 December 2018	**6.2**	**6.6**	**1.3**	**14.1**

	Land and Buildings £m	Computer equipment £m	Fixtures, fittings and office equipment £m	Total £m
Cost or valuation				
At 1 January 2018	10.6	24.3	5.4	40.3
Additions	0.1	1.3	1.3	2.7
Disposals	(1.7)	(0.5)	(2.2)	(4.4)
At 31 December 2018	**9.0**	**25.1**	**4.5**	**38.6**
Accumulated depreciation				
At 1 January 2018	3.3	15.5	3.8	22.6
Charge for the year	0.6	3.4	0.5	4.5
Disposals	(1.1)	(0.4)	(1.1)	(2.6)
At 31 December 2018	**2.8**	**18.5**	**3.2**	**24.5**
Carrying amounts				
At 31 December 2018	**6.2**	**6.6**	**1.3**	**14.1**
At 31 December 2017	7.3	8.8	1.6	17.7

19. Investment Property

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

	2019	2018 (restated*)
	£m	£m
Fair value at 1 January	858.7	846.9
Additions	2.4	2.4
Disposals	(135.9)	(25.4)
Change in fair value	(9.8)	34.8
Fair value at 31 December	**715.4**	**858.7**
Land and buildings at reversionary value	87.1	109.4
Land and buildings at open market value	628.3	749.3
	715.4	**858.7**

*refer to note 3 for details of restatement

a) 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.

(i) Assumptions

As the inward cash flows on these properties will not be received until the lifetime lease is no longer in force, which is usually upon the death of the policyholder, these interests are valued on a reversionary basis which is a discounted current open market value. The open market values of the properties are independently revalued every two years by members of the Royal Institution of Chartered Surveyors and in the intervening period are adjusted by reference to the Nationwide Building Society regional indices of house prices. The discount period is based on the best estimates of the likely date the property will become available for sale and the discount rate applied is determined by the general partner as its best estimate of the appropriate discount rate. No explicit allowance is made for house price inflation in the year through to their realisation.

Therefore, the key assumptions used in the valuation of the reversionary interests are the interest discount rate and the mortality assumption.

The interest discount rate was 5.00% (2018: 5.00%).

The mortality assumptions used to determine the expected date the property will become available for sale are:

	Tables	Long term improvements
2019		
Male lives	PML08_HAWP 95.40%	CMI_2017_M [2.00%]
Female lives	PFL08_HAWP 92.70%	CMI_2017_F [2.00%]
2018		
Male lives	PML08_HAWP 92.70%	CMI_2017_M [2.00%]
Female lives	PFL08_HAWP 96.30%	CMI_2017_F [2.00%]

19. Investment Property (continued)

The mortality assumption is based on the PML08_HAWP (2018: PML08_HAWP) table for males and the PFL08_HAWP (2018: PFL08_HAWP) table for females, adjusted to reflect the historic experience of the business concerned. The mortality rates are projected using future mortality improvements from the CMI Mortality Projection Model; the mortality improvements have been derived from the 2017 CMI model using a long-term rate of improvement of 2.00% for both males and females and a smoothing parameter S(k)=7.75. In addition, an allowance is made for ERIP policyholders leaving their properties before death and that is modelled as 35% of the mortality rate.

As at 31 December 2019 the Group had capital commitments in respect of investment properties of £0.9m (2018: £1.8m). There were no restrictions on the realisability of investment property or the remittance of income and proceeds of disposal (2018: £nil).

During the year there were no additions resulting from acquisitions through business combinations (2018: £nil).

(ii) Sensitivities

The tables below shows the sensitivity of the fair value of investment property at reversionary value to changes in unobservable inputs to a reasonable alternative.

Year ended:	Fair Value £m	Most significant unobservable input	Reasonable alternative	Positive impact £m	Negative impact £m
31 December 2019					
Investment property					
At reversionary value	87.1	Discount Rate	+/- 1.00%	(3.7)	3.9
		Mortality assumption	-5.00%		(0.7)
31 December 2018 (restated*)					
Investment property					
At reversionary value	109.4	Discount Rate	+/- 1.00%	(4.9)	4.7
		Mortality assumption	-5.00%	-	(0.9)

*refer to note 3 for details of restatement

b) Land and buildings at open market value

Policyholder investment property is held to earn rentals and/or capital appreciation and is 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 financially in a position to meet their obligations.

19. Investment Property (continued)

These assets are categorised as Level 3 of the fair value hierarchy because the inputs are unobservable. Refer to note 20 for more information on the different levels of the fair value hierarchy.

Land and buildings at open market value as at 31 December 2019 were valued by Knight Frank LLP or Savills, both firms of independent chartered surveyors. Because these assets are valued using net asset statements provided by independent third parties, no sensitivity analysis has been prepared.

Included within investment income for the year is £37.7m (2018: £36.4m) relating to rental income from investment properties. Included within administration expenses for the year is £3.1m of direct operating expenses relating to properties generating rental income (2018: £2.9m) and £nil in relation to properties not generating rental income (2018: £0.1m).

20. Financial Assets and Liabilities

a) IFRS 9 deferral

As set out in accounting policy in note 1.3, the Group has chosen to defer application of IFRS 9 due to its activities being predominantly connected with insurance.

To facilitate comparison with entities applying 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 four categories:

i. Solely Payments of Principal and Interest (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;
ii. Financial assets measured on a Fair Value Basis: assets which are managed and whose performance is evaluated on a fair value basis;
iii. Financial assets designated as measured at FVTPL: assets not managed on a fiar value basis but which the Groups expect to designate as fair value through profit or loss to eliminate an accounting mismatch with the related liabilities;
iv. Financial instruments held for trading: financial assets that meet the definition of held for trading in IFRS 9.

20. Financial Assets and Liabilities (continued)

a) IFRS 9 deferral (continued)

Financial assets

Fair Values	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	Financial assets designated as measured at FVTPL	**Total**	Financial instruments held for trading	**Total Fair Value Amount**
	£m	£m	£m	**£m**	£m	**£m**
As at 31 December 2019:						
Debt Securities	-	173.7	15,378.6	15,552.3	4,065.4	19,617.7
Equity Securities	-	-	-	-	14,578.3	14,578.3
Loans	3.8	-	1,118.5	1,122.3	-	1,122.3
Collective Investment Schemes	-	-	-	-	13,764.4	13,764.4
Other assets (excluding tax receivable)	599.3	-	-	599.3	-	599.3
Derivatives	-	-	-	-	53.1	53.1
Cash and cash equivalents	1,954.5	-	-	1,954.5	22.4	1,976.9
Total financial assets	**2,557.6**	**173.7**	**16,497.1**	**19,228.4**	**32,483.6**	**51,712.0**

Fair Values	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	Financial assets designated as measured at FVTPL	**Total**	Financial instruments held for trading	**Total Fair Value Amount**
	£m	£m	£m	**£m**	£m	**£m**
As at 31 December 2018:						
Debt Securities	-	38.2	15,524.4	15,562.6	4,426.6	19,989.2
Equity Securities	-	-	-	-	13,195.8	13,195.8
Loans	4.5	-	727.7	732.2	-	732.2
Collective Investment Schemes	-	-	-	-	4,623.3	4,623.3
Other assets (excluding tax receivable)	510.0	-	-	510.0	-	510.0
Derivatives	-	-	-	-	13.7	13.7
Cash and cash equivalents	1,347.9	-	-	1,347.9	-	1,347.9
Total financial assets	**1,862.4**	**38.2**	**16,252.1**	**18,152.7**	**22,259.4**	**40,412.1**

20. Financial Assets and Liabilities (continued)

a) IFRS 9 deferral (continued)

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

(i) Change in fair value 2018 to 2019

Financial assets	Financial assets that passed SPPI	Financial assets measured on a Fair Value Basis	Financial assets designated as measured at FVTPL	**Total**	Financial Instruments held for trading	**Total Fair Value Amount**
	£m	£m	£m	**£m**	£m	**£m**
Debt Securities	-	135.5	(145.8)	**(10.3)**	(361.2)	**(371.5)**
Equity Securities	-	-	-	**-**	1,382.5	**1,382.5**
Loans	(0.7)	-	390.8	**390.1**	-	**390.1**
Collective Investment Schemes	-	-	-	**-**	9,141.1	**9,141.1**
Other assets	89.3	-	-	**89.3**	-	**89.3**
Derivatives	-	-	-	**-**	39.4	**39.4**
Cash and cash equivalents	606.6	-	-	**606.6**	22.4	**629.0**
Total financial assets	**695.2**	**135.5**	**245.0**	**1,075.7**	**10,224.2**	**11,299.9**

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 (refer to note 43 for more information). Note that certain assets designated as measured on a fair value basis passed the SPPI test and so these are included in the table below. The financial assets are categorised by asset class with a carrying amount measured in accordance with IAS 39 measurement requirements (in the case of financial assets measured at amortised cost, before adjusting for any impairment allowances).

	As at 31 December 2019			
	Loans	**Other assets**	**Cash and cash equivalents**	**Debt Securities**
	£m	£m	£m	£m
AAA	-	-	1,127.5	960.5
AA	-	-	222.0	4,826.2
A	-	-	586.1	5,374.7
BBB	-	-	8.7	3,354.7
BB	-	-	-	13.0
B	-	-	-	-
CCC	-	-	-	-
Without external rating	3.8	599.3	10.2	7.8
Total	**3.8**	**599.3**	**1,954.5**	**14,536.9**

20. Financial Assets and Liabilities (continued)

a) IFRS 9 deferral (continued)

	As at 31 December 2018			
	Loans	Other assets	Cash and cash equivalents	Debt Securities
	£m	£m	£m	£m
AAA	-	-	508.4	871.8
AA	-	1.6	444.2	4,990.0
A	-	-	371.4	4,215.6
BBB	-	-	13.4	4,259.6
BB	-	-	-	124.3
B	-	-	-	-
CCC	-	-	-	-
Without external rating	4.5	508.4	10.5	-
Total	**4.5**	**510.0**	**1,347.9**	**14,461.3**

For assets that do not have low credit risk as determined by the Group 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 for the financial assets held by the Group. The financial assets are categorised by asset class with a carrying amount and fair value measured in accordance with IAS 39 measurement requirements.

	Carrying Amount	Fair Value
	£m	£m
As at 31 December 2019		
Loans	3.8	3.8
Other assets	599.3	599.3
Cash and cash equivalents	10.2	10.2
	613.3	**613.3**

	Carrying Amount	Fair Value
	£m	£m
As at 31 December 2018		
Loans	4.5	4.5
Other assets	508.4	508.4
Cash and cash equivalents	10.5	10.5
	523.4	**523.4**

20. Financial Assets and Liabilities (continued)

b) Carrying value and fair value by measurement category

	Carrying Amount £m	Fair Value £m
As at 31 December 2019		
Financial Assets		
Financial assets at fair value through profit and loss designated upon initial recognition	47,960.4	47,960.4
Derivatives at fair value through profit and loss	53.1	53.1
Loans at fair value through profit and loss	1,118.5	1,118.5
Loans at amortised cost	3.8	3.8
Total financial assets	**49,135.8**	**49,135.8**
Included in Consolidated Statement of Financial Position as follows:		
Listed investments:		
Shares and other variable yield securities	14,578.3	14,578.3
Debt securities and other fixed income securities	19,617.7	19,617.7
Total listed investments	**34,196.0**	**34,196.0**
Unlisted investments:		
Units in unit trusts	13,764.4	13,764.4
Loans secured by mortgages	0.2	0.2
Other loans	1,122.1	1,122.1
Derivatives	53.1	53.1
Total unlisted investments	**14,939.8**	**14,939.8**
Total financial investments	**49,135.8**	**49,135.8**

20. Financial Assets and Liabilities (continued)

b) Carrying value and fair value by measurement category (continued)

	Carrying Amount £m	Fair Value £m
As at 31 December 2018		
Financial Assets		
Financial assets at fair value through profit and loss designated upon initial recognition	37,808.3	37,808.3
Derivatives at fair value through profit and loss	13.7	13.7
Loans at fair value through profit and loss	727.7	727.7
Loans at amortised cost	4.5	4.5
Total financial assets	**38,554.2**	**38,554.2**
Included in Consolidated Statement of Financial Position as follows:		
Listed investments:		
Shares and other variable yield securities	13,195.8	13,195.8
Debt securities and other fixed income securities	19,989.2	19,989.2
Total listed investments	**33,185.0**	**33,185.0**
Unlisted investments:		
Units in unit trusts	4,623.3	4,623.3
Loans secured by mortgages	0.4	0.4
Other loans	731.8	731.8
Derivatives	13.7	13.7
Total unlisted investments	5,369.2	5,369.2
Total financial investments	**38,554.2**	**38,554.2**

The carrying value in the above relates to the amounts recorded in the Consolidated Financial Statements. The above assets are held at fair value therefore the carrying values stated are also the fair value, apart from loans at amortised cost for which the carrying value is an approximation of fair value.

Included within financial assets at fair value through profit or loss designated upon initial recognition is £17.0m held within a custody account ring-fenced for the Group's retirement benefit scheme under the Recovery Plan. Refer to note 30 for more information.

	Carrying Amount £m	Fair Value £m
As at 31 December 2019		
Financial Liabilities		
Investment contract liabilities (note 26)	29,938.4	29,938.4
Derivatives	122.0	122.0
Deposits received from reinsurers	99.9	99.9
Borrowings (note 28)	974.6	986.3
Total financial liabilities	**31,134.9**	**31,146.6**

20. Financial Assets and Liabilities (continued)

b) Carrying value and fair value by measurement category (continued)

	Carrying Amount £m	Fair Value £m
As at 31 December 2018		
Financial liabilities		
Investment contract liabilities (note 26)	19,552.7	19,552.7
Derivatives	113.0	113.0
Deposits received from reinsurers	103.9	103.9
Total financial liabilities	**19,769.6**	**19,769.6**

c) Determination of fair values and fair value hierarchy

Financial instruments held at fair value in the Consolidated Statement of Financial Position 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 Group has the ability to access. Level 1 inputs are the most persuasive evidence of fair value and are 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 Group's own assumptions about market pricing using the best internal and external information available.

The following tables present the Group's assets and liabilities measured at fair value at 31 December 2019 and 31 December 2018.

Assets	Level 1 £m	Level 2 £m	Level 3 £m	Total items held at FVTPL £m
As at 31 December 2019:				
Financial assets at FVTPL:				
Debt Securities	4,891.6	14,045.8	680.3	**19,617.7**
Equity Securities	14,575.1	3.2	-	**14,578.3**
Loans	-	-	1,118.5	**1,118.5**
Collective Investment Schemes	13,729.0	8.5	26.9	**13,764.4**
Derivatives	2.8	50.3	-	**53.1**
	33,198.5	**14,107.8**	**1,825.7**	**49,132.0**

20. Financial Assets and Liabilities (continued)

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

Assets	Level 1 £m	Level 2 £m	Level 3 £m	Total items held at FVTPL £m
As at 31 December 2018:				
Financial assets at FVTPL:				
Debt Securities	789.8	18,484.8	714.6	**19,989.2**
Equity Securities	13,191.5	4.2	0.1	**13,195.8**
Loans	-	-	727.7	**727.7**
Collective Investment Schemes	4,619.5	3.8	-	**4,623.3**
Derivatives	0.7	13.0	-	**13.7**
	18,601.5	**18,505.8**	**1,442.4**	**38,549.7**

Liabilities	Level 1 £m	Level 2 £m	Level 3 £m	Total balance £m
As at 31 December 2019:				
Investment contract liabilities without DPF (note 26)	-	27,611.8	19.1	**27,630.9**
Derivative liabilities (note 20)	1.0	39.1	81.9	**122.0**
Deposits received from reinsurers	-	-	99.9	**99.9**
Borrowings (note 28)	-	986.3	-	**986.3**
	1.0	**28,637.2**	**200.9**	**28,839.1**

Liabilities	Level 1 £m	Level 2 £m	Level 3 £m	Total balance £m
As 31 December 2018:				
Investment contract liabilities without DPF (note 26)		17,384.3	-	**17,384.3**
Derivative liabilities (note 20)	0.7	13.8	98.5	**113.0**
Deposits received from reinsurers	-	-	103.9	**103.9**
Borrowings (note 28)	-	-	-	-
	0.7	17,398.1	202.4	**17,601.2**

The Group 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.

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 Assets and Liabilities (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.

d) Transfers between levels of the fair value hierarchy

For financial instruments that are recognised at fair value on a recurring basis, the Group 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.

	From Level 2 to Level 1 £m
Year ended 31 December 2019	
Financial assets designated at FVTPL upon initial recognition:	
Collective Investment Schemes	-
Year ended 31 December 2018	
Financial assets designated at FVTPL upon initial recognition:	
Collective Investment Schemes	175.9

The above transfers in 2018 were due to a change in pricing methodology. There were no transfers during 2019.

The following tables present the changes in Level 3 instruments for the years ended 31 December 2019 and 31 December 2018.

20. Financial Assets and Liabilities (continued)

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

Year ended 31 December 2019	Opening balance at 1 January	Purchases during this year	Acquisition of Old Mutual Wealth	Disposed during the year	(Losses) /gains recognised in the income statement	Transfers in/out of Level 3	Closing balance at 31 December
	£m	£m	£m	£m	£m	£m	£m
Financial assets							
Financial assets designated at FVTPL upon initial recognition:							
Debt Securities	714.6	30.2	-	(46.9)	32.7	(50.3)	**680.3**
Equity Securities	0.1	-	-	(0.1)	-	-	**-**
Loans	727.7	570.5	-	(197.3)	17.6	-	**1,118.5**
Collective investment schemes	-	-	19.1	-	-	7.8	**26.9**
	1,442.4	**600.7**	**19.1**	**(244.3)**	**50.3**	**(42.5)**	**1,825.7**
Financial liabilities							
Derivative liabilities	98.5	-	-	(10.7)	(5.9)	-	**81.9**
Deposits received from reinsurers	103.9	-	-	-	(4.0)	-	**99.9**
	202.4	**-**	**-**	**(10.7)**	**(9.9)**	**-**	**181.8**

Year ended 31 December 2018	Opening balance at 1 January	Purchases during this year	Acquisition of Old Mutual Wealth	Disposed during the year	(Losses) /gains recognised in the income statement	Transfers in/out of Level 3	Closing balance at 31 December
	£m	£m	£m	£m	£m	£m	£m
Financial assets							
Financial assets designated at FVTPL upon initial recognition:							
Debt Securities	716.7	27.7	-	(9.5)	(20.3)	-	**714.6**
Equity Securities	0.1	-	-	-	-	-	**0.1**
Loans	633.4	235.5	-	(136.5)	(4.7)	-	**727.7**
	1,350.2	**263.2**	-	**(146.0)**	**(25.0)**	**-**	**1,442.4**
Financial liabilities							
Derivative liabilities	111.1	-	-	(25.4)	12.8	-	**98.5**
Deposits received from reinsurers	124.9	-	-	-	(21.0)	-	**103.9**
	236.0	**-**		**(25.4)**	**(8.2)**	**-**	**202.4**

20. Financial Assets and Liabilities (continued)

The above transfers were mainly due to a change in pricing methodology, and within collective investment schemes, the suspension of certain funds from trading.

e) Level 3 financial instruments

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

i) Assets

Debt securities
Less liquid corporate debt securities or government debt which is issued in small quantities do not have observable market prices. Prices are based on quotes provided by third-party pricing vendors and first utilise valuation inputs from actively traded securities, such as bid process, bid spreads to Treasury securities, Treasury curves and same or comparable issuer curves and spreads. Issuer spreads are determined from actual quotes and traded prices and incorporate considerations of credit/default, sector composition, and liquidity and call features. Where market data is not available, valuations are developed based on the modelling techniques that utilise option-adjusted spreads and incorporate considerations of the security's seniority, maturity and the issuer's corporate structure. Such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

Loans - infrastructure and mortgage loans
The fair value of infrastructure and commercial mortgage loans is estimated by external fund managers using discounted cash flow models which are based on discount curves and spread inputs that require management's judgement. Spread assumptions vary by manager but generally are based on a combination of publicly available spread information for comparable bonds, recent private transactions observed by the manager, and expert judgement. External valuations are verified internally using an in-house model.

Collective investment schemes – suspended funds
For assets that have been suspended from trading on an active market, the last published price is used. Many suspended assets are still regularly priced. At the reporting date all suspended assets are assessed for impairment.

ii) Liabilities

Derivative liabilities - ERIP total return swap
The total return swap represents future generated cash flows materialising over the duration of equity release policy contracts. Over time as the portfolio gradually contracts through further property sales, the relevant share of disposal proceeds are transferred. The financial liability's carrying amount is the discounted present value of all future property sales, which are then passed on to the counterparty as part of the swap arrangement. These are discounted at 5.00% pa, assuming House Price Inflation ("HPI") is zero. Mortality assumptions determine the discounting period since the property is sold when the annuitant dies. For these mortality assumptions, refer to note 26.

The cumulative change in fair value of the swap arrangement attributable to changes in credit risk to 31 December 2019 was £nil (2018: £nil).

20. Financial Assets and Liabilities (continued)

Deposits received from reinsurers

Certain reinsurance arrangements require the reinsurer to deposit with the Group, the reinsured value of the reserves, and entitle the reinsurer to receive interest based on that deposit. The reinsured value of the reserves is equal to 90.00% of the discounted present value of the expected future claims. This is calculated using mortality, interest rate and inflation assumptions, which are set using management's best estimates.

The cumulative change in fair value of the deposit attributable to changes in credit risk to 31 December 2019 was £nil (2018: £nil).

iii) Sensitivities

The tables below show the sensitivity of the fair value of Level 3 assets and liabilities at 31 December 2019 and 31 December 2018 to changes in unobservable inputs to a reasonable alternative.

	Fair Value £m	Most significant unobservable input	Reasonable alternative	Positive impact £m	Negative impact £m
As at 31 December 2019:					
Financial assets					
Debt securities					
- Corporate	678.2	Discount Rate	+/- 100bps	(47.1)	47.1
- Government	2.1	Discount Rate	+/- 100bps	-	-
Loans					
- Infrastructure	624.1	Discount Rate	+/- 100bps	(77.6)	77.6
- Mortgage	494.4	Discount Rate	+/- 100bps	(13.1)	13.1
Collective investment schemes					
- Suspended funds	26.9	Fair Value	+/- 25%	6.7	(6.7)
Financial liabilities					
Derivative liabilities					
- ERIP total return swap	81.9	Discount Rate	+/- 1.00%	(2.9)	3.1
		Mortality assumption	-5.00%	-	(0.5)
Deposits received from reinsurers	99.9	Discount Rate	+/- 100bps	(8.1)	8.0
		Mortality assumption	-5.00%	-	2.1
As at 31 December 2018:					
Financial assets:					
Debt securities					
- Corporate	712.5	Discount Rate	+/- 100bps	(49.2)	49.2
- Government	2.2	Discount Rate	+/- 100bps	(0.05)	0.1
Loans					
- Infrastructure	255.8	Discount Rate	+/- 100bps	(16.5)	16.5
- Mortgage	471.9	Discount Rate	+/- 100bps	(14.6)	14.6
Financial liabilities					
Derivative liabilities					
- ERIP total return swap	98.5	Discount Rate	+/- 1.00%	(3.8)	3.9
		Mortality assumption	-5.00%		(0.6)
Deposits received from reinsurers	103.9	Discount Rate	+/- 100bps	(8.0)	9.1
		Mortality assumption	-5.00%	-	1.9

20. Financial Assets and Liabilities (continued)

Favourable and unfavourable changes are determined on the basis of changes in the value of the financial asset or liability as a result of varying the levels of the unobservable parameters using statistical techniques. When parameters are not amenable to statistical analysis, quantification of uncertainty is judgemental. In aggregate, a 25% change in the value of suspended funds is considered to represent a reasonable possible alternative judgement in the context of the current macro-economic environment in which the Group operates.

21. Derivative Assets and Liabilities

Derivative financial instruments are classified as held for trading financial assets. Changes in fair value of such financial instruments are recognised in the Consolidated Income Statement. The below table shows the fair values of the derivative financial instrument assets and liabilities categorised by their type. The notional value is the total value of the position that the Group controls, or an agreed upon amount in a contract.

a) Held at year end

	Contract/ Notional Amount £m	Assets £m	Liabilities £m
Year ended 31 December 2019:			
Non-profit/shareholder derivatives			
Interest rate contracts	3,152.1	6.2	(37.4)
Equity/Index derivatives	43.7	-	-
Forward foreign currency contracts	886.4	38.8	(0.8)
Other derivatives	-	-	(81.9)
	4,082.2	**45.0**	**(120.1)**
With-profit derivatives			
Interest rate contracts	541.8	2.2	-
Equity/Index derivatives	8.0	0.1	-
	549.8	**2.3**	**-**
Unit-linked derivatives			
Interest rate contracts	0.2	0.1	(0.1)
Equity/Index derivatives	323.9	2.7	(1.0)
Forward foreign currency contracts	2.2	3.0	(0.8)
	326.3	**5.8**	**(1.9)**
Total derivative assets and liabilities	**4,958.3**	**53.1**	**(122.0)**

21. Derivative Assets and Liabilities (continued)

	Contract/ Notional Amount £m	Assets £m	Liabilities £m
Year ended 31 December 2018 (restated*):			
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	-	(98.5)
	1,630.4	**8.4**	**(108.7)**
With-profit derivatives			
Interest rate contracts	637.1	3.6	(1.7)
Equity/Index derivatives	5.8	0.7	(0.6)
	642.9	**4.3**	**(2.3)**
Unit-linked derivatives			
Interest rate contracts	(17.9)	0.7	-
Equity/Index derivatives	134.3	0.3	(2.0)
	116.4	**1.0**	**(2.0)**
Total derivative assets and liabilities	**2,389.7**	**13.7**	**(113.0)**

*refer to note 3 for details of restatement

Other derivatives primarily include the ERIP total return swap representing future generated cash flows materialising over the duration of equity release policy contracts. Over time as the portfolio gradually contracts through further property sales, the relevant share of disposal proceeds are transferred.

The Group does not have any derivatives that are designated as hedging instruments (2018: same).

b) Maturity analysis - gross undiscounted cash flows

The tables below show the cash flows arising from the derivative assets and liabilities of the Group. As noted above, the Group holds derivative financial instruments principally in connection with the management of its insurance contract and investment contract liabilities. All amounts disclosed represent undiscounted cash flows.

21. Derivative Assets and Liabilities (continued)

	Within 1 Year £m	1-5 Years £m	Over 5 Years £m	Total £m
As at 31 December 2019				
Cash inflows:				
Non-profit/ shareholder derivative liabilities	797.8	268.8	548.9	1,615.5
With-profit derivative liabilities	4.6	16.4	30.3	51.3
Unit-linked derivative liabilities	3.9	-	-	3.9
	806.3	285.2	579.2	1,670.7
Cash outflows				
Non-profit/ shareholder derivative liabilities	695.4	317.9	518.4	1,531.7
With-profit derivative liabilities	1.4	3.3	5.3	10.0
Unit-linked derivative liabilities	0.1	-	-	0.1
	696.9	321.2	523.7	1,541.8
Net non-profit/shareholder derivative liability cash flows	102.4	(49.1)	30.6	83.9
Net with-profit derivative liability cash flows	3.2	13.1	24.9	41.2
Net unit-linked derivative cash flows	3.8	-	-	3.8

	Within 1 Year £m	1-5 Years £m	Over 5 Years £m	Total £m
As at 31 December 2018				
Cash inflows:				
Non-profit/shareholder derivative liabilities	339.4	64.8	208.6	612.8
With-profit derivative liabilities	5.6	17.6	33.7	56.9
Unit-linked derivative liabilities	0.6	-	-	0.6
	345.6	**82.4**	**242.3**	**670.3**
Cash outflows				
Non-profit/shareholder derivative liabilities	352.2	136.1	269.2	757.5
With-profit derivative liabilities	5.9	19.7	34.5	60.1
Unit-linked derivative liabilities	(1.1)	-	-	(1.1)
	357.0	**155.8**	**303.7**	**816.5**
Net non-profit/shareholder derivative liability cash flows	(12.8)	(71.3)	(60.6)	(144.7)
Net with-profit derivative liability cash flows	(0.3)	(2.1)	(0.8)	(3.2)
Net unit-linked derivative liability cash flows	1.7	-	-	1.7

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:

	Net tax asset/ (liability) as at 1 January	Adjustments in respect of prior years	Transfer	Tax (charge)/ credit to OCI	Tax (charge)/ credit to income statement	Net tax asset/ (liability) as at 31 December
	£m	£m	£m	£m	£m	£m
Year ended 31 December 2019:						
Capital Losses	31.1	-	-	-	(5.5)	25.6
Pension scheme	(4.0)	-	-	4.4	(0.3)	0.1
Present value of future profits	(58.9)	-	(6.4)	-	6.1	(59.2)
Transitional adjustment arising on movement to new tax regime	14.8	-	(0.5)	-	(3.7)	10.6
Unrealised chargeable gains	(33.9)	-	(76.4)	-	(21.8)	(132.1)
Deferred acquisition expenses	0.7	-	12.9	-	-	13.6
Deferred acquisition costs	-	-	(0.1)	-	-	(0.1)
Consolidation adjustments	110.4	-	-	-	20.3	130.7
Other deferred items	(2.8)	0.2	0.9	-	0.4	(1.3)
Total deferred tax asset/(liability)	**57.4**	**0.2**	**(69.6)**	**4.4**	**(4.5)**	**(12.1)**

22. Deferred Tax (continued)

	Net tax asset/ (liability) as at 1 January	Adjustments in respect of prior years	Transfer	Tax (charge)/ credit to OCI	Tax (charge)/ credit to income statement	Net tax asset/ (liability) as at 31 December
	£m	£m	£m	£m	£m	£m
Year ended 31 December 2018 (restated*):						
Capital Losses	36.7	-	-	-	(5.6)	31.1
Pension scheme	7.8	(7.8)	-	(4.0)	-	(4.0)
Present value of future profits	(64.4)	-	-	-	5.5	(58.9)
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	(74.4)	-	-	-	40.5	(33.9)
Deferred acquisition expenses	0.8	0.1	-	-	(0.2)	0.7
Change of reserving basis	7.2	-	-	-	(7.2)	-
Consolidation adjustments	82.8	-	-	-	27.6	110.4
Other deferred items	6.5	-	-	-	(9.3)	(2.8)
Total deferred tax asset/(liability)	**23.9**	**(8.4)**	**-**	**(4.0)**	**45.9**	**57.4**

*refer to note 3 for details of restatement

Consolidation adjustments principally relate to the Group expense provision (refer to note 1.24.5).

23. Other Financial Assets

	2019	2018
	£m	£m
Collateral receivables	225.4	91.3
Accrued investment income	278.6	314.0
	504.0	**405.3**

24. Other Assets

	2019 £m	2018 £m
Prepayments and other	66.6	71.7
Net amounts from Swiss Re Group (see note 46a)	28.7	33.0
	95.3	**104.7**

Net amounts owed from Swiss Re Group relate to intercompany loans which were set up at the point of acquisition of the Guardian group of companies in 2016.

25. Cash and Cash Equivalents

	2019 £m	2018 (restated*) £m
Cash	455.7	179.3
Cash equivalents	1,521.2	1,168.6
	1,976.9	**1,347.9**

*refer to note 3 for details of restatement

Cash comprises cash at bank and 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. Insurance Contract Liabilities

a) Principal valuation assumptions

The principal valuation assumptions used in the calculation of insurance contract liabilities are:

- Discount rate;
- Mortality; and
- Expenses.

i) Discount rate

For annuity business in the NPF, the discount rates used are determined by reference to basic risk-free interest rates prescribed by EIOPA. A Matching Adjustment is applied to certain blocks of annuity business. The business covered by the Matching Adjustment is discounted using the EIOPA risk-free rate increased by the Matching Adjustment ("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 cash flows 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 2019 is 0.79% (2018: 1.05%). Annuities not covered by the Matching Adjustment 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 Ark Life, the valuation interest rate is based on quoted Euro swap rates with no deductions. For Old Mutual Wealth, the valuation interest rate is set with reference to a matching portfolio of gilts.

26. Insurance Contract Liabilities (continued)

a) Principal valuation assumptions (continued)

The table below provides an overview of the discount rates applied as at the year end:

Discount rates (p.a.)	2019	2018
Non-profit business;		
Annuities in payment (NPF) - MA	EIOPA RFR + MA rate of 0.79%	EIOPA RFR + MA rate of 1.05%
Annuities in payment (NPF) - non-MA	EIOPA RFR	EIOPA RFR
Other NPF products (IP claims in payment)	2.62%	2.52%
Ark Life insurance contracts	0.11%	0.92%
Old Mutual Wealth non linked protection (pre 1 Jan 2013)	0.98%	-
Old Mutual Wealth non linked protection (post 31 Dec 2012)	1.23%	-
With-profit business (WLWPF / NMWPF)		
Risk-free rate	Gilt yields plus 10bp	Gilt yields plus 10bp
UK equity volatility	Market consistent	Market consistent
Property volatility	12.7%	12.7%

Sensitivities to changes in interest rates, equity prices and property prices are shown in note 43.

ii) Mortality

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.

26. Insurance Contract Liabilities (continued)

Mortality tables for non-profit annuities in payment

	2019	2018
ZAL	98% PMA08_HAMWP 102% PFA08_HAMWP	97% PMA08_HAMWP 100% PFA08_HAMWP
NML	Modified PMA08_HAMWP Modified PFA08_HAMWP	Modified PMA08_HAMWP Modified PFA08_HAMWP
NMP	92% PMA08_HAMWP 95% PFA08_HAMWP	92% PMA08_HAMWP 90% PFA08_HAMWP
WLA	129.2% PMA08_HAMWP up to age 65, then decreasing linearly to 105% PMA08_HAMWP by age 85 130% PFA08_HAMWP up to age 65, then decreasing linearly to 106% PFA08_HAMWP by age 90	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
RCBPF swap	99% S3PMA 83% S3PFA	112% S2PMA 92% S2PFA
AKZO Nobel swap	108% S3PMA 100% S3PFA	107% S2PMA 101% S2PFA
LV= swap	113% S3PMA 97% S3PFA	102% S2PMA 98% S2PFA
Guardian Legacy	93% PMA08_HAMWP 107% PFA08_HAMWP	90% PMA08_HAMWP 104% PFA08_HAMWP
Guardian BA	129.2% PMA08_HAMWP up to age 65, then decreasing linearly to 105% PMA08_HAMWP by age 85 130% PFA08_HAMWP up to age 65, then decreasing linearly to 106% PFA08_HAMWP by age 90	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
Guardian Century	100% PMA08_HAMWP 102% PFA08_HAMWP	100% PMA08_HAMWP 101% PFA08_HAMWP
Guardian SMA	92% PMA08_HAMWP 95% PFA08_HAMWP	92% PMA08_HAMWP 90% PFA08_HAMWP
Guardian SPL	92% PMA08_HAMWP 95% PFA08_HAMWP	92% PMA08_HAMWP 90% PFA08_HAMWP
Guardian Pearl	129.2% PMA08_HAMWP up to age 65, then decreasing linearly to 105% PMA08_HAMWP by age 85 130% PFA08_HAMWP up to age 65, then decreasing linearly to 106% PFA08_HAMWP by age 90	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

26. Insurance Contract Liabilities (continued)

Guardian NPI	92% PMA08_HAMWP 95% PFA08_HAMWP	92% PMA08_HAMWP 90% PFA08_HAMWP
Guardian PWP	100% PMA08_HAMWP 102% PFA08_HAMWP	100% PMA08_HAMWP 101% PFA08_HAMWP
Guardian Alba	100% PMA08_HAMWP 102% PFA08_HAMWP	100% PMA08_HAMWP 101% PFA08_HAMWP
Guardian SAL	100% PMA08_HAMWP 102% PFA08_HAMWP	100% PMA08_HAMWP 101% PFA08_HAMWP
Mortality assumptions for non-linked protection business		
Old Mutual Wealth non linked protection	68% TM00 select(5) 68% TF00 select(5)	-

For ReAssure annuities in payment, mortality improvements are CMI_2017_M [1.50%; S=7.75] for males and CMI_2017_F [1.50%; S=7.75] for females (2018: CMI_2017_M [1.50%; S=7.75] for males and CMI_2017_F [1.50%; S=7.75] for females).

For Old Mutual Wealth non-linked protection policies, mortality improvements are 0.50% per annum.

Sensitivity to changes in mortality rates is shown in note 42.

iii) Expenses

In determining provisions for the future expense of administering insurance contracts, assumptions are required regarding the proportion of the Group's costs that relate to administration of contracts in RAL, and the allocation of that proportion between different types of contract. The costs on which the allocation is based are the historic costs of the business overlaid where appropriate by additional expected recurring costs. The allocation between contract types is based on an analysis of some direct costs arising from different types of contracts and the splitting of other costs in proportion to the number of contracts of each type. The costs allocated are increased by a prudent margin.

In projecting the expenses over the lifetime of the insurance contracts, it is assumed that for each contract type, there is a constant ratio between the total cost for that contract type and the total management service agreement payments made by RAL to the Group for that contract type. This therefore allows for:

- The run-off of contracts as projected, making the same assumptions for mortality and persistency as apply for the calculation of the Technical Provisions of RAL; and
- A rate of expense inflation in line with the escalations set under the management service agreements, which for the most material reserves is the rate of increase of the Retail Price Index increased by 1%.

26. Insurance Contract Liabilities (continued)

b) Options and guarantees

The with-profit policies in the NMWPF and WLWPF benefit from two types of guarantee; cash or annuity. 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. Annuity guarantees contractually guarantee how the pension fund is converted into an annuity at retirement. The most common of these types of guarantees in NMWPF and WLWPF is a Guaranteed Annuity Rate ("GAR"). These specify a guaranteed annuity rate that will be used to convert the pension fund into cash.

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, whilst 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.

c) Analysis of the change in insurance contract liabilities

A summary of the changes in insurance contracts liabilities is shown in the table below. The main drivers of the change during 2019 were a decrease to the liabilities due to the run-off of the business (including experience variances), an increase due to assumption changes (mainly from changes in economic assumptions) and the transfer in of business relating to the acquisition of Old Mutual Wealth (refer to note 37).

Year ended:	Opening balance	Impact of new business	Business transfer in[1]	Impact of run-off/ experience effects	Impact of assumption changes	Other Impact	Currency impact	Closing balance
	£m	£m	£m	£m	£m	£m	£m	£m
31 December 2019								
With-profits insurance contracts	**1,299.0**	-	-	16.9	(0.5)	(0.3)	-	**1,314.3**
Non-profit insurance contracts	**17,259.6**	11.2	700.4	(1,011.7)	1,071.7	0.6	(40.5)	**17,992.2**
Unit-linked insurance contracts	**2,582.3**	-	278.1	109.3	0.5	-	(4.3)	**2,965.9**
	21,141.0	**11.2**	**978.5**	**(885.5)**	**1,071.7**	**0.3**	**(44.8)**	**22,272.4**
Reinsurers' share of with-profit provisions	**(3.0)**	-	-	(0.1)	-	-	-	**(3.1)**
Reinsurers' share of non-profit provisions	**(1,761.3)**	-	(583.2)	111.1	(199.4)	(0.3)	40.6	**(2,392.5)**
	19,376.7	**11.2**	**395.3**	**(774.5)**	**872.3**	**-**	**(4.2)**	**19,876.8**

[1] Business transfer in relates to the acquisition of Old Mutual Wealth, refer to note 37.

26. Insurance Contract Liabilities (continued)

Year ended:	Opening balance £m	Impact of new business £m	Impact of run-off/ experience effects £m	Impact of assumption changes £m	Other Impact £m	Currency impact £m	Closing balance £m
31 December 2018 (restated*)							
With-profits insurance contracts	1,439.1	-	(127.5)	(12.6)	-	-	**1,299.0**
Non-profit insurance contracts	18,659.1	15.5	(1,231.3)	(189.4)	-	5.9	**17,259.6**
Unit-linked insurance contracts	3,125.6	-	(545.2)	1.0	-	0.9	**2,582.3**
	23,223.8	**15.5**	**(1,904.1)**	**(201.0)**	**-**	**6.8**	**21,141.0**
Reinsurers' share of with-profit provisions	(1.0)	-	(2.0)	-	-	-	**(3.0)**
Reinsurers' share of non-profit provisions	(1,888.4)	-	193.3	(60.3)	-	(5.9)	**(1,761.3)**
	21,334.4	15.5	(1,712.8)	(261.3)	-	0.9	**19,376.7**

Reinsurance assets are paid in line with the profile of claims made and are therefore, mostly non-current assets, expected to be realised in greater than 12 months' time, see note 1.26.

*refer to note 3 for details of restatement

d) Impact of assumption changes on insurance contract liabilities

A summary of the impact of changes in assumptions on non-profit and unit-linked insurance contracts is shown in the table below. The main impacts from changes in assumptions for 2019 arise from a decrease in annuity liabilities as a consequence of updating longevity assumptions and an increase as a consequence of reduced yields and credit spreads affecting the MA funds. In addition, there was a reduction in insurance contract liabilities due to moving around £800m liabilities relating to annuities in payment into the MA fund.

The main impacts from changes in assumptions for 2018 arose from an increase in annuity liabilities as a consequence of updating longevity assumptions, a decrease as a consequence of increased yields and credit spreads affecting the MA funds and an increase in the group expense provision, largely due to a significant increase in the overall expenses deemed to be related to in-force maintenance.

	Impact on liabilities before reinsurance £m	Impact of reinsurance £m	Impact on liabilities after reinsurance £m
Year ended 31 December 2019:			
Matching adjustment extension	(68.8)	0.5	(68.3)
Demographic changes	(150.8)	19.3	(131.5)
Economic changes	1,200.1	(219.2)	980.9
Expenses	91.8	-	91.8
	1,072.3	**(199.4)**	**872.9**
Year ended 31 December 2018 (restated*):			
Demographic changes	97.7	(69.7)	28.0
Economic changes	(286.1)	9.4	(276.7)
	(188.4)	**(60.3)**	**(248.7)**

*refer to note 3 for details of restatement

27. Investment Contract Liabilities

	2019 £m	2018 £m
Investment contract liabilities - unit-linked	27,607.8	17,361.3
Investment contract liabilities - non-profit	23.1	23.0
	27,630.9	**17,384.3**
Reinsurers' share of unit linked provisions	(729.4)	-
	26,901.5	**17,384.3**
Investment contract liabilities with DPF	2,307.5	2,168.4
	29,209.0	**19,552.7**

Unit linked investment contract liabilities are carried in the Consolidated Statement of Financial Position at fair value through profit or loss.

Certain investment contracts contain a discretionary participating feature which gives the holder an entitlement to receive additional benefits or bonuses, as a supplement to the guaranteed benefits. The application of these supplemental discretionary benefits is entirely at the discretion of the Group.

Movements in investment contract liabilities without DPF

	2019 £m	2018 £m
At 1 January	17,384.3	19,592.1
Linked cash flows arising (premiums, claims, fees)	(1,170.9)	(1,443.4)
Business transfer in of Old Mutual Wealth (see note 38)	8,175.6	-
Linked investment return	2,602.1	(779.0)
Change in non-profit non linked investment contract liabilities	0.1	(1.5)
Currency impact	(89.7)	16.1
At year end	**26,901.5**	**17,384.3**

Movements in investment contract liabilities with DPF

	2019 £m	2018 £m
At 1 January	2,168.4	2,423.2
Impact of experience effects	82.5	(265.2)
Impact of assumption changes	56.6	10.4
At year end	**2,307.5**	**2,168.4**

28. Borrowings

The Group classifies its interest bearing borrowings (comprised of the loan amount and interest accrued on that amount) as financial liabilities carried at amortised cost and these are recognised initially at fair value less any attributable transaction costs. Directly attributable transaction costs are amortised over the life of the borrowings. The difference between initial cost and the redemption value is amortised through the Consolidated Income Statement over the period of the borrowing using the effective interest method.

28. Borrowings (continued)

Borrowings are classified as either policyholder or shareholder borrowings. Policyholder borrowings are those borrowings where there is either no or limited shareholder exposure, for example, borrowings attributable to the Group's with-profit operations. As at 31 December 2019, all borrowings were classified as shareholder borrowings.

a) Analysis of borrowings

	2019 £m	2018 £m
Subordinated debt		
£500m 5.87% Tier 2 capital markets bond	487.3	-
£250m 5.77% Tier 2 capital markets bond	243.7	-
£250m 4.02% Tier 3 capital markets bond	243.6	-
Total borrowings	**974.6**	**-**

(i) Subordinated debt

On 13 June 2019 the Group issued £500.0m Tier 2 10 year subordinated notes, £250.0m Fixed Rate Reset Callable Tier 2 10 year subordinated notes (first optional call date in year 5) and £250.0m Tier 3 7 year subordinated notes to Swiss Re ReAssure Limited (SRRL), a Swiss Re Group company.

The £250.0m Fixed Rate Reset Callable Tier 2 10 year subordinated notes are callable in full at the Group's option. The first call date is 13 June 2024. In the event the Group does not call the notes the interest rate will reset to 5.17% plus a margin equivalent to the yield of a UK Treasury Bill of similar term.

In response to the postponed IPO the three tranches were privately placed and listed on the London Stock Exchange Professional Securities Market where they can be publicly traded.

Fees associated with these notes of £30.0m were deferred and are being amortised over the life of the notes.

(ii) Senior revolving credit facility

On 6 June 2019 the Group entered into an agreement for a syndicated back-up liquidity facility for general corporate purposes. The initial tenor of the facility is for three years with an option for the lender to extend by one year at the end of the first or second year. Drawn down amounts accrue interest at LIBOR plus 0.50%, a commitment fee of 0.17% is applicable on the undrawn amount. The facility is undrawn as at 31 December 2019.

All borrowings are unsecured. Subordinated notes issued by the Group rank below the senior revolving credit facility and ahead of its ordinary share capital.

28. Borrowings (continued)

b) Movement during the year

	Cash Movements £m	Non-cash movements £m
As at 31 December 2019		
Subordinated debt		
£500m 5.87% Tier 2 capital markets bond	470.3	17.0
£250m 5.77% Tier 2 capital markets bond	235.3	8.4
£250m 4.02% Tier 3 capital markets bond	237.5	6.1
Total borrowings	**943.1**	**31.5**

29. Provisions, Contingent Liabilities and Contractual Commitments

	Restructuring provision £m	Property provision £m	Other provisions £m	Total £m
Year ended 31 December 2019:				
At 1 January 2019	3.8	1.5	15.1	20.4
Additional provisions	10.6	-	7.0	17.6
Acquisition of Old Mutual Wealth Life Assurance Limited	-	-	11.8	11.8
Utilisation of provision	(0.9)	-	(10.0)	(10.9)
At 31 December 2019	**13.5**	**1.5**	**23.9**	**38.9**
Year ended 31 December 2018:				
At 1 January 2018	13.0	1.5	5.3	19.8
Additional provisions	1.7	-	10.7	12.4
Utilisation of provision	(10.9)	-	(0.9)	(11.8)
At 31 December 2018	**3.8**	**1.5**	**15.1**	**20.4**

a) Provisions

Included with restructuring provisions is a £10.6m provision for restructuring costs associated with the Part VII of the Legal & General business planned for 2020.

Included in other provisions is £11.8m provision due to the acquisition of Old Mutual Wealth. This entity is carrying a provision for customer remediation activities which are being addressed as part of an on-going project expected to complete in 2020. Additionally, other provisions have increased due to a £1.8m provision for legal expenses arising from a dispute with HMRC and £0.8m for executive bonuses.

Partially offsetting these additional provisions is the release of a £3.0m provision relating to a dispute with a third party which has now been settled and a net £2.0m reduction to the £10.0m provision introduced in 2018 as a result of an internal thematic review in respect of charges for the attached benefits of paid-up policies.

29. Provisions, Contingent Liabilities and Contractual Commitments (continued)

b) Contingent liabilities

During the ordinary course of business the Group is subject to complaints and threatened or actual legal proceedings (including class or Group action claims) brought by or on behalf of current or former employees, customers, investors or other third parties, as well as legal and regulatory reviews, challenges, investigations and enforcement actions, both in the United Kingdom and overseas. All such material matters are periodically reassessed, with the assistance of external professional advisors where appropriate, to determine the likelihood of the Group incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to management's best estimate of the amount required at the relevant balance sheet date. In some cases it will not be possible to form a view, for example because the facts are unclear or because further time is needed to properly assess the situation, and no provisions are held in relation to such matters. One such matter is disclosed below. However, the Group does not currently expect the final outcome of this or of any such case to have a material adverse effect on its financial position, operations or cash flows.

Pre-acquisition breach of HMRC regulations

In 2018, the Group self reported a breach of HMRC regulations in a limited number of annuities after the lack of provision of standard lifetime allowance from an acquired block of business. The Group is working with the pre-acquisition third party provider to rectify this breach before any settlement conclusion will be reached with HMRC. Whilst the maximum penalty per breach is minimal, the maximum exposure for all breaches in this regard is approximately £52.0m for the period under the Group's ownership to date. However we believe, that any material penalty or settlement payment is sufficiently remote that no provision is held within the Financial Statements .

c) Contractual commitments

The Group enters into a number of forward dated transactions in relation to the provision of private debt to external parties. The value of these forward dated transactions as at 31 December 2019 is £142.6m (2018: £nil). At the point when these loans are issued, they are accounted for as financial assets within the Statement of Financial Position.

30. Retirement Benefit Schemes

The Group operates one defined benefit scheme, the ReAssure Staff Pension Scheme ("RSPS") which is closed to future accrual. The Group also operates an unfunded unapproved retirement benefit scheme or private retirement trust for one deferred member. A defined contribution pension scheme, the Group Personal Pension scheme, is operated by RUKSL, a subsidiary undertaking.

The Group has an unconditional right to the return of any surplus in the scheme once all the scheme liabilities have been satisfied. As a result there is no requirement to apply an asset ceiling under IAS 19 and any surplus in the scheme can be recognised as an asset in the Consolidated Statement of Financial Position.

Future funding requirements are determined by the outcome of the triennial scheme valuation which was last performed at 31 December 2017. The Trustee's primary funding objective is the statutory funding objective, which is to have sufficient and appropriate assets to cover the Scheme's technical provisions (the amount that the Trustees have determined to be required to make provision for the Scheme's liabilities).

The 31 December 2017 triennial actuarial valuation of the Scheme revealed a shortfall under this objective, and so a Recovery Plan was agreed between the Trustee and the Group in order to make good the deficit. Under the Recovery Plan, during the year the Group has paid a monetary amount of £17.0m into a Custody Account. This account has been included within the Group's financial investments as at 31 December 2019, refer to note 20 for more information.

30. Retirement Benefit Schemes (continued)

The amount held in the Custody Account will be assessed at future valuations and additional payments will be made by the Group if this is deemed insufficient to meet the balance of the funding shortfall as at 31 December 2025. If the assumptions documented in the Statement of Funding Principles are borne out in practice, the amount expected to be held in the Custody Account as at 31 December 2025 would be more than sufficient to remove any remaining deficit at 31 December 2025.

The assumptions used in calculating the accounting costs and obligations of the RSPS and the private retirement trust, as detailed below, are set by the directors after consultation with independent, professionally qualified actuaries. The basis for these assumptions is prescribed by IAS 19 and they do not reflect the assumptions that may be used in future funding valuations of the RSPS.

	2019	**2018**
Discount rate	2.00%	2.90%
Inflation rate	3.20%	3.40%
Rate of increase in salaries	3.20%	3.40%
Rate of increase in pensions	3.20%	3.40%
Rate of increase in deferred benefits during deferment	2.20%	2.40%
Mortality assumptions:		
Longevity at age 60 for current pensioners		
- Men	28.4 years	28.6 years
- Women	29.8 years	30.1 years
Longevity at age 60 for future pensioners currently aged 45		
- Men	29.6 years	29.9 years
- Women	31.2 years	31.5 years
Weighted Average Duration of Defined Benefit Obligation	21.0 years	22.0 years

	2019	**2018**
	£m	**£m**
Expected contributions for year ending 31 December:		
Employer	2.3	2.3
- Expected benefit payments during fiscal year ending 31-Dec-19	-	13.5
- Expected benefit payments during fiscal year ending 31-Dec-20	8.7	13.8
- Expected benefit payments during fiscal year ending 31-Dec-21	9.5	14.0
- Expected benefit payments during fiscal year ending 31-Dec-22	10.4	14.3
- Expected benefit payments during fiscal year ending 31-Dec-23	10.1	14.5
- Expected benefit payments during fiscal year ending 31-Dec-24	11.4	-
- Expected benefit payments during fiscal years ending 31-Dec-24 through 31-Dec-28	-	76.7
- Expected benefit payments during fiscal years ending 31-Dec-25 through 31-Dec-29	61.2	-

a) ReAssure staff pension scheme

The assets of the RSPS are held in separate, trustee-administered funds.

The most recent full actuarial valuation for funding purposes was performed by Willis Towers Watson, a firm of independent actuaries, at 31 December 2017.

30. Retirement Benefit Schemes (continued)

There were no contributions made in respect of current service for the current and prior years. The Group agrees to cover those expenses incurred by the scheme and the cost of the death-in-service benefits for those members of the scheme who are entitled only to those benefits.

In 2018, following the Lloyds case regarding the unequal treatment of Guaranteed Minimum Pension ("GMP") between males and females, the Scheme has made allowance for the estimated impact of this. A provision of 0.10% of the defined benefit obligation has been made to allow for the cost of GMP equalisation. The impact of GMP equalisation on the Group's Disclosures has been recognised as a Past Service cost in 2018.

The fair value of the assets of the RSPS is set out below:

	2019	**2018**
	£m	**£m**
Equities	150.1	137.4
Bonds	165.7	151.3
Gilts	89.1	73.7
Cash	16.8	21.5
	421.7	**383.9**

The equity investments and bonds which are held in scheme assets are quoted and are valued at the bid price at the year end.

30. Retirement Benefit Schemes (continued)

The table below details the movements in the pension assets and liabilities recorded through the Consolidated Income Statement (within administrative expenses) and Consolidated Statement of Comprehensive Income:

	Fair value of scheme assets £m	Present value of obligation £m	Asset/ (liability) recognised on Statement of Financial Position £m
Year ended 31 December 2019:			
At 1 January 2019	383.9	(368.8)	15.1
Current service cost	-	(0.7)	(0.7)
Interest income/(cost)	11.0	(10.5)	0.5
Total amounts recognised in Consolidated Income Statement	**11.0**	**(11.2)**	**(0.2)**
Actuarial gain/(loss) - experience	-	1.2	1.2
Actuarial gain/(loss) - demographic assumptions	-	3.7	3.7
Actuarial gain/(loss) - financial assumptions	-	(57.2)	(57.2)
Net actuarial gains/(loss):	**-**	**(52.3)**	**(52.3)**
Return on scheme assets greater/(less) than discount rate	36.3	-	36.3
Total remeasurement in Consolidated Statement of Other Comprehensive Income	36.3	**(52.3)**	**(16.0)**
Contributions paid by employer	1.9	-	1.9
Benefits paid	(10.7)	11.6	0.9
Administrative expenses	(0.7)	-	(0.7)
Income tax charge on the pension surplus of 35%	-	(0.3)	(0.3)
At 31 December 2019	**421.7**	**(421.0)**	**0.7**

30. Retirement Benefit Schemes (continued)

	Fair value of scheme assets	Present value of obligation	Asset/ (liability) recognised on Statement of Financial Position
	£m	**£m**	**£m**
Year ended 31 December 2018:			
At 1 January 2018	409.2	(417.8)	(8.6)
Current service cost	-	(1.0)	(1.0)
Past service cost	-	(0.4)	(0.4)
Interest income/(cost)	10.5	(10.7)	(0.2)
Total amounts recognised in Consolidated Income Statement	**10.5**	**(12.1)**	**(1.6)**
Actuarial gain/(loss) - experience	-	15.6	15.6
Actuarial gain/(loss) - demographic assumptions	-	5.7	5.7
Actuarial gain/(loss) - financial assumptions	-	25.5	25.5
Net actuarial gains/(loss):	**-**	**46.8**	**46.8**
Return on scheme assets greater/(less) than discount rate	(23.4)	-	(23.4)
Total remeasurement in other Consolidated Statement of Other Comprehensive Income	**(23.4)**	**46.8**	**23.4**
Contributions paid by employer	1.9	-	1.9
Benefits paid	(13.3)	14.3	1.0
Administrative expenses	(1.0)	-	(1.0)
At 31 December 2018	**383.9**	**(368.8)**	**15.1**

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are as follows:

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increase/decrease by 0.10%	Decrease/increase by 2.00%
RPI inflation*	Increase/decrease by 0.10%	Decrease/increase by 2.00%
Long term trend in future mortality improvements	Increase/decrease by 0.25% pa	Increase/decrease by 1.20%

* including associated changes to pension increases, salary increases and CPI inflation.

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit liability recognised in the Consolidated Statement of Financial Position. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the prior periods.

30. Retirement Benefit Schemes (continued)

Risks and risk management

The RSPS, in common with the majority of such defined benefit pension schemes in the UK, has a number of areas of risk. These areas of risk, and the ways in which the Group has sought to manage them, are set out below:

i) Asset volatility

The scheme currently invests in equities, corporate bonds and index linked gilts. These assets are subject to market risk in the form of both equity price risk from changes in equity prices and interest rate risk from changes in interest rates. The investments in corporate bonds also carry default risk, although defaults from corporate bonds held by the scheme have historically been low.

As at 31 December 2019, the Scheme holds approximately 21% of its assets in fixed interest and index-linked bonds (2018: 19%), 30% in corporate bonds (2018: 30%) and 9% (2018: 10%) in secure income assets in order to broadly match its liabilities.

The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield, this will create a deficit. The plan equities are expected to outperform corporate bonds in the long-term while providing volatility and risk in the short-term. If yields on corporate bonds fall then plan liabilities will increase although this will be partially offset by an increase in the value of the plan's bond holdings.

As the plan matures, the Group intends to reduce the level of investment risk by investing more in assets that better match the liabilities. Over the last year the scheme has reduced its equity holding and invested in some index linked gilts. However while planning to reduce investment risk over the long term, the Group believes that due to the long-term nature of the plan liabilities and the strength of the supporting Group, in the short to medium term a level of continuing equity investment is an appropriate element of the Group's long term strategy to manage the plan efficiently.

ii) Inflation risk

The pension obligations are linked to inflation, and higher inflation will lead to higher liabilities (although caps on the level of inflationary increases are in place to protect the plan against extreme inflation). The majority of the plan's assets are either unaffected by (corporate bonds) or loosely correlated with (equities) inflation, meaning that an increase in inflation will also increase the deficit. However, during the year the scheme sold some of its equity holdings and reinvested in index linked gilts, which provide a hedge against inflation risk. While the holding of index linked gilts is currently small relative to the total size of the fund they do provide some protection against inflation risk.

iii) Life expectancy

The majority of the plan's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plan's liabilities.

30. Retirement Benefit Schemes (continued)

b) Private retirement trust

The Group operates an unfunded unapproved retirement benefit scheme or private retirement trust for one deferred member.

The fair value of the assets of the Private Retirement Trust is set out below:

	2019 £m	2018 £m
Equities	0.3	0.3
Other	0.1	0.1
	0.4	**0.4**

The equity investments which are held in scheme assets are quoted and are valued at the bid price at 31 December.

The table below details the movements in the pension assets and liabilities recorded through the Consolidated Income Statement and Consolidated Statement of Other Comprehensive Income relating to the private retirement trust.

	Fair value of scheme assets £m	Present value of obligation £m	Liability recognised on Statement of Financial Position £m
Year ended 31 December 2019:			
At 1 January 2019	0.4	(2.2)	(1.8)
Actuarial gain taken to Consolidated Statement of Other Comprehensive Income	-	(0.2)	(0.2)
At 31 December 2019	**0.4**	**(2.4)**	**(2.0)**

	Fair value of scheme assets £m	Present value of obligation £m	Liability recognised on Statement of Financial Position £m
Year ended 31 December 2018:			
At 1 January 2018	0.4	(2.2)	(1.8)
Actuarial gain taken to Consolidated Statement of Other Comprehensive Income	-	-	-
At 31 December 2018	0.4	(2.2)	(1.8)

31. Other Financial Liabilities

	2019 £m	2018 £m
Collateral payables	142.3	79.5
Lease liabilities	5.6	6.1
Securities payables	105.5	157.8
Other payables	154.4	58.9
	407.8	**302.3**

The increase in collateral payables is primarily due to the addition of new derivatives relating to the acquisition of OMWLA and increased investment activity.

32. Other Liabilities

	2019 £m	2018 £m
Third party interest in consolidated funds	37.0	-
Social security and other taxes	5.0	6.4
Deferred revenue	5.9	7.2
Amounts owed to group undertakings	1.7	-
	49.6	**13.6**

Third party interests in consolidated funds are categorised as Level 1 of the fair value hierarchy, in line with the category of the underlying fund.

33. Share Capital

	2019 £m
Authorised	
1,000,000,000 ordinary shares of £0.10 each	100.0
Issued and fully paid	
1,000,000,000 ordinary shares of £0.10 each	100.0

	2018 £m
Authorised	
7,700,000,000 ordinary shares of £0.01 each	77.0
Issued and fully paid	
7,305,069,423 ordinary shares of £0.01 each	73.1

Share capital as at 31 December 2018 reflects the share capital of RML. The share capital for the current year reflects the share capital of ReAssure Group plc.

On 9 May 2019, the Company's share capital of 1 ordinary share of £1.00 was subdivided into 10 ordinary shares of £0.10 each.

On 9 May 2019, the Company issued 999,999,990 ordinary shares of £0.10 to SRRML, resulting in SRRML becoming the Company's immediate parent company, in consideration for the acquisition of RML at a premium of £4.26 each.

34. Share Premium Account

	2019 £m	2018 £m
Balance brought forward at 1 January	83.9	83.9
Capital reorganisation	(83.9)	-
Balance at 31 December	**-**	**83.9**

Share premium as at 31 December 2018 reflects the share premium of RML. The share premium for the current year reflects the share premium of ReAssure Group plc.

On 9 May 2019, the Company issued 999,999,990 ordinary shares of £0.10 to SRRML, resulting in SRRML becoming the Company's immediate parent company, in consideration for the acquisition of RML at a premium of £4.26 each.

On 16 May, 2019, the Company undertook a capital reduction, whereby the share premium reserve of £4,260.0m was reduced to zero. The reduction has been treated as realised profit, thereby increasing distributable reserves.

35. Merger Reserves

	2019 £m	2018 £m
Balance brought forward at 1 January	-	-
Capital reorganisation	57.0	-
Balance at 31 December	**57.0**	**-**

On 9 May 2019, the Company acquired the entire share capital of RML from SRRML, the Company's immediate parent company, settled by the issuance of share capital. The Company has applied IAS 27 to account for the acquisition of RML in its standalone financial statements and has recorded its cost of investment as the net asset value of RML at acquisition, rather than its fair value or the carrying value in the books of the vendor. The excess of the value of the shares issued over the net asset value of RML at acquisition has been taken to the merger reserve, within Shareholders' equity.

36. Other Reserves

	2019 £m	2018 £m
Balance brought forward at 1 January	1,364.7	1,364.2
Exchange differences on translating the net assets of foreign operations	(1.6)	0.2
Revaluation increase on land and buildings	0.2	0.3
Balance at 31 December	**1,363.3**	**1,364.7**

Other reserves as at 31 December 2018 reflects the other reserves of RML. The other reserves for the current year reflects the other reserves of ReAssure Group plc.

Capital contributions received in prior years do not have any conditions attached to them and are not repayable. There were no capital contributions during the year.

37. Retained Earnings

	2019 £m	2018 (restated*) £m
Balance brought forward at 1 January	975.0	1,790.1
Dividends paid in the year (see note 39)	(519.0)	(921.0)
Net profit for the year	269.0	92.0
Foreign exchange impact upon translation	(9.7)	2.2
Other comprehensive income arising from measurement of defined benefit obligation (net of income tax)	(11.6)	11.7
Balance at 31 December	**703.7**	**975.0**

*refer to note 3 for details of restatement

38. Related Undertakings

The Companies Act 2006 requires disclosure of certain information about the Group's related undertakings, which are defined as subsidiaries, joint ventures, associates and other significant holdings. The requisite disclosures are set out in this note.

a) Subsidiary undertakings

Subsidiaries are those entities (including special purpose entities, mutual funds and unit trusts) over which the Group directly or indirectly has the power to govern the operating and financial policies in order to gain economic benefits. The basis by which subsidiaries are consolidated in the group financial statements is outlined in the basis of consolidation (note 1.4).

38. Related Undertakings (continued)

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

Company	Principal activity	Holding
Ark Life Assurance Company DAC (Ireland)	Long-term insurance	100.00%
BL Telford Limited	Non-trading	100.00%
ERIP General Partner Limited	Management service company	80.00%
ERIP Limited Partnership	Management of real estate	99.50%
G Assurance & Pension Services Limited	Non-trading	100.00%
G Financial Services Limited	Dormant	100.00%
G Life H Limited	Intermediate holding company	100.00%
G Trustees Limited	Dormant	100.00%
Namulas Pension Trustees Limited	Dormant	100.00%
NM Life Trustees Limited	Non-trading	100.00%
NM Pensions Limited	Non-trading	100.00%
Old Mutual Wealth Life Assurance Limited	Long-term insurance	100.00%
Old Mutual Wealth Pensions Trustee Limited	Dormant	100.00%
ReAssure Companies Services Limited	Management service company	100.00%
ReAssure FS Limited	Dormant	100.00%
ReAssure FSH UK Limited	Management service company	100.00%
Reassure Life Limited	Non-trading	100.00%
ReAssure Limited	Long-term insurance	100.00%
ReAssure Linked Life Limited	Non-trading	100.00%
ReAssure MidCo Limited	Intermediate holding company	100.00%
ReAssure Nominees Limited	Dormant	100.00%
ReAssure Pensions Management Limited	Non-trading	100.00%
ReAssure Pension Trustees Limited	Dormant	100.00%
ReAssure Trustees Limited	Dormant	100.00%
Reassure UK Life Assurance Limited	Non-trading	100.00%
ReAssure UK Services Limited	Management service company	100.00%
Quilter Investors Limited Diversified Portfolio (Acc A and Acc R)	Collective investment scheme	93.00%

All subsidiaries are registered in England and Wales, unless otherwise stated.

The registered office of these subsidiaries is Windsor House, Telford Centre, Telford, Shropshire, TF3 4NB.

The registered office of Ark Life Assurance Company DAC is 3rd Floor, College Park House, Nassau Street, Dublin 2, Ireland. The registered office of Old Mutual Wealth Life Assurance Limited and Old Mutual Wealth Pensions Trustee Limited is Old Mutual House, Portland Terrace, Southampton, SO14 7EJ.

38. Related Undertakings (continued)

b) Acquisition of Old Mutual Wealth Life Assurance Limited and subsidiary

On 31 December 2019, the Group acquired 100% of the issued share capital of Old Mutual Wealth Life Assurance Limited and indirectly acquired 100% of its subsidiary, Old Mutual Wealth Pensions Trustees Limited.

Old Mutual Wealth is closed to new business and comprises around 200,000 unit linked pensions, investment and savings, and protection policies. Whilst the majority of customers are UK based, there are around 10,000 policies in Sweden, Norway and Germany. The acquisition is part of ReAssure's existing business model and further enhances the Group's position as a leading closed book life consolidator. In line with the existing business model, a Part VII transfer of the business from Old Mutual Wealth into ReAssure Limited is expected to take place towards the end of 2021.

The total consideration for the acquisition was £446.0m, which includes £21.0m of interest on the purchase price of £425.0m at 5% per annum.

The acquisition of Old Mutual Wealth has resulted in the consolidation of a Collective Investment Scheme into these financial statements and the creation of a new Non Controlling Interest (see note 38e).

38. Related Undertakings (continued)

The table below summarises the fair values of identifiable assets acquired and liabilities assumed as at the date of acquisition.

	Fair value £m
Financial investments	8,640.3
Reinsurers' share of insurance contract liabilities	583.3
Reinsurers' share of investment contract liabilities	729.4
Reinsurance receivables	16.7
Deferred tax asset	(1.3)
Other financial assets	1.4
Other assets	34.5
Current income tax receivable	7.9
Cash and cash equivalents	366.5
Total assets	**10,378.7**
Liabilities under insurance contracts	(1,051.6)
Investment contract liabilities without DPF	(8,905.0)
Provisions	(11.8)
Reinsurance payables	(8.4)
Payables related to direct insurance contracts	(17.3)
Deferred tax liability	(61.8)
Other liabilities	(29.7)
Total liabilities	**(10,085.6)**
Net assets recognised on acquisition	**293.1**
Goodwill asset arising on acquisition	4.8
AVIF asset arising on acquisition	148.4
Purchase consideration transferred	**446.3**
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiaries	258.5
Cash paid including transaction costs	(446.3)
Net cash flow on acquisition	**(187.8)**

An asset of £148.4m arose on acquisition reflecting the present value of future profits associated with the acquired in-force business. The valuation of the AVIF is in accordance with the Group's accounting policy in note 1.21.

A goodwill asset of £4.8m also arose on acquisition. The goodwill arising primarily relates to the following synergies:

- Expense synergies arise due to differences between the market participant view of expense synergies and the view of the Group. These expense synergies are expected to materialise upon Part VII;
- Tax synergies which are also expected to materialise upon Part VII; and
- Capital synergies predominately in relation to diversification benefits arising from the Partial Internal Model (PIM) implementation planned for 2021.

The amount of Net income included in the Consolidated Statement of Comprehensive Income relating to Old Mutual Wealth since the acquisition date is £94.5m and the amount included within Group profit after tax is £5.2m.

38. Related Undertakings (continued)

If the acquisition of Old Mutual Wealth had been completed on the first day of the financial year, Net income for the year would have been £6,949.8m and Group profit after tax would have been £384.8m.

c) Disposal of subsidiary

In the 2018 financial year, the Group disposed of one of its subsidiaries, Guardian Assurance Limited ("GAL"), which was dormant following the transfer of its insurance activities to RAL in 2016 via Part VII. Control of Guardian Assurance Limited was passed to the acquirer on 10 September 2018.

Additionally, on 27 July 2018, the Group disposed of a further subsidiary, C Financial Management Limited ("CFM"), an entity which was dormant prior to disposal. Control of C Financial Management Limited was passed to Swiss Re Life Capital Reinsurance Limited, part of the Swiss Re Group, at the date of disposal.

The net assets of GAL and CFM at the respective date of disposal were as follows:

	2019 £m	2018 £m
Net Assets	-	-
Total consideration	-	3.0
Satisfied by:		
Cash	-	3.0
Gain on disposal	**-**	**3.0**

The gain on disposal is included within other income (see note 8)

d) Interests in unconsolidated structured entities

The following table details the Group's interests in unconsolidated structured entities (included in debt securities in the Consolidated Statement of Financial Position) and the maximum exposure to loss from holding these investments in 2019 (2018: £413.0m):

	Number of entities	Carrying amount £m	Maximum exposure to loss £m	Total assets structured entity £m
Asset backed securities	19	191.7	191.7	3,665.3
Commercial MBS	10	95.9	95.9	2,453.8
Collective investment schemes	828	13,138.1	13,138.1	1,058,276.5
Money market funds	10	1,307.4	1,307.4	146,496.5
	867	**14,733.1**	**14,733.1**	**1,210,892.1**

38. Related Undertakings (continued)

Following the accounting policy as set out in note 2.4, at the year end the Group did not control these structures and so they were not consolidated within the Consolidated Financial Statements.

e) Third party interest in consolidated funds

Set out below is summarised financial information for the subsidiary that has non-controlling interests which are material to the Group. The amounts disclosed for the subsidiary are presented prior to any inter-company eliminations.

The interest in the consolidated entity was acquired on 31 December 2019 as part of the acquisition of Old Mutual Wealth and relates to the Group's holding in a Collective Investment Scheme.

Summarised statement of financial position as at 31 December 2019

	2019
	£m
Total assets	536.4
Total liabilities	(5.4)
Net assets	531.0
Accumulated third party interest in consolidated funds	37.0

Summarised statement of cash flows as at 31 December 2019

	2019
	£m
Net increase in cash and cash equivalents	22.4

39. Dividends

	2019	**2018**
	£m	**£m**
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2018 and 31 December 2017	519.0	921.0
Total dividends paid in the year	**519.0**	**921.0**
Dividend per share (£)	**0.52**	**0.13**

During 2019, an ordinary dividend of £519.0m was paid in respect of the year ended 31 December 2018 (2018: £921.0m in respect of 31 December 2017).

At the time of signing the financial statements , the directors have not proposed a final dividend for the year ended 31 December 2019.

Note, as a result of the capital reorganisation on 9 May 2019, a restated Dividend per share result is presented here.

	2019	**2018 (Restated*)**	**2018**
Dividend per share (£)	**0.52**	**0.92**	**0.13**

40. Earnings per Share

Basic earnings per share ("EPS") amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS amounts are calculated by dividing the profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year, plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the profit and share data used in the basic EPS computations. Note, as a result of the capital reorganisation on 9 May 2019, EPS has been restated retrospectively and presented here.

From continuing operations		**2019**	**2018 (Restated*)**	**2018**
Earnings for the purposes of basic earnings per share being net profit attributable to owners of the Company (Restated*)	£m	269.0	92.0	55.8
Weighted average number of ordinary shares for the purposes of basic earnings per share	Number (million)	1,000.0	1,000.0	7,305.1
Basic/diluted earnings per share (pence)	**pence**	**26.90**	**9.20**	**0.76**

*refer to note 3 for details of restatement

41. Cash Flows Used in Operating Activities

	2019 £m	2018 (restated*) £m
Profit for the year before tax	386.3	105.0
Adjustments for:		
Fair value (gains)/losses on:		
- Investment property	13.4	(28.9)
- Financial assets	(3,849.5)	2,637.9
- Derivatives	(51.1)	(30.4)
Defined benefit contributions	(1.9)	2.0
Non cash defined benefit expenditure	0.6	(2.6)
Depreciation of property, plant and equipment	3.4	4.5
Revaluation of property, plant and equipment	(1.5)	0.3
Amortisation of subordinated debt	1.8	-
Amortisation of AVIF assets	33.9	34.2
Purchase of DAC	-	(650.0)
Operating Lease - Interest Paid	(0.4)	-
Release of DAC	73.2	87.0
Change in unallocated divisible surplus	14.0	(26.0)
Finance costs	5.2	6.3
Decrease in reinsurance assets	42.3	58.7
Increase/(decrease) in insurance contracts & investment contract liabilities	1,650.6	(4,521.9)
(Decrease) in deposits received from reinsurers	(281.8)	(8.6)
Net disposal of investment properties	129.9	17.1
Net disposal of financial assets	1,842.0	2,612.4
Net disposal of derivatives	20.7	19.8
Net decrease in working capital	444.3	99.0
Tax receipts	0.4	(11.7)
Net cash from operating activities	**475.8**	**404.1**

*refer to note 3 for details of restatement

42. Management of Insurance Risk

Group fund structure

The Group's long-term insurance business is divided into six sub-funds: within RAL there is the NMWPF, the WLWPF, NPF and the GAWPF; within Ark Life, there is only a non-profit fund, the Ark Life non-profit fund ("Ark NPF"); the Old Mutual Wealth non-profit fund (“OMW 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. Both the NPF and Ark NPF contain a mix of unit-linked and non-profit business. 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.

An analysis of the split of the insurance and investment contract liabilities by fund is shown in the table below:

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

	NMWPF	WLWPF	GAWPF	NPF	Ark Life	Old Mutual Wealth	Group Expenses	Total
	£m	£m	£m	£m	£m	£m	£m	£m
31 December 2019:								
With-profits	1,418.5	489.5	1,710.7	-	-	-	-	**3,618.7**
Unit-linked	-	-	77.5	19,724.4	1,588.8	8,453.7	-	**29,844.4**
Other life assurance	54.7	11.7	36.8	14,659.9	0.1	90.9	768.6	**15,622.7**
Total	**1,473.2**	**501.2**	**1,825.0**	**34,384.3**	**1,588.9**	**8,544.6**	**768.6**	**49,085.8**
31 December 2018 (restated*):								
With-profits	1,384.8	469.6	1,608.9	-	-	-	1.1	**3,464.4**
Unit-linked	-	-	73.2	18,336.3	1,534.2	-	-	**19,943.7**
Other life assurance	51.0	11.8	39.6	14,771.7	0.1	-	647.1	**15,521.3**
Total	**1,435.8**	**481.4**	**1,721.7**	**33,108.0**	**1,534.3**	-	**648.2**	**38,929.4**

*Refer to note 3 for details of restatement

Insurance risk is defined as the unexpected economic impact from mortality, longevity or morbidity obligations as well as persistency and expense rates deviating from the levels assumed at outset or subsequently in reserving. Insurance risks for the Group primarily increase through acquisition activity as the firm does not directly write new business.

The Group defines the following as sources of insurance risks:
- Longevity;
- Lapse;
- Mortality;
- Morbidity; and
- Expense.

42. Management of Insurance Risk (continued)

Insurance risks are managed through monitoring the group's exposure against pre-defined appetite limits. If a risk is moving out of appetite the group can choose to manage it via reinsurance in the case of mortality and longevity risks or by positive customer engagement and cost control in the case of lapse and expense risks.

The Group has recently agreed two transactions which have increased the amount of lapse risk and thus enhanced the overall level of diversification among insurance risks. These transactions contained primarily unit-linked business.

Risk management policy

The Group has a mature and embedded Enterprise Risk Management Framework (ERMF) which includes the Group's Risk Policies, Internal Control and Risk Appetite Frameworks.

The ERMF supports the Group's risk strategy, which is managed through an effective internal control environment ensuring the business operates within the risk appetite limits approved by the Group Board. The Risk Policies set out the processes for identifying, monitoring, measuring and controlling risk and are split across the principal risks to which the Group are exposed in line with the requirements of Solvency II.

The maintenance of the Risk Policies is the overall responsibility of the Risk Management function and is approved annually by the Group Board with assistance from various other committees. Ark Life also maintains a Risk Management Policy to support the risk framework at a Company level, which is substantially aligned with ReAssure's in purpose, content and approvals.

The overall aim of the Group's ERMF is 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 limits; and (ii) within that constraint, to allocate capital so as to maximise the profitability of the business, given the agreed strategy.

From 31 December 2018, the Group received approval to use a Partial Internal Model to determine its Solvency II capital requirements. The Internal Model component of the PIM is used to calculate the capital requirements for all lines of business in the Group except the following which use the Solvency II Standard Formula approach:

- The 3 with-profits funds in ReAssure;
- The L&G Risk Transfer agreement; and
- The OMWLA internal reinsurance and the OMWLA entity.

The Group, where possible, avoids a heavy concentration in any one risk type and aims to have a diversified portfolio of underwriting risks. The most material insurance risks for the Group 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 Consolidated Statement of Financial Position; so changes to future patterns in policy lapses do not have a significant impact on the Consolidated Income Statement. 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 Consolidated Statement of Financial Position. A sensitivity to annuitant mortality risk is shown in note 43. The Group does not have any significant concentration of policyholders by geographic area.

42. Management of Insurance Risk (continued)

The Group 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 risk (including credit default and migration risk), insurance risk (including expense risk) and liquidity risk. The management of credit, liquidity and market risk are discussed in note 43.

Financial guarantees

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

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

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

The cost of the annuity guarantees in the NMWPF is £122.7m (2018: £117.3m). 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 guarantees in the WLWPF is £25.8m (2018: £26.0m). 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: £4.2m (2018: £4.5m), WLWPF: £19.8m (2018: £17.8m) 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 53bps less 6bps. These future cash flows include the shareholders' share of reversionary bonus on with-profits deferred annuities that have been reinsured to the Non Profit Fund. The equity component of the asset share has also been calculated and added to the with-profits benefit reserve.

42. Management of Insurance Risk (continued)

RAL'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. OMWLA and Ark Life unit-linked policies have no material guarantees.

43. Management of Financial Risk

The Group is exposed to a number of financial risks through its issue of insurance and investment contracts. The most important components of this risk are market risk (including interest rate, equity risk and credit spread), credit risk (including credit default and migration risk) and liquidity risk. The management of these risks is discussed below.

a) Credit risk

Credit risk is the risk the risk of economic loss due to deterioration in the credit quality of an obligor or a default of an obligor on its financial obligations vis-à-vis third parties. In addition, it takes account of the increase in risk represented by any deterioration in credit ratings of those counterparties.

The Group's credit risk arises primarily from investment activities on shareholder assets, as well as from exposures via reinsurance or risk transfer agreements. The Group is therefore exposed to and models two classes of credit risk: credit default risk and migration risk. The Group 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 table below sets out ReAssure's exposure to different credit assets for those counterparties that are rated by an External Credit Assessment Institution (ECAI). Credit assets and their issuers are rated by ECAI's based on their credit worthiness. The Group aims to mainly invest in Investment Grade assets which are those assets in the range of AAA to BBB. Any asset with a rating lower than BBB is considered sub-investment grade.

43. Management of Financial Risk (continued)

	AAA	AA	A	BBB	Sub investment grade & not rated	Total
	£m	£m	£m	£m	£m	£m
As at 31 December 2019:						
Government and government related debt	605.9	5,190.7	42.2	52.3	1.0	**5,892.1**
Corporate and asset backed securities debt	629.3	1,695.0	6,493.6	4,838.3	69.4	**13,725.6**
Loans	-	191.5	309.8	589.7	31.3	**1,122.3**
Accrued Interest on fixed income securities	21.8	57.0	78.6	85.7	1.4	**244.5**
Derivative assets	-	-	0.4	-	52.7	**53.1**
Cash and cash Equivalents	1,127.5	222.0	586.1	8.7	32.6	**1,976.9**
Total	**2,384.5**	**7,356.2**	**7,510.7**	**5,574.7**	**188.4**	**23,014.5**
As at 31 December 2018:						
Government and government related debt	574.3	6,042.7	39.6	45.3	1.1	6,703.0
Corporate and asset backed securities debt	559.4	1,581.1	5,268.1	5,876.9	0.7	13,286.2
Loans	-	-	238.3	353.3	140.6	732.2
Accrued Interest on fixed income securities	22.5	63.9	73.0	117.6	0.7	277.7
Derivative assets	-	-	-	-	13.7	13.7
Cash and cash Equivalents	508.4	444.2	371.4	13.4	10.5	1,347.9
Total	**1,664.6**	**8,131.9**	**5,990.4**	**6,406.5**	**167.3**	**22,360.7**

There were no losses incurred as a result of defaults during the year (2018: no losses) and at 31 December 2019 there were no assets in default (2018: no defaults).

To achieve better diversification of credit risk and enhance returns, the Group invests in Private Debt assets which are more illiquid than standard corporate bonds. Due to the small issue size and illiquidity of these investments, the assets are generally not rated by an ECAI. The credit rating of these investments is initially assessed by the Investment Manager who the Group outsources the rating of the assets to. The Group has an additional control on the investment managers' ratings by performing credit assessments of unrated assets internally.

The Group controls its concentration of credit risk via the specific risk limits set out in its risk appetite framework. These limits ensure that there is no accumulation of exposure to individual counterparties or sectors. Furthermore, private debt assets are subject to further limits given the differing risk profile of these assets. The risk limits are then documented within the mandates via the investment guidelines that have specific limits on:

- Approved securities;
- Trading controls;
- Concentration limits; and
- Counterparty controls.

43. Management of Financial Risk (continued)

Credit risk is measured by considering the exposure of the Group's companies 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.

The Group has additional credit exposures from the following: cash balances held with credit institutions, derivatives, reinsurance, outsourcers and investment managers. Exposure to these credit risks is monitored via counterparty limits or measured via the firm's internal capital model.

i) Money market deposits and UCITS money market funds

The Group 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. The credit ratings of these are included within Cash and cash equivalents above.

ii) Reinsurance

The Group has a number of reinsurance treaties that expose it to the risk of default should the reinsurer be unable to service its obligations under the contract. The group monitors its total reinsurance exposure against set limits and this assesses if there are any large concentrations of reinsurance exposure.

The Group's largest reinsurance exposure is to Swiss Re (2018: Swiss Re) via a number of longevity swaps. Swiss Re is AA rated by Standard & Poor's (2018: AA).

iii) Collateral

Investments pledged as collateral for derivative liabilities totalled £123.4m (2018: £98.8m). Cash pledged as collateral for derivative liabilities totalled £2.6m (2018: £0.8m).

Investments received as collateral for derivative assets totalled £9.8m (2018: £3.8m). The Group 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 £106.9m (2018: £nil).

Investments received as collateral for reassured annuity business within the NPF of RAL totalled £720.9m (2018: £778.4m). The Group 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.

RAL is party to a longevity swap with Reinsurance Group of America ("RGA") in order to transfer mortality risk on certain annuities to RGA; the present value of the annuity claims reinsured at 31 December 2019 is £242m. As part of this agreement, RAL 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 2019, £56.4m of financial assets (principally corporate bonds) were posted as collateral (2018: £46.5m). These assets continue to be recognised on the Consolidated Statement of Financial Position. The title to these assets has been transferred to RGA although RAL can swap assets provided the total market value of the assets supports the overall collateral required to be posted.

43. Management of Financial Risk (continued)

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 Consolidated Statement of Financial Position		
	Gross amounts recognised	**Enforceable master netting arrangements**	**Collateral**	**Net exposure**
	£m	**£m**	**£m**	**£m**
Year ended 31 December 2019:				
Derivative financial assets	47.2	(8.9)	(38.3)	-
Reinsurance assets	713.4	-	(720.9)	(7.5)
Total	**760.6**	**(8.9)**	**(759.2)**	**(7.5)**
Derivative financial liabilities	(38.2)	8.9	29.3	-
Total	**(38.2)**	**8.9**	**29.3**	**-**
Year ended 31 December 2018:				
Derivative financial assets	12.8	(10.2)	(2.6)	-
Reinsurance assets	757.2	-	(778.4)	(21.2)
Total	**770.0**	**(10.2)**	**(781.0)**	**(21.2)**
Derivative financial liabilities	(12.5)	10.2	2.3	-
Total	**(12.5)**	**10.2**	**2.3**	**-**

Financial assets and financial liabilities that do not meet the offsetting criteria under IAS 32 Financial instruments are reported gross in the Consolidated Statement of Financial Position.

b) Liquidity risk

Liquidity risk is the risk that the Group 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 Group or its constituent companies.

Liquidity is monitored at the Group level for each liquidity pool. The Group operates its own Group Funding Liquidity Risk Management Framework. This establishes the requirement to maintain a Liquidity Coverage Ratio ("LCR") above 100%. The LCR is the available sources of liquidity divided by liquidity requirements in a 1-in-200 stress. The framework gives details on how the stressed liquidity requirement is calculated, and which assets and sources of income can be used to provide liquidity 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.

The cash position within Ark Life is monitored continuously to ensure that there is sufficient liquidity to fund its operations. A substantial proportion of the investments backing Ark Life's non-linked liabilities are Euro denominated government bonds which are considered to be liquid assets, the value of which can normally be realised quickly.

43. Management of Financial Risk (continued)

Amounts under unit linked contracts are generally repayable on demand and the Group 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 Group within the unit-linked funds is commercial property. To manage this risk the Group 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.

Repayment risk on the debt is managed by ensuring the borrowings have a spread of maturity dates to avoid significant outlays at a single duration. The Treasury Function monitor and report the expected maturity profile of the borrowings alongside repayment plans to ensure the repayment risk is managed.

The table below shows the cash flows arising from the financial assets of the Group. 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

	No contractual maturity date	< 1Year	Between 1 year and 5 years	> 5 Years	Total cash flows	Carrying value
	£m	£m	£m	£m	£m	£m
As at 31 December 2019:						
Shares and other variable yield securities and units in unit trusts	28,343.2	-	-	-	**28,343.2**	28,342.7
Debt securities and other fixed-income securities	-	2,073.0	5,015.2	16,929.1	**24,017.3**	19,617.7
Secured and unsecured loans	3.8	51.8	695.8	1,306.6	**2,058.0**	1,122.3
Other financial assets	278.6	-	-	225.4	**504.0**	504.0
Other assets	95.3	-	-	-	**95.3**	95.3
Cash at bank and in hand	404.2	1,572.7	-	-	**1,976.9**	1,976.9
Total	**29,125.1**	**3,697.5**	**5,711.0**	**18,461.1**	**56,994.7**	**51,658.9**
As at 31 December 2018:						
Shares and other variable yield securities and units in unit trusts	17,819.1	-	-	-	**17,819.1**	17,819.1
Debt securities and other fixed-income securities	-	1,114.8	5,957.8	18,859.3	**25,931.9**	19,989.2
Secured and unsecured loans	4.5	54.6	498.8	359.0	**916.9**	732.2
Other financial assets	314.0	-	-	91.3	**405.3**	405.3
Other assets	104.7	-	-	-	**104.7**	104.7
Cash at bank and in hand	179.3	1,168.6	-	-	**1,347.9**	1,347.9
Total	**18,421.6**	**2,338.0**	**6,456.6**	**19,309.6**	**46,525.8**	**40,398.4**

43. Management of Financial Risk (continued)

The following tables show the financial liabilities of the Group relating to investment contracts. The Group's investment contracts are predominantly unit-linked contracts. The Group 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 Group generally holds assets that are readily liquid in order that they are able to meet liabilities as they arise. This analysis of investment contracts is based on the projected settlement date. A maturity analysis based on the earliest contractual repayment date would present all such liabilities as due within one year because, as described above, the contractual terms provide for surrender by policyholders on demand.

Financial liabilities

	No contractual maturity date	< 1Year	Between 1 year and 5 years	> 5 Years	Total	Carrying value
	£m	£m	£m	£m	£m	£m
As at 31 December 2019:						
Investment contracts without DPF:						
Financial liabilities under unit-linked investment contracts (note 27)	4,356.5	3,200.7	4,171.9	15,878.7	**27,607.8**	27,607.8
Financial liabilities under non-profit investment contracts (note 27)	-	23.1	-	-	**23.1**	23.1
Claims outstanding	345.2	-	-	-	**345.2**	345.2
Deposits received from reinsurers	-	8.8	31.3	70.0	**110.1**	99.9
Borrowings (note 28)	-	53.8	458.0	897.0	**1,408.8**	974.6
Other financial liabilities	259.9	1.5	3.2	143.9	**408.5**	407.8
Other liabilities	49.6	-	-	-	**49.6**	49.6
	5,011.2	**3,287.9**	**4,664.4**	**16,989.6**	**29,953.1**	**29,508.0**
As at 31 December 2018:						
Investment contracts without DPF:						
Financial liabilities under unit-linked investment contracts (note 27)	-	2,058.2	3,233.7	12,069.4	**17,361.3**	17,361.3
Financial liabilities under non-profit investment contracts (note 27)	-	23.0	-	-	**23.0**	23.0
Claims outstanding	254.9	-	-	-	**254.9**	254.9
Deposits received from reinsurers	-	9.1	32.7	78.7	**120.5**	103.9
Borrowings (note 28)	-	-	-	-	-	-
Other financial liabilities	216.7	1.8	3.9	81.4	**303.8**	302.3
Other liabilities	13.6	-	-	-	**13.6**	13.6
	485.2	**2,092.1**	**3,270.3**	**12,229.5**	**18,077.1**	**18,058.9**

The policyholder reserves relating to investment contracts with and without DPF 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:

43. Management of Financial Risk (continued)

	2019 £m	2018 £m
No contractual maturity date	4,356.5	-
Due in 1 year or less	3,380.7	2,228.7
Due after 1 year but less than 5 years	4,768.0	3,774.5
Due after 5 years but less than 10 years	7,742.2	5,265.4
Due after 10 years	8,101.6	7,232.2
Due after 20 years	1,589.4	1,051.9
	29,938.4	**19,552.7**

The above total of £29,938.4m (2018: 19,552.7m) does not include claims outstanding of £345.2m (2018: £254.9m), deposits received from reinsurers of £99.9m (2018: £103.9m) and other financial liabilities of £407.8m (2018: £302.3m).

c) Market risk

The Group 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. Market risk affects both assets and liabilities of the Group. The Group's exposure and management of markets risk is outlined below.

i) Market risk - equity securities

	Non-profit/ shareholder £m	With-profit £m	Unit-linked £m	Total £m
As at 31 December 2019:				
United Kingdom	-	291.0	7,354.9	7,645.9
USA	-	134.4	3,480.0	3,614.4
Europe	-	35.9	1,827.2	1,863.1
Japan	-	16.3	972.2	988.5
Asia Pacific	-	7.8	384.2	392.0
Other	-	0.3	74.1	74.4
Listed equities	**-**	**485.7**	**14,092.6**	**14,578.3**
Unlisted equities	-	-	-	-
Collective investment schemes	-	1,117.0	12,647.4	13,764.4
Total	**-**	**1,602.7**	**26,740.0**	**28,342.7**
As at 31 December 2018:				
United Kingdom	-	321.7	6,408.6	6,730.3
USA	-	48.6	3,251.6	3,300.2
Europe	-	40.3	1,888.2	1,928.5
Japan	-	-	702.6	702.6
Asia Pacific	-	-	528.7	528.7
Other	-	-	1.4	1.4
Listed equities	**-**	**410.6**	**12,781.1**	**13,191.7**
Unlisted equities	-	-	4.1	4.1
Collective investment schemes	-	999.9	3,623.4	4,623.3
Total	**-**	**1,410.5**	**16,408.6**	**17,819.1**

43. Management of Financial Risk (continued)

ii) Market risk - debt securities

	Non-profit/ shareholder £m	With-profit £m	Unit-linked £m	Total £m
As at 31 December 2019				
United Kingdom	9,819.8	1,394.4	1,573.1	12,787.3
USA	2,037.3	218.2	59.9	2,315.4
Netherlands	438.8	69.7	33.4	541.9
France	1,123.6	109.2	99.1	1,331.9
Germany	725.3	43.4	43.7	812.4
Ireland	67.3	3.8	8.2	79.3
Italy	119.9	3.0	53.0	175.9
Portugal	-	-	5.1	5.1
Spain	56.3	2.8	38.7	97.8
Rest of Europe	682.0	160.8	85.0	927.8
Rest of world	684.1	74.4	30.4	788.9
Total	**15,754.4**	**2,079.7**	**2,029.6**	**19,863.7**
Debt securities	15,552.3	2,052.1	2,013.3	19,617.7
Accrued interest	202.1	27.6	16.3	246.0
Total	**15,754.4**	**2,079.7**	**2,029.6**	**19,863.7**

	Non-profit/ shareholder £m	With-profit £m	Unit-linked £m	Total £m
As at 31 December 2018:				
United Kingdom	10,296.4	1,470.4	2,006.2	13,773.0
USA	1,872.9	217.6	22.4	2,112.9
Netherlands	446.2	66.7	26.5	539.4
France	971.0	101.4	76.2	1,148.6
Germany	578.9	48.9	42.6	670.4
Ireland	64.6	7.6	7.6	79.8
Italy	158.7	1.7	44.2	204.6
Portugal	-	-	4.7	4.7
Spain	49.6	-	33.3	82.9
Rest of Europe	832.1	165.2	61.0	1,058.3
Rest of world	512.4	68.2	11.5	592.1
Total	**15,782.8**	**2,147.7**	**2,336.2**	**20,266.7**
Debt securities	15,553.7	2,116.8	2,318.7	19,989.2
Accrued interest	229.1	30.9	17.5	277.5
Total	**15,782.8**	**2,147.7**	**2,336.2**	**20,266.7**

Interest rate risk

Interest rate risk is defined as losses arising from the impact of movement in interest rates on the Group's assets, liabilities and capital requirements. Interest rate risk arises on holdings of fixed interest securities and non-profit insurance policies with fixed benefit payments. Due to the long duration of the Group’s liabilities, interest rate risk is managed by investing in assets that match the duration of the liabilities.

43. Management of Financial Risk (continued)

The Group's interest rate management strategy is to invest in an asset portfolio that matches the duration of the Group's Solvency II Technical Provisions. Any mismatch between assets and liabilities will expose the Group to potential losses from changes in the level of interest rates.

The Group 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.

The Group is also exposed to interest rate risk in the participating funds through guaranteed benefits under the policy which are fixed and therefore exposed to interest rate risk.

d) Equity price risk

Equity risk is defined as losses arising from changes in the value of holdings of equity investments. The majority of the Group's exposure arises via the equity holdings in its unit-linked funds. Although policyholders bear the majority of the investment risk, the Group is exposed via the value of charges it receives where these are linked to the unit value. The Defined Benefit Pension Scheme and with-profits funds have direct equity investments that also give rise to equity risk.

ReAssure manages equity risk on the unit-linked business to defined tolerances set out in the risk appetite via the use of derivatives and unit linked matching.

The Group 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.

e) Credit spread risk

Credit spread risk is defined as losses arising from changes in the value of credit assets not attributable to wider interest rate movements. Credit spread risk affects the value of credit assets the Group holds. The Group is exposed to the widening of credit spreads in their fixed interest security holdings. The loss in asset values due to spread widening is partly mitigated by the corresponding increase in the matching adjustment which would reduce the technical provisions of annuities within the matching adjustment portfolio.

Credit spread is the Group's largest single market risk. The Group's credit spread exposure almost all arises from the non-linked funds with the unit linked funds and Pension Scheme not being material contributors to the overall exposure. The Group's exposure is monitored via Investment Limits and controlled by use of the Solvency II Matching and volatility adjustment.

f) Foreign exchange risk

The Group is exposed to the risk of loss from the movement of foreign exchange rates where it holds investments denominated in foreign currencies. The Group is not materially exposed to foreign exchange risk on unit-linked products as this risk primarily resides with policyholders (though the Group retains some residual exposure via AMC income on unit-linked funds).

43. Management of Financial Risk (continued)

Given Ark Life is domiciled in Ireland and transacts its business for the most part in Euros, the Group is exposed to foreign exchange risk generally as a result of Ark Life's business operations. This risk is controlled via currency derivatives.

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

g) Reinvestment risk

Due to the long-term nature of its liabilities there is a risk that the Group 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.

h) Climate change risk

After considering the TFCD recommendations, the Group has looked to actively monitor and implement policies to address climate change risks. The Group currently operates under a Environmental, Social and Governance (ESG) investment policy and is developing further policies on ESG and the financial risks from climate change. The primary Climate Risk related responsibilities of the Boards and Committees of the Group are contained in their respective Terms of Reference and the Group’s Governance framework. The Group Board is ultimately responsible for approving the Climate Risk limits, and for monitoring compliance against those limits. The board is advised by the ESG advisory group who are responsible for monitoring and evaluating the performance and improvements of Asset Management’s implementation of the ESG investment policy, with the risks being overseen and assessed by the emerging risk panel. The CRO is responsible for ensuring that Financial Risks from climate change are accounted for in risk oversight activities and for monitoring exposures.

The Group’s approach to the management of financial risks from climate change are set out in the risk policy. The ESG investment policy covers the principles for responsible investments, the purpose and scope of the policy and how assets/investment partners should be selected when dealing with environmental (which encompasses with climate change issues), social and corporate governance.

Broadly speaking, the group recognises two primary sources of climate change financial risks i.e. physical and transition risks.

Physical risks arise from the increased frequency and severity of climate and weather related events that damage property and disrupt trade.

Transition risks result from the adjustment towards a lower-carbon economy. Changes in policies, technologies and physical risks will prompt a reassessment of the value of a large range of assets as costs and opportunities become apparent. The longer a meaningful adjustment is delayed, the more transition risks will rise.

43. Management of Financial Risk (continued)

In April 2019 the PRA released a consultation paper on approaches to managing the financial risk from climate change. The paper proposes that firms should:

- Embed the consideration of the financial risks from climate change in their governance arrangements;
- Incorporate the financial risks from climate change into existing risk management practice;
- Use (long-term) scenario analysis to inform strategy setting and risk assessment and identification; and
- Develop an approach to disclosure on the financial risks from climate change.

The group has considered six climate change scenarios comprising two from the Bank of England (BoE) 2019 Stress Testing Exercise and four from the Dutch National Bank (DNB) Climate Stress Testing Exercise. It has concluded that the shareholder fixed income portfolio is not significantly exposed to climate change transition risks because:

- It does not invest in industries with material exposures to coal; and
- Its investments in renewable energy sources have a positive exposure to transition risk and therefore their value increases in the scenario.

The bulk of the Group's sovereign investments are in Gilts and the UK as a country is considered less exposed to transition risks.

A firm's performance across the ESG categories is linked to its ability to manage and withstand disruption from emerging risks such as climate change. The Group supplements its use of ESG ratings with stress and scenario testing (SST). In the SST, the Group will consider how orderly and disorderly transitions to a low carbon economy based on limiting global temperature rises relative to the pre-industrial period to 2 degrees Celsius could affect the value of the securities that we invest in.

i) Sensitivity analysis

The impact on the Consolidated Income Statement and shareholder equity from changes to interest rates, credit risk under corporate bonds, expenses and annuitant mortality is set out in the table below. Five scenarios are considered: (i) a uniform rise of 1.00% (2018: 1.00%) in fixed-interest yields; (ii) a uniform fall of 1.00% (2018: 1.00%) in fixed-interest yields; (iii) a uniform rise of 1.00% (2018: 1.00%) in credit spreads; (iv) a 10.00% increase in expenses (2018: 10.00%); and (v) a reduction of 5.00% (2018: 5.00%) in the base mortality rate used to value annuities-in-payment.

	Interest rate rise (i) £m	Interest rate fall (ii) £m	Credit spreads rise (iii) £m	Increase of 10.00% in expenses (iv) £m	Reduction of 5.00% in mortality (annuities) (v) £m
Year ended 31 December 2019:					
Change in shareholder equity	(128.8)	132.0	(125.4)	(100.8)	(263.5)
Year ended 31 December 2018:					
Change in shareholder equity	58.4	(96.8)	(115.0)	(87.3)	(221.4)

The impact on the Consolidated Income Statement and shareholder equity from changes to equity prices, inflation, property prices and currency is set out in the table below. Five scenarios are considered: (i) a uniform rise of 20.00% (2018: 20.00%) in worldwide equity prices; (ii) a uniform fall of 20.00% (2018: 20.00%) in worldwide equity prices; (iii) a rise in inflation of 0.50% (2018: 0.50%); (iv) a reduction of 20.00% (2018: 20.00%) in property prices; and (v) a 20.00% fall in sterling relative to other foreign currencies (2018: 20.00%).

43. Management of Financial Risk (continued)

	Equity rise +20.00% (i) £m	Equity fall - 20.00% (ii) £m	Inflation +0.50% (iii) £m	Property -20.00% (iv) £m	GBP -20.00% (v) £m
Year ended 31 December 2019:					
Change in shareholder equity	(67.3)	67.3	(54.0)	0.8	(6.7)
Year ended 31 December 2018:					
Change in shareholder equity	(15.3)	15.3	(43.4)	(0.9)	(11.3)

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 2019. 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.

44. Capital Management

The Group is subject to a number of regulatory capital tests. In reporting financial strength, capital is measured and solvency is assessed using rules described by EIOPA and adopted by the Prudential Regulation Authority ("PRA"). These regulatory capital tests require that the Group maintains a prudent level of regulatory capital. The Group 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.

	2019 £m	2018 £m
Total shareholders' funds under IFRS	2,224.0	2,496.7
Replace IFRS reserves with SII Technical Provisions	3,221.8	2,772.4
Unallocated divisible surplus	160.6	146.6
Changes in deferred tax under SII	(251.3)	(203.9)
Intangible asset with nil value under SII	(1,072.1)	(1,019.4)
Debt valuation	(30.3)	-
IFRS prior year adjustment	-	(40.9)
Other	-	0.1
Solvency II excess assets	**4,252.7**	**4,151.6**
Subordinated debt available to support SCR	1,002.2	-
Restriction to Own Funds	(430.5)	(466.0)
Own funds under Solvency II	**4,824.4**	**3,685.6**

44. Capital Management (continued)

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 Group must be sufficient to cover the SII 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 Group must also be sufficient to cover the capital management buffer. The Group maintains a capital management buffer of the greater of 45% (2018: 20%) of the SCR. This has been assessed by the Board as an appropriate level of capital required in order to maintain an investment grade credit rating from Fitch, having regard to the capitalisation levels of peer group companies and is consistent with the Board's solvency risk appetite.

The Group's subsidiary companies are each required to be capitalised such that they can maintain a 100% solvency coverage ratio after a 1-in-20 year adverse event. Should a subsidiary fall below its capital management policy, the Group will provide support to the subsidiary before making any shareholder distributions.

The Capital Management Policy is reviewed following significant changes to the risk profile of the business.

The Solvency ratio on a regulatory basis, as at 31 December 2019, was 152% (2018: 129%). The excess regulatory capital is quantified in the following table:

	2019	**2018**
	£m	**£m**
Capital resources available	4,824.4	3,685.6
Capital resources required	(3,175.4)	(2,851.4)
Excess regulatory capital	**1,649.0**	**834.2**

45. Related Parties

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its associates are disclosed below.

a) Immediate and ultimate parent undertaking

The immediate parent company is Swiss Re ReAssure Midco Limited, incorporated in Jersey.

Swiss Re Limited is the ultimate and controlling parent undertaking of the Company. 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.

During the year there were no transactions between the Group and the ultimate parent company (2018: none) and therefore no balances either payable or receivable between the Group and the ultimate parent company (2018: none).

During the year there were transactions between the Group and the immediate parent company. At year-end there is a receivable between the Group and the immediate parent company of £26.6m (2018: £26.6m).

45. Related Parties (continued)

b) Services received from related parties

	2019 £m	2018 £m
Other subsidiary undertakings of Swiss Re Limited	4.1	15.0

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

	2019 £m	2018 £m
Other subsidiary undertakings of Swiss Re Limited	27.0	32.9

d) Intra-group retrocession arrangements

	2019 £m	2018 £m
All with other subsidiary undertakings of Swiss Re Limited		
Premiums ceded to reinsurers	349.6	359.8
Claims recovered from reinsurers	(288.7)	(305.0)
Change in reinsurers' share of insurance contract liabilities	4.2	(0.7)
	65.1	**54.1**
At 31 December:		
Reinsurers' share of insurance contract liabilities	(101.2)	239.3
Reinsurance payables	(20.6)	(16.6)
	(121.8)	**222.7**

e) Remuneration of key management personnel

Key management includes the Directors of the Company and members of the Group's management committee. The aggregate emoluments of 25 members of key management (2018: 15) are shown in the table below. All members of key management were remunerated by RUKSL or by other Swiss Re Group undertakings.

	2019 £m	2018 £m
Salaries and other short-term employee benefits	8.5	3.0
	8.5	**3.0**

None of the directors (2018: none) are part of the Group's defined benefit pension scheme. There are 4 key management personnel (2018: 3) who are accruing benefits under the defined contribution pension scheme. In addition, the highest-paid director had an amount payable of £0.2m under the Group's long-term incentive plan.

None of the directors are part of money purchase schemes.

There were no other transactions such as advances, credits, guarantees, share options or dividend payments to Directors during either the current or prior year.

45. Related Parties (continued)

Remuneration of the highest paid director is shown in the table below.

	2019 £m	2018 £m
Salaries and other short-term employee benefits	1.4	0.5
	1.4	**0.5**

46. Leases

a) Right-of-use assets

The following right-of-use assets are included within Property, plant and equipment (note 18).

	Land and Buildings £m	Computer equipment £m	Total £m
Cost or valuation			
At 1 January 2019	6.0	3.1	9.1
Additions	-	-	-
Acquisition of Old Mutual Wealth	1.0	-	1.0
Disposals	-	-	-
At 31 December 2019	**7.0**	**3.1**	**10.1**
Accumulated depreciation			
At 1 January 2019	2.8	1.3	4.1
Charge for the Year	0.5	0.8	1.3
Disposals	-	-	-
At 31 December 2019	**3.3**	**2.1**	**5.4**
Carrying amounts			
At 31 December 2019	**3.7**	**1.0**	**4.7**
At 31 December 2018	3.2	1.8	5.0
Cost or valuation			
At 1 January 2018	7.6	3.7	11.3
Additions	0.1	-	0.1
Disposals	(1.7)	(0.6)	(2.3)
At 31 December 2018	**6.0**	**3.1**	**9.1**
Accumulated depreciation			
At 1 January 2018	3.3	0.8	4.1
Charge for the Year	0.6	0.9	1.5
Disposals	(1.1)	(0.4)	(1.5)
At 31 December 2018	**2.8**	**1.3**	**4.1**
Carrying amounts			
At 31 December 2018	**3.2**	**1.8**	**5.0**
At 31 December 2017	4.3	2.9	7.2

46. Leases (continued)

b) Lease liability

The interest expense on lease liabilities charged to the Consolidated Income Statement for the year was £0.3m (2018: £0.5m).

The lease expense charged to the Consolidated Income Statement for short-term leases for the year was nil (2018: £0.1m).

The total cash outflow for leases for the year was £1.7m (2018: £2.1m).

The weighted average incremental borrowing rate applied to lease liabilities in the statement of consolidated financial position was 6.00% (2018: 6.00%).

c) The Group as lessor

Future minimum lease rental receivables in respect of non-cancellable operating leases on investment properties were as follows:

	2019	**2018**
	£m	**£m**
Not later than 1 year	30.7	27.8
Between 1 and 5 years	103.9	91.6
Later than 5 years	102.9	103.2

d) Managing risk

To manage the risk associated with leasing out investment properties, tenancy contracts include clauses for maintaining and insuring the condition of the property as well as clauses that provide the Group with rights of recourse in the event of non-payment.

47. Post Balance Sheet Events

On 11 March 2020, COVID-19 was declared as a pandemic due to the rising rate and scale of infection observed. COVID-19 has caused disruption to businesses and economic activity which has been reflected in recent fluctuations in UK and global financial markets. These market fluctuations have had a minimal impact on the Group's Solvency II coverage ratio. The Group considers the incidence and spread of COVID-19 to be a non-adjusting post balance sheet event. The Group continues to monitor the market movements and their impact on the Group and remains focused on supporting its customers, employees and business partners. Given the inherent uncertainties, it is not practicable to determine the impact of COVID-19 on the Group's financial performance or to provide any detailed quantitative estimate of the impact. At this point the Group , however, continues to maintain stable solvency and liquidity positions and expects to continue to meet its capital requirements.

The Directors are not aware of any other significant post balance sheet events that require disclosure within these financial statements.

PARENT COMPANY INCOME STATEMENT

For the period ended December 2019

	Note	Period 1 Oct 2018 to 31 Dec 2019 £m
Net investment income	3	1.4
Net income		**1.4**
Administrative expenses	4	(68.0)
Impairment of subsidiary undertaking	9	(17.8)
Total expense		**(85.8)**
Loss before finance costs and tax		**(84.4)**
Finance costs	5	(33.2)
Loss before tax		**(117.6)**
Tax on loss for the period	8	17.7
Loss for the period		**(99.9)**

The Company has no recognised gains or losses other than those included in the results above, and therefore no separate Statement of Comprehensive Income has been presented.

All results derive from continuing operations.

PARENT COMPANY STATEMENT OF FINANCIAL POSITION

For the period ended 31 December 2019

	Note	2019 £m
Assets		
Investment in subsidiaries	9	2,979.5
Financial investments:		
Debt securities	11	114.7
Derivative assets	10	12.3
Other financial assets	12	30.2
Current income tax receivable	8	17.6
Cash and cash equivalents	13	139.1
Total assets		**3,293.4**
Liabilities		
Borrowings	14	1,264.6
Derivative liabilities	10	0.7
Other financial liabilities	15	37.7
Other liabilities	16	58.3
Total liabilities		**1,361.3**
Equity		
Share capital	17	100.0
Merger reserve	18	(1,809.0)
Retained earnings	19	3,641.1
Total equity		**1,932.1**
Total liabilities and equity		**3,293.4**

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

For the period ended 31 December 2019

	Attributable to owners of the Company			
	Share capital	**Merger reserves**	**Retained Earnings**	**Total equity**
	£m	**£m**	**£m**	**£m**
Loss for the period	-	-	(99.9)	**(99.9)**
Total comprehensive expense for the period	**-**	**-**	**(99.9)**	**(99.9)**
Capital reorganisation	100.0	(1,809.0)	4,260.0	**2,551.0**
Dividends paid during the period	-	-	(519.0)	**(519.0)**
At 31 December 2019	**100.0**	**(1,809.0)**	**3,641.1**	**1,932.1**

PARENT COMPANY CASH FLOW STATEMENT

For the period ended 31 December 2019

	Note	2019 £m
Net cash used in operating activities	20	5.1
Cash flows used in investing activities		
Net purchase of financial assets		(108.4)
Net purchase of derivatives		(23.7)
Acquisition of subsidiary		(446.3)
Net cash flows used in investing activities		**(578.4)**
Net cash flows generated by financing activities		
Dividends paid to Company's shareholders		(519.0)
New borrowings drawn down		1,570.0
Repayment of borrowings		(310.0)
Interest paid on borrowings		(28.6)
Net cash flows generated by financing activities		**712.4**
Net increase in cash and cash equivalents		**139.1**
Cash and cash equivalents at the beginning of the year		-
Cash and cash equivalents at the end of the year		**139.1**

The financial statements of ReAssure Group plc (registered number 11597179) were approved by the Board of Directors and authorised for issue on 25 March 2020 and signed on its behalf by:

Ian Patrick
Director
25 March 2020

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. Accounting Policies

1.1 Basis of Preparation

The Company was incorporated on 1 October 2018 and is a public company that is limited by shares and domiciled in the United Kingdom.

The Company is registered in England and Wales and its Company Registration number is 11597179. The Company's registered address is Windsor House, Telford Centre, Telford, Shropshire, England, TF3 4NB.

The financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU), and those parts of the Companies Act 2006 applicable to those reporting under IFRS. The financial statements also comply with interpretations by the IFRS Interpretations Committee as issued by the IASB and as adopted by the European Union. The financial statements have been prepared under the historic cost convention, as modified for certain financial assets and financial liabilities that are measured at fair value and impaired non-financial assets that are measured at the higher of fair value less costs of disposal and value in use, as explained in the accounting policies below. Historical cost is generally based on the fair value of consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account those characteristics of the asset or liability that market participants would take into account when pricing the asset or liability at the measurement date.

Where applicable, the accounting policies in the parent company financial statements are the same as those presented in the consolidated financial statements on pages 49 to 73, with the exception of the policies detailed in notes 1.3 to 2.1 below.

1.2 Going concern

The financial statements have been prepared on a going concern basis. 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 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 the foreseeable future.

The principal accounting policies adopted are set out below.

1.3 New standards, amendments and policies

For the 15 months since incorporation the following standards and interpretations were endorsed by the EU, and became effective on 1 January 2019 and have been adopted by the Company but have not had a material impact to the Company's accounting policies:

- IFRS 16 'Leases'; and
- IFRIC 23 'Uncertainty over Income Tax Treatments'.

1. Accounting Policies (continued)

1.3 New standards, amendments and policies (continued)

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective and in some cases have not yet been adopted by the EU.

- IFRS 17 'Insurance Contracts';
- IFRS 10 and IAS 28 (amendments) 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture';
- Amendments to IFRS 3 'Definition of a business';
- Amendments to IAS 1 and IAS 8 'Definition of material';
- Conceptual Framework 'Amendments to References to the Conceptual Framework in IFRS Standards'.

None of the changes above are expected to have a material impact on the financial statements of the Company.

1.4 Foreign Currencies

1.4.1 Functional and presentational currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). The financial statements are presented in millions of £ sterling, which is the Company's presentation and functional currency.

1.4.2 Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of the Company at the exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the closing rate. Non-monetary assets and liabilities measured based on historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities measured at fair value are translated into the functional currency using the exchange rate when the fair value was determined.

1.5 Investments in subsidiary undertakings

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

The carrying amounts of investments in subsidiary undertakings are reviewed at each reporting date to determine whether there is any evidence of impairment. If any indication of impairment exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less the costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

An impairment loss is recognised in the income statement if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

1. Accounting Policies (continued)

1.6 Financial Investments

Initial recognition and measurement

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

At initial recognition, the Company measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost, which results in an accounting loss being recognised in profit or loss.

Measurement methods

Amortised cost and effective interest rate
The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. When the Company revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

1.6.1 Financial assets

a) Classification

The Company classifies its financial assets according to the following measurement categories:

- Fair value through profit or loss (FVTPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.

The classification requirements for debt instruments are described below:

Debt instruments
Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

1. Accounting Policies (continued)

1.6 Financial Investments (continued)

Classification and subsequent measurement of debt instruments depend on:

(i) The Company's business model for managing the asset; and
(ii) The cash flow characteristics of the asset.

Based on these factors, the Company classifies its debt instruments into one of the following three measurement categories:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in note 2.2. Interest income from these financial assets is included in 'Finance income' using the effective interest rate method.

Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net Investment income'. Interest income from these financial assets would be included in 'Interest income' using the effective interest rate method.

Fair value through profit or loss (FVTPL): Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within 'Fair value gains/losses on financial instruments', Interest Income from these financial assets is included in 'Finance income' using the effective interest rate method.

Business model: the business model reflects how the Company manages the assets in order to generate cash flows. That is, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL.

1. Accounting Policies (continued)

1.6 Financial Investments (continued)

Factors considered by the Company in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. For example, the Company's business model for the Government bonds is to hold to collect contractual cash flows.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Company assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic fending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

The Company reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

The Company holds debt instruments which are managed and whose performance is evaluated on a fair value basis. These instruments are therefore measured at fair value through profit or loss.

At 31 December 2019 all financial assets held by the Company were held at FVTPL.

b) Subsequent measurement and gains and losses

Financial assets at FVTPL are measured at fair value. Net gains and losses, including any interest or dividend income and foreign exchange gains and losses, are recognised in profit or loss.

c) Impairment

IFRS 9 introduces a new impairment model based on expected credit losses (ECL) that are estimated by considering current conditions and available forward-looking information. IFRS 9 sets out a general approach to impairment, however, for simple, short-term financial assets this general approach is overly complicated and so a simplified approach was also introduced.

The Company has chosen to adopt the simplified approach for short-term receivables measured at amortised cost. Note 21 provides more detail of how the expected credit loss is measured.

1.6.2 Financial Liabilities – classification and measurement

Financial liabilities are classified as subsequently measured at amortised cost using the effective interest method. Interest expenses and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on de-recognition is also recognised in profit or loss.

1.6.3 Offsetting Financial Assets and Liabilities

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

1. Accounting Policies (continued)

1.6.4 Derecognition of financial assets and liabilities

The Company derecognises a financial asset when the contractual rights to the asset's cash flows expire, or it transfers the asset and substantially all the risks and rewards of ownership, or when the Company has transferred the asset without transfer of substantially all the risks and rewards of ownership, provided the other party can sell or pledge the asset.

1.7 Borrowings

The Company classifies its interest bearing borrowings as financial liabilities carried at amortised cost and these are recognised initially at fair value less any attributable transaction costs. Directly attributable transactions costs are amortised over the life of the borrowings. The difference between initial cost and the redemption value is amortised through the Income Statement over the period of the borrowing using the effective interest method.

1.8 Provisions and contingent liabilities or assets

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 .

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

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

1.9 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 shareholders.

1.10 Exceptional items

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

1.11 Events after the balance sheet date

The financial statements are adjusted to reflect events that occurred provided they give evidence of conditions that existed at the balance sheet date.

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

2. Critical Accounting estimates and judgements

In 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 .

The main sources of estimation uncertainty for the Company relate to the assessment of evidence of impairment in relation to its investment in its subsidiaries.

2.1 Investment in subsidiaries

Investments in subsidiaries are reviewed on an annual basis for any indicators of impairment. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs of disposal and value in use. Investment in subsidiaries are valued at cost less impairment per IAS/IFRS requirements. The carrying value of the Company's investment in ReAssure MidCo Limited and OMWLA has been assessed for impairment with reference to the Solvency II valuation of the underlying businesses. The non profit fund capital value, excluding transitional measures, has been used in the impairment review on the investment.

3. Investment Income

	Period 1 Oct 2018 to 31 Dec 2019 £m
Income from investments	7.3
Net unrealised gains on investments	12.2
Net losses on the realisation of investments	(18.1)
	1.4

4. Administrative Expenses

	Period 1 Oct 2018 to 31 Dec 2019 £m
Legal costs	6.4
Contractors and consultancy	2.8
Investment management expenses	0.2
Other	58.6
	68.0

5. Finance Costs

	Period 1 Oct 2018 to 31 Dec 2019 £m
Interest costs on borrowings	33.2
	33.2

6. Auditors' Remuneration

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

	Period 1 Oct 2018 to 31 Dec 2019 £m
Audit services:	
Fees payable for the audit of the Company's annual financial statements	0.5
Non-audit services:	
Audit related assurance services	0.1
Other assurance services	0.2
Total non-audit fees	**0.3**
Total fees	**0.8**

Audit related assurance services relate to the expenses review and the other assurance services relate to Solvency II. All fees are borne by RUKSL, a Group undertaking.

7. Staff costs

The Company does not directly employ any staff. Staff are employed by RUKSL, ReAssure Companies Services Limited, ReAssure FSH UK Limited or Ark Life Assurance Company DAC (Ireland). Staff costs are included in the financial statements of RUKSL and no separate presentation of staff costs is included in these financial statements.

8. Tax on Loss for the period

a) Analysis of credit in the period

	Period 1 Oct 2018 to 31 Dec 2019 £m
Current taxation:	
UK corporation tax	(17.7)
Total current tax credit for the period	**(17.7)**
Tax on loss on ordinary activities	**(17.7)**

b) Reconciliation of tax credit on profit attributable to shareholders

The tax assessed for the period is higher than the standard rate of corporation tax in the UK of 19%. The differences are explained below:

	Period 1 Oct 2018 to 31 Dec 2019 £m
Loss on ordinary activities before taxation	(117.6)
Tax on loss on ordinary activities at 19.00%	(22.3)
Effects of:	
Disallowable expenses	4.6
Total tax credit for the year	**(17.7)**

c) Factors affecting the current and future tax charge

A reduction to the corporation tax rate (reducing the rate to 17%) for the year commencing 1 April 2020, was enacted in 2016.

9. Investments in subsidiaries

The Companies Act 2006 requires disclosure of certain information about the Company's related undertakings, which are defined as subsidiaries, joint ventures, associates and other significant holdings. The requisite disclosures are set out in this note.

Subsidiaries are those entities (including special purpose entities, mutual funds and unit trusts) over which the Company directly or indirectly has the power to govern the operating and financial policies in order to gain economic benefits.

9. Investments in subsidiaries (continued)

On 9 May 2019, the Company acquired the entire share capital of ReAssure Midco Limited (“RML”) from Swiss Re ReAssure Midco Limited (“SRRML”), the Company's immediate parent company, settled by the issuance of share capital. The Company has applied IAS 27 to account for the acquisition of RML and has recorded its cost of investment as the net asset value of RML at acquisition, rather than its fair value or the carrying value in the books of the vendor. The excess of the value of the shares issued over the net asset value of RML (£2,551.0m) at acquisition has been taken to the merger reserve, within Shareholders' equity (see note 18).

On 31 December 2019 the Company acquired Old Mutual Wealth Life Assurance Limited and its subsidiary Old Mutual Wealth Pension Trustees Limited (collectively referred to as Old Mutual Wealth). The investment in subsidiary below represents the net consideration for the acquisition. The net assets acquired and impact on goodwill is disclosed in The Consolidated Financial Statements for the Group.

a) Subsidiary undertakings

	2019 £m
Cost	
At 1 October 2018	-
Capital reorganisation	2,551.0
Acquisition of Old Mutual Wealth	446.3
At 31 December 2019	**2,997.3**
Provision for impairment	
At 1 October 2018	-
Impairment charge for the year	17.8
At 31 December 2019	**17.8**
Net book value	**2,979.5**

The impairment charge relates to OMWLA and has arisen due to the variance between the recoverable amount of OMWLA as at 31 December 2019 and the consideration paid.

9. Investments in subsidiaries (continued)

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

Company	Principal activity	Holding
Direct subsidiaries		
ReAssure MidCo Limited	Intermediate holding company	100.00%
Old Mutual Wealth Life Assurance Limited	Long-term insurance	100.00%
Indirect subsidiaries		
Ark Life Assurance Company DAC (Ireland)	Long-term insurance	100.00%
BL Telford Limited	Non-trading	100.00%
ERIP General Partner Limited	Management service company	80.00%
ERIP Limited Partnership	Management of real estate	99.50%
G Assurance & Pension Services Limited	Non-trading	100.00%
G Financial Services Limited	Dormant	100.00%
G Life H Limited	Intermediate holding company	100.00%
G Trustees Limited	Dormant	100.00%
Namulas Pension Trustees Limited	Dormant	100.00%
NM Life Trustees Limited	Non-trading	100.00%
NM Pensions Limited	Non-trading	100.00%
Old Mutual Wealth Pensions Trustee Limited	Dormant	100.00%
ReAssure Companies Services Limited	Management service company	100.00%
ReAssure FS Limited	Dormant	100.00%
ReAssure FSH UK Limited	Management service company	100.00%
Reassure Life Limited	Non-trading	100.00%
ReAssure Limited	Long-term insurance	100.00%
ReAssure Linked Life Limited	Non-trading	100.00%
ReAssure Nominees Limited	Dormant	100.00%
ReAssure Pensions Management Limited	Non-trading	100.00%
ReAssure Pension Trustees Limited	Dormant	100.00%
ReAssure Trustees Limited	Dormant	100.00%
Reassure UK Life Assurance Limited	Non-trading	100.00%
ReAssure UK Services Limited	Management service company	100.00%
Quilter Investors Limited Diversified Portfolio (Acc A and Acc R)	Collective investment scheme	93.00%

All subsidiaries are registered in England and Wales, unless otherwise stated. The registered office of these subsidiaries is Windsor House, Telford Centre, Telford, Shropshire, TF3 4NB.

The registered office of Ark Life Assurance Company DAC is 3rd Floor, College Park House, Nassau Street, Dublin 2, Ireland. The registered office of Old Mutual Wealth Life Assurance Limited and Old Mutual Wealth Pensions Trustee Limited is Old Mutual House, Portland Terrace, Southampton, SO14 7EJ.

10. Derivative Assets and Liabilities

Derivative financial instruments are classified as held for trading financial assets. Changes in fair value of such financial instruments are recognised in the Income Statement. The below table shows the fair values of the derivative financial instrument assets and liabilities categorised by their type. The notional value is the total value of the position that the Company controls, or an agreed upon amount in a contract.

a) Held at year end

	Contract/ Notional Amount £m	Assets £m	Liabilities £m
Year ended 31 December 2019:			
Non-profit/shareholder derivatives			
Interest rate contracts	350.0	-	-
Forward foreign currency contracts	223.4	12.3	(0.7)
	573.4	**12.3**	**(0.7)**

The Company does not have any derivatives that are designated as hedging instruments.

b) Maturity analysis - gross undiscounted cash flows

The tables below show the cash flows arising from the derivative assets and liabilities of the Company. All amounts disclosed represent undiscounted cash flows.

As at 31 December 2019	Within 1 Year £m	1-5 Years £m	Over 5 Years £m	Total £m
Cash inflows:				
Non-profit/shareholder derivatives				
Derivative assets	377.0	-	-	**377.0**
Derivative liabilities	0.6	1.2	-	**1.8**
Cash outflows				
Non-profit/shareholder derivatives				
Derivative liabilities	366.0	1.2	-	**367.2**
Net non-profit/shareholder	**11.6**	**-**	**-**	**11.6**

11. Financial Assets

	2019 £m
Debt securities at fair value through profit or loss	114.7

11. Financial Assets (continued)

a) Determination of fair values and fair value hierarchy

Valuation models

The Company measures the fair value of an instrument using the quoted price in an active market for that instrument whenever one is available. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Company measures assets and long positions at the bid price and liabilities and short positions at the ask price.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price i.e. the fair value of the consideration given or received. If the Company determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between its fair value and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument, but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

As at 31 December 2019, the aggregate difference yet to be recognised in profit or loss in relation to the above was £nil (2018: £nil).

The Company uses widely recognised valuation models to determine the fair value of common and simple financial instruments e.g. interest rate and currency swaps. That use only observable market data and require little management judgment and estimation. Observable prices or model inputs are usually available in the market for listed debt and equity securities. The availability of observable market prices and model inputs reduces the need for management judgment and estimation, and reduces the uncertainty associated with determining fair value. The availability of observable market prices and inputs varies depending on the products and markets, and is prone to changes based on specific events and general conditions in the financial markets.

Fair value estimates obtained from models are adjusted for any other factors e.g. liquidity risk or model uncertainties, to the extent that the Company believes that a third party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risks of the Company entity and the counterparty, where appropriate.

Model inputs and values are calibrated against historical data and published forecasts and, where possible, against current or recent observed transactions in different instruments and against broker quotes. This calibration process is inherently subjective and it yields ranges of possible inputs and estimates of fair value, and management uses judgment to select the most appropriate point in the range.

<u>Financial instruments measured at fair value</u>

Fair value hierarchy
The following table analyses financial instruments measured at fair value at the reporting date by the level of the fair value hierarchy into which the fair value measurement is categorised. The fair values include any deferred differences between the transaction price and the fair value on initial recognition when the fair value is based on a valuation technique that uses unobservable inputs.

11. Financial Assets (continued)

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

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Level 1 inputs are the most persuasive evidence of fair value and are to be used whenever possible.
- Level 2 inputs are market-based inputs that are directly or indirectly observable but not considered Level 1 quoted prices. Level 2 inputs consist of (i) quoted prices for similar assets or liabilities in active markets; (ii) quoted prices for identical assets or liabilities in non-active markets (e.g. markets which have few transactions and prices that are not current or price quotations vary substantially); (iii) inputs other than quoted prices that are observable (e.g. interest rates, yield curves, volatilities, prepayment speeds, credit risk and default rates); and (iv) inputs that are derived from or corroborated by observable market data.
- Level 3 inputs are unobservable inputs. These inputs reflect the Company's own assumptions about market pricing using the best internal and external information available.

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

The following tables present the Company's assets measured at fair value at 31 December 2019.

	Level 1 £m	Level 2 £m	Level 3 £m	Carrying value £m
As at 31 December 2019:				
Financial assets at fair value through profit and loss:				
Debt securities	-	114.7	-	**114.7**
Derivatives	-	12.3	-	**12.3**
	-	**127.0**	-	**127.0**

Financial assets designated at FVTPL

Debt securities have been designated as at FVTPL in order to more closely match the accounting for any related liabilities. At 31 December 2019, the maximum exposure to credit risk of these financial assets was their carrying amount of £114.7m. The credit risk of these financial assets has not been hedged by the use of credit derivatives or similar instruments.

No changes in fair value relating to the credit risk have been recognised for these investments.

12. Other Financial Assets

	2019 £m
Collateral receivables	29.4
Accrued investment income	0.8
	30.2

13. Cash and Cash Equivalents

	2019 £m
Cash	109.4
Cash equivalents	29.7
	139.1

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.

14. Borrowings

The Company classifies its interest bearing borrowings (comprised of the loan amount and interest accrued on that amount) as financial liabilities carried at amortised cost and these are recognised initially at fair value less any attributable transaction costs. Directly attributable transaction costs are amortised over the life of the borrowings. The difference between initial cost and the redemption value is amortised through the Income Statement over the period of the borrowing using the effective interest method.

a) Analysis of borrowings

	2019 £m
Subordinated debt	
£500m 5.87% Tier 2 capital markets bond	487.3
£250m 5.77% Tier 2 capital markets bond	243.7
£250m 4.02% Tier 3 capital markets bond	243.6
Loans from subsidiary undertakings	290.0
Total borrowings	**1,264.6**

(i) Subordinated debt

On 13 June 2019 the Company issued £500.0m Tier 2 10 year subordinated notes, £250.0m Fixed Rate Reset Callable Tier 2 10 year subordinated notes (first optional call date in year 5) and £250.0m Tier 3 7 year subordinated notes to Swiss Re ReAssure Limited (SRRL), a Swiss Re Group company.

The £250.0m Fixed Rate Reset Callable Tier 2 10 year subordinated notes are callable in full at the Company's option. The first call date is 13 June 2024. In the event the Company does not call the notes the interest rate will reset to 5.17% plus a margin equivalent to the yield of a UK Treasury Bill of similar term.

In response to the postponed IPO the three tranches were privately placed and listed on the London Stock Exchange Professional Securities Market where they can be publicly traded.

Fees associated with these notes of £30.0m were deferred and are being amortised over the life of the notes.

14. Borrowings (continued)

(ii) Loans from subsidiary undertakings

On 31 December 2019, the Company received a loan from the subsidiary undertaking, Old Mutual Wealth Life Assurance Limited fat £290.0m. Interest is payable quarterly at LIBOR plus a margin of 0.50%. The loan from OMWLA matures on 30 June 2024.

On 4 June 2019 the Company received a loan of £70.0m from RML. On 2 August 2019 the Company received a further £90.0m from RML and £150.0m from RAL. The applicable interest rate on each loan was LIBOR plus 0.50%. Each loan was repaid in full on 31 December 2019.

(iii) Senior revolving credit facility

On 6 June 2019 the Company entered into an agreement for a syndicated back-up liquidity facility for general corporate purposes. The initial tenor of the facility is for three years with an option for the lender to extend by one year at the end of the first or second year. Drawn down amounts accrue interest at LIBOR plus 0.50%, a commitment fee of 0.17% is applicable on the undrawn amount. The facility is undrawn as at 31 December 2019.

All borrowings are unsecured. Subordinated notes issued by the Company rank below the senior revolving credit facility and ahead of its ordinary share capital.

b) Movement during the year

	Cash Movements £m	Non Cash Movements £m
As at 31 December 2019		
Subordinated debt		
£500m 5.87% Tier 2 capital markets bond	470.3	17.0
£250m 5.77% Tier 2 capital markets bond	235.3	8.4
£250m 4.02% Tier 3 capital markets bond	237.5	6.1
	943.1	**31.5**

15. Other Financial Liabilities

	2019 £m
Other creditors excluding tax	37.7
	37.7

Within other creditors excluding tax there is £29.4m relating to collateral receivables, which is the variation margin used for covering equity futures.

These balances are payable within one year from the reporting date.

16. Other Liabilities

	2019 £m
Amounts owed to Group undertakings	58.3
	58.3

The payables to related parties are repayable on demand and bear no interest.

17. Share Capital

Authorised	**2019 £m**
1,000,000,000 ordinary shares of £0.10 each	100.0
Issued and fully paid	
1,000,000,000 ordinary shares of £0.10 each	100.0

On 9 May 2019, the Company's share capital of 1 ordinary share of £1.00 was subdivided into 10 ordinary shares of £0.10 each. The Company is a public company and is limited by shares.

On 9 May 2019, the Company issued 999,999,990 ordinary shares of £0.10 to Swiss Re ReAssure Midco Limited, the Company's immediate parent company, in consideration for the acquisition of ReAssure Midco Limited at a premium of £4.26 each.

18. Merger Reserves

	2019 £m
Balance brought forward at 1 October 2018	-
Capital reorganisation	(1,809.0)
Balance at 31 December 2019	**(1,809.0)**

On 9 May 2019, the Company acquired the entire share capital of RML from SRRML, the Company's immediate parent company, settled by the issuance of share capital. The Company has applied IAS 27 to account for the acquisition of RML in its standalone financial statements and has recorded its cost of investment as the net asset value of RML at acquisition, rather than its fair value or the carrying value in the books of the vendor. The excess of the value of the shares issued over the net asset value of RML at acquisition has been taken to the merger reserve, within shareholders' equity.

19. Retained Earnings

	2019 £m
Balance brought forward at 1 October 2018	-
Capital reorganisation	4,260.0
Dividends paid in the period (see note 21)	(519.0)
Net loss for the period	(99.9)
Balance at 31 December 2019	**3,641.1**

Following the issuance of 999,999,999 ordinary shares to Swiss Re ReAssure Midco Limited the premium of £4.26 each was recorded in the share premium reserve. On 16 May 2019 the Company undertook a capital reduction whereby the share premium was reduced to nil. The reduction has been treated as a realised profit, thereby increasing distributable reserves.

20. Cash Flows used in Operating Activities

	2019 £m
Loss for the period before tax	(117.6)
Adjustments for:	
Fair value gains on financial assets	(6.2)
Fair value losses on derivatives	12.1
Fair value losses on investment in subsidiaries	17.8
Amortisation of subordinated debt	1.8
Net decrease in working capital	97.2
Net cash used in operating activities	5.1

21. Management of Financial Risk

The Company's activities are limited to the holding of investments in Group companies and borrowings in the form of subordinated notes and a loan from one of its subsidiary undertakings. The Company is therefore exposed to liquidity risk, credit risk and interest rate risk. The risk management approach of the Company is to seek to minimise the potential adverse impact of these risks on the financial performance.

The following section discusses the Company's risk management policies. The measurement of ECL under IFRS 9 uses the information and approaches that the Company uses to manage credit risk, though certain adjustments are made in order to comply with the requirements of IFRS 9.

Credit risk

Credit risk is the risk that the Company will suffer loss from the failure of a third party to discharge its obligations to the Company. In addition, the solvency of the Company may be impacted by a widening in credit spreads or by credit downgrades under its portfolio of fixed-interest securities and money-market deposits.

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 Company is most exposed to credit risk on debt securities and money market investments, and cash and cash equivalents. Debt securities and money market investments mainly comprise government bonds and short term bank deposits.

21. Management of Financial Risk (continued)

a) Credit risk measurement

The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for short-term receivables which are receivable on demand with no significant financing component. In accordance with paragraph 5.5.15 of IFRS 9, the loss allowance for such receivables is always measured at an amount equal to lifetime ECLs.

To measure the ECLs, receivables are grouped based on shared credit risk characteristics. For each group, historical loss rates are considered and applied using forward-looking information.

At 31 December 2019 the Company did not hold any assets which were subject to the above impairment review.

The key judgements and assumptions adopted by the Company in addressing the requirements of the standard are discussed below.

Definition of default and change in the risk of default
The Company considers a financial asset to be in default when:

- The borrower is unlikely to pay its debt obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- The financial asset is more than 90 days past due.

In assessing whether a borrower is in default, the Company considers indicators that are:

- Qualitative: e.g. breaches of covenant and other indicators of financial distress;
- Quantitative: e.g. overdue status and non-payment of another obligation of the same issuer to the Company; and
- Based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Measuring ECL – Explanation of inputs, assumptions and estimation techniques
The Company determines the ECLs by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile of these assets is presented based on their past due status in terms of the provision matrix.

Loss allowance
The loss allowance recognised in the period could be impacted by a variety of factors, as described below:

- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in historical loss rates and forward-looking estimates;
- Foreign exchange translations for assets denominated in foreign currencies and other movements; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

21. Management of Financial Risk (continued)

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.

There were no losses incurred as a result of defaults during the year (2018: no losses).

Money market deposits

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.

Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations. The Company monitors cash flow and performs variance analysis against actual cash held. The Company manages its liquidity risk by only paying out dividends and making capital repayments once income from its investments has been received and once all expenses have been covered. If there are timing differences between cash inflows and cash outflows then surplus cash is placed only with approved counter-parties or invested in high quality government or corporate bonds.

With-profits contracts can be surrendered before maturity for a cash surrender value. ReAssure Limited 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.

Additionally as the Company participates in a defined benefit pension scheme, there is a risk that the cash contributions required to fund this scheme increase or decrease due to changes in factors such as investment performance, the rates used to discount liabilities and mortality changes. Any increase in deficit contributions will reduce the Company's cash flow. Decisions on pension scheme funding, asset allocation and benefit promises are taken by management in consultation with the pension scheme trustees and suitably qualified advisors. The board participates in major decisions on the funding and design of the pension schemes.

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.

21. Management of Financial Risk (continued)

Financial Assets

	No contractual maturity date £m	< 1Year £m	Between 1 year and 5 years £m	> 5 Years £m	Total cash flows £m	Carrying value £m
As at 31 December 2019:						
Debt securities and other fixed-income securities	-	2.1	10.6	143.8	**156.5**	114.7
Cash at bank and in hand	109.3	29.8	-	-	**139.1**	139.1
Total	**109.3**	**31.9**	**10.6**	**143.8**	**295.6**	**253.8**

22. 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.

23. Related Parties

Transactions with related parties include all transactions with Swiss Re Limited and its direct and indirect subsidiary undertakings.

a) Immediate and ultimate parent undertaking

The Company is incorporated and domiciled in England and Wales. The Company's registered address is Windsor House, Telford Centre, Telford, Shropshire, England, TF3 4NB. The immediate parent company is Swiss Re ReAssure Midco Limited, incorporated in Jersey.

Swiss Re Limited is the ultimate and controlling parent undertaking of the Company. 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

	2019 £m
Subsidiary undertakings of the Company	55.4

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

	2019 £m
Amounts owed to subsidiary undertakings of the Company	3.0

23. Related Parties (continued)

d) Loans with related parties

	2019 £m
Loans with subsidiary undertakings	290.0

Loan from Old Mutual Wealth Life Assurance Limited	2019 £m
At 1 October 2018	-
New loan	290.0
At 31 December 2019	**290.0**

	2019 £m
Loan from ReAssure Limited	
At 1 October 2018	-
New loan	150.0
Interest charged	0.8
Repayment	(150.8)
At 31 December 2019	**-**

	2019 £m
Loan from ReAssure Midco Limited	
At 1 October 2018	-
New loan	160.0
Interest charged	0.9
Repayment	(160.9)
At 31 December 2019	**-**

On 4 June 2019 the company received a loan of £70.0m from RML. On 2 August 2019 the company received a further £90.0m from RML and £150.0m from RAL. The applicable interest rate on each loan was LIBOR plus 0.50%. Each loan was repaid in full on 31 December 2019.

23. Related Parties (continued)

e) Remuneration of key management personnel

Key management includes the Directors of the Company and members of the Company's management committee. The aggregate emoluments of 25 members of key management are shown in the table below. All members of key management were remunerated by RUKSL or by other Swiss Re Group undertakings.

	2019
	£m
Salaries and other short-term employee benefits	8.5
	8.5

One of the directors (2018: none) is part of the Group's defined benefit pension scheme. There are 4 key management personnel (2018: 3) who are accruing benefits under the defined contribution pension scheme.

None of the directors are part of money purchase schemes.

None of the directors receive any additional benefits.

There were no other transactions such as advances, credits, guarantees or dividend payments to Directors during the period.

	2019
	£m
Highest paid Director	1.4
	1.4

24. Post Balance Sheet Events

Beyond those post balance sheet events described within Note 47 of the notes to the consolidated financial statements, the directors are not aware of any significant post balance sheet events that require disclosure in the financial statements of the Company.